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Diploma PLC
18 November 2019

DIPLOMA PLC

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FOR IMMEDIATE RELEASE

18 November 2019

PRELIMINARY ANNOUNCEMENT OF FINAL RESULTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019

"Strong double-digit growth in revenues and earnings"

	Audited 2019	Audited 2018	
	£m	£m	
Revenue	**544.7**	485.1	***+12%***
Underlying revenue growth	**5%**	7%	
Adjusted operating profit(1)	**97.2**	84.9	***+14%***
Adjusted operating margin(1)	**17.8%**	17.5%	***+30bps***
Adjusted profit before tax(1),(2)	**96.5**	84.8	***+14%***
Statutory operating profit	**84.1**	73.2	***+15%***
Statutory profit before tax	**83.5**	72.7	***+15%***
Free cash flow(3)	**56.5**	60.5	***-7%***
Adjusted earnings per share (1),(2)	**64.3p**	56.4p	***+14%***
Basic earnings per share	**54.7p**	47.5p	***+15%***
Total dividend per share	**29.0p**	25.5p	***+14%***

(1) Before acquisition related charges and Chief Executive Officer transition costs in 2018
(2) Before fair value remeasurements
(3) Before cash payments on acquisitions and dividends

Strong performance with underlying growth across all three Sectors

- Reported growth of 12%, comprising 5% underlying revenue growth, 5% contribution from acquisitions and a 2% currency benefit
- Adjusted operating margin up 30bps to 17.8%, with stronger gross margins and a tight control of costs
- Double-digit growth in adjusted EPS and dividends

Strong trading and operating leverage in Life Sciences

- Underlying revenues up 7% with good performance across Healthcare businesses

- Adjusted operating margin up 120bps benefiting from strong operating leverage

Underlying growth in Seals against background of softer industrial markets

- Underlying revenues up 1% with solid growth from US Aftermarket and International Seals
- US Industrial OEM faced more challenging trading environment from softer Industrial markets and ERP implementation issues at start of year which impacted service levels and revenue growth
- Adjusted operating margin unchanged as stronger Aftermarket margins were offset by investments to resolve ERP issues

Another robust performance in Controls

- Underlying revenue growth of 9% benefiting from another excellent year in Specialty Fasteners and a good contribution from Interconnect
- Adjusted operating margin up 10bps with benefits from operational leverage offsetting impact of businesses acquired at initial lower margins

Record investment in acquisitions

- £78.3m spent on acquisitions this year to access new markets and broaden products and services supplied, in line with strategy
- Pipeline of acquisition opportunities is healthy, but opportunities remain competitive

Strong balance sheet and cash generation

- Net debt of £15.1m at year end; ca £54m of facilities unused
- Free cash flow of £56.5m reflecting strong cash inflow to working capital in second half of year, as strategic inventories successfully unwound

Outlook

- Uncertain political and economic environment impacting Industrial markets
- Remain confident of further progress in the current financial year as moderately lower underlying growth will be offset by a strong contribution from acquisitions.

Commenting on the results, Johnny Thomson, Diploma's Chief Executive Officer said:

"Diploma has delivered another strong set of results with double-digit revenue and earnings growth in the year. We were also delighted to welcome four new businesses into the group, all of which are strategically important and have exciting prospects. The political and economic outlook remains uncertain, but I am confident our resilient business model will support a consistently strong performance again in the year ahead.

We have also reviewed and refreshed our strategy since I joined. Our plans are about continuity, building on the strong foundations of our value-add distribution model, focusing on the development of the organisation's capability to deliver that model at scale and focusing on the significant growth opportunities in our core markets and products. I am excited by the prospect of working with my colleagues to deliver more success for Diploma in the future."

There will be a presentation of the results to analysts and investors at 9.00am this morning at London Stock Exchange, 10 Paternoster Square, London EC4M 7LS. This presentation will be broadcast live via webcast at *https://3xscreen.videosync.fi/20191118-diploma-results*
A replay of the webcast will be available after the event.

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Notes:

- *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 Preliminary Announcement ("Announcement") to "underlying" revenues or operating profits refer to reported results on a constant currency basis and before any contribution from acquired or disposed businesses. The narrative in this Announcement is based on these alternative measures and an explanation is set out in notes 2 and 3 to the consolidated financial statements in this Announcement.*

- *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.*

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 funded by the customers' operating rather than their capital budgets, 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. 2,000 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. **16%** p.a. through a combination of underlying growth and acquisitions. Diploma is a member of the FTSE 250 with a market capitalisation of ca. **£1.9bn**.

Further information on Diploma PLC can be found at www.diplomaplc.com

LEI: 2138008OG17VYG8FGR19

PRELIMINARY ANNOUNCEMENT OF FINAL RESULTS FOR YEAR ENDED 30 SEPTEMBER 2019

CHAIRMAN'S STATEMENT

Diploma has delivered another strong financial performance in 2019. The Group again achieved double-digit growth in adjusted earnings per share, generated strong free cash flow and maintained a robust balance sheet, despite having invested a record amount in acquiring new businesses this year. The results demonstrate the resilience of the Group's businesses and the consistent delivery against the Group's strategy that has allowed Diploma to build a long track record of strong financial performance and growth in shareholder value.

The Board was pleased to appoint a new Chief Executive Officer ("CEO") early in the financial year. Since joining Diploma in February this year, Johnny Thomson has demonstrated strong and effective leadership. Johnny has also completed a thorough review of the Group's strategy which the Board has approved and which has excellent potential to create further shareholder value in the years ahead.

Shortly after the year end Nigel Lingwood, Group Finance Director, announced his decision to retire from the Board at the close of the next financial year. Nigel joined the Group in 2001 and has played a significant role in pursuing the current strategy that over the past 18 years has delivered double-digit growth in earnings and dividends. This has led to a growth in market capitalisation from £60m to over £1.9bn today. We look forward to working with Nigel during his final year with the Group, before wishing him a long and restful retirement.

Results

Group revenues increased in 2019 by 12% to £544.7m (2018: £485.1m), benefiting from both a strong 5% contribution from acquisitions and a currency tailwind of 2% from translating the results of the overseas businesses, caused by the sharp depreciation in UK sterling in the second half of the year.

After adjusting for the contribution from acquisitions completed both this year and last year, net of a small disposal last year and for the currency effects on translation, Group revenues increased by 5% on an underlying basis. The Life Sciences and Controls businesses both delivered strong underlying revenue growth of 7% and 9% respectively, but the generally weaker Industrial markets limited the more cyclical Seals businesses to 1% growth in underlying revenues.

Adjusted operating profit increased by 14% to £97.2m (2018: £84.9m) reflecting the strong growth in revenues and an increase of 30bps in adjusted operating margins to 17.8% (2018: 17.5%). Adjusted profit before tax and adjusted earnings per share ("EPS") also increased by 14% to £96.5m (2018: £84.8m) and 64.3p (2018: 56.4p), respectively.

On a statutory basis, the Group's operating profit was 15% ahead of last year at £84.1m (2018: £73.2m) after £13.1m (2018: £9.6m) of acquisition related charges, largely comprising amortisation of acquired intangible assets. Last year's statutory operating profit included one-off charges of £2.1m with respect to the previous CEO transition process. Statutory profit before tax increased by 15% to £83.5m (2018: £72.7m) and statutory EPS was 15% up on last year at 54.7p (2018: 47.5p).

The Group's free cash flow remained robust at £56.5m (2018: £60.5m); last year's free cash flow included £4.0m from the sale of a small non-core US gasket business. The outflow of cash to support working capital increased this year to £9.4m (2018: £5.1m) and was largely driven by the investment required in the US Industrial OEM business, following implementation of a new ERP system. Capital expenditure also increased this year to £10.9m (2018: £6.6m) as the investment in the new distribution facility in the US Seals Aftermarket began to ramp up and further investment was made by the Healthcare businesses in new field equipment in support of customer contracts.

As indicated in last year's Annual Report, the heightened uncertainty in global industrial markets has led to a healthier pipeline of acquisition opportunities as vendors of good quality businesses decide to exit their companies, having enjoyed the benefit of relatively favourable macroeconomic conditions over the previous few years. The Group invested a record £78.3m (2018: £20.4m) in acquisitions this year which will provide a strong contribution to operating profits in future years. The acquisition pipeline remains healthy and although acquisition processes remain competitive, the Group will retain its disciplined approach to bringing high quality, value enhancing businesses into the Group.

The Group's balance sheet remains robust with net debt at 30 September 2019 of £15.1m (2018: cash funds of £36.0m), after investing £78.3m in acquisitions and making distributions to shareholders of £29.8m (2018: £26.8m). The Group also has unutilised bank facilities of ca. £54m and the Group's strong balance sheet provides support to increase these facilities to finance further acquisition opportunities in the next financial year.

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 15% to 20.5p per share (2018: 17.8p). Subject to shareholder approval at the Annual General Meeting ("AGM"), this dividend will be paid on 22 January 2020 to shareholders on the register at 29 November 2019.

The total dividend per share for the year will be 29.0p (2018: 25.5p), which represents a 14% increase on 2018, with the level of dividend cover remaining unchanged at 2.2 times on an adjusted EPS basis.

Governance

The appointment of a new CEO this year has provided stability in the Executive leadership of the Group. The focus this year will be on broadening the non-Executive resource to provide further support to the leadership team and to prepare for the additional corporate governance compliance requirements that come into effect for the Company in the new financial year. The Nomination and Audit Committees are now supporting the CEO in searching for a new Group Finance Director. The Remuneration Committee has updated the Remuneration Policy in light of the change in leadership and this Policy will be proposed for approval by shareholders at the AGM on 15 January 2020.

Employees

The process undertaken over the past two years in changing the leadership of the Group has been a challenging period for our employees. I would like to record my thanks to all our employees who, during this period, have remained focused on delivering excellent service and value to our customers that is the 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 financial performance in line with our expectations.

Despite the uncertain political and economic environment impacting Industrial markets, the Board remains confident of further progress in the current financial year as moderately lower underlying growth will be offset by a strong contribution from acquisitions.

CHIEF EXECUTIVE'S REVIEW

2019 has been another year of strong performance. The Group's reported revenues increased by 12%, with currency movements adding 2% and acquisitions contributing a further 5% to the revenue growth. On an underlying basis, after adjusting for acquisitions and for currency effects on translation, Group revenues increased by 5%. Encouragingly, there was good growth in all three Sectors. Group adjusted operating margins improved by an excellent 30bps to 17.8%. As a result, the Group's adjusted earnings grew by 14% in the year. Strong cash flow generation provided funds to allow us to report a record year for acquisition spend, as well as a 15% proposed increase in the final dividend.

Sector Performance

It has been a very strong year in Life Sciences. Somagen, in Canada, extended its coverage in the Canadian Provinces with its diagnostic screening product designed to provide early detection of colorectal cancer. This product has been very well received in its market and is a great example of innovation in response to customer need. Market share gains in Vantage's Endoscopy business in Canada have also boosted growth. The acquisition of Sphere Surgical ("Sphere") in Australia has given us a good entry point into the high-growth bariatrics segment and complements our current product portfolio in BGS. In Life Sciences, underlying revenues increased by 7%, after adjusting for currency movements and the acquisition of Sphere.

In the Seals Sector, the NA Aftermarket businesses had another strong year as we grew market share through our high quality service offering and scale of our operation. We are currently developing a new leasehold facility in Louisville, Kentucky, which will further broaden our footprint across North America. The US Industrial OEM markets have been challenging this year. We experienced implementation issues with the ERP system earlier in the year, however with new leadership in place we are confident that these difficulties have now been resolved. VSP Technologies has made an encouraging contribution since joining the Group in July this year and extends our sealing products offering to the gasket market, supported by a high-quality, well-established customer proposition and management team. In September we completed the acquisition of DMR Seals in the UK, which complements our existing FPE Seals business. In Seals, underlying revenues increased by 1%, after adjusting for currency movements and acquisitions.

