DIPLOMA PLC
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21 November 2022

PRELIMINARY RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2022

Very strong results
Building high quality, scalable businesses for sustainable organic growth

	FY 2022	FY 2021	Y/y change
Revenue	**£1,012.8m**	£787.4m	***+29%***
Organic revenue growth(1)	***15%***	*12%*	
Adjusted operating profit(2)	**£191.2m**	£148.7m	***+29%***
Adjusted operating margin(2)	**18.9%**	18.9%	**-**
Statutory operating profit	**£144.3m**	£104.3m	***+38%***
Free cash flow(3)	**£120.4m**	£108.8m	***+11%***
Free cash flow conversion(3)	**90%**	103%	
Adjusted earnings per share(2)	**107.5p**	85.2p	***+26%***
Basic earnings per share	**76.1p**	56.1p	***+36%***
Total dividend per share	**53.8p**	42.6p	***+26%***
Net debt/EBITDA	**1.4x**	1.1x	
ROATCE	**17.3%**	17.4%	

(1) Adjusted for acquisition and disposal contribution and currency effects
(2) Before acquisition related and other charges and acquisition related finance charges;
(3) Before cash flows on acquisitions, disposals and dividends. All alternative performance measures are defined in note 13 to the condensed Consolidated Financial Statements

A very strong financial performance

- Organic growth of 15% driven by our revenue initiatives, positive demand, and pricing:
  - **Controls +24%:** excellent Windy City Wire performance; International Controls accelerating growth in attractive end segments while broadening US and European exposure.
  - **Seals +14%:** accelerated market share gains in North American Aftermarket and broad-based growth in International Seals.
  - **Life Sciences –4%:** returned to growth in Q4 as expected; excluding last year's COVID-related revenues, organic growth in the year was 2%, moderated by hospital staffing shortages.
- Reported revenues +29%: positive contribution from high quality acquisitions and 5% foreign exchange benefit.
- Adjusted operating margin 18.9%: resilient value-added service model and pricing offsetting inflation.
- Adjusted EPS +26%; total dividend also +26%, demonstrating continued confidence in the strategy.
- Free cash flow conversion in-line with our model at 90%, including targeted investment in inventory.
- Attractive returns: ROATCE 17.3%.
- Resilient balance sheet to support growth: net debt/EBITDA of 1.4x and 50% of gross debt at fixed interest rates.

Revenue diversification driving organic growth, building scale and increasing resilience

- Positioning our businesses behind structurally growing end markets: e.g. technology, renewable energy, infrastructure and diagnostics.
- Further penetrating core developed economies: e.g. excellent progress in the US in International Controls and Seals; continuing to build scale in Europe in Life Sciences.
- Extending product ranges to expand addressable markets: e.g. the acquisition of R&G broadens our fluid power offering within Seals.

- M&A to accelerate organic growth:
  - £187m invested in seven strategically important acquisitions, including R&G Fluid Power Group and Accuscience which are trading well.
  - Accretive bolt-ons: since our H1 results, £19m invested in six bolt-ons (two post-year end) at an average multiple of 5x and year 1 ROATCE >20%.
  - Encouraging acquisition pipeline; maintaining financial discipline given wider market uncertainties.

Scaling effectively for sustainable growth: building scale in our value-added businesses and the Group

- In the businesses: developing target operating models to deliver customer proposition at scale, underpinned by continuous improvement of our core competencies and selective investment in talent, technology and facility.
- As a Group: evolving our structure, capability and culture to support the development of a rapidly expanding Group.

Embedding ESG in our strategy and culture through Delivering Value Responsibly ("DVR")

- Building momentum: ingrained in our strategic activity and culture, now driving improvement initiatives.
- Launched targets across our five focus areas: Colleague Engagement; Health & Safety; Diversity, Equity & Inclusion; Supply Chain and Environment.
- Committed to net zero in our own operations (Scope 1 & 2) by 2040; on the path to setting SBTi-approved net zero target across our entire value chain (Scope 1, 2 & 3) by 2050.

Increasing resilience underpins our outlook

- Mindful of the uncertain economic outlook and the prospect of a tougher demand environment.
- Successful long-term track record of performance delivery and compounding growth through the cycle.
- Our resilience is based on: increasing revenue diversification and scale; value-added products and services, critical to customers' operating needs, supporting sustainable margins; highly cash generative model and robust balance sheet.
- At this stage, FY 2023 expected to be positive and in-line with our long-term model:
  - Organic revenue growth: mid-single digit (likely to be weighted to H1).
  - Acquisitions announced to date add ca.6% to reported revenue growth.
  - Strong, resilient operating margin, in the range of 18-19%.
  - For now, the foreign exchange benefit from weaker sterling and higher interest costs are expected to be neutral to adjusted EPS.
- FY 2023 has started well, consistent with our guidance.

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

"We've made excellent progress this year, with our very strong performance building on an exceptional long-term track record of organic growth, margin and EPS delivery. The management team and all my Diploma colleagues do a brilliant job – thank you.

Our organic growth strategy is working as we continue to execute on fantastic opportunities to diversify and scale. The seven exciting businesses we welcomed to the Group in the year will complement our future organic growth. We are scaling our businesses and our Group effectively to sustain our customer proposition and margins for the long-term. Finally, I am delighted with our progress on DVR: it's embedded in the strategy and culture so we can now get on with making a meaningful difference.

While the economic environment is uncertain, our business model is resilient, our strategy is working, and our performance momentum is encouraging. We remain confident in the Group's outlook and long-term prospects."

Notes:

1. *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, net debt to EBITDA and ROATCE. All references in this Announcement to "organic" 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. The narrative in this Announcement is based on these alternative measures and an explanation is set out in note 13 to the condensed consolidated financial statements in this Announcement.*

2. *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.*

There will be a meeting for analysts today at Farmers & Fletchers, 3 Cloth Street, London EC1A 7DL at 09:00 (UK). The presentation will also be webcast at *https://secure.emincote.com/client/diploma/diploma001*

This presentation will be available after the conference call at: https://www.diplomaplc.com/investors/financial-presentations/.

A replay of the webcast will be available on the same link after the event**.**

For further information please contact:

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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 critical to customers' needs, providing recurring income and stable revenue growth.

Our businesses design their individual business models, with the support of the Group, 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. We encourage an entrepreneurial culture in our businesses through our decentralised management structure. We want our managers to 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. 3,000 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. **13%** p.a. through a combination of organic growth and acquisitions. Diploma is a member of the FTSE 250 with a market capitalisation of ca. **£3.3bn**.

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

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Chair's statement

It is a great pleasure to present my first statement as Chair of Diploma. As you will see throughout this report, my first year has covered a period of considerable achievement and strategic progress. When I was appointed, I felt proud to be joining an organisation with exciting opportunities, a differentiated value-added model delivering sustainable growth and great people. During my first year, I have not been disappointed – I have been impressed by the power of our decentralised model and the pride our employees take in their jobs. Our businesses have strong cultures, but share the same inherent values – they are accountable, entrepreneurial and empowered to deliver critical services and products for their customers.

Very strong financial performance, excellent strategic progress

The Group has delivered another very strong financial performance, with double-digit organic revenue growth and consistent strong operating margins translating into 26% growth in adjusted earnings per share (EPS). Our 15% organic growth shows that our strategy and growth frameworks continue to produce results. We are also seeing growth in a number of areas aligned with positive impact, demonstrating that our businesses are embedding Delivering Value Responsibly, our ESG programme, into their commercial strategies. It has been another busy year for acquisitions, with seven high-quality businesses joining the Group; these will accelerate our future organic growth. In particular, I am very pleased to welcome Accuscience and R&G Fluid Power Group, both exciting additions.

Given the challenges of the external operating environment, sustaining our adjusted operating margin at 18.9% is a great achievement and reflects both our differentiated value-added servicing model and the hard work of colleagues across the Group.

Ensuring the sustainability of our growth is paramount, and the team has continued to build scale, investing across our businesses and the Group to ensure we can continue to deliver for customers as we grow. Throughout this, we remain financially disciplined, maintaining high-teens ROATCE of 17.3%, and our strong balance sheet allows us to invest in growth. I would like to thank the management team and all of our businesses for another great year at Diploma.

Colleagues and culture

As a customer-service organisation, our colleagues are critical to our success. Since joining, I have really enjoyed visiting the businesses and meeting colleagues. I have been impressed by their commitment to their customers, and the great sense of loyalty they feel for their businesses. This is underlined by the very positive results of this year's Colleague Engagement Survey. The Board remains committed to ensuring Diploma is a diverse and inclusive organisation and is pleased to have set targets for 2023 that we will continue to evolve and drive forward. I look forward to meeting more of our people in the year ahead.

Our Group Colleague Engagement Survey continues to show excellent levels of engagement. The learnings from this survey will inform future actions and activity to ensure colleagues continue to view Diploma as a great place to work. The results and learnings were also discussed by the Board, helping to shape and inform our views on culture and diversity.

Diploma's culture continues to be critical to accelerating our strategy, aligning decentralised businesses and providing competitive advantage. The Board is very conscious of its role in fostering and monitoring this positive culture. Although, as a decentralised Group, there isn't one, single culture, all of our businesses share core values. Alongside our strong, local cultures, we are steadily building Diploma networks based on best practice and knowledge sharing.

While we have much more to do, we are increasingly leveraging the collective power of the Group whilst maintaining local agility.

Board changes

After nearly nine years on the Board, John Nicholas stepped down from the role of Chair and the Board in January 2022. The Board and I would like to thank John for his support, and I look forward to building on all that he achieved during his tenure.

