

# DIPLOMA PLC

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## **DIPLOMA PLC**

### **STRONG TRADING PERFORMANCE AND EXCITING ACQUISITION DRIVE MATERIAL INCREASE TO FULL YEAR GUIDANCE**

Diploma PLC, the international group distributing specialised products and services, today issues an update on trading, recent acquisitions and full year trading outlook.

Our thoughts are with all those who have been affected by the situation in Ukraine. The Group has no direct exposure to Ukraine or Russia. Our priority is to support colleagues who have been personally impacted, and to contribute to disaster relief funding.

#### **Trading ahead of expectations**

The Group's trading performance so far this year has been strong, with double digit underlying growth in Q2 (consistent with Q1) driven by our organic revenue initiatives, market share gains and robust demand:

- Controls: very strong performance, with International Controls benefiting from our business diversification activity while Windy City Wire continues to make an excellent contribution.
- Seals: accelerated growth reflecting geographic market share gains in North American Aftermarket and International Seals benefiting from our revenue diversification activity.
- Life Sciences: short-term growth has been impacted by Canadian/Australian lockdowns this year and last year's COVID inflated revenues. Encouraging underlying trading means we expect to return to growth in the second half.

Our operating margin performance is very encouraging as we continue to navigate inflation, supply chain challenges and tight labour markets.

#### **Acquisitions to accelerate our strategy**

The Group's strategy is to build high quality, scalable businesses for organic growth. Acquisitions are an integral part of the strategy, with a disciplined focus on acquiring value-added businesses, with great management teams, to accelerate our organic growth. We have recently acquired two high quality businesses for a combined consideration of ca. £121m.

#### **R&G Fluid Power – a very exciting addition to build scale in Seals in the UK**

We are pleased to announce the acquisition of R&G Fluid Power ("R&G"), a high quality aftermarket distribution business for our Seals Sector in the UK, for ca. £100m.

R&G is a value-added distributor of a diverse range of industrial, hydraulic and pneumatic products (including seals and gaskets). Its value-added proposition is based on responsive customer service, technical advice, breadth of stock and product customisation. Over time, the management team has built a platform with extensive reach across the UK. This has included consolidating a number of regional distributors to extend geographic and product reach. The R&G historic growth track record, organic and inorganic, has been impressive.

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R&G has significant organic growth potential, including: developing the aftermarket e-commerce channel, continued regional expansion in the UK, and further product cross-selling and diversification. The business gives the Seals Sector scale in the UK and the ability to drive revenue synergies with existing UK Seals businesses. We are also excited by the broadening of the Seals product capability, in line with our strategy to expand addressable markets through product extension, with the potential to take this to other markets in the future. An active pipeline also positions R&G well to continue to deliver on acquisition growth. Following the acquisition, R&G's experienced and highly capable management team will remain with the business.

The purchase price of ca. £100m represents a multiple of ca. 9.5x EBIT and the business is expected to contribute annualised revenue of ca. £65m. Further deferred consideration of up to ca. £7.5m is payable within 9 months subject to the completion of certain acquisitions advanced in the pipeline; payment in full would result in an overall transaction multiple of ca. 9x. The transaction completed in early April and has been funded through existing cash resources and debt facilities.

### **Acquisition of LJR Electronics – continuing to build out Controls in the US**

Additionally, in January, the Group acquired LJR Electronics ("LJR"), a value-added distributor of connectors in the US for ca. £21m. The acquisition forms part of our Interconnect business within the Controls Sector, and has expanded our presence into the large, attractive and growing US interconnect market. LJR is expected to generate annualised revenue of ca. £14m.

### **Outlook**

While the situation in Ukraine and Russia has not directly impacted our businesses, we are closely monitoring the wider economic trading environment. Our strong trading to date, acquisitions and confidence in our prospects mean we now expect full year performance to materially exceed our previous guidance:

- Underlying revenue growth is expected to be low double digit, well ahead of our model. This reflects our expectation that growth will moderate in the second half, particularly as comparators become more demanding.
- On this basis, and including recent acquisitions, reported revenue growth is expected to be a little over 20%.
- Our operating margin expectation is at the top end of the 18-19% range.
- Our balance sheet remains strong and we currently expect continued cash generation to drive net debt/EBITDA below 1.5x by year end.

Our next scheduled update will be the publication of half year results on 16 May 2022.

### **Enquiries:**

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Further information on Diploma PLC can be found at [www.diplomaplc.com](http://www.diplomaplc.com)

### **Notes:**

1. *This trading update is based upon unaudited management accounts and has been prepared solely to provide additional information on trading to the shareholders of Diploma PLC. It should not be relied on by any other party for other purposes. Certain statements made in this update are forward-looking statements. Such statements have been made by the Directors in good faith using information available up*

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*until the date that they approved this Statement. Forward-looking statements should be regarded with caution because of the inherent uncertainties in economic trends and business risks.*

- 2. Diploma PLC uses alternative performance measures as key financial indicators to assess the underlying performance of the Group. All references in this Statement to "underlying" revenues refer to reported results on a constant currency basis, before acquired or disposed businesses (ex-growth basis) and include growth generated by acquisitions under our ownership.*
- 3. A copy of this Statement, together with further information about Diploma PLC, may be viewed on its website at [www.diplomaplc.com](http://www.diplomaplc.com)*

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