The Controls Sector has developed well this year. The Clarendon Specialty Fasteners business had great success penetrating further into the civil aerospace market. The Interconnect business has been expanding successfully in Germany and has extended its business reach with the acquisition of Gremtek in France. We continue to add new products into the Sector. Whilst market conditions in the UK have created more uncertainty in our Industrial end markets, we continue to be very positive about the future prospects for this Sector. In Controls, underlying revenues increased by 9%, after adjusting for currency effects and acquisitions.

Acquisitions

Diploma has a strong history of disciplined acquisitions. We had a very positive year for acquisitions with VSP Technologies, Gremtek, DMR Seals and Sphere all joining the Group with a total spend of ca. £78m. In the US we have been pleased with the transition of VSP Technologies into the Group and are excited by its growth potential. VSP Technologies is a leading supplier of high-quality gasket and fluid sealing products, as well as customised solutions, to the industrial MRO market. VSP Technologies is built on strong, long-standing customer and supplier relationships supported by value-add servicing. The acquisition is consistent with our strategy and provides an exciting opportunity to extend our Seals activities in North America. In addition, three smaller bolt-on acquisitions were completed in the Seals, Controls and Life Sciences sectors during the year - DMR Seals in the UK, Gremtek in

France, and Sphere Surgical in Australia. We are very positive about the prospects for all four businesses and the strategic attributes they bring to the Group. Bolt-on acquisitions remain a key part of the Group's strategy.

Management Resources

Strong management in the businesses is key to the continued success of the Group. This year we have made some important appointments to reflect our growing organisation: David Goode joined in April 2019 to lead the Controls Sector, allowing Gustav Rober to retain his focus leading our Corporate Development. In September, following the acquisition of VSP Technologies in the US which extended the scale and opportunity of the Seals businesses, Alessandro Lala, who has been with the Group since 2006, was appointed to manage the International Seals businesses. Jill Tennant joined the Group as our first Group HR Director in May 2019 this year, in recognition of the increasing importance of developing the Group's organisational capability.

In order to manage our succession and business growth requirements most effectively, while retaining our winning culture, we are committed to making internal appointments where possible. In 2019, over 50% of our senior appointments were internal candidates. The right blend of stability, internal progression and external skill is key to the strong results that will lead to our future success. Acquisition growth in 2019 has also allowed us to bring new talent into the Group.

We continue to develop the Executive Management Committee ("EMC") which comprises the Executive Directors and Executive senior managers responsible for the major business clusters and key Group functions. The EMC meets regularly, providing the opportunity for members to broaden their perspective of the Group's activities, reinforce the key elements of the Group's culture and identify best practices that are transferable across the Group.

Strategy

We have a consistent strategy that is built on the strong foundations of our value-add distribution model. Since joining this year I have, together with the Executive team, reviewed and refreshed the Group's strategy based on these strong foundations. As the Group evolves, we will continue to strengthen the Core Competencies that support that model and the Organisational Capability to execute these Core Competencies at scale. We will also focus our growth on the exciting opportunities in core developed larger markets and products. This growth will be organic and complemented as normal by acquisitions. This strategy will continue to deliver strong and consistent financial returns for shareholders.

Business Model - value-add distribution

Stable and resilient revenue growth is achieved through our focus on *Essential Products* and services funded by customers' operating models rather than capital budgets and supplied across a range of specialised industry segments. By supplying *Essential Solutions*, not just products, we build strong, long-term relationships with our customers and suppliers, which support sustainable and attractive margins. Finally, we encourage an entrepreneurial culture in our businesses through our decentralised management structure. 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.

SECTOR DEVELOPMENTS

LIFE SCIENCES

The Life Sciences Sector businesses supply a range of consumables, instrumentation and related services to the healthcare and environmental industries.

	2019	**2018**	
Revenue	**£145.8m**	£134.7m	*+8%*
Adjusted operating profit	**£27.5m**	£23.9m	*+15%*
Adjusted operating margin	**18.9%**	17.7%	*+120bps*
Free cash flow	**£23.2m**	£17.3m	*+34%*
ROATCE	**22.0%**	19.1%	*+290bps*

- *Sector revenue growth of 8%; underlying growth of 7% after adjusting for currency effects and a small surgical acquisition in Australia completed late in the year*
- *In Canada, DHG underlying revenues increased by 10% with strong consumable and capital revenues from its market-leading new technology products, new cancer diagnostics program in Somagen and endoscopy product lines in Vantage*
- *In Australia and New Zealand, underlying revenues increased by 8%. Abacus dx reported strong growth across its portfolio of products. Diploma acquired Sphere Surgical in September, adding bariatrics to the product portfolio of the BGS surgical products business*
- *TPD underlying revenues declined 7% in Ireland as the business rebuilds its product portfolio and restructures its commercial divisions*
- *The Environmental businesses reported 9% underlying revenue growth with strong revenue growth in the a1-CBISS business, following a good recovery in the second half for CEMS installations and associated services*

Reported revenues of the Life Sciences Sector businesses increased by 8% to £145.8m (2018: £134.7m) with strong revenue growth from both the DHG and a1-group. Revenues benefited from a currency tailwind of 1% on translation of the results from the overseas businesses to UK sterling. After adjusting for currency effects and the acquisition of Sphere Surgical, underlying revenues increased by 7%.

Adjusted operating margins grew by 120bps to 18.9% largely reflecting strong operating cost leverage across both the DHG and Environmental businesses. Gross margins were slightly weaker reflecting the impact of transactional currency pressures on the Healthcare margins, but favourable currency hedges helped offset some volatility of the Canadian and Australian dollars relative to the US dollar and Euro during the second half of the year. Adjusted operating profits increased by 15% to £27.5m (2018: £23.9m).

The Life Sciences businesses invested £3.3m (2018: £3.5m) in new capital during the year of which £2.7m (2018: £2.3m) was spent on acquiring field equipment for both new placements in hospitals and laboratories and for loan equipment and demonstration models to support existing placements. The increased spend on field equipment was largely driven by the launch this year of a new series of flexible endoscopes and expansion and conversion of special biochemistry technology in Australasia, together with the replacement of smoke evacuation products to extend contracted business. The balance of £0.6m was split between furnishings for the newly renovated AMT/Vantage facility and service equipment improvements and upgrades. The IT infrastructure across the Healthcare businesses was also upgraded. Free cash flow increased strongly to £23.2m (2018: £17.3m), largely reflecting strong operating cash flow, which also benefited from a cash inflow from reduced working capital.

Healthcare

The DHG businesses, which account for 85% of Life Sciences revenues, increased underlying revenues by 7% after adjusting for currency effects and the small acquisition.

In Canada, underlying revenues increased by 10% driven by new technologies in all businesses, despite the ongoing backdrop of regional consolidation of Group Procurement Offices ("GPOs"). The GPOs continue to restructure and amalgamate, leading to harmonised contracting, and rationalised service provision in the laboratory sector in Quebec, in particular. In response the DHG businesses continue to seek new suppliers that develop and provide innovative products to the market.

Somagen's core Clinical Diagnostics business delivered an underlying increase of 10% in revenues, with sustained growth in consumable and service revenues. Capital sales decreased reflecting the impact of laboratory centralisation, particularly in Quebec. Demand for diagnostic testing, both cancer screening and companion diagnostics, remained robust. Somagen implemented two new large Provincial contracts to provide colorectal cancer screening products and services with the stability of long-term contracts. Somagen continued to pursue new supplier recruitment programs, resulting in new targets entering the contracting phase across the Specialty Diagnostics, Microbiology and Molecular Diagnostics segments of the market.

AMT/Vantage, the combined Surgical and Endoscopy businesses in Canada, delivered strong underlying growth of 10% in revenues, particularly driven by Vantage's continued success with the introduction of a new series of gastric endoscopes. The new technology in these endoscopes has successfully driven current customer contract extensions as well as new contracted business. Continued diversification across both Vantage's endoscopy division and AMT's surgical specialty division offers growth in new segments of the market as well as off-setting some of the maturing, traditional electrosurgical market. AMT/Vantage's discipline around portfolio lifecycle management, has yielded new suppliers that will drive future growth in both the GI/Endoscopy and Specialty Surgical segments of the Canadian market.

In Australasia, Abacus dx delivered 11% underlying growth in revenues driven by expansion of product offerings in the immunology market and conversion of special biochemistry technology. However revenues were also impacted by the continuing consolidation of testing within the Australian Clinical Diagnostics market and broader based GPOs in the fragmented diagnostics market. BGS, the Surgical Products business in Australasia, stabilised revenues with a modest 1% underlying growth after the loss of a key surgical supplier last year. The acquisition of Sphere Surgical provided access to the Bariatric Surgery market, a new segment for BGS. BGS also made good progress in securing new specialty surgical suppliers that will drive further growth.

The TPD business in Ireland and the UK reported declining underlying revenues of 7% attributed to its Medical and Surgical business in Ireland as it continues to manage the transition of a number of medical and surgical suppliers who have moved from specialised distribution to a direct supply model. The Biotech business grew 13% on an underlying basis, with the Clinical business remaining largely unchanged on prior year. The business has restructured into two commercial divisions, Medical Science and Clinical Science, with Medical Science aligning to the Medical and Surgical markets, and Clinical Science aligning to the IVD and Biotech markets. Both divisions have focused on portfolio development efforts resulting in new suppliers that will provide new growth in the future.

Environmental

The a1-group of Environmental businesses in Europe, which account for 15% of Life Sciences revenues, saw underlying revenues increase by 9%, with both businesses performing strongly in the second half of the year.

The a1-envirosciences business based in Germany increased underlying revenues by 4% driven by expanding demand across Europe for elemental analysers and the associated service contracts. The increasing environmental awareness and in particular, the anticipated regulations on toxic polyfluorinated compounds, found in a range of manufactured products, is creating continued demand for these analysers in R&D and Environmental control. Health & Safety regulations also continue to increase demand for customised containment enclosures for the safe weighing of hazardous materials. The business has invested in additional service personnel and an IT based field service management system to support the larger installed base and capitalise on the demand from customers for faster response times.

The a1-CBISS business based in the UK delivered strong underlying growth of 15% in revenues against a weak prior year comparator. Revenue growth reflected a strong recovery in order placement for continuous emissions monitoring systems ("CEMS") and associated service, as well as growth in the gas detection product segment. With strong CEMS capital sales, the associated service contracts provide for future revenue growth.

SEALS

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

	2019	**2018**	
Revenue	**£220.6m**	£208.0m	*+6%*
Adjusted operating profit	**£38.1m**	£36.0m	*+6%*
Adjusted operating margin	**17.3%**	17.3%	-
Free cash flow	**£17.7m**	£25.9m	*(32%)*
ROATCE	**19.3%**	25.3%	*(600bps)*

- *Sector revenue growth of 6%, reflecting contribution from acquisition of VSP Technologies; underlying growth of 1% after adjusting for currency and acquisitions*
- *NA Aftermarket underlying revenues increased by 2%, driven by improved trading conditions in the second half of the year as large mobile machinery continued to move out of warranty period; HKX revenues declined marginally reflecting a reduced supply of new equipment*
- *US Industrial OEM revenues significantly impacted this year by combination of softening US Industrial markets and operational issues arising on implementation of new ERP; underlying revenues decreased by 6% on prior year. ERP issues now resolved and new leadership team appointed at end of year*
- *VSP Technologies acquired in July has made solid contribution in line with expectations*
- *International Seals reported an increase in underlying revenues of 4%; weaker second half reflecting softer European industrial markets*

Reported revenues of the Seals Sector businesses increased by 6% to £220.6m (2018: £208.0) with the acquisitions in the second half of the year of VSP Technologies and DMR Seals contributing £9.3m to Sector revenues. Underlying revenues increased by 1%, after adjusting for these acquisitions, net of a small disposal last year and for currency effects on translation of results to UK sterling.

Adjusted operating margins remained unchanged at 17.3% with stronger gross margins, particularly in the NA Aftermarket business following robust price increases and strong freight recoveries. However these margins were largely offset by investment in the US Industrial OEM business necessary to resolve the issues that arose on implementation of a new ERP system. The International Seals businesses reported adjusted operating margins marginally below the prior year, reflecting the impact of softer demand in their key markets.