Barbara Gibbes stepped down from the Board and the role of Chief Financial Officer on 30 September 2022. On behalf of the Board, I would like to thank Barbara for her leadership and dedication. The Nomination Committee led a thorough selection process and, in August 2022, we announced the appointment of Chris Davies as Chief Financial Officer. Chris joined us on 1 November 2022, bringing a wealth of experience and an excellent track record of leadership in decentralised, service-led, multinational organisations.

Two of our independent Non-Executive Directors, Anne Thorburn and Andy Smith, are due to retire from the Board in 2024 at the end of their third and final terms. As per our standing succession planning, we have already commenced the search to ensure successors are appointed in time for an orderly handover. Further information on this and the diversity of the Board can be found in the Nomination Committee Report. It remains our intention that the diversity of the Board will increase over time.

Dividends

The Board has a progressive dividend policy that aims to increase the dividend each year, broadly in line with growth in adjusted EPS. The combination of very strong results and free cash generation, supported by a robust balance sheet, has led the Board to recommend a 29% increase in the final dividend to 38.8p (2021: 30.1p) taking the total dividend to 53.8p (2021: 42.6p). This represents dividend cover of 2x. Subject to shareholder approval at the Annual General Meeting, this dividend will be paid on 3 February 2023 to shareholders on the register at 20 January 2023 (ex-div 19 January 2023).

Outlook

The Group started the new financial year from a position of strength. While the wider backdrop is one of macroeconomic uncertainty and volatility, the achievements of the last three years mean that our Group is larger, more diverse and therefore more resilient than ever. We have a differentiated, value-added business model, a proven strategy for delivering sustainable growth, and great teams.

On behalf of the Board, I would like to take this opportunity to thank all of our colleagues for their welcome contribution to our success over the last year and, personally, for giving me such a warm welcome.

David Lowden

Chair

CEO statement

Very strong results and excellent strategic progress

I am delighted with our 2022 financial performance and strategic progress, proving the strength of our model and continuing our long track record of growth and value creation. Our colleagues have been brilliant, and the team has really risen to the challenges presented by the external environment.

Our execution has been very strong. Organic growth is the Group's number one priority, so I am particularly pleased that we have delivered 15% this year. We have also successfully maintained our adjusted operating margin at 18.9%, with our resilient value-added service model and pricing enabling us to offset inflation. We have invested £187m in seven strategically important acquisitions, which will accelerate future organic growth, and build scale in key business lines.

Growth is only one part of the strategy; our future success also depends on effectively scaling our businesses and the Group to ensure growth is sustainable. For our businesses, we are steadily developing their target operating models and continuously improving the core competencies of our value-added model. At a Group level, we continue to quietly evolve our structures, capability and culture for scale.

One of the most exciting aspects of 2022 has been the way in which our businesses and colleagues have embraced Delivering Value Responsibly (DVR), our ESG programme. Our businesses are executing initiatives aligned with our five DVR focus areas, we have embedded our framework into our commercial strategy and culture, and we are announcing ESG targets to drive continuous improvement in material areas.

A very strong financial performance

Financial results for the year were very strong across the key metrics of our model. Organic growth of 15% reflects the success of our revenue diversification initiatives, positive demand and pricing:

- **Controls +24%:** excellent Windy City Wire (WCW) performance; International Controls accelerating growth in exciting end segments while broadening US and European exposure.
- **Seals +14%:** accelerated market share gains in North American Aftermarket and broad-based growth in International Seals against a robust comparator.
- **Life Sciences –4%:** return to growth in Q4 as expected; organic growth of 2%, excluding last year's Covid-related revenues, was moderated by hospital staffing shortages.

Reported revenue growth was 29%, including a positive contribution from high-quality acquisitions and a 5% benefit from foreign exchange movements.

We are very pleased to have maintained our adjusted operating margin at 18.9% (2021: 18.9%) despite a challenging operating environment and inflationary pressures. This was driven by pricing initiatives across the Group together with the benefits of our value-added model. We grew adjusted earnings per share by 26%.

Our H2 cash performance was strong; free cash flow conversion was in-line with our model at 90%. This has resulted in good deleveraging in the second half; year end net debt was 1.4x EBITDA (2021: 1.1x), underpinning our resilience and providing good flexibility to continue to invest in growth. We have good liquidity with undrawn facilities of £204m; 50% of our gross debt is at fixed interest rates (ca. 3%)[1].

Sustainable organic growth strategy: revenue diversification driving growth, building scale and increasing resilience

The Group's strategy is to build high-quality, scalable businesses for organic growth. All of our businesses have fantastic opportunities and our strategy is focused on growing, diversifying and scaling in three ways:

1. Positioning behind high growth end segments: many of which are also linked to our focus on end markets with a positive impact.

- **Technology** investment, including in data centres, digital antenna systems, telecommunications and electrification is creating exciting opportunities, particularly in Controls.

[1] Approximately half fixed post-year end.

- **Renewable energy and infrastructure investment** in the US and elsewhere is benefiting Seals and Controls.
- **Accelerating diagnostics spending:** ageing populations and rising healthcare spending remain fundamental drivers for Life Sciences; moreover, we are also well-positioned to capitalise on changing healthcare spending priorities post-pandemic, particularly in clinical diagnostics.

2. Geographic penetration of core developed economies: we remain relatively underpenetrated in our core developed markets of North America, Europe and Australia.

- We are already benefiting from accelerated market share gains in **North American Aftermarket** and the potential in previously untapped Western and Midwestern states is hugely exciting.
- Geographic diversification in the **US and Europe at International Controls**, both organically and through acquisitions, creating a more balanced geographic revenue mix.
- The acquisition of Anti-Corrosion Technology (ACT) in Australia marks further progress in **Australian Seals** where, over the last three years, we have built a much bigger, higher quality business.
- We continue to build scale in **Europe in Life Sciences** with the acquisition of Accuscience.

3. Product range extension to expand addressable markets: we do this incrementally, within the businesses, and at portfolio level.

- The acquisition of **R&G Fluid Power Group (R&G) represents a step change for Seals** in the UK, broadening Seals' fluid power offering.
- Continued development of our **exciting Adhesives business line in Controls:** Techsil, acquired last year, has delivered impressive organic growth, and the tuck-in acquisition of Silicone Solutions further strengthens our position in the UK.
- Across our portfolio, **incremental product adjacency initiatives** formed a key part of growth in the year with future plans including: supplier diversification in International Controls; proprietary product development in US MRO; initiatives across Seals relating to O-rings, cylinders and gaskets; and ongoing Life Sciences product pipeline development in new, innovative technologies, for example leveraging artificial intelligence, and in diagnostics.

Focused portfolio development

Focused portfolio development is key to the sustainability of our organic growth. As the Group grows, we must focus on business lines that best represent our model and for which we are the right owners to grow and scale. This means being disciplined about acquisitions and disposals.

Acquisitions to accelerate organic growth

Acquisitions are a key part of our growth strategy, with a disciplined focus on businesses with strong value-add distribution characteristics and high gross margins, and with organic growth potential and great management teams. During 2022, we acquired seven high-quality businesses for a total of £187m, deploying capital across all three Sectors:

- **LJR Electronics (Controls):** acquired in February for £21m (annualised revenue ca. £16m) to give Interconnect improved access to the large, attractive and growing US interconnect market.
- **R&G (Seals):** a value-added aftermarket distributor of a diverse range of industrial, hydraulic and pneumatic products, including seals and gaskets, acquired in April for £101m (annualised revenue ca. £69m). The business has added scale in the UK and broadened the Seals product portfolio to expand addressable markets.
- **Accuscience (Life Sciences):** a market-leading life sciences and med-tech distributor in Ireland, acquired in May for £51m (annualised revenue ca. £28m), adding scale in Ireland, continuing the build out of the European pillar of Life Sciences and giving access to the exciting diagnostics segment.
- **ACT (Seals):** a specialist provider of sustainable materials engineering and corrosion control solutions. Acquired in July for £7m (annualised revenue ca. £4m), highly complementary, and a further step in building a high-quality, scalable Australian platform for growth.
- **Silicone Solutions (Controls):** acquired for £3m in September (annualised revenue ca. £2m), continuing to build out and diversify our new adhesives business line.

- **Two small bolt-ons at R&G (Seals):** R&G continues to consolidate smaller regional players, acquiring two businesses for £4m (annualised revenue ca. £5m).

Our acquisition pipeline is encouraging, albeit given the wider market uncertainties, we will maintain our strict financial discipline. Nonetheless, we continue to invest in value-accretive bolt-ons at very attractive multiples. Since our H1 results, and prior to year end, we invested £14m in four bolt-ons; since year end R&G has completed a further two bolt-on acquisitions for £5m. These businesses were acquired for a 5x blended average multiple.

Portfolio discipline
As part of a disciplined approach to portfolio management, we made two small, non-core disposals in the year. In early May, we disposed of a1-envirosciences, formerly part of the Life Sciences Sector for £11m (annualised revenue ca. £13m). In November last year, we also disposed of Kentek, our Russian filters business, for £10m (annualised revenue ca. £23m).

Scaling our value-added businesses and the Group

Scaling our value-added businesses
As our businesses grow and scale, they need to evolve their operating models to continue to deliver their value-add customer proposition. All of our businesses have defined their future target operating models, and the strategy to achieve this.