The Sector invested £5.1m (2018: £2.0m) in capital expenditure during the year reflecting the ramp up of investment of £3.2m in a second distribution facility for the NA Aftermarket business and a further £0.6m (2018: £0.8m) was invested in completing the implementation of the new ERP system in the US Industrial OEM business. The International Seals businesses invested £1.0m on beginning an implementation project for new ERP systems in both Kubo and in FPE Seals and on new warehouse machinery.

Free cash flow was significantly impacted by difficulties that arose from the ERP implementation this year in the US Industrial OEM business and decreased by £8.2m to £17.7m (2018: £25.9m). These difficulties were exacerbated by the expansion of trade tariffs in the US during the year. Both issues contributed to a substantial increase in inventories in this business necessary to help customers mitigate the impact of tariffs, manage increased lead times from select suppliers and increased on-hand stock requirements to maintain service levels to customers.

North American Seals

The NA Seals businesses, which accounts for ca. 61% of Seals revenues, reported revenues up 7% on the prior year which included a strong contribution from VSP Technologies, acquired in July 2019. Underlying revenues decreased by 1%, after adjusting for this acquisition, net of a small non-core disposal last year and the weakening of UK sterling against both the US and Canadian dollar.

The US **Aftermarket** businesses increased revenues by 2% on an underlying basis, driven by improved trading in the second half of the year in the Repair market, after a weak first half caused by an unusually high influx of new heavy mobile equipment in the past few years, which remained under the original manufacturer's warranty. The Aftermarket business is now beginning to benefit as this new equipment moves out of warranty. HKX also experienced slightly softer markets from a reduced supply of new mobile equipment in the dealer network and competition from excavator OEM manufacturers.

In the domestic Aftermarket, Hercules reported underlying revenues up 3% on the prior year with the Repair and Distributor segments continuing to provide growth and opportunities. Smaller seal distributors continued to purchase from Hercules to avoid seal manufacturer lead times and minimum order quantities. Hercules also added new products to its portfolio as well as broadening both the scope of customers and equipment supported. After several years of product development, Hercules are now making successful inroads to supply seals into the heavy mobile equipment Rental sector, including Aerial Lifts, Skidsteer Loaders and Front-end Loaders. New market opportunities include seal kitting services for industrial plants of OEMs and industrial MRO. E-commerce continued to deliver strong year-on-year growth and now accounts for 34% of invoices processed and 28% of Hercules US revenues. A new version of the e-commerce site has been developed during the year and will be rolled out in early 2020. This will provide greater functionality, faster response and greatly enhanced search engine optimisation.

The US$10m project to develop a second distribution facility made strong progress during the year with new logistic equipment being installed in a new 120,000 sq ft leased facility in Louisville, Kentucky. During the year ca. £0.2m of one-off costs were incurred on this project; further one-off/dual running costs of ca. £2m will be incurred in the next financial year, prior to completion of the project in late 2020. When fully operational, this facility will comprise highly technical warehouse automation that will allow much greater access to expanded territories in the US, as well as more competitive shipping logistics.

In Canada, revenues increased by 6% in local currency terms. This outpaces a Canadian economy that has seen some volatility over the past year, with market share being gained from both Repair and Industrial OEM customers. During the year, Canada also successfully leveraged the Hercules e-commerce platform, which now accounts for 9% of invoices and 5% of Canadian revenue.

In markets outside of North America, Hercules faced headwinds because of the impact of increased tariffs that led to a reduction in cylinders manufactured in China and delivered to export markets. Despite this reduction in cylinders, moderate revenue growth of 2% was reported in Central and South America.

HKX revenues declined by 3% as the business faced significant equipment shortages which reduced HKX kitting opportunities and as excavator OEM manufacturers enhanced both their capability and availability of factory installed auxiliary hydraulics. The introduction of mandated Tier 4 mobile equipment in Canada from 1 January 2019 also contributed to weaker demand, after a strong finish for Tier 3 machines last year.

The US **Industrial OEM** business was disrupted significantly this year by the difficulties that arose on implementation of the new ERP system on 1 October 2018 and underlying revenues were 6% below the prior year. Revenues also suffered from a softening US industrial market in the second half of the year, caused by ongoing disruption from increased trade tariffs and weaker global economies leading to a decline in US exports. With this background, larger customers in particular continued to seek pricing concessions in exchange for both retaining and gaining additional business. In response, management has also secured price reductions from its suppliers and has taken advantage of suppliers who relocated production facilities outside of tariffed regions, to maintain competitiveness in the marketplace.

The business has a number of large key accounts across a range of specialised industrial applications in industries including Water, Medical, Oil & Gas, Fluid Handling and Food Equipment, as well as Consumer Products. Despite the operational difficulties, Water, Medical and Consumer Products continued to show positive gains as new projects and products were introduced. However the business saw a decline in revenues from customers in the Automotive, Hydraulic and Aerospace sectors from dual sourcing and some Industrial OEM customers were lost because of weaker service delivery caused by operational challenges that arose following the ERP implementation.

In the second half of the year, the principal issues relating to the ERP implementation were successfully resolved with a corresponding and substantial improvement in operational processes. In September a new leadership team was appointed and the business has now stabilised and is looking forward to resume growth by exploiting newly developed products and additional specialty compounds, as well as building relationships with engineering departments at several large and mid-size customers.

In **MRO**, the VSP Technologies business, acquired in July 2019, reported a solid contribution to revenues in its initial three months as part of the Group with revenues above last year on a like-for-like-basis and in line with our expectations. The business continued to gain US market share growth in the transportation segment through its RideTight® programme. The demand for the RideTight® programme and related products has also gained traction internationally. The Group has begun developing cross-selling opportunities with our existing Seals businesses and these will provide good opportunities for growth next year.

International Seals

The International Seals businesses, which account for ca. 39% of Seals revenues, reported a 4% increase in reported and underlying revenues, with activity across European Industrial OEM markets softening in the second half of the year, against a strong comparative last year. During the year FPE Seals, Kubo and M Seals UK commenced work on implementing new ERP systems, all of which are expected to go live during 2020. These new systems will lead to substantial operating efficiencies, including cross selling and inventory management within the International Seals businesses and provide a platform to extend their e-commerce activities.

The FPE Seals and M Seals businesses, with their principal operations in the UK, Scandinavia and the Netherlands, together delivered underlying growth of 5% in revenues on a constant currency basis and after adjusting for the acquisition of DMR Seals in September this year. The FPE Seals business delivered double-digit underlying growth, benefiting from the continuing improvement in the Oil & Gas market and strong growth in international sales which benefited from additional European sales resources added last year. Revenues also benefited from good growth in its core UK Aftermarket hydraulic seals and cylinder parts business, although a weaker UK construction market led to slower activity in the second half of the year. In September 2019, FPE Seals acquired DMR Seals, a well established UK distributor of bespoke machined seals and gaskets based in Sheffield and supplying OEMs and MRO companies operating in a broad mix of industries. DMR Seals success has been built on deep technical knowledge, high levels of customer service and flexible machining capabilities and complements well the products and services offered by FPE Seals.

M Seals delivered modest growth in revenue in both the Scandinavian and UK markets, although trading activity softened in the second half of the year. In Scandinavia, solid revenue growth was achieved in Sweden driven by specific customer activity, but this was largely offset by flat revenues in the Danish core markets. In the UK, similarly to FPE Seals, M Seals benefited from the improvement in the Oil & Gas market with customers expanding activities but this was partly offset by a weaker Industrial OEM market.

Kubo, which operates in Switzerland and Austria, increased underlying revenues by 1% with performance very dependent on local market conditions. In Switzerland, revenues reduced modestly against a strong comparative, as customers looked to reduce inventories to meet weaker industrial production in 2019 also reflecting the impact from the appreciation in the Swiss franc, relative to the Euro. A new distribution supply agreement for a major supplier expanded both the company's customer base and product range and helped mitigate the weakness in some of its existing markets. In Austria, Kubo reported robust revenue growth, benefiting from a new customer contract gained in the second half of last year.

The Kentek business, with principal operations in Finland and Russia, saw revenues reduce by 1% in Euro terms with competitive trading conditions continuing in both Finland and Russia, reflecting generally tougher end markets. Revenues generated in Russia, which account for ca. 65% of Kentek revenues, reduced slightly in Euro terms as the ongoing impact from international sanctions increasingly hindered trading activity and led to some projects being postponed. In response, Kentek continued to focus on sales of its own-brand filter range and also invested in a new sales branch in the far east of Russia to support the mining and logging sectors. In Finland, Kentek revenues reduced by 4% as sales to Aftermarket customers and other distributors suffered from strong competition in a market hampered by a lack of growth opportunities.

The TotalSeal business in Australia and New Caledonia has core capabilities in industrial gaskets and mechanical seals used in MRO operations in complex, high specification and arduous conditions. The business reported double-digit growth in both Australia and New Caledonia against a weak comparative and benefiting from an improving mining sector. The business in New Caledonia was successful in renewing its supply contract with its major international mining customer.

CONTROLS

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

	2019	**2018**	
Revenue	**£178.3m**	£142.4m	+25%
Adjusted operating profit	**£31.6m**	£25.0m	+26%
Adjusted operating margin	**17.7%**	17.6%	+10bps
Free cash flow	**£24.7m**	£19.8m	+25%
ROATCE	**31.0%**	29.8%	+120bps

- *Sector revenue growth of 25%; underlying growth of 9% after adjusting for currency and acquisitions completed both this year and last year*
- *Interconnect delivered underlying growth of 7% with strong growth in the IS-Group businesses more than offsetting weaker revenues in the CCA Group (Cablecraft and FS Cables)*
- *The Gremtek acquisition completed in October 2018 adds to the Interconnect business a range of own-branded protective sleeving and cable identification products and expands the business into France*
- *Clarendon increased underlying revenues by 21%, with growth driven by strong demand from both existing and new Civil Aerospace customers*
- *Fluid Controls revenues increased by 1% with solid growth in the refrigeration market, held back by a challenging UK industrial market*

Reported revenues of the Controls Sector businesses increased by 25% to £178.3m (2018: £142.4m). The acquisition of Gremtek in October 2018 and FS Cables in August 2018, contributed £24.6m or 14% to Sector revenues. After adjusting for negligible currency movements on revenues from translation to UK sterling and for these acquisitions, underlying Sector revenues increased by 9%.

Adjusted operating margins increased by 10bps to 17.7% (2018: 17.6%) largely reflecting operating leverage from strong revenue growth, which more than offset the impact from acquired businesses that joined the Sector at lower initial operating margins. Gross margins improved marginally, largely reflecting mix effects across the Sector businesses. Adjusted operating profits increased by 26% to £31.6m (2018: £25.0m).

Capital expenditure in Controls increased to £2.5m (2018: £1.1m) in 2019, including £0.7m invested in completing the expansion and refurbishment of the IS-Sommer facility in Germany. Contracts to sale and leaseback this facility are expected to be completed in early 2020. In September 2019 £1.3m was invested on a new stand-alone facility for Clarendon to provide additional capacity to meet the substantial growth in this business. After a short period of refurbishment, Clarendon will relocate to this facility in December 2019 before completing a sale and leaseback of the facility early in 2020. Free cash flow increased by 25% to £24.7m (2018: £19.8m) reflecting stronger trading and the benefit from reduced working capital, after the unwinding of Brexit stock built up in the first half of the year.

Interconnect

The Interconnect businesses account for 63% of Controls revenues and reported an increase in revenues of 34% in UK sterling terms. After adjusting for the acquisitions of Gremtek and FS Cables and for currency effects, underlying revenues increased by 7%. Strong underlying growth in the IS-Group and Filcon, more than offset weaker demand in the UK centric CCA Group.

The IS-Group's UK businesses reported a 10% increase in revenues reflecting further success achieved in broadening its customer base across the EMEA region and good growth from sales in the Asia Pacific region. IS-Group has been successful in the EMEA region by directly targeting cable harness houses and developing its network of sub-distributors. In the Aerospace sector a strong performance was driven by sales of assembly tags for fuel pipes, in addition to protective strips and sleeving into an aircraft manufacturer. There was a modest fall in the UK Defence sector reflecting the absence of a large one-off order delivered last year. The Industrial sector benefited from a positive first half as customers built inventories ahead of Brexit; however the UK industrial market softened in the second half reflecting weaker economic conditions. The Energy sector remained strong with sales particularly buoyant into offshore and subsea applications and activity levels remaining robust in the North Sea Oil markets. In Motorsport, there was solid revenue growth from an expanding presence in the Formula E race series, which offset another quiet year for development in Formula 1 and WRC. The IS-Cabletec business, a supplier of high performance braided products, also delivered solid growth as it re-gained business with a key customer.

The IS-Sommer business in Germany delivered 9% growth in revenues with particularly strong performances in the Defence and Energy markets. The improvement in Energy revenues was driven by an expanded territorial access and, an improved service offering to a market with short lead times on inventory availability. In the Defence market, revenue growth was achieved from new projects for the refurbishment of Leopard II tanks and Howitzer (PzH 2000) tanks for supply into Hungary. The Industrial market also grew supported by a large project win for insulation and protection of fuel-pipes into the automotive sector. The Medical sector reported double-digit revenue growth and continued to benefit from technical support provided to manufacturers in previous years to assist them managing new European Regulations for medical devices. Motorsport revenues recovered modestly following a decline in revenues in the prior year when Audi and Volkswagen withdrew from the German DTM series. Aerospace revenues declined in the year against a strong comparative when a new distribution agreement was concluded and led to large initial orders.

In October 2018, IS-Group expanded its European footprint through the acquisition of Gremtek based in Paris, France. Gremtek is a long established and leading supplier of own branded protective sleeving and cable identification products. Now fully integrated into the IS-Group, Gremtek offers a broader product range, whilst at the same time providing a platform to sell existing IS-Group products into the French market. Gremtek's revenues since acquisition were in line with expectations.

Filcon reported a 13% increase in revenues against a weak comparative, with strong demand from its three core markets: Military Aerospace, Space and Motorsport. In Military Aerospace, public spending increased in Germany following pressure to meet NATO's defence spending targets. There was strong growth in the Space sector driven by a new customer acquisition and geographic expansion and in Motorsport, demand increased due to new project wins across the existing customer base and the addition of new applications within Formula E.

The CCA Group comprising Cablecraft and FS Cables (acquired in August 2018) together reported a 3% decrease in underlying revenues. Cablecraft revenues suffered from a reduction in demand from the rail sector when the new five-year funding cycle (Control Period 6) opened in April 2019. This led to a combination of a change to the funding process and a delay in commencement of major projects, which are now anticipated to ramp up in early 2020. The wholesale and distribution sectors were also relatively flat as activity levels in the wider construction sector slowed sharply in the second half of the year. During the year, Cablecraft has launched a new e-commerce platform with enhanced functionality providing encouraging indications of revenue growth in the second half of the year from both existing and new customers.

FS Cables, an established and leading supplier of specialist cable products, was acquired in August 2018. The revenues were broadly flat on a like-for-like basis with solid export revenues (which account for ca. 20% of total revenues), offset by weaker revenues in its core UK commercial construction market.

The CCA Group has recently been created to take advantage of cross-selling opportunities across both Cablecraft and FS Cables and to provide a strong platform for future growth under a single leadership team.

Specialty Fasteners

The Clarendon business now accounts for 21% of Controls revenues and reported an increase in underlying revenues of 21%, after adjusting for currency and a small acquisition in the prior year. In a buoyant Civil Aerospace sector, revenue growth continued to be driven by both increased demand from existing customers and further penetration into new customers across Europe and Asia. These customers, along with their sub-contractors, are manufacturing aircraft seating and cabin interiors and Clarendon supports many of these customers by supplying product through its automatic inventory replenishment system ("Clarendon AIR"). The number of customers using Clarendon AIR saw significant growth reflecting the high quality service and responsiveness provided by Clarendon.

In Clarendon's other major market of Motorsport, underlying revenue grew, despite the number of Formula 1 races remaining unchanged and there being no significant changes to engine regulations. Revenues also benefited from demand on "supercar" development projects with major automotive OEMs and from the supply of pre-assembled and captive fasteners and bespoke engineered solutions to the Defence and Industrial sectors.

Clarendon's US business, acquired early last year, delivered robust growth during the year from gaining new customers within the US aircraft seating and cabin interiors sector, as well as solid revenues generated in the space and urban air mobility (UAM) markets.

Fluid Controls

The Hawco Group of Fluid Controls businesses accounts for 16% of Controls revenues and supplies temperature, pressure and fluid control products, principally to the Food & Beverage industry. Revenues increased by 1% against the prior year with growth coming from the OEM refrigeration market as tighter environmental regulations drove demand; however overall revenue growth was held back by a challenging UK industrial market.

Hawco's revenue growth in the OEM Refrigeration equipment market came from OEMs exporting into the USA, supplying into the Refrigerated Transport Home Delivery market and from the ongoing development of store formats in Convenience stores and Petrol forecourts. Contractor revenues were marginally up on prior year with refrigeration spares sales improving, but installation of air conditioning units reduced because of a slowdown in construction projects. Revenues to OEMs for the supply of heating and temperature control products slowed in the financial year as demand weakened and projects were deferred.

Abbeychart revenues declined slightly during the year, where strong revenues from the Coffee, Soft Drinks and Water sectors were more than offset by a weaker Vending sector. In the Vending sector, OEMs reduced production of new machines to match softer demand and operators reduced spare parts held for the Aftermarket. Good progress was made in North America, which delivered growth on the prior year. Additional sales resource was added in the second half of the year to support future growth plans. In May 2019, Abbeychart consolidated its inventory with Hawco's inventory held in Bolton and relocated its operations into a new leasehold facility in Swindon.

FINANCE REVIEW

Reported and underlying results in 2019

Reported revenues increased by 12% to £544.7m (2018: £485.1m) and adjusted operating profit increased by 14% to £97.2m (2018: £84.9m). The results benefited from a strong contribution from acquisitions, a currency tailwind and an improvement in adjusted operating margins.

Acquisitions completed this year and last year, net of a small disposal last year, incrementally contributed £26.2m and £4.9m to revenue and adjusted operating profit, respectively. A weakening in UK sterling relative to the US and Canadian dollars, particularly in the second half of the year, provided a currency tailwind of 2% on the translation of the results of the overseas businesses, when compared with last year's average exchange rates. This currency tailwind contributed to an increase in revenues and adjusted operating profits of £9.0m and £1.9m, respectively.

The underlying results present the performance of the Group on a like-for-like basis by adjusting for the contribution from businesses acquired during the year (and from the incremental impact from those acquired last year) and for the impact on the translation of the results of the overseas businesses from the weakening in the UK sterling exchange rate in the second half of the year, primarily against the US and Canadian dollars in particular. After adjusting for the currency tailwind and for the incremental contribution from acquisitions (net of a small disposal), underlying revenues and underlying adjusted operating profits increased by 5% and 7%, respectively.

Adjusted operating margin

The Group's adjusted operating margin improved by 30bps this year to 17.8% (2018: 17.5%) largely reflecting stronger gross margins from a combination of robust price increases implemented earlier in the financial year, improved focus on other gross margin support costs and tight control of operating costs.

In Life Sciences, adjusted operating margins benefited from strong operational leverage. However, headwinds from adverse currency transactional effects led to slightly weaker gross margins, despite favourable currency hedges partly mitigating the impact from weaker Australian dollar and Canadian dollar spot exchange rates relative to the US dollar and Euro. In Seals, adjusted operating margins remained unchanged as much stronger gross margins from robust price increases to customers and stronger freight recoveries, were offset by increased revenue investment in the US Industrial OEM business to resolve the difficulties with the ERP implementation. In Controls, adjusted operating margins improved marginally reflecting operating leverage from stronger revenues and a small positive mix effect on gross margins, partly offset by initial margin dilution from acquired business.

Adjusted and statutory profit before tax

Adjusted profit before tax increased by 14% to £96.5m (2018: £84.8m). The interest expense this year increased to £0.7m (2018: £0.1m), including £0.4m on increased borrowings to finance acquisitions, a small arrangement fee to extend the expiry of the revolver facility and an increase in the notional interest expense on the Group's pension deficit.

Statutory profit before tax was £83.5m (2018: £72.7m) and is after charging acquisition related charges of £13.1m (2018: £9.6m), comprising the amortisation of acquisition related intangible assets and acquisition costs and a net £0.1m credit (2018: £0.4m charge) on the fair value remeasurement of financial liabilities. A one-off charge of £2.1m of CEO transition costs was incurred last year relating to the change of the previous CEO.

Tax charge, earnings per share and dividends

The Group's effective tax charge on adjusted profit remained broadly unchanged at 24.0%, compared with 23.9% last year. Adjusted earnings per share ("EPS") increased by 14% to 64.3p, compared with 56.4p last year and statutory EPS increased by 15% to 54.7p (2018: 47.5p).

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 towards two times 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 on pages 18 to 22 that could adversely impact the performance of the Group.

For 2019, the Board has recommended a final dividend of 20.5p per share (2018: 17.8p) making the proposed full year dividend 29.0p (2018: 25.5p). This represents a 14% increase in the proposed full year dividend with dividend cover remaining unchanged at 2.2 times adjusted EPS.

Free cash flow

Free cash flow represents cash available to invest in acquisitions or return to shareholders. The Group generated strong free cash flow this year of £56.5m compared with £60.5m last year which benefited from £4.0m received on the sale of a small non-core US business. The reduction in free cash flow conversion to 78% (2018: 95%) of adjusted earnings reflects a combination of a larger cash outflow into working capital and increased capital investment this year.

The Group's operating cash flow increased this year by 9% to £92.3m (2018: £84.3m), but was partly offset by both an increase in working capital outflows of £9.4m (2018: £5.1m) and a cash payment of £1.3m (2018: £0.8m) this year to the former CEO in settlement of his compromise agreement. There was a strong inflow of cash from working capital in the second half of the year as the strategic build of inventories at 31 March 2019 to meet both Brexit uncertainty and specific customer/product requirements was successfully unwound by the end of the year. However, the initial difficulties that arose on implementation of the new ERP system in the US Industrial OEM business led to a significant build-up in inventories which was necessary to ensure service levels to customers were maintained. This alone accounted for most of the net increase in inventories of £12.2m (2018: £8.3m) which was partly offset by an inflow of £2.8m (2018: £3.2m) from an increase in net payables at the year end. The Group's KPI metric of working capital to revenue at 30 September 2019 increased to 16.5% (2018: 15.1%), reflecting the increased inventories held in the US Industrial OEM business at the year end.

Group tax payments increased by £2.9m to £21.9m (2018: £19.0m). On an underlying basis, cash tax payments represented ca. 22% (2018: 22%) of adjusted profit before tax which is slightly below the effective accounting rate reflecting the benefit from tax timing differences. Underlying tax payments are before currency effects from translation and exclude payments for pre-acquisition tax liabilities in acquired businesses.

The Group's tax strategy is to comply with tax laws in the countries in which it operates and to balance its responsibilities for managing tax, with its responsibility to pay tax where it does business. The Group's tax strategy and policy was approved by the Board last year and tax risks are regularly reviewed by the Audit Committee.

The Group's capital expenditure increased again this year to £10.9m (2018: £6.6m) largely reflecting investment in expanding the Group's facilities, as well as ongoing investment in both new field equipment in the Healthcare businesses and IT infrastructure across the Group to replace legacy IT systems.

During the year, £3.2m was invested in a major project for ca. £8m to set up a new distribution facility for the NA Aftermarket business, comprising fit-out of the new leasehold facility in Louisville, Kentucky together with racking and new carousels. In Germany a further £0.7m was incurred in completing the expansion of the warehouse and offices in IS-Sommer at a total cost of £1.4m. In the UK, Clarendon invested £1.3m in acquiring a new facility in Wootton Bassett which will allow it to relocate from its current facility which is shared with the IS-Rayfast business. Both the IS-Sommer and the Clarendon facility will be sold and leased back to the businesses early in the next financial year.