As part of this, we seek to continuously improve the **Core Competencies** of our model:

- **Supply chain:** development of a more structured and proactive approach, including category management techniques and evaluation of partners on a fuller set of criteria, including location, flexibility, environmental and employment practices, not just quality and cost. While we have much more to do, management of our supply chain has been a differentiator in 2022; in some cases better product availability, particularly at WCW, has enabled market share gains.
- **Commercial discipline (or pricing):** the combination of improving pricing processes and the value we deliver for customers has enabled us to protect our operating margins. We have more to learn and more we can do with better data, through working with our suppliers and greater forward planning with customers to deliver the right pricing outcomes.
- **Operational excellence:** another focus area this year as we improve warehouse processes across the portfolio; as our businesses scale, they are making increasing use of automation. Through our network of best practice, we are also working to standardise processes.

We support the development of these Core Competencies through reinvesting in capability – **Talent, Technology and Facility:**

- **Talent:** investment in talent remains a key driver for future growth, with a number of important appointments made in the year – these range from 25 functional appointments in Finance, Operations, Supply Chain and Commercial, to a newly created role heading up the Life Sciences European pillar. We remain focused on retention and have made important progress with the training and development available to colleagues and business leaders.
- Our approach to **Technology** is incremental, and success is dependent on having the right people in place to successfully implement change. We have a number of small upgrade projects ongoing at any one time, and many businesses are developing their webstore capabilities.
- Our investments in **Facility** support the growth of our businesses as well as providing opportunities to reduce emissions and to improve colleague working environments. During the year, we opened new facilities in Life Sciences in Australia and Europe; and we are in the planning stages for a further two new facilities over the next 18 months.

Scaling the Group
We continue to quietly evolve the structures, capability and culture of the Group. Over the last three years, we have evolved the Group's organisational structure around core, scalable business lines and developed our strategic and performance frameworks. At Group centre, we retain a lean head office focused on providing a

service to the businesses, also selectively investing in upskilling functions such as Finance, Legal, Corporate Development and Internal Audit.

Alongside our powerful decentralised approach and strong local cultures, we continue to develop a complementary shared Diploma culture and identity based on best practice sharing.

Delivering Value Responsibly: embedding into our commercial strategy and culture

Over the past year, there has been a real step change in momentum with DVR, our ESG programme. Our colleagues and businesses are executing initiatives aligned with our five focus areas. We have improved reporting with metrics now embedded, supported by strong governance at Group, Sector and business level. Looking ahead, new targets will drive further progress in 2023, and we are well on the way to submitting net zero targets to the Science Based Targets initiative.

Key performance highlights of the year include:

- **Excellent and consistent colleague engagement score**: 79% (2021: 79%), and a very high response rate of 86%. This is a brilliant achievement given the challenging operating environment, and I am delighted with how leaders across the Group have worked hard to engage colleagues and leverage last year's engagement survey feedback.
- **Increasing the diversity of our Senior Management Team (SMT)**: female representation at SMT increased to 27% (2021: 24%), driven by external recruitment (40% female) which more than offset the impact of acquisitions (SMT talent additions from acquisitions >90% male).
- **Carbon emissions flat despite 15% organic revenue growth**: due to business initiatives and our investments in facility.

We are also announcing DVR targets aligned to our five focus areas. We are committed to net zero emissions across our value chain by 2050 at the latest, and have set an interim 50% reduction target for Scope 1 & 2 by 2030. We are currently calculating our Scope 3 emissions in order to submit net zero targets to the Science Based Targets initiative (SBTi) in 2023.

Increasing resilience underpins our outlook

While we are mindful of the uncertain economic outlook and prospect of a tougher demand environment, we remain confident in the Group's increasing resilience.

Diploma has an excellent track record of compounding growth and delivering strong financial returns through the cycle. Our model is resilient, and our strategic activity makes us more so over time as we diversify and scale. Increasing revenue diversification means we are exposed to exciting, structurally growing end segments. Our focus on value-added products and solutions critical to customer needs and predominantly serving opex budgets, together with our service component, fosters sticky customer relationships and pricing power and supports sustainable margins. Our highly cash-generative model and strong balance sheet underpin our resilience.

At this stage, FY 2023 is expected to be in line with our long-term model:

- Organic revenue growth: mid-single digit, consistent with our model and likely to be weighted to H1.
- Acquisitions announced to date are expected to add ca. 6% to reported revenue growth.
- Strong, resilient operating margin, in a range of 18-19%.
- At this stage, the foreign exchange benefit from weaker sterling and higher interest costs are expected to be neutral to adjusted EPS.

FY 2023 has started well, consistent with our guidance. We remain focused on executing our strategy of building high-quality, scalable businesses for organic growth and are confident in our ability to deliver long-term growth at sustainably high margins.

Johnny Thomson
Chief Executive Officer

Sector Review: Controls

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

	FY 2022	FY 2021	Change in the year
Revenue	**£492.8m**	£343.3m	+44%
Organic growth revenue	**+24%**	+16%	
Adjusted operating profit	**£105.8m**	£72.4m	+46%
Adjusted operating margin	**21.5%**	21.1%	+40bps

FY 2022 highlights

- Share gains in high growth end markets and compelling customer proposition driving an excellent WCW performance: organic revenue growth 32%, including double digit volume growth
- International Controls organic growth 18%, with accelerating growth in attractive end segments while also broadening US and European exposure
- Product extension: excellent organic growth in our new Adhesives business line, with a bolt-on acquisition to add scale and diversify end markets

Sector financial performance

The Controls Sector delivered a very strong full year performance, with reported revenues materially higher, up 44% to £492.8m (2021: £343.3m). This consisted of organic growth of 24%, an 11% contribution from acquisitions and a 9% foreign exchange tailwind.

Adjusted operating profit increased 46% to £105.8m (2021: £72.4m), with the adjusted operating margin 40bps higher year-on-year at 21.5%. Both International Controls and WCW contributed to this margin expansion, with scale benefits and performance more than offsetting investment in growth and mix effects.

International Controls (50% of Sector revenue[2]) enjoyed a successful year as a result of organic revenue initiatives and market share gains in buoyant end markets, particularly civil aerospace. This translated into organic growth of 18%, with sustained momentum throughout the year and double-digit growth across all business lines. Positive pricing contributed, but volume growth was the primary driver of organic growth. The overall International Controls margin increased slightly, with positive operating leverage on volume growth partially diluted by investment in growth and mix effects, including acquisitions.

The International Controls **Wire & Cable** business, Shoal Group, performed very well against a strong comparator. This reflects supportive end markets and revenue initiatives to drive growth in new products, through ecommerce and in new markets including electric vehicles, distribution centres, data centres and renewables. The addition of SWA last year has also improved access to the electrical wholesale market and creates cross-selling opportunities.

Double-digit organic growth at **Interconnect** reflects strength across the board, particularly our German energy activities where organic growth was over 30%, helped by upgrades to the transmission and distribution network. Other key growth segments include motorsport, aerospace and medical. Interconnect's recent US acquisition, LJR, has also made an excellent start delivering double digit organic revenue growth, with its superior service levels and customer proximity underpinning market share gains. The business is investing in sales resource to sustain this momentum. The only area of weakness was Gremtek, a more automotive-focused French business whose customer base has been impacted by semi-conductor chip shortages.

Specialty Fasteners delivered very strong growth, taking share in recovering aerospace end markets and benefiting from diversification into new and exciting end segments. AHW, the US business acquired last year, has now been integrated into our existing operation; the combined business is winning new contracts and capitalising on recovering aerospace demand. Geographic diversification has also been a theme in aerospace, with growth in Asia and an important contract win in France for a major seating manufacturer. Newer end markets such as space

[2] Pro forma adjusted for acquisitions and disposals completed during the year

are growing rapidly, while growth in high performance road vehicles and Formula One rule changes have also contributed.

Fluid Controls had another good year, delivering strong double-digit growth and capitalising on the recovering food and beverage market.

In **Adhesives**, Techsil continued to perform extremely well, with broad-based growth in key automotive end markets where adhesives have many applications. The business has particularly benefited from the diversity of its customer footprint and is winning new projects with customers supplying into the EV and telecommunications markets. In September, we completed a small adhesives bolt-on, acquiring the trade and assets of Silicone Solutions (£3m) to add scale and diversify end markets.

Windy City Wire (50% of Sector revenue[3]) (WCW) had another excellent year, building on its strong track record. Organic growth was 32%, with double-digit volume growth against strong comparators, as well as the pass through of higher year-on-year copper prices. The impact of copper moderated through the middle of the year as we started to lap stronger comparators. The business has benefited from its exposure to high growth end markets in areas related to building automation, security access, data centres and digital antenna systems. Over and above this, WCW has taken market share as a result of its compelling customer proposition and superior product availability, underpinned by a secure and stable supply chain.

Volume growth combined with a well invested platform has translated into very strong operating leverage and operating margins above the Group average. Over the last two years, WCW has doubled its operating profit and significantly outperformed its acquisition case, generating high-teens ROATCE in year two, well ahead of expectations.

Strategic progress

Delivering on our growth strategy:

- Our Controls businesses are benefiting from initiatives to capture growth in structurally growing end segments – from data centres and digital antenna systems at WCW to electric vehicles and energy in International Controls which is also pushing into emerging markets such as space and unmanned aerial vehicles.
- Continued geographic diversification of International Controls, building scale outside the UK – our German energy business has delivered excellent growth; Fasteners is winning share in Asia and Europe; and acquisitions in Fasteners and Interconnect are now delivering strong organic growth in the US.
- Product adjacencies remain an incremental component of our businesses' growth including through supplier diversification and cross-selling.
- M&A to accelerate organic growth:
    - Strategic acquisition of LJR Electronics in February for £21m to build scale in the world's largest developed interconnect market, also giving our existing operation in Indianapolis the ability to leverage LJR's supply chain.
    - Continued build out of our new adhesives business line with the acquisition of Silicone Solutions for £3m, further diversifying end markets.