The DHG business in Life Sciences invested £2.7m (2018: £2.3m) in field equipment to support placements of new surgical equipment in hospitals and diagnostic machines in laboratories. Investment in IT infrastructure was £1.5m which included £0.9m on completing both the new ERP system in the US Industrial OEM Seals business and on commencing new ERP projects in the International Seals businesses. The remaining capital expenditure of £1.6m was invested on new warehouse equipment and tooling across the Group's businesses.

The Company paid the PAYE income tax liability of £1.7m (2018: £1.0m) on the exercise of LTIP share awards in November 2018, in exchange for reduced share awards to participants. In addition, £1.2m (2018: £1.2m) was paid to the Employee Benefit Trust to fund the acquisition of 100,000 ordinary shares in the Company to meet incentive awards.

The Group spent £78.3m (2018: £20.4m) of free cash flow on acquisitions as described below and £30.1m (2018: £27.0m) on paying dividends to both Company and minority shareholders.

Acquisitions completed during the year

The Group invested £77.2m on acquiring new businesses this year and paid a further £1.1m of deferred consideration for businesses acquired last year. As indicated last year, the increasing uncertainty about the future direction of global economies contributed to a greater number of sellers of private businesses to take advantage of several years of robust financial performance and sell their businesses.

With a more receptive M&A market for these businesses the Group completed a record spend on acquisitions this year. After a lengthy structured sale process, the Group completed the acquisition of VSP Technologies in July for initial consideration of £57.2m, net of expenses and cash acquired in the business. VSP Technologies is a leading supplier of high-quality gaskets and fluid sealing products and the acquisition provides an exciting opportunity to extend our Seals activities in North America, consistent with the Group's strategy.

A further three bolt on businesses were also acquired in the year for aggregate consideration of £20.0m, net of acquisition expenses and cash acquired. In October last year Gremtek, a small Interconnect business based in Paris, France was acquired for total consideration of £6.9m and in September this year both DMR Seals, based in Sheffield, UK and Sphere Surgical, based in Melbourne, Australia were acquired for initial consideration of £7.3m and £6.6m, respectively. These three businesses are good examples of Diploma bolt on acquisitions which provide each of the Sectors an opportunity to extend into new strategically related markets by broadening the existing product offering leading to increased value to shareholders.

These acquisitions added £53.2m to the Group's acquired intangible assets, which represents the valuation of customer relationships that will be amortised over periods ranging from five to fifteen years. At 30 September 2019, the carrying value of the Group's acquired intangible assets was £96.1m (2018: £53.6m) and there was an £11.6m (2018: £9.3m) charge this year to amortise these assets.

Goodwill at 30 September 2019 was £155.0m (2018: £128.5m) and included £24.1m relating to those businesses acquired during the year (including fair value adjustments to the assets and liabilities acquired). Goodwill is not amortised but is assessed each year at a Sector level to determine whether there has been any impairment in the carrying value of goodwill acquired. 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.

Liabilities to shareholders of acquired businesses

The Group's liability to shareholders of acquired businesses at 30 September 2019 increased by £5.7m to £11.3m (2018: £5.6m) and comprises both put options to purchase outstanding minority shareholdings and deferred consideration payable to vendors of businesses acquired during the last year.

The liability to acquire minority shareholdings outstanding at 30 September 2019 relates to a 10% interest held in both M Seals and Kentek. These options are now fully exercisable and are valued at £4.3m (2018: £4.5m), 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 2019 was £7.0m (2018: £1.1m). This liability represents the Directors' best estimate of the amount likely to be paid to the vendors of businesses purchased during the year, based on the expected performance of these businesses during the measurement period. The gross liability for deferred consideration of £7.5m has been discounted to reflect the expected date on which these payments will be made. During the year, £1.1m of deferred consideration was paid to the vendors of Coast and FS Cables that were acquired last year.

Return on adjusted trading capital employed and capital management

A key metric used to measure the overall profitability of the Group and its success in creating value for shareholders is the return on adjusted trading capital employed ("ROATCE"). At a Group level, this 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. At 30 September 2019, the Group ROATCE of 22.9% (2018: 24.5%) was weakened slightly by new acquisitions this year but remained comfortably ahead of our 20% benchmark. Adjusted trading capital employed is defined in notes 2 and 3 to the consolidated financial statements.

The Group continues to maintain a robust balance sheet with net debt of £15.1m at 30 September 2019, compared with cash funds of £36.0m last year. Surplus cash funds generated in the businesses are generally repatriated to the UK, unless they are required locally to meet certain commitments, including acquisitions.

The Group extended the expiry of its committed revolving multi-currency credit facility this year to 1 June 2022. This facility comprises a £30m committed facility with an accordion option that allows the Group to increase this commitment up to a maximum of £60m of borrowings. It is primarily used to meet any shortfall in cash to fund smaller bolt on acquisitions. In July this year the Group also drew down on a £40m term facility to help finance the larger acquisition of VSP Technologies, which unless extended under option, is repayable in full by 8 July 2021.

With undrawn facilities of ca. £54m available at 30 September 2019 and negligible debt leverage, the Group remains confident of seeking additional facilities up to a maximum of ca. 2 times adjusted EBITDA to fund further acquisitions in the new financial 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 2019 of £3.8m (2018: £3.1m).

The Group maintains a small legacy closed defined benefit pension scheme in the UK. A formal triennial funding valuation of this scheme was carried out as at 30 September 2016 and reported a funding deficit of £9.2m with a 75% funding level, based on bond yields of 1.5% at the valuation date, compared with 1.8% at 30 September 2019. The company is currently funding this deficit with cash contributions of £0.5m (2018: £0.5m) which increases annually on 1 October by 2% with the objective of eliminating the deficit within ten years. A charge of £0.1m has also been made against operating profits this year to equalise GMPs accrued between 1990 and 1997, between men and women.

At 1 September 2018, the scheme trustees completed a buy-in of the pensioner liabilities which represented ca. 30% of the scheme's liabilities existing at 1 September 2018. A new formal funding valuation is being carried out as at 30 September 2019 and the results will be reported in next year's Annual Report & Accounts.

In Switzerland, local law requires Kubo to provide a contribution based pension for all employees, which are 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 £0.4m (2018: £0.2m).

Both the UK defined benefit scheme and the Kubo defined contribution scheme are accounted for in accordance with IAS19 (Revised). At 30 September 2019 the aggregate accounting pension deficit in these two schemes increased sharply by £7.3m to £17.8m reflecting the impact from a large reduction in bond yields in both the UK and Switzerland during the second half of the year. The gross aggregate pension liability in respect of these two schemes at 30 September 2019 increased by £8.2m to £57.3m, which is funded by £39.5m of assets.

New Reporting Standards (IFRSs)

The Group adopted two new International Financial Reporting Standards (IFRSs) this year: *Revenue from Contracts with Customers* (IFRS15) and *Financial Instruments* (IFRS9). There is no material impact on the consolidated financial statements from adopting these new standards, although additional disclosure has been included in the notes to the consolidated financial statements.

The new IFRS16 *Leases* will be implemented from 1 October 2019. The work carried out to assess the impact of this new standard has indicated that ca. £34m of existing operating leases - referred to as "Right of Use" assets - will be capitalised on the Group Balance Sheet with the obligation to fund these operating leases being recognised as ca. £34m of debt. The impact on adjusted operating profit and adjusted profit before tax is not expected to be material. There will be no impact on the Group's free cash flow.

Impact of Brexit

At an operational level, the impact on the Group's businesses from the current uncertainty over the process and timing of the UK's exit from the European Union is not expected to be significant in terms of the Group's overall profitability. UK based revenues account for 28% of the Group's overall revenues and the UK businesses, as well as those based in Continental Europe, are substantially "in country" industrial suppliers of goods with limited cross border sales activity.

The Group's financial results this year have been slightly impacted by macroeconomic instability caused by the delayed and uncertain timing of the intended exit from the European Union. This uncertainty has contributed to a weaker UK economy and to a substantial depreciation in UK sterling, particularly in the second half of the year. This has had a negative impact on the Group's operating profits, although the overall Group results this year have benefited on the translation of the results of the Group's overseas businesses into UK sterling.

A prolonged disruption at the UK's borders as a result of Brexit has the potential to impact the supply chain of the Group's UK businesses. In the first half of the year the Group's UK businesses extended the depth of inventories by ca. £2m from building inventory levels of their faster moving product lines which was successfully unwound by 30 September 2019. The Board will continue to monitor closely developments in the Brexit plans, but currently has no intention to re-build inventory levels.

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, that have the potential to have the greatest impact on the Group's future viability. These risks are similar to those reported last year, although with some movement on the relative ranking of these risks. There were no new Principal Risks identified from the review process carried out by the Board this year.

The risks are each classified as either strategic, operational, financial or accounting. The Group's decentralised operations with different Sectors and geographical spread helps mitigate the impact of these principal risks.

The Board has also considered the risks associated with the UK's vote to leave the European Union and this is explained above in the Finance Review.

Strategic risk **Downturn/instability in major markets**	Relative movement to prior year **Increase**
Risk description and assessment Adverse changes in the major markets in which the businesses operate can have a significant impact on performance. The effects of these changes can be seen in terms of slowing revenue growth, due to reduced or 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 on the Group as a whole: • The Group's businesses operate in three differing Sectors with different cyclical	**Mitigation** The businesses identify key market drivers and monitor the trends and forecasts, as well as maintaining close relationships with key customers who may give an early warning of slowing demand. Changes to cost levels and inventories can then be made in a measured way to mitigate the effects. Significant global effects are closely monitored to determine any potential impact on key markets.

characteristics and across a number of geographic markets. • The businesses offer specialised products and services, which are often specific to their application; this offers a degree of protection against customers quickly switching business to achieve a better price. • A high proportion of the Group's revenues comprise consumable products that are purchased as part of the customer's operating expenditure, rather than through capital budgets. • In many cases the products are used in repair, maintenance and refurbishment applications, rather than original equipment manufacturer. • The global political and economic is more uncertain.	
Strategic risk **Supplier concentration/loss of key suppliers**	Relative movement to prior year **No change**
Risk description and assessment For manufacturer-branded products, there are risks to the business if a major supplier decides to cancel a distribution agreement or if the supplier is acquired by a company that has its own distribution channels in the relevant market. There is also the risk of a supplier taking away exclusivity and either setting up direct operations or appointing another distributor. Currently no single supplier represents more than 10% of Group revenue and only four suppliers represent more than 2% each of Group revenue. Relationships with suppliers have normally been built up over many years and a strong degree of interdependence has been established. The average length of the principle supplier relationships in each of the Sectors is over ten years. The strength of the relationship with each supplier and the volume of activity generally ensures continuity of supply, when there is shortage of product. The success of the businesses depends significantly on representing suppliers whose products are recognised in the marketplace as the leading competitive brand. If suppliers fail to support these products with new development and technologies, then our businesses will suffer from reduced demand for their products and services.	**Mitigation** Long term, multi-year exclusive contracts signed with suppliers with change of control clauses, where possible, included in contracts for protection or compensation in the event of acquisition. Collaborative projects and relationships maintained with individuals at many levels of the supplier organisation, together with regular review meetings and adherence to contractual terms. Regular review of inventory levels. Bundling and kitting of products and provision of added value services. Periodic research of alternative suppliers as part of contingency planning. The businesses work very closely with each of their suppliers and regularly attend industry exhibitions to keep abreast of the latest technology and market requirements/trends. The businesses also meet with key customers on a regular basis to gain insight into their product requirements and market developments.
Strategic risk **Customer concentration/loss of key customer(s)**	Relative movement to prior year **Decrease**
Risk description and assessment 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 and no single customer represents more than 3.5% of Sector revenue or more than 1.5% of Group revenue.	**Mitigation** 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.
Operational risk **Cybersecurity/information technology/business interruption**	Relative movement to prior year **No change**