Building scale in our value-added businesses:

- Acquired last year, we have fully integrated AHW into our existing US Fasteners operation, merging our facilities at Long Beach and Huntingdon Beach. The US business is now a single, combined entity under one management team and on a single ERP system.
- Continued progress with the project to move our UK cable businesses towards a single management structure and ERP.
- Ongoing investment in talent, including sales hires to drive growth and supply chain and operations directors to support the execution of our core competencies.

[3] Pro forma adjusted for acquisitions and disposals completed during the year.

- Incremental investment in technology and facility, including barcoding in Interconnect in the UK and a number of smaller ERP projects.

We have made good strategic progress in Controls as we diversify end segments to increase resilience, and broaden our geographic and product addressable markets. The Sector has good momentum, and we are positive about its future prospects.

Sector Review: Seals

The Seals Sector businesses supply a range of seals, gaskets, cylinders, components and kits used in heavy mobile machinery and a diverse range of fluid power products with Aftermarket, OEM and MRO applications.

	FY 2022	FY 2021	Change in the year
Revenue	**£331.4m**	£263.7m	+26%
Organic growth revenue	**+14%**	+7%	
Adjusted operating profit	**£62.6m**	£46.5m	+35%
Adjusted operating margin	**18.9%**	17.6%	+130bps

FY 2022 highlights

- Geographic penetration: Louisville giving access to previously untapped Western and Midwestern states, driving accelerated market share gains in North American Aftermarket
- Diversification in growth end segments: International Seals organic growth 11% with broad-based growth against a strong comparator
- Product extension: strategic acquisition of R&G in April to build scale in the UK and broaden the Seals product portfolio into pneumatics, expanding addressable markets
- Building scale: acquisition of ACT, a supplier of innovative anti-corrosion products and solutions, adds further scale to the high quality platform for growth we have built in Australia over the last three years

Sector financial performance

Reported revenues increased 26% to £331.4m (2021: £263.7m), reflecting 14% organic growth, a 6% contribution from acquisitions and a 6% benefit from foreign exchange translation.

Adjusted operating profit outperformed revenue growth, increasing 35% to £62.6m (2021: £46.5m) with the adjusted operating margin 130bps higher year-on-year at 18.9% (2021: 17.6%). This was primarily due to a step up in the North American margin which benefited from the end of dual-running costs and improved efficiency at Louisville, as well as gains in MRO. The Sector margin has also benefited from positive operating leverage on higher volumes and the disposal of the lower margin Kentek business, partially offset by the acquisition of R&G.

North American Seals (53% of Sector revenue[4]) delivered organic growth of 16%, reflecting very strong growth in our MRO and Aftermarket businesses**. North American Aftermarket** had a highly successful year, with Louisville's better location, extended service hours and expanded next day delivery footprint enabling accelerated market share gains in previously untapped Midwestern and Western states. This has been coupled with commercial initiatives, including investment in sales and marketing, to build brand recognition in newer locations. Organic growth in the US was over 26%; growth in some Western states was higher still. The International Aftermarket businesses also had a good year, with double digit organic growth, as they continue to diversify into new markets, especially industrial and non-hydraulic repair.

Organic growth was very strong for **MRO**, driven by revenue diversification initiatives and positive end market demand. Investment in broadening the business's value-add capabilities and new proprietary products is translating into new customer wins and market share capture. The end market backdrop was positive, with sustained momentum in industrial markets and a tailwind from strong growth in the later cycle transportation market.

US Industrial OEM had a solid year, and remains focused on driving organic growth through customer and market diversification. The business saw some softening of demand in housing and consumer-related end markets towards the end of the year, but most industrial end segments remain robust. The business has effectively deployed its sales team to diversify its opportunity pipeline; investments in technology and talent in supply chain and operations have enhanced value-added services and improved supply chain capabilities. This leaves the business well-positioned for the year ahead.

[4] Pro forma adjusted for acquisitions and disposals completed during the year

International Seals (47% of Sector revenue[5]) had another strong year, with organic growth of 11%, building on a track record of resilience and consistency that reflects the business's diverse profile.

In the UK, **FPE** delivered double digit organic growth against a strong comparator; excellent service and better stock availability has enabled the business to capitalise on demand in construction and the recovering oil & gas segment. The acquisition of **R&G** in April has been transformational, materially increasing scale in the UK. Following a successful onboarding, R&G's organic growth performance has been strong. This is a result of excellent customer service, a strong product portfolio and exploiting cross-selling opportunities within the business to drive value from bolt-on M&A. Its roll-up M&A programme has continued, with a further four bolt-on acquisitions since April, with two completing post year end.

Elsewhere, **Kubo** had another solid year, with high single digit organic growth against a strong comparator. Having successfully captured the growth in medical in FY 2021, the Swiss business successfully pivoted to industrial; better product availability versus competitors also underpinned market share gains. Double digit growth in Austria reflects recovering end markets as well as geographic penetration gains in Germany.

Similarly, high single digit organic growth at **M Seals** reflected strength in Sweden and the UK, offsetting slower Danish and Chinese demand. Growth in Sweden was driven by sales activity to develop key accounts as well as the resumption of projects put on hold during the pandemic. The business is investing in organic growth in Germany, while the newly combined UK operation is now capitalising on the benefits of co-ordinated commercial activity to drive growth. M Seals has recently invested in ecommerce and new machining capabilities to drive growth in Scandinavian markets.

Following a slower start to the year due to extended Covid lockdowns and supply chain bottlenecks, our **Australian Seals** businesses had a strong second half, converting backlogs and capitalising on buoyant mining, water treatment and infrastructure end markets.

Strategic progress

Delivering on our growth strategy:

- Revenue diversification underpins the Sector's consistency. For most businesses, this reflects incremental benefits from revenue diversification initiatives focused on growth segments, geographic penetration and product extension.
- Additionally, our facility in Louisville has delivered a step change for North American Aftermarket with the team successfully converting the opportunity into accelerated share gains. The facility is also delivering clear quality and efficiency improvements; we plan to invest in expanding the autostore to increase capacity in the year ahead.
- M&A to accelerate organic growth:
    - Acquisition of R&G in April for £101m: a key milestone not just for the UK, but the Seals Sector as a whole. A value-added aftermarket distributor, R&G has added scale in the UK and significantly broadened the Seals product portfolio, expanding addressable markets.
    - Bolt-on acquisition of ACT in July for £7m, a specialist provider of sustainable materials engineering and corrosion control solutions. It is highly complementary to our existing Australian Seals business with potential revenue and cost synergies.

Building scale in our value-added businesses:

- Completion of the integration of DMR into M Seals and rebranding; the combined business is now leveraging a single go-to-market strategy and co-ordinated commercial activity to drive growth.
- Integration of TotalSeal and facility expansion in Australia. Over the last three years, we have transformed Australian Seals through acquisitions to add scale and structuring the business into two strong pillars in the East and West, creating a high-quality platform for growth.
- Across the Sector, all businesses continue on their journey to scale with incremental investment in talent, automation solutions and capabilities, including new machining capability to support product innovation.

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[5] Pro forma adjusted for acquisitions and disposals completed during the year

We have made really good strategic progress in Seals in the year. The Sector is more resilient now than ever, supported by end segment exposures such as medical, food and beverage and renewable energy, as well as the impetus from greater infrastructure investment through the cycle in the US. We are optimistic about the Sector's prospects.

Sector Review: Life Sciences

The Life Sciences Sector businesses supply a range of equipment, consumables, instrumentation and related services to the Healthcare industry.

	FY 2022	FY 2021	Change in the year
Revenue	**£188.6m**	£180.4m	+5%
Organic growth revenue	**(4)%**	+14%	
Adjusted operating profit	**£41.0m**	£43.2m	(5)%
Adjusted operating margin	**21.7%**	23.9%	(220)bps

FY 2022 highlights

- Organic revenue growth was 2% excluding last year's Covid-related revenues and was moderated by hospital staffing shortages; returned to organic growth in Q4 as expected
- Strong diagnostics and endoscopy performance
- Sector well-positioned for growth: exposed to rising diagnostics spend and significant elective surgical backlogs
- Strategic acquisition of Accuscience: increases exposure to high growth testing, diagnostics and medical segments; continues the build out of our European footprint
- Disciplined portfolio management: disposal of a1-envirosciences

Sector financial performance

In FY 2022, Life Sciences Sector revenues increased 5% to £188.6m (2021: £180.4m), with organic revenues 4% lower year-on-year. Acquisitions net of disposals added 7%, with the contribution from Accuscience and last year's Scandinavian acquisitions more than offsetting the disposals of a1-envirosciences in May and a1-CBISS last year. Foreign exchange movements increased reported revenues by 2%.

Excluding last year's non-recurring Covid-related ventilator sales, the Sector delivered 2% organic revenue growth. Growth was also somewhat moderated by lockdowns and hospital staffing shortages in our key Canadian and Australian surgical markets.

Adjusted operating profit was 5% lower year-on-year at £41.0m (2021: £43.2m). The adjusted operating margin fell 220bps to 21.7% against an untypically strong comparator (2021: 23.9%). This reflects operating leverage on lower volumes, mix effects including the impact of acquisitions, and a controlled return of variable costs.