Risk description and assessment	Mitigation
Group and operating business management depend critically on timely and reliable information from their IT systems to run their businesses. The Group seeks to ensure continuous availability, security and operation of those information systems. Cyber threats to the businesses information systems have this year reduced, following action taken to strengthen the IT infrastructure environment across the Group's businesses. Any disruption or denial of service may delay or impact decision making through lack of availability of reliable data. Poor information dandling 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 North American Aftermarket business is operated from a single warehouse based in Tampa, Florida which continues to be exposed to hurricanes during the season from August to November. The US Industrial OEM Seals business experiences difficulties with implementation of a new ERP system earlier in the year.	There is good support and back-up built into local IT systems and the spread of businesses with their own stand alone IT systems also offers good protection from individual events. The majority of businesses back-up online data at least once a day to an offsite data storage centre. A member of the Executive Management Committee is responsible for ensuring each business in the Group has a robust cybersecurity programme and reports twice a year to the main Board on the status of cybersecurity across the Group. In addition, education/awareness of cyber threats continues to ensure Group employees protect themselves and Group assets. At 30 September 2019, all businesses had achieved the UK Government endorsed Cyber Essentials accreditation; it is expected that recently acquired businesses will be fully accredited in 2020. Business continuity plans exist for each business with ongoing testing. The North American Seals Aftermarket business is investing in a second facility in Louisville, Kentucky. In response to the ERP implementation difficulties in 2019, the Group has set up a committee to oversee more closely the processes and milestones during any ERP implementation across the Group.
Operational risk **Loss of key personnel**	Relative movement to prior year **Decrease**
Risk description and assessment	**Mitigation**
The success of the Group is built upon strong, self-standing 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. 110 senior managers in the Group is 10 years and for all personnel in the Group is consistently ca. 7 years.	Contractual terms such as notice periods and non-compete clauses can mitigate the risk in the short term. However, more successful initiatives focus on ensuring a challenging work environment with appropriate reward systems. The Group places very high importance on planning the development, motivation and reward for key managers in the operating businesses including: • Ensuring a challenging working environment where managers feel they have control over, and responsibility for, their businesses. • Establishing management development programmes to ensure a broad base of talented managers. • Offering a balanced and competitive compensation package with a combination of salary, annual bonus and long term cash or share incentive plans targeted at the individual business level. • Giving the freedom, encouragement, financial resources and strategic support for managers to pursue ambitious growth plans.
	Relative movement to prior year

Operational risk Product liability	No change
Risk description and assessment	**Mitigation**
There is a risk that products supplied by a Group business may fail in service, which could lead to a claim under product liability. If a legal claim is made it will typically draw in our business as a party to the claim and the 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. Product liability insurance can be limited in terms of its scope of insurable events, such as product recall. 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. A Group business may also be liable for the associated costs of a subsequent customer recall arising directly from failure of an own-branded product.	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 Group has also established Group-wide product liability insurance which provides worldwide umbrella insurance cover of £30m across all Sectors. The businesses, in their terms and conditions of sale with customers, will typically mirror the terms and conditions of purchase from the suppliers. In this way the liability can be limited and subrogated to the supplier. The Group's businesses have undergone product liability training and are continually reviewed to demonstrate compliance with Group policies and procedures relating to product liability.
Financial risk **Foreign currency**	Relative movement to prior year **No change**
Risk description and assessment	**Mitigation**
Foreign currency risk is the risk that currency rates will affect the Group's results. The Group is exposed to two types of financial risk caused by currency volatility: translational exposure, being the effect that currency movements have on the Group's financial statements on translating the results of overseas subsidiaries into UK sterling; and transactional exposure, being the effect that currency movements have on the results of operating businesses because their revenues or product costs are denominated in a currency other than their local currency. The Group operates internationally and is exposed to translational foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, the Canadian dollar, the Australian dollar and the Euro. The results and net assets of the Group's operations outside the UK are also exposed to foreign currency translation risk. A strengthening of UK sterling by 10% against all the currencies in which the Group does business, would reduce adjusted operating profit before tax by approximately £7.4m (8%), 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 £13.8m (5%). The Group's UK businesses are exposed to transactional foreign exchange risk on those purchases that are denominated in a currency other than their local currency, principally US dollars and Euros. The Group's Canadian and Australian businesses are also exposed to a similar risk as the majority of their 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. The Group finance department monitors rolling monthly forecasts of currency exposures. 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 the consolidated financial statements.
Accounting risk **Inventory obsolescence**	Relative movement to prior year **No change**
Risk description and assessment	**Mitigation**
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. The charge against operating profit in respect of aged or surplus inventory in the year was £2.1m, but inventories are generally not subject to technological obsolescence.	Inventory write-offs are controlled and minimised by active management and inventory levels based on sales forecasts and regular cycle counts. Where necessary, a provision is made to cover both excess inventory and potential obsolescence.

RESPONSIBILITY STATEMENT OF THE DIRECTORS

IN RESPECT OF THE ANNUAL REPORT 2019

The Directors confirm that to the best of their knowledge:

- the Group's consolidated financial statements, prepared in accordance with IFRS as adopted by the EU and the Parent Company financial statements, prepared in accordance with UK Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Parent Company and the undertakings included in the consolidation taken as a whole;

- the Annual Report & Accounts includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties faced by the Group; 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 2018 and on the Company's website at *www.diplomaplc.com*. Johnny Thomson was appointed to the Board as Chief Executive Officer on 25 February 2019.

This responsibility statement was approved by the Board of Directors on 18 November 2019 and is signed on its behalf by:

JD Thomson
Chief Executive Officer

NP Lingwood
Group Finance Director

Registered office:

12 Charterhouse Square

London

EC1M 6AX

CONSOLIDATED INCOME STATEMENT
For the year ended 30 September 2019

	Note	2019 £m	2018 £m
REVENUE	3,4	**544.7**	485.1
Cost of sales		**(347.7)**	(312.2)
Gross profit		**197.0**	172.9
Distribution costs		**(12.7)**	(10.8)

Administration costs		**(100.2)**	(88.9)
OPERATING PROFIT	3	**84.1**	73.2
Financial expense, net	5	**(0.6)**	(0.5)
PROFIT BEFORE TAX		**83.5**	72.7
Tax expense	6	**(21.1)**	(18.3)
PROFIT FOR THE YEAR		**62.4**	54.4
Attributable to:			
Shareholders of the Company		**61.9**	53.8
Minority interests		**0.5**	0.6
		62.4	54.4
EARNINGS PER SHARE			
Basic and diluted earnings	7	**54.7p**	47.5p

ALTERNATIVE PERFORMANCE MEASURES (NOTE 2)	**Note**	**2019 £m**	**2018 £m**
Operating profit		**84.1**	73.2
Add: Acquisition related charges	3	**13.1**	9.6
Add: CEO transition costs		**-**	2.1
ADJUSTED OPERATING PROFIT	3,4	**97.2**	84.9
Deduct: Interest expense	5	**(0.7)**	(0.1)
ADJUSTED PROFIT BEFORE TAX		**96.5**	84.8
ADJUSTED EARNINGS PER SHARE	7	**64.3p**	56.4p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 September 2019

	2019 £m	**2018 £m**
Profit for the year	**62.4**	54.4
Items that will not be reclassified to the Consolidated Income Statement		
Actuarial (losses)/gains in the defined benefit pension schemes	**(7.2)**	(1.0)
Deferred tax on items that will not be reclassified	**1.3**	0.2
	(5.9)	(0.8)
Items that may be reclassified to Consolidated Income Statement		
Exchange rate gains/(losses) on foreign currency net investments	**6.2**	0.1
Gains/(losses) on fair value of cash flow hedges	**0.4**	0.7
Net changes to fair value of cash flow hedges transferred to the Consolidated Income Statement	**(0.7)**	0.9
Deferred tax on items that may be reclassified	**-**	(0.4)
	5.9	1.3
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**62.4**	54.9
Attributable to:		
Shareholders of the Company	**61.9**	54.2
Minority interests	**0.5**	0.7
	62.4	54.9

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2019

	Share capital	**Translation reserve**	**Hedging reserve**	**Retained earnings**	**Share-holders' equity**	**Minority interests**	**Total equity**

		£m	£m	£m	£m	£m	£m	£m
At 1 October 2017		5.7	29.7	(0.7)	227.3	**262.0**	4.8	**266.8**
Total Comprehensive Income		-	0.1	1.2	52.9	**54.2**	0.7	**54.9**
Share-based payments		-	-	-	1.0	**1.0**	-	**1.0**
Minority interests acquired		-	-	-	2.5	**2.5**	(2.5)	**-**
Minority interest contribution		-	-	-	-	**-**	0.3	**0.3**
Tax on items recognised directly in equity		-	-	-	0.5	**0.5**	-	**0.5**
Notional purchase of own shares		-	-	-	(2.2)	**(2.2)**	-	**(2.2)**
Dividends	13	-	-	-	(26.8)	**(26.8)**	(0.2)	**(27.0)**
At 30 September 2018		**5.7**	**29.8**	**0.5**	**255.2**	**291.2**	**3.1**	**294.3**
Total Comprehensive Income		-	6.2	(0.3)	56.0	**61.9**	0.5	**62.4**
Share-based payments		-	-	-	0.8	**0.8**	-	**0.8**
Minority interest acquired		-	-	-	-	**-**	-	**-**
Minority interest contribution		-	-	-	-	**-**	-	**-**
Tax on items recognised directly in equity		-	-	-	0.1	**0.1**	-	**0.1**
Notional purchase of own shares		-	-	-	(2.9)	**(2.9)**	-	**(2.9)**
Dividends	13	-	-	-	(29.8)	**(29.8)**	(0.3)	**(30.1)**
AT 30 SEPTEMBER 2019		**5.7**	**36.0**	**0.2**	**279.4**	**321.3**	**3.3**	**324.6**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2019

	Note	2019 £m	2018 £m
NON-CURRENT ASSETS			
Goodwill	10	**155.0**	128.5
Acquisition intangible assets		**96.1**	53.6
Other intangible assets		**2.7**	1.8
Investment		**-**	0.7
Property, plant and equipment		**26.7**	23.0
Deferred tax assets		**0.5**	0.3
		281.0	207.9
CURRENT ASSETS			
Inventories		**102.6**	82.9
Trade and other receivables		**91.1**	77.6
Cash and cash equivalents		**27.0**	36.0
		220.7	196.5
CURRENT LIABILITIES			
Trade and other payables		**(90.2)**	(80.5)
Current tax liabilities	6	**(6.9)**	(4.8)
Other liabilities	12	**(10.8)**	(5.6)
		(107.9)	(90.9)
NET CURRENT ASSETS		**112.8**	105.6
TOTAL ASSETS LESS CURRENT LIABILITIES		**393.8**	313.5
NON-CURRENT LIABILITIES			
Retirement benefit obligations		**(17.8)**	(10.5)
Borrowings	9	**(42.1)**	-
Other liabilities	12	**(0.5)**	-
Deferred tax liabilities		**(8.8)**	(8.7)
NET ASSETS		**324.6**	294.3
EQUITY			
Share capital		**5.7**	5.7
Translation reserve		**36.0**	29.8
Hedging reserve		**0.2**	0.5
Retained earnings		**279.4**	255.2
TOTAL SHAREHOLDERS' EQUITY		**321.3**	291.2
Minority interests		**3.3**	3.1
TOTAL EQUITY		**324.6**	294.3