Underlying momentum was very positive in **testing and diagnostics**, with businesses such as TPD in Ireland and Abacus in Australia delivering high single-digit organic growth against strong FY 2021 comparators. While COVID-related testing volumes have eased, our businesses have successfully captured growth elsewhere as laboratories shift their focus to clearing backlogs, and as our teams have regained access to customers. Accuscience, acquired in May, is settling into the Group well with exciting prospects in high growth segments such as molecular diagnostics.

Our **surgical** businesses were impacted by extended lockdowns in Canada and Australia together with hospital capacity constraints, reducing sales teams' access and demand for consumables. Both AMT in Canada and BGS in Australia experienced organic revenue declines with surgical throughput running well below pre-COVID levels. We expect throughput to slowly improve in the year ahead, with some unwinding of elective surgical backlogs, but hospital capacity constraints are likely to persist in the near-term.

In **critical care** – primarily Simonsen & Weel in Denmark – while organic revenue growth was negative, this reflects the non-recurring ventilator sales mentioned above. Our other medical businesses focused on GI endoscopy (Vantage in Canada and Kungshusen in Sweden) had a very good year with some exciting new product introductions. Outpatients have also been much less impacted by COVID, with sales of capital and consumables driving double digit organic growth.

Strategic progress

Delivering on our growth strategy:

- Exciting organic growth potential: while FY 2022 has been a more challenging year, this largely reflects short-term factors. The Sector's prospects remain as positive as ever, underpinned by elective surgical backlog recovery: rising diagnostics spending and our product pipeline. Across the Sector, businesses have been investing in their portfolios, seeking out new suppliers developing innovative products which will enable us to capitalise on the post-pandemic shifts in healthcare spending
- M&A to accelerate organic growth:
    - Strategic acquisition of Accuscience in Ireland for £51m: a market-leading IVD, life sciences and med-tech distributor. The acquisition increases our exposure to the high growth diagnostics segment, including molecular diagnostics. The business also adds scale to Life Sciences in Ireland, and continues to build out the Sector's European pillar.

Building scale in our value-added businesses:

- Completion of a multi-year project to create a scalable Australian platform on a single distribution site in Brisbane. The consolidation of operations and relocation of our Australian businesses to new, modern facilities will create efficiencies and reduce our environmental footprint as well as enable future growth.
- Investing in capability and talent in key functional areas, including Finance and Operations.
- Developing regional leadership structures, including appointment of new heads for Europe and Australia.
- New Simonsen & Weel facility in Denmark to support growth, improve energy and waste efficiency and provide colleagues with a better working environment.

Disciplined portfolio management:

- Disposal of a1-envirosciences in May.

We have made great strategic progress in Life Sciences, and the Sector in itself provides balance, and therefore resilience, to our portfolio. We are carrying improving momentum into the new year, and the medium-term outlook is exciting, with the likely unwinding of elective surgical backlogs as well as increasing diagnostics investment.

Finance Review

Diploma has delivered a very strong set of results, demonstrating the strength of our financial model.

Financial highlights

- Organic growth 15%, more than half of which was volume growth
- Reported revenue growth 29%: very positive 9% net contribution from acquisitions and disposals, and a 5% foreign exchange benefit
- Consistent, high margin: 18.9% operating margin, unchanged on the prior year, with our resilient value-added service model enabling us to continue to navigate supply chain challenges and offset inflation
- Full year free cash flow conversion 90%, including targeted investment in inventory to support growth
- 26% growth in adjusted EPS

Financial Highlights

		Reported results			Adjusted results		
		FY 2022	FY 2021	% change	**FY 2022**	FY 2021	% change
Revenue	£m	**1,012.8**	787.4	+29%			
Operating profit	£m	**144.3**	104.3	+38%	**191.2**	148.7	+29%
Free cash flow conversion	%				**90**	103	
Earnings per share	pence	**76.1**	56.1	+36%	**107.5**	85.2	+26%
Total dividend per share	pence	**53.8**	42.6	+26%			

Double digit organic growth

Reported revenues increased by 29% to £1,012.8m (2021: £787.4m), consisting of organic growth of 15%, a 9% net contribution from acquisitions and disposals, and a 5% benefit from foreign exchange translation. During the year, the Group disposed of Kentek (November), and a1-envirosciences (May), which together contributed £9.9m to Group revenues in FY 2022.

Attractive, high teens margins

Adjusted operating profit increased 29% to £191.2m (2021: £148.7m), with the operating margin unchanged on the prior year at 18.9%. This reflects margin expansion at both Controls and Seals, offset by a lower margin in Life Sciences, which was principally due to the benefit from one-off Covid-related revenues in the prior year and mix effects from acquisitions. The increase in central costs primarily relates to talent as part of our investment in scaling the Group.

Adjusted operating profit by Sector

	Adjusted operating profit			Adjusted operating margin		
	2022 £m	2021 £m	% change	**2022 %**	2021 %	bps change
Controls	**105.8**	72.4	+46%	**21.5**	21.1	+40
Seals	**62.6**	46.5	+35%	**18.9**	17.6	+130
Life Sciences	**41.0**	43.2	(5)%	**21.7**	23.9	(220)
Central costs	**(18.2)**	(13.4)	+36%			
Group	**191.2**	148.7		**18.9**	18.9	-

Higher financing costs
The interest expense increased to £11.6m (2021: £6.8m), principally due to increased borrowings to finance acquisitions and the impact of higher interest rates, and in particular in the second half of the year.

Profit before tax
Adjusted profit before tax increased by 27% to £179.6m (2021: £141.9m). Statutory profit before tax was £129.5m (2021: £96.6m) and is stated after charging acquisition related costs of £46.9m (2021: £44.4m), principally comprising the amortisation of acquisition related intangible assets of £42.4m (2021: £33.1m) and £10.5m of acquisition related costs (2021: £9.7m) in respect of the seven acquisitions completed during the year and partly offset by a net gain of £7.3m (2021: charge of £1.6m) from two disposals in the year.

Effective tax rate broadly unchanged
The Group's effective tax charge on adjusted profit was 25.0% (2021: 25.4%) broadly in line with prior year.

We are committed to being a responsible taxpayer and our approach is to comply with tax laws in the countries in which we operate and to pay our fair share of tax. We recognise the impact tax has on wider society and we always factor the Group's reputation and corporate and social responsibilities into tax considerations. Tax legislation is not always prescriptive and the impact of a transaction or item can give rise to more than one interpretation of the law. The Group assesses all such exposures and, where it is considered probable that further tax will be payable, an uncertain tax provision is recognised. The provision is estimated based on the expected value method. The Group's tax strategy was approved by the Board and is published on our website.

26% growth in adjusted EPS and total dividend
Adjusted EPS increased by 26% to 107.5p (2021: 85.2p). The adjusted EPS growth is marginally lower than the adjusted operating profit growth due to increased interest charges.

For FY 2022, the Board has recommended a final dividend of 38.8p per share, making the proposed full year dividend 53.8p (2021: 42.6p). This represents a 26% increase in the total dividend with dividend cover at 2.0x EPS, continuing the Group's progressive dividend track record.

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 ability of the Board to maintain future dividend policy will be influenced by the principal risks identified below that could adversely impact the performance of the Group.

Free cash flow conversion 90%
Free cash flow represents cash available to invest in growth through value-enhancing acquisitions or to return to shareholders. Free cash flow increased 11% in the year to £120.4m (2021: £108.8m). Free cash flow conversion for the year was 90% (2021: 103%), in-line with our targeted 90%+, demonstrating the highly cash-generative qualities of the business model despite very strong organic revenue growth and targeted investment in inventory. Free cash flow benefited from fixed asset disposal proceeds of £9.9m (2021: £4.8m).

The working capital outflow of £28.7m (2021: £12.6m outflow) was driven by increased inventory and receivables, reflecting the strong growth in trading activity and targeted investment in inventory to support customer service in the year. We are focused on ensuring optimal levels of inventory, taking into account working capital management and customer service. The Group's working capital to revenue at 30 September 2022 improved to 15.6% (2021: 15.8%).

Group tax payments increased by £16.4m to £40.6m (2021: £24.2m). On an underlying basis, cash tax payments increased to 22% (2021: 17%) of adjusted profit before tax. Our effective cash tax rate is lower than our Group effective tax rate, mainly due to acquisition goodwill which is deductible for US tax purposes. Our cash tax rate is higher than last year both due to capital gains during the period and the benefits from enhanced deductions on capital spend in the prior year.

The Group's capital expenditure was higher this year at £15.4m (2021: £6.2m) largely consisting of ongoing investment in new field equipment in the Healthcare businesses of £6.8m (2021: £2.0m), which directly supports revenue growth. Excluding this, capital expenditure increased £4.4m to £8.6m, consisting of infrastructure and equipment spend to scale up efficiently for growth (£5.9m), and improvements or replacements of legacy IT systems plus investments into newly acquired businesses (£2.7m).

The Group spent £186.6m (2021: £462.2m) on acquisitions and £56.4m (2021: £53.2m) on paying dividends to both Company and minority shareholders.

Acquisitions to accelerate our growth

Acquisition spend of £186.6m, which includes fees, mainly comprises the initial spend for R&G (£91.7m) and Accuscience (£49.9m), as well as an additional £31.4m principally relating to five smaller businesses. The total spend also includes £6.5m of acquisition fees and deferred consideration of £7.1m. We remain highly disciplined in our approach with all of these high-quality, value-add acquisitions offering our Sectors opportunities to accelerate their organic growth and create value.