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 30 September 2019

	Note	2019 £m	2018 £m
OPERATING PROFIT		**84.1**	73.2
Acquisition related charges	8	**13.1**	9.6
CEO transition costs, unpaid	8	**(1.3)**	1.3
Non-cash items	8	**5.8**	5.3
Increase in working capital	8	**(9.4)**	(5.1)
CASH FLOW FROM OPERATING ACTIVITIES	8	**92.3**	84.3
Interest paid, net		**(0.1)**	-
Tax paid		**(21.9)**	(19.0)
NET CASH FROM OPERATING ACTIVITIES		**70.3**	65.3
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of businesses (net of expenses and cash acquired)	11	**(77.2)**	(18.1)
Deferred consideration paid	12	**(1.1)**	(0.3)
Proceeds from sale of business (net of expenses)		**-**	4.0
Purchase of property, plant and equipment		**(9.7)**	(5.3)
Purchase of other intangible assets		**(1.2)**	(1.3)
Proceeds from sale of property, plant and equipment		**-**	-
NET CASH USED IN INVESTING ACTIVITIES		**(89.2)**	(21.0)
CASH FLOW FROM FINANCING ACTIVITIES			
Acquisition of minority interests	12	**-**	(2.0)
Dividends paid to shareholders	13	**(29.8)**	(26.8)
Dividends paid to minority interests		**(0.3)**	(0.2)
Purchase of own shares by Employee Benefit Trust		**(1.2)**	(1.2)
Notional purchase of own shares on exercise of share options		**(1.7)**	(1.0)
Proceeds from borrowings, net	9	**41.1**	-
NET CASH USED IN FINANCING ACTIVITIES		**8.1**	(31.2)
Net increase in cash and cash equivalents		**(10.8)**	13.1
Cash and cash equivalents at beginning of year		**36.0**	22.3
Effect of exchange rates on cash and cash equivalents		**1.8**	0.6
CASH AND CASH EQUIVALENTS AT END OF YEAR	9	**27.0**	36.0

ALTERNATIVE PERFORMANCE MEASURES (NOTE 2)			**2019 £m**	**2018 £m**
NET INCREASE IN CASH AND CASH EQUIVALENTS			**(10.8)**	13.1
Add:	Dividends paid to shareholders and minority interests	13	**30.1**	27.0
	Acquisition of businesses, minority interest and deferred consideration paid	11, 12	**78.3**	20.4
	Proceeds from borrowings, net	9	**(41.1)**	-
FREE CASH FLOW			**56.5**	60.5
(NET DEBT)/CASH FUNDS		9	**(15.1)**	36.0
Cash and cash equivalents			**27.0**	36.0
Borrowings			**(42.1)**	-
(Net debt)/cash funds			**(15.1)**	36.0

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 18 November 2019.
These statements are presented in UK sterling, with all values rounded to the nearest 100,000, except where otherwise indicated.

The consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union and in accordance with the Companies Act 2006, as applicable to companies reporting under IFRS. The accounting policies have been consistently applied in the current and the comparative year.

There were two new accounting standards adopted in the year, IFRS15 'Revenue from Contracts with Customers' and IFRS9 'Financial Instruments', however the application of these new standards has not had a material impact on the results, financial position or presentation of the consolidated financial statements for the year ended 30 September 2019.

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 2019 and 2018. Statutory financial statements for the year ended 30 September 2018 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 2019, which were approved by the Directors on 18 November 2019, will be sent to shareholders on 6 December 2019 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 2019 and 2018. 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 15 January 2020 in Pewterers' Hall, Oat Lane, London, EC2V 7DE. 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")) performance measures which are not defined within IFRS. The Directors use these measures for internal management reporting of Key Performance Indicators in order to assess the operational performance of the Group on a comparable basis and 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, acquisition expenses, adjustments to deferred consideration (collectively, "acquisition related charges"), the costs of a material restructuring (including the incremental costs related directly to the change of the Chief Executive Officer in 2018) or rationalisation of operations and the profit or loss relating to the sale of businesses or property. The Directors believe that adjusted operating profit is an important measure of the operational performance of the Group.

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 fair value remeasurements in respect of financial liabilities) 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 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.

2.4 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 business disposals, but before expenditure on business combinations/investments 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 and after adding back: borrowings; 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 IFRS8 is the Chief Executive Officer (or interim Executive Chairman). The financial performance of the 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 these operating segment levels. 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, 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**		**Group**	
		2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
		£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Revenue	- existing	**145.7**	134.7	**211.3**	208.0	**168.3**	142.4	**525.3**	485.1
	- acquisitions	**0.1**	-	**9.3**	-	**10.0**	-	**19.4**	-
Revenue		**145.8**	134.7	**220.6**	208.0	**178.3**	142.4	**544.7**	485.1
Adjusted operating profit	- existing	**27.4**	23.9	**36.4**	36.0	**30.1**	25.0	**93.9**	84.9
	- acquisitions	**0.1**	-	**1.7**	-	**1.5**	-	**3.3**	-
Adjusted operating profit		**27.5**	23.9	**38.1**	36.0	**31.6**	25.0	**97.2**	84.9
Acquisition related charges		**(2.3)**	(2.4)	**(7.0)**	(5.0)	**(3.8)**	(2.2)	**(13.1)**	(9.6)
CEO transition costs								**-**	(2.1)
OPERATING PROFIT		**25.2**	21.5	**31.1**	31.0	**27.8**	22.8	**84.1**	73.2

Acquisition related charges of £13.1m (2018: £9.6m) comprises £11.6m (2018: £9.3m) of amortisation of acquisition intangible assets, £1.5m of acquisition expenses (2018: £0.5m) and £Nil relating to adjustments to deferred consideration (2018: £0.2m credit).

	Life Sciences		**Seals**		**Controls**		**Group**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Operating assets	**45.6**	43.5	**109.6**	80.1	**65.6**	59.3	**220.8**	182.9
Investment	**-**	-	**-**	0.7	**-**	-	**-**	0.7
Goodwill	**64.0**	59.0	**59.1**	40.3	**31.9**	29.2	**155.0**	128.5
Acquisition intangible assets	**15.6**	12.9	**61.7**	21.8	**18.8**	18.9	**96.1**	53.6
	125.2	115.4	**230.4**	142.9	**116.3**	107.4	**471.9**	365.7
Unallocated assets:								
- Deferred tax assets							**0.5**	0.3
- Cash and cash equivalents							**27.0**	36.0
- Corporate assets							**1.9**	2.4
TOTAL ASSETS	**125.2**	115.4	**230.4**	142.9	**116.3**	107.4	**501.3**	404.4
Operating liabilities	**(25.3)**	(21.6)	**(37.1)**	(32.2)	**(27.6)**	(25.5)	**(90.0)**	(79.3)
Unallocated liabilities:								
- Deferred tax liabilities							**(8.8)**	(8.7)
- Retirement benefit obligations							**(17.8)**	(10.5)
- Acquisition liabilities							**(11.3)**	(5.6)
- Corporate liabilities							**(6.7)**	(6.0)
- Borrowings							**(42.1)**	-
TOTAL LIABILITIES	**(25.3)**	(21.6)	**(37.1)**	(32.2)	**(27.6)**	(25.5)	**(176.7)**	(110.1)
NET ASSETS	**99.9**	93.8	**193.3**	110.7	**88.7**	81.9	**324.6**	294.3

Alternative Performance Measures	**Life Sciences**		**Seals**		**Controls**		**Group**	
(Note 2)	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
NET ASSETS	**99.9**	93.8	**193.3**	110.7	**88.7**	81.9	**324.6**	294.3
Add/(deduct):								
- Deferred tax, net							**8.3**	8.4
- Retirement benefit obligations							**17.8**	10.5
- Acquisition liabilities							**11.3**	5.6
- Net debt/(cash funds)							**15.1**	(36.0)
REPORTED TRADING CAPITAL EMPLOYED							**377.1**	282.8
- Historic goodwill and acquisition related charges, net of deferred tax	**32.0**	31.4	**39.2**	33.0	**13.1**	10.2	**84.3**	74.6
ADJUSTED TRADING CAPITAL EMPLOYED	**131.9**	125.2	**232.5**	143.7	**101.8**	92.1	**461.4**	357.4
Pro-forma adjusted operating profit(1)	**29.0**	23.9	**44.9**	36.3	**31.6**	27.4	**105.5**	87.6
ROATCE	**22.0%**	19.1%	**19.3%**	25.3%	**31.0%**	29.8%	**22.9%**	24.5%

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

OTHER SECTOR INFORMATION	Life Sciences		Seals		Controls		Group	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Capital expenditure	**3.3**	3.5	**5.1**	2.0	**2.5**	1.1	**10.9**	6.6
Depreciation and amortisation	**2.7**	2.4	**2.0**	1.8	**0.7**	0.6	**5.4**	4.8
Revenue recognition:								
- Immediately on sale	**131.8**	122.5	**219.5**	206.9	**178.3**	142.4	**529.6**	471.8
- Over a period of time	**14.0**	12.2	**1.1**	1.1	**-**	-	**15.1**	13.3
	145.8	134.7	**220.6**	208.0	**178.3**	142.4	**544.7**	485.1

Accrued income ("contract assets") at 30 September 2019 of £1.5m (2018: £1.6m) and deferred revenue ("contract liabilities) of £2.6m at 30 September 2019 (2018: £2.4m) is 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[(1)]		Trading capital employed		Capital expenditure	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
United Kingdom	**154.8**	130.2	**27.8**	23.5	**59.0**	54.1	**84.5**	79.2	**2.0**	0.6
Rest of Europe	**128.1**	115.2	**18.6**	17.6	**58.9**	57.0	**80.4**	76.9	**1.7**	1.5
North America	**220.5**	202.3	**45.0**	39.5	**129.8**	70.5	**176.2**	97.1	**6.5**	4.0
Rest of World	**41.3**	37.4	**5.8**	4.3	**32.8**	25.3	**36.0**	29.6	**0.7**	0.5
	544.7	485.1	**97.2**	84.9	**280.5**	206.9	**377.1**	282.8	**10.9**	6.6

(1) Non-current assets exclude the investment and deferred tax assets.

5. FINANCIAL EXPENSE, NET

	2019 £m	2018 £m
Interest (expense)/income and similar charges		
- bank facility and commitment fees	**(0.2)**	(0.1)
- interest income on bank deposits	**0.1**	0.1
- interest expense on bank borrowings	**(0.4)**	-
- notional interest expense on the defined benefit pension scheme	**(0.2)**	(0.1)
Net interest expense and similar charges	**(0.7)**	(0.1)
- fair value remeasurement of financial liabilities and unwind of discount	**0.1**	(0.4)
FINANCIAL EXPENSE, NET	**(0.6)**	(0.5)

The fair value remeasurement of £0.1m credit (2018: £0.4m debit) comprises £0.1m debit (2018: £nil) that relates to the unwinding of the discount on the liability for deferred consideration in respect of the acquisition of VSP Technologies. and of a movement in the fair value of the put options of £0.2m credit (2018: £0.2m debit). There is no impact (2018: £0.2m debit) for future purchases of minority interests as the discount is now fully unwound.

6. TAX EXPENSE

	2019 £m	2018 £m
Current tax		
The tax charge is based on the profit for the year and comprises:		
- UK corporation tax	**4.9**	3.9
- Overseas tax	**17.8**	16.1
	22.7	20.0
Adjustments in respect of prior year:		
- UK corporation tax	**-**	-
- Overseas tax	**0.5**	(0.1)
Total current tax	**23.2**	19.9
Deferred tax		
The net deferred tax credit based on the origination and reversal of timing differences comprises:		
- United Kingdom	**(0.9)**	(0.4)
- Overseas	**(1.2)**	(1.2)
Total deferred tax	**(2.1)**	(1.6)
TOTAL TAX ON PROFIT FOR THE YEAR	**21.1**	18.3

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 £83.5m and the amount set out above is as follows:

	2019 £m	2018 £m
Profit before tax	**83.5**	72.7
Tax on profit at UK effective corporation tax rate of 19.0% (2018: 19.0%)	**15.9**	13.8
Effects of:		
- higher tax rates on overseas earnings	**3.8**	4.0
- adjustments to current tax charge in respect of previous years	**0.5**	(0.1)
- other permanent differences	**0.9**	0.6
TOTAL TAX ON PROFIT FOR THE YEAR	**21.1**	18.3

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 effective tax rate for UK corporation tax in respect of the year ended 30 September 2019 was 19.0% (2018: 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 the profits earned in the US, Canada and Australia are taxed at higher rates than the UK. The UK deferred tax assets and liabilities at 30 September 2019 have been calculated based on the future UK corporation tax rate of 17.0% (2018: 17.0%), as substantively enacted at 30 September 2019.

At 30 September 2019, the Group had outstanding tax liabilities of £6.9m (2018: £4.8m) of which £3.0m (2018: £2.1m) related to UK tax liabilities and £3.9m (2018: £2.7m) 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 and diluted earnings per ordinary 5p share are calculated on the basis of the weighted average number of ordinary shares in issue during the year of 113,179,582 (2018: 113,140,435) and the profit for the year attributable to shareholders of £61.9m (2018: £53.8m).

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

	2019 pence per share	2018 pence per share	2019 £m	2018 £m
Profit before tax			**83.5**	72.7
Tax expense			**(21.1)**	(18.3)
Minority interests			**(0.5)**	(0.6)

Earnings for the year attributable to shareholders of the Company	**54.7**	47.5	**61.9**	53.8
Acquisition related charges	**11.6**	8.4	**13.1**	9.6
Fair value remeasurement of financial liabilities and unwind of discount	**(0.1)**	0.4	**(0.1)**	0.4
CEO transition costs	**-**	1.8	**-**	2.1
Tax effects on above adjustments	**(1.9)**	(1.7)	**(2.1)**	(2.0)
ADJUSTED EARNINGS	**64.3**	56.4	**72.8**	63.9

8. RECONCILIATION OF CASH FLOW FROM OPERATING ACTIVITIES

	2019 £m	2019 £m	2018 £m	2018 £m
Operating profit		**84.1**		73.2
Acquisition related charges (note 3)		**13.1**		9.6
CEO transition costs		**-**		2.1
Adjusted operating profit		**97.2**		84.9
CEO transition costs paid		**(1.3)**		(0.8)
		95.9		84.1
Depreciation or amortisation of tangible and other intangible assets	**5.4**		4.8	
Share-based payments expense	**0.8**		1.0	
Defined benefit pension scheme	**(0.4)**		(0.5)	
Non-cash items		**5.8**		5.3
Operating cash flow before changes in working capital		**101.7**		89.4
Increase in inventories	**(12.2)**		(8.3)	
Increase in trade and other receivables	**(1.2)**		(5.2)	
Increase in trade and other payables	**4.0**		8.4	
Increase in working capital		**(9.4)**		(5.1)
CASH FLOW FROM OPERATING ACTIVITIES, BEFORE ACQUISITION EXPENSES		**92.3**		84.3

9. (NET DEBT)/CASH FUNDS

The movement in net funds during the year is as follows:

	1 Oct 2018 £m	Cash flow £m	Exchange movements £m	Non-cash movements £m	**30 Sept 2019 £m**
Cash and cash equivalents	36.0	(10.8)	1.8	-	**27.0**
Borrowings	-	(41.1)	(0.7)	(0.3)	**(42.1)**
Cash funds/(net debt)	36.0	(51.9)	1.1	(0.3)	**(15.1)**

	1 Oct 2017 £m	Cash flow £m	Exchange movements £m	Non-cash movements £m	30 Sept 2018 £m
Cash and cash equivalents	22.3	13.1	0.6	-	36.0
Borrowings	-	-	-	-	-
Cash funds	22.3	13.1	0.6	-	36.0

The non-cash movements in the year ended 30 September 2019 reflect accrued interest in excess of interest paid.

The Group has a committed multi-currency revolving facility of £30.0m. In May 2019, the Group formally extended this facility for a further two years to 1 June 2022. The facility has an accordion option to increase the committed facility by a further £30.0m up to a maximum of £60.0m. At 30 September 2019, the Group had utilised £6.1m of this facility (2018: £Nil). Interest on this facility is payable between 70-115bps over LIBOR, depending on the ratio of net debt to EBITDA.

On 8 July 2019 the Group extended its facilities with a new two-year term loan for an aggregate principal amount of £40.0m which was fully drawn to assist with the funding of the acquisition of VSP Technologies. At 30 September 2019, the Group had £36.0m of this loan outstanding, which is repayable in full by 7 July 2021. Interest on this facility is payable between 90-135bps over LIBOR, depending on the ratio of net debt to EBITDA.

10. GOODWILL

	Life Sciences	Seals	Controls	Total

	£m	£m	£m	£m
At 1 October 2017	59.5	39.9	23.4	122.8
Acquisitions	-	-	5.7	5.7
Exchange adjustments	(0.5)	0.4	0.1	-
At 30 September 2018	59.0	40.3	29.2	128.5
Acquisitions (note 11)	3.9	17.5	2.7	24.1
Exchange adjustments	1.1	1.3	-	2.4
AT 30 SEPTEMBER 2019	**64.0**	**59.1**	**31.9**	**155.0**

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, 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. Beyond five years, cash flow projections utilise a perpetuity growth rate of 2%.

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 annual growth rates used in the cash flow forecasts for the next five years represent the budgeted rates for 2020 and thereafter, average growth rates for each Sector; these annual growth rates then reduce to 2% over the longer term.

The cash flow forecasts are discounted to determine a current valuation using a single market derived pre-tax discount rate of ca. 11% (2018: 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 more 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 any of the Sectors 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 Sectors.

11. ACQUISITION OF BUSINESSES

On 12 October 2018, the Group completed the acquisition of Actios SAS, the parent company of the Gremtek group ("Gremtek") of companies. The consideration was £6.9m net of cash acquired of £2.9m and includes acquisition expenses of £0.1m.

On 9 July 2019, the Group acquired the trade and net assets of Virginia Sealing Products Inc ("VSP Technologies"), based in Virginia US, for initial cash consideration of £57.2m, which is net of cash acquired of £0.8m and includes £1.2m of acquisition expenses. Deferred consideration of £5.1m (£5.6m undiscounted) is assumed to be payable based on the operating profit achieved in the twelve months ending 30 June 2020.

On 2 September 2019, the Group acquired DMR Holdings Limited, the parent of the DMR Seals group of companies ("DMR Seals") for initial consideration of £7.3m which included surplus cash of £0.3m and acquisition expenses of £0.1m. Deferred consideration of £0.6m is assumed to be payable based on the operating profit achieved in the twelve months ending 30 April 2020.

On 20 September 2019, the Group acquired Sphere Surgical Pty Limited and Aspire Surgical Pty Limited (together "Sphere") for £6.6m net of cash acquired of £0.1m and including acquisition expenses of £0.1m. Deferred consideration of £1.1m (£1.3m undiscounted) is assumed to be payable based on gross profit achieved in the twelve months ending 30 June 2020 and 2021.

Set out below is an analysis of the net book values and fair values relating to these acquisitions:

	VSP		Others		Total	
	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m
Acquisition intangible assets	-	40.0	-	13.2	-	53.2
Deferred tax	-	-	-	(3.3)	-	(3.3)
Property, plant and equipment	1.4	0.5	0.6	0.3	2.0	0.8
Inventories	3.2	3.2	2.1	1.8	5.3	5.0
	5.5	5.2	3.1	3.0	8.6	8.2

Trade and other receivables						
Trade and other payables	(2.5)	(2.5)	(2.9)	(3.0)	(5.4)	(5.5)
Net assets acquired	7.6	46.4	2.9	12.0	10.5	58.4
Goodwill	-	14.7	-	9.4	-	24.1
	7.6	**61.1**	**2.9**	**21.4**	**10.5**	**82.5**
Cash paid		56.8		23.4		80.2
Cash acquired		(0.8)		(3.7)		(4.5)
Expenses of acquisition		1.2		0.3		1.5
NET CASH PAID, AFTER ACQUISITION EXPENSES		**57.2**		**20.0**		**77.2**
Deferred consideration payable (note 12)		5.1		1.7		6.8
Less: expenses of acquisition		(1.2)		(0.3)		(1.5)
Total consideration		**61.1**		**21.4**		**82.5**

The fair values set out above are provisional and will be finalised in the next financial year. Goodwill of £24.1m recognised on these acquisitions represents the amount paid for future sales growth from both new customers and new products, operating cost synergies and employee know-how.

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

	Date of acquisition	**Revenue (£m)**	**Adjusted operating profit[1] (£m)**
Gremtek	12 October 2018	10.0	1.5
VSP Technologies	9 July 2019	9.0	1.6
DMR Seals	2 September 2019	0.3	0.1
Sphere	20 September 2019	0.1	0.1
Contribution in year		19.4	3.3
Extrapolated for twelve months[2]		38.3	8.3
Pro-forma for year ended 30 September 2019		57.7	11.6

[1]*After appropriate allocation of head office costs.*

[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 2018. 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.

The Group's pro-forma adjusted operating profit of £105.5m (note 3) comprises the Group's adjusted operating profit of £97.2m and the pro-forma adjusted operating profit of £8.3m relating to these acquired businesses.

12. OTHER LIABILITIES

	2019 £m	**2018 £m**
Future purchases of minority interests	**4.3**	4.5
Deferred consideration	**7.0**	1.1
	11.3	5.6
Analysed as:		
Due within one year	**10.8**	5.6
Due after one year	**0.5**	-

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

	2019 £m	**2018 £m**
At 1 October	**4.5**	6.1
Acquisition of minority interests on exercise of options	**-**	(2.0)
Unwinding of discount	**-**	0.2
Fair value remeasurements	**(0.2)**	0.2
AT 30 SEPTEMBER	**4.3**	4.5

At 30 September 2019, the Group retained put options to acquire minority interests of 10% in M Seals and Kentek which were both exercisable from November 2018. At 30 September 2019, the estimate of the financial liability to acquire the 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 2019. This led to a remeasurement of the fair value of these put options and the liability was decreased by £0.2m (2018: £0.2m increase) reflecting a revised estimate of the future performance of these businesses. There is no charge from unwinding the discount on the liability (2018: £0.2m). In aggregate £0.2m (2018: debit £0.4m) has been credited to the Consolidated Income Statement in respect of this remeasurement of the liability.
Deferred consideration comprises the following:

	Gross £m	Discount £m	Unwind £m	Exchange £m	**2019 £m**	2018 £m
VSP Technologies	5.6	(0.5)	0.1	0.1	**5.3**	-
DMR Seals	0.6	-	-	-	**0.6**	-
Sphere	1.3	(0.2)	-	-	**1.1**	-
Coast	-	-	-	-	**-**	0.1
FS Cables	-	-	-	-	**-**	1.0
AT 30 SEPTEMBER	7.5	(0.7)	0.1	0.1	**7.0**	1.1

The amounts outstanding at 30 September 2019 are expected to be paid within the next two years and are based on the performance of these businesses in the period following their acquisition by the Group.

During the year, outstanding deferred consideration of £1.1m was paid to the vendors of FS Cables (£1.0m) and the vendor of Coast (£0.1m).

13. DIVIDENDS

	2019 pence per share	**2018 pence per share**	**2019 £m**	**2018 £m**
Interim dividend, paid in June	**8.5**	7.7	**9.6**	8.7
Final dividend of the prior year, paid in January	**17.8**	16.0	**20.2**	18.1

	26.3	23.7	**29.8**	26.8

The Directors have proposed a final dividend in respect of the current year of 20.5p per share (2018: 17.8p), which will be paid on 22 January 2020, subject to approval of shareholders at the Annual General Meeting on 15 January 2020. The total dividend for the current year, subject to approval of the final dividend, will be 29.0p per share (2018: 25.5p).

The Diploma PLC Employee Benefit Trust holds 51,867 (2018: 100,368) shares, which are ineligible for dividends.

14. EXCHANGE RATES

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

	Average		**Closing**	
	2019	**2018**	**2019**	**2018**
US dollar (US$)	**1.27**	1.35	**1.23**	1.30
Canadian dollar (C$)	**1.69**	1.73	**1.63**	1.69
Euro (€)	**1.13**	1.13	**1.13**	1.12
Swiss franc (CHF)	**1.27**	1.31	**1.23**	1.27
Australian dollar (A$)	**1.81**	1.78	**1.83**	1.80