Goodwill at 30 September 2022 was £372.3m (2021: £260.7m). Goodwill is assessed each year to determine whether there has been any impairment in the carrying value. It was confirmed that there was significant headroom on the valuation of this goodwill, compared with the carrying value at the year end.

Disciplined portfolio management

The Group completed two disposals in the year – the disposal of a1-envirosciences in May 2022 for proceeds of £11.4m, and the sale of its 90% interest in Kentek in November 2021 for proceeds of £10.0m. a1-envirosciences and Kentek generated revenues of £7.0m and £2.9m in the year respectively. The proceeds are not included in free cash flow and the net profit on disposal of £7.3m is not included in adjusted operating profit.

Liabilities to shareholders of acquired businesses

The Group's liability to shareholders of acquired businesses at 30 September 2022 increased by £7.7m to £31.4m (2021: £23.7m) and comprises both put options to purchase outstanding minority shareholdings and deferred consideration payable to vendors of businesses acquired during the current and prior year. The liability to acquire minority shareholdings outstanding at 30 September 2022 relates to a 10% interest held in M Seals, 5% interest in Techsil and a 2% interest in R&G. These options are valued at £7.4m (2021: £5.2m), 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 2022 was £24.0m (2021: £18.5m). This liability represents the Directors' best estimate of any outstanding amounts likely to be paid to the vendors of businesses, based on the expected performance of these businesses during the measurement period. The increase in the year is primarily due to the acquisition of R&G.

ROATCE: strong returns

ROATCE is a key metric used to measure our success in creating value for shareholders. As at 30 September 2022, the Group's ROATCE was 17.3% (2021: 17.4%), in-line with our high-teens target. The full year outcome reflects a number of moving parts with the temporary dilution from recent acquisitions and targeted inventory investment partially offset by WCW continuing to outperform its acquisition case. Subject to future acquisition activity, we expect ROATCE to increase in FY 2023.

Adjusted trading capital employed is defined in note 13.

Strong balance sheet

Strong free cash generation has allowed the Group to deleverage more quickly than expected. At 30 September 2022, the Group's Net Debt (excluding IFRS 16 lease liabilities) stood at £328.9m. The Group continues to maintain a robust balance sheet with net bank debt comprised of borrowings of £370.6m, less cash funds of £41.7m.

On 13 October 2020, the Group entered into a debt facility agreement (SFA) which comprised a three-year term loan for an aggregate principal amount of £136.0m ($170.0m) and a committed multi-currency revolving facility for an aggregate principal amount of £135.0m, which was increased to £185.0m during the previous financial year.

During the year the Group has amended the SFA to increase the total facility size. As at 30 September 2022, the SFA comprises a committed multi-currency revolving facility for an aggregate principal amount of £359.7m, an amortising term loan for an aggregate principal amount of £114.2m ($127.5m), a bullet term loan for an aggregate principal amount of £59.1m ($66.0m) and a further bullet term loan for an aggregate principal amount of £45.3m. The SFA is due to expire in December 2024 and there is an option to extend for a further 12-month period.

The Group's debt facilities are subject to interest at variable rates. During the year, the Group entered into interest rate swap contracts with the effect of fixing the interest rate on $100m (£89.6m) of debt. The effective fixed rate debt was 24% as a proportion of total debt. Subsequent to the year end, the Group entered into further interest rate swap contracts with the effect of fixing the interest rate on an additional $100m of debt.

At 30 September 2022, the Group's Net Debt/EBITDA was 1.4x. We have strong liquidity, with year end headroom of £204m.

Type	Currency	Amount	GBP equivalent	Interest rate exposure
Term loan	USD	$193.5m	£173.3m	Fixed at ca.3%[6]
RCF	USD	$8.0m	£7.2m	
RCF	GBP		£122.2m	Floating
RCF	EUR	€81.6m	£71.6m	Floating
Capitalised debt fees net of accrued interest			£(3.7)m	
Gross debt drawn at year end			£370.6m	
Cash & equivalents at year end			£(41.7)m	
Net debt at year end			**£328.9m**	

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 FY 2022 of £6.6m (2021: £5.5m).

The Group maintains a legacy closed defined benefit pension scheme in the UK. The Group is currently funding this scheme with cash contributions of £0.6m (2021: £5.8m) which increases annually on 1 October by 2%.

In Switzerland, local law requires our Kubo business to provide a contribution-based pension for all employees, which is 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 £0.5m (2021: £0.5m).

Both the UK defined benefit scheme and the Kubo contribution scheme are accounted for in accordance with IAS 19 (revised). At 30 September 2022, the aggregate accounting pension surplus/deficit in these two

[6] Approximately half fixed post-year end.

schemes moved from a deficit of £4.9m to a surplus of £6.4m, reflecting the sharp increase in bond yields as at 30 September 2022, which in turn reduced the value of the schemes' liabilities. The next formal triennial funding valuation of the UK scheme is due as at 30 September 2022, with completion expected in the second half of FY 2023.

FX tailwind and interest headwind largely offsetting

Whilst there cannot be any certainty over future interest rates and exchange rates, looking ahead to 2023, it is likely that exchange rates, especially Sterling-Dollar will provide a boost to reported earnings whilst increasing interest rates will increase costs. With around 50% of the Group's debt floating, should USD-GBP rates remain at current levels, we would expect these effects to largely offset each other.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in this announcement. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review. In addition, the Annual Report & Accounts include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group continues to operate against a backdrop of macroeconomic disruption, including widespread global inflation, rising interest rates and the continued uncertainty of the Covid-19 pandemic, in particular its lasting impact on global supply chains. Accordingly, the Directors have again considered a more comprehensive going concern view than in previous years. The Group has considerable financial resources, together with a broad spread of customers and suppliers across different geographic areas and sectors, often secured with longer term agreements. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

Liquidity and financing position

On 13 October 2020, the Group entered into a debt facility agreement (SFA) which comprised a three-year term loan for an aggregate principal amount of £136.0m ($170.0m) and a committed multi-currency revolving facility (RCF) for an aggregate principal amount of £135.0m, which was increased to £185.0m during the previous financial year.

During the year the Group has amended the SFA to increase the total facility size. As at 30 September 2022 the SFA comprises a committed RCF for an aggregate principal amount of £359.7m, an amortising term loan for an aggregate principal amount of £114.2m ($127.5m), a bullet term loan for an aggregate principal amount of £59.1m ($66.0m) and a further bullet term loan for an aggregate principal amount of £45.3m. The SFA is due to expire in December 2024 and there is an option to extend for a further 12-month period.

The Group's debt facilities are subject to interest at variable rates. During the year the Group entered into interest rate swap contracts with the effect of fixing the interest rate on $100.0m (£89.6m) of debt. The effective fixed rate debt was 24% of total debt. Subsequent to year end, the Group has entered into further interest rate swap contracts with the effect of fixing the interest rate on an additional $100.0m of debt.

At 30 September 2022, the Group's Net Debt/EBITDA ratio is 1.4x, as illustrated in note 13.

As at 30 September 2022, the term loans have an aggregate outstanding principal amount of £173.3m ($193.5m) and the Group has utilised £201.0m of the revolving facility. There remains £158.7m undrawn on the revolving facility and £45.3m undrawn on the bullet term loan. Borrowings include £1.0m (2021: £0.4m) of accrued interest and the carrying amount of capitalised debt fees of £4.7m (2021: £2.8m).

As at 30 September 2021, under the SFA the Group had a drawn term loan with an aggregate principal amount of £113.5m ($153.0m) and drawings of £95.1m under the revolving facility. As at 30 September 2021 the undrawn revolving facility amount was £89.9m.

Total net debt is £398.0m (2021: £229.7m) comprising cash funds of £41.7m (2021: £24.8m), borrowings of £370.6m (2021: £206.2m), and lease liabilities of £69.1m (2021: £48.3m). Bank covenants are tested against net debt funds only (i.e. excluding lease liabilities).

Financial modelling

The Group has modelled a base case and downside case in its assessment of going concern. The base case is driven off the Group's detailed budget which is built up on a business by business case and considers both the micro and macroeconomic factors which could impact performance in the industries and geographies in which that business operates. The downside case models steep declines in revenues and operating margins as well as materially adverse working capital movements. These sensitivities factor in a continued unfavourable impact from a prolonged downturn in the economy.

The purpose of this exercise is to consider if there is a significant risk that the Group could breach either its facility headroom or financial covenants. Both scenarios indicate that the Group has significant liquidity and covenant headroom on its borrowing facilities to continue in operational existence for the foreseeable future.

Going concern basis

Accordingly and after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and they continue to adopt the going concern basis in preparing the Annual Report & Accounts.

Principal risks and uncertainties

The Group's decentralised operations, which have different Sectors and geographical spread, helps mitigate the potential impact of these principal risks.

Set out in this section of the Strategic report are the principal risks and uncertainties affecting the Group. These have been determined by the Board, using the robust risk evaluation described on the previous page, to have the greatest potential impact on the Group's future viability.

The principal risks are each classified as either macro/external, strategic or operational and are not presented in order of probability or impact.

The risks summarised below represent the principal risks and uncertainties faced by the Group, and the steps taken to mitigate such risks. These risks are considered to be material to the development, performance, position or future prospects of the Group. However, these risks do not comprise all of the risks that the Group may face and accordingly this summary is not intended to be exhaustive.

There have been some changes to the Groups principal risks arising from the evolved risk identification process together with the increased scale of the Group and revenue diversification strategies being successfully implemented:

- Customer Concentration and Inventory Obsolescence are no longer considered to be principal risks, although will continue to be monitored and evaluated.
- Inflationary Environment has been recategorised to be a principal risk, previously being considered an emerging risk.
- Supplier Concentration/Loss of Key Suppliers and Supply Chain disruptors have been amalgamated into Supply Chain, which will also include the risk of supplier disintermediation.
- Loss of key personnel has evolved to Talent & Diversity and will also cover the risk of having wrong talent or lack of/poor diversity, failure to attract/retain staff and inadequate development.
- Tax Compliance has evolved into Non-compliance with Laws and Regulations, which also covers non-compliance with environmental regulation and the increasing international compliance alignment burden.

Principal Risk	Risk Description & Assessment	Mitigation
Downturn/instability in major markets		
Risk category Macro/external risk *Board risk appetite* Averse *Change in risk* No change This risk remains at a similar level to last year and is addressed continuously in our risk management process.	Adverse changes in the major markets that the businesses operate in can result in slowing revenue growth due to reduced or delayed demand for products and services, or margin pressures due to increased competition.	The businesses identify key market drivers and monitor trends and forecasts, as well as maintaining close relationships with key customers who may give an early warning of slowing demand. A number of characteristics of the Group's businesses moderate the impact of economic and business cycles: • The Group's businesses operate in three different Sectors with different characteristics and across a number of geographic markets. • The businesses offer specialised products and services, which are often specific to their application, increasing customers' switching costs. • A high proportion of the Group's revenue comprises consumable products, which are purchased as part of the customer's operating budget, rather than through capital budgets. • In many cases the products are used in repair, maintenance and refurbishment applications, rather than original equipment manufacture.

Principal Risk	Risk Description & Assessment	Mitigation
Supply Chain *Risk category* Strategic risk *Board risk appetite* Cautious *Change in risk* No change Supply chain disruption has reduced since last year but operational interruptions at customers and suppliers continue.	The ability to service our customers in a timely manner is a key part of our value-added proposition. For manufacturer-branded products, there is the risk that existing distribution agreements and vertical integration of suppliers is cancelled, therefore losing access to key distribution channels. There is also the risk of: • A supplier taking away exclusivity. • Manufacturing lead times increasing as a result of supply chain shortages. We have experienced this, particularly with suppliers based in Asia, in the current year. • Supply chain partners not operating to the same ethical standards as Diploma	Management continues to pursue diversification strategies and regularly seeks alternative sourcing. Long-term, multi-year exclusive contracts have been signed with suppliers with change of control clauses, where applicable, for protection or compensation in the event of acquisition. We maintain strong relationships with suppliers and keep customers updated in the event of change to retain key business. Meeting with key customers regularly to gain insight into their product requirements and market developments. We work with our supply chain partners to help them meet our standards of acceptable working conditions, financial stability, ethics and technical competence. If they are unable to meet these standards then we will source product elsewhere.
Inflationary Environment *Risk category* Macro/external risk *Board risk appetite* Cautious *Change in risk* New risk for 2022	Significant or unexpected cost increases by suppliers due to the pass through of higher commodity prices or other price increases, higher trade tariffs and/or foreign currency fluctuations, could adversely impact profits if businesses are unable to pass on such cost increases to customers.	Improved pricing processes and the value-added activities undertaken by the businesses mean we are better able to pass cost increases to customers. A number of characteristics of the Group's businesses moderate the impact of economic and business cycles: • The Group's businesses operate in three different Sectors with different characteristics and across a number of geographic markets. • The businesses offer specialised products and services, which are often specific to their application, increasing customers' switching costs. • A high proportion of the Group's revenue comprises consumable products, which are purchased as part of the customer's operating budget, rather than through capital budgets. • In many cases the products are used in repair, maintenance and refurbishment applications, rather than original equipment manufacture.

Principal Risk	Risk Description & Assessment	Mitigation
Unsuccessful acquisition		
Risk category Strategic risk *Board risk appetite* Tolerant *Change in risk* No change The acquisition pipeline remains healthy and Diploma retains its disciplined approach to bringing high-quality, value-enhancing businesses into Diploma.	Diploma has a strong history of disciplined acquisitions. The business model of the Group is based on successful acquisitions in large and developed markets and sectors. The following are the key risks of an acquisition process: • The Group may overpay for a target. • The acquired business may experience limited growth post acquisition. • Loss of key customers or suppliers post integration. • Potential cultural misfit as smaller businesses are faced with the new requirements of a listed Company. The above may be the result of inadequate due diligence, poor integration or unrealistic assumptions used in the investment case.	A clearly defined acquisition strategy is in place with a disciplined approach, including financial return hurdles, to bringing high-quality, value-enhancing businesses into the Group. An experienced Corporate Development team is responsible for seeking and evaluating new acquisition opportunities with the Corporate Development Director reporting to the CEO. A formal due diligence process is followed for every acquisition, with close supervision by the CEO and relevant Group senior management. A formal governance process is in place up to Board level. A disciplined post-acquisition integration process covers operational, financial, governance, legal and reporting matters. The Board reviews performance of recent acquisitions annually.
Geopolitical disruptions		
Risk category Macro/external risk *Board risk appetite* Averse *Change in Risk* Increase This risk remains elevated in certain geographies, including due to ongoing events such as the conflict in Ukraine.	Diploma operates in established economies with stable political and legal systems. Geopolitical events that could disrupt the Group's operations are mainly related to: • Interruption of trade agreements. • Tariffs. • Change of trade relationships amongst countries in which we operate (e.g. Brexit). • Government budget spending. • Political elections.	We continue to diversify our supply base and invest in product range development to mitigate exposure to any single market or region. Whenever possible, we capitalise on Group synergies and leverage inter-company trading.
Health & Safety		
Risk category Operational risk *Board risk appetite* Averse *Change in risk* Decrease Relative to FY 2021 there has been a significant decrease in Health & Safety risk as a result of the conclusion of the Covid-19 pandemic and improvements in processes arising from the pandemic.	Some Diploma businesses are exposed to Health & Safety risks, including via the environment in which their employees, contractors, customers, and suppliers operate, or through the products they sell.	The Covid-19 pandemic placed a greater focus on Health & Safety and preventive measures to limit the spread of Covid-19. Implementing and continuously evolving these measures has improved Health & Safety across the Group. Additionally, management continues to promote mental health and wellbeing, offering support to colleagues and access to an employee assistance programme.

Principal Risk	Risk Description & Assessment	Mitigation
Technology & Cyber *Risk category* Operational risk *Board risk appetite* Cautious *Change in risk* No change The risk of cyber-attacks remained high in 2022. The businesses maintained a high standard of cybersecurity whilst accommodating remote working practices in territories where strict lockdowns were in place as a response to the Covid-19 pandemic.	Group and operating business management depend critically on timely and reliable information from their IT systems to run their businesses and serve their customers' needs. Any disruption or denial of service may delay or impact decision-making if reliable data is unavailable. Poor information handling 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 decentralised nature of the Group, including stand-alone IT systems for each business, limits the potential impact to any individual business. There is good support and back-up built into local IT systems. All businesses in the Group have a robust cybersecurity programme and we regularly engage with cybersecurity experts to continuously improve and strengthen our IT systems. A formalised ERP approval and implementation process ensures businesses have the most suitable IT systems to effectively manage their business. Business continuity plans exist for each business with ongoing testing.
Talent & Diversity *Risk category* Operational risk *Board risk appetite* Cautious *Change in risk* Increase This risk has increased in the year, mainly due to current market labour conditions with the tightening of labour markets affecting candidate availability and retention, upward pressure on wage levels in certain geographies and changing expectations of working environments.	The success of the Group is built on 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. Not having the right talent or diversity at all levels of the organisation to deliver our strategy, resulting in reduced financial performance.	Contractual terms such as notice periods and non-compete clauses can mitigate the risk in the short term. The Group places very high importance on planning development, motivation and reward: • Ensuring a challenging working environment where managers feel they have control over, and responsibility for, their businesses. • Implementing a structured talent review process for the development, retention and succession of key personnel. • Offering balanced and competitive compensation packages with a combination of salary, annual bonus and long-term cash or share incentive plans. • Giving the freedom, encouragement, financial resources and strategic support for managers to pursue ambitious growth plans.

Principal Risk	Risk Description & Assessment	Mitigation
Product liability *Risk category* Operational risk *Board risk appetite* Averse *Change in risk* No change This risk remains at a similar level to last year.	There is a risk that products supplied by a Group business may fail in service, which could lead to a claim under product liability. The Group may be exposed to legal costs and potential damages if the claim succeeds and the supplier fails to meet its liabilities for whatever reason. 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. The Group has liability insurance in place providing appropriate cover for each business.	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 businesses, in their terms and conditions of sale with customers, will typically mirror the terms and conditions of purchase from the suppliers to limit any liabilities.
Foreign currency *Risk category* Financial risk *Board risk appetite* Cautious *Change in risk* No change This risk has remained at a similar level to last year.	The Group is exposed to two types of financial risk caused by currency volatility: translational exposure, on translating the results of overseas subsidiaries into UK sterling; and transactional exposure, due to operating businesses' revenues or product costs being denominated in a currency other than their local currency. Translational foreign exchange risk arises primarily with respect to the US dollar, the Canadian dollar, the Australian dollar and the Euro. A strengthening of UK sterling by 10% against all the currencies in which the Group does business, would reduce adjusted operating profit by approximately £17.0m (9%), 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 £31.6m (5%). Transactional foreign exchange risk arises principally with respect to US dollars and Euros. The majority of the Group's Canadian and Australian businesses' 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. Rolling monthly forecasts of currency exposures are reviewed on a regular basis. 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 12 to these condensed consolidated financial statements.

Principal Risk	Risk Description & Assessment	Mitigation
Non-compliance with laws *Risk category* Operational risk *Board risk appetite* Averse *Change in risk* Increase Laws governing businesses continue to increase in volume, scope and complexity. As the Group scales, businesses are increasingly subject to the regulations of multiple jurisdictions that may not all align with one another. Our businesses are facing a large number of regulatory changes over the coming years in respect of environmental commitments and controls.	The Group's businesses are affected by various statutes, regulations and standards in the countries and markets in which they operate. Diploma PLC itself is a listed entity subject to regulation and governance requirements.	The board of each business is accountable for identifying and monitoring what laws are relevant to their business, including any emerging or changing legislation, and for ensuring commercial legal risks are appropriately managed. The Head of Legal advises on legislative and regulatory changes relevant to the Group as a listed company and has oversight of all material transactions including acquisitions.

Consolidated Income Statement

For the year ended 30 September 2022

	Note	2022 £m	2021 £m
Revenue	2,3	**1,012.8**	787.4
Cost of sales		**(638.3)**	(499.0)
Gross profit		**374.5**	288.4
Distribution costs		**(25.9)**	(23.9)
Administration costs		**(204.3)**	(160.2)
Operating profit	2	**144.3**	104.3
Financial expense, net	4	**(14.8)**	(7.7)
Profit before tax		**129.5**	96.6
Tax expense	5	**(34.1)**	(26.9)
Profit for the year		**95.4**	69.7
Attributable to:			
Shareholders of the Company		**94.7**	69.8
Minority interests		**0.7**	(0.1)
		95.4	69.7
Earnings per share			
Basic earnings	6	**76.1p**	56.1p
Diluted earnings	6	**75.9p**	55.9p

Alternative Performance Measures[1]

	Note	2022 £m	2021 £m
Operating profit		**144.3**	104.3
Add: Acquisition related and other charges included in administration costs	2	**46.9**	44.4
Adjusted operating profit	2,3	**191.2**	148.7
Deduct: Net interest and similar charges	4	**(11.6)**	(6.8)
Adjusted profit before tax		**179.6**	141.9
Adjusted earnings per share	6	**107.5p**	85.2p

1 The adjusted numbers set out above are non-statutory measures which are defined and reconciled in note 13 of the financial statements

Consolidated Statement of Comprehensive Income

For the year ended 30 September 2022

	Note	2022 £m	2021 £m
Profit for the year		**95.4**	69.7
Items that will not be reclassified to the Consolidated Income Statement			
Actuarial gain on the defined benefit pension schemes		**10.6**	7.4
Deferred tax on items that will not be reclassified	5	**(2.8)**	(0.8)
		7.8	6.6
Items that may be reclassified to the Consolidated Income Statement			
Exchange differences on translation of foreign operations		**76.8**	(16.2)
Gains on fair value of cash flow hedges		**4.5**	0.4
Net changes to fair value of cash flow hedges transferred to the Consolidated Income Statement		**(0.4)**	0.1
Deferred tax on items that may be reclassified	5	**(1.1)**	(0.1)
		79.8	(15.8)
Total Other Comprehensive Income		**87.6**	(9.2)
Total Comprehensive Income for the year		**183.0**	60.5
Attributable to:			
Shareholders of the Company		**182.2**	60.8
Minority interests		**0.8**	(0.3)
		183.0	60.5

Consolidated Statement of Changes in Equity

For the year ended 30 September 2022

	Note	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	**Shareholders' equity £m**	Minority interests £m	**Total equity £m**
At 1 October 2020		6.3	188.6	28.3	(0.3)	304.1	**527.0**	3.7	**530.7**
Total Comprehensive Income		–	–	(16.2)	0.5	76.5	**60.8**	(0.3)	**60.5**
Share-based payments		–	–	–	–	1.8	**1.8**	–	**1.8**
Tax on items recognised directly in equity	5	–	–	–	–	1.0	**1.0**	–	**1.0**
Notional purchase of own shares		–	–	–	–	(0.5)	**(0.5)**	–	**(0.5)**
Acquisition of business		–	–	–	–	–	**–**	0.9	**0.9**
Minority interest put option on acquisition		–	–	–	–	(0.9)	**(0.9)**	–	**(0.9)**
Minority interest issued		–	–	–	–	–	**–**	0.7	**0.7**
Dividends	11	–	–	–	–	(52.9)	**(52.9)**	(0.3)	**(53.2)**
At 30 September 2021		6.3	188.6	12.1	0.2	329.1	**536.3**	4.7	**541.0**
Total Comprehensive Income		–	–	76.7	3.0	102.5	**182.2**	0.8	**183.0**
Share-based payments		–	–	–	–	2.8	**2.8**	–	**2.8**
Tax on items recognised directly in equity	5	–	–	–	–	0.4	**0.4**	–	**0.4**
Notional purchase of own shares		–	–	–	–	(2.8)	**(2.8)**	–	**(2.8)**
Acquisition of business		–	–	–	–	–	**–**	2.5	**2.5**
Disposal of business		–	–	–	–	–	**–**	(1.3)	**(1.3)**
Minority interest put option on acquisition		–	–	–	–	(1.9)	**(1.9)**	–	**(1.9)**
Minority interest put option disposal		–	–	–	–	1.2	**1.2**	–	**1.2**
Minority interest acquired		–	–	–	–	–	**–**	(0.3)	**(0.3)**
Dividends	11	–	–	–	–	(56.2)	**(56.2)**	(0.2)	**(56.4)**
At 30 September 2022		**6.3**	**188.6**	**88.8**	**3.2**	**375.1**	**662.0**	**6.2**	**668.2**

Consolidated Statement of Financial Position

As at 30 September 2022

	Note	**2022 £m**	2021 £m
Non-current assets			
Goodwill	9	**372.3**	260.7
Acquisition intangible assets		**455.0**	344.9
Other intangible assets		**4.1**	3.4
Property, plant and equipment		**49.6**	35.4
Leases – right-of-use assets		**62.4**	44.9
Retirement benefit assets		**6.4**	–
Deferred tax assets		**0.2**	0.4
		950.0	689.7
Current assets			
Inventories		**217.4**	139.8
Trade and other receivables		**169.9**	117.8
Assets held for sale		**–**	11.3
Cash and cash equivalents	8	**41.7**	24.8
		429.0	293.7
Current liabilities			
Borrowings	8	**(30.5)**	(18.0)
Trade and other payables		**(189.5)**	(127.0)
Current tax liabilities	5	**(11.8)**	(10.0)
Other liabilities		**(19.0)**	(11.7)
Lease liabilities		**(12.7)**	(9.7)
		(263.5)	(176.4)
Net current assets		**165.5**	117.3
Total assets less current liabilities		**1,115.5**	807.0
Non-current liabilities			
Retirement benefit obligations		**–**	(4.9)
Borrowings	8	**(340.1)**	(188.2)
Lease liabilities		**(56.4)**	(38.6)
Other liabilities		**(12.4)**	(12.0)
Deferred tax liabilities		**(38.4)**	(22.3)
Net assets		**668.2**	541.0
Equity			
Share capital		**6.3**	6.3
Share premium		**188.6**	188.6
Translation reserve		**88.8**	12.1
Hedging reserve		**3.2**	0.2
Retained earnings		**375.1**	329.1
Total shareholders' equity		**662.0**	536.3
Minority interests		**6.2**	4.7
Total equity		**668.2**	541.0

Consolidated Cash Flow Statement

For the year ended 30 September 2022

	Note	**2022 £m**	2021 £m
Operating profit		**144.3**	104.3
Acquisition related and other charges		**46.9**	44.4
Non-cash items and other		**18.1**	9.8
Increase in working capital		**(28.7)**	(12.6)
Cash flow from operating activities	7	**180.6**	145.9
Interest paid, net (including borrowing fees)		**(15.0)**	(5.6)
Tax paid		**(40.6)**	(24.2)
Net cash from operating activities		**125.0**	116.1
Cash flow from investing activities			
Acquisition of businesses (net of cash acquired)	10	**(173.0)**	(451.4)
Deferred consideration paid		**(7.1)**	(6.6)
Proceeds from sale of business (net of cash disposed)		**13.7**	11.0
Purchase of property, plant and equipment		**(14.3)**	(4.9)
Purchase of other intangible assets		**(1.1)**	(1.3)
Proceeds from sale of property, plant and equipment		**9.9**	4.8
Net cash used in investing activities		**(171.9)**	(448.4)
Cash flow from financing activities			
Proceeds from issue of share capital (net of fees)		**–**	(0.6)
Dividends paid to shareholders	11	**(56.2)**	(52.9)
Dividends paid to minority interests		**(0.2)**	(0.3)
Proceeds from minority interests		**–**	0.7
Acquisition of minority interests		**(0.3)**	–
Purchase of own shares by Employee Benefit Trust		**–**	–
Notional purchase of own shares on exercise of share options		**(2.8)**	(0.6)
Proceeds from borrowings	8	**154.8**	215.3
Repayment of borrowings	8	**(20.0)**	(12.4)
Principal elements of lease payments		**(10.9)**	(9.5)
Net cash from financing activities		**64.4**	139.7
Net increase/(decrease) in cash and cash equivalents		**17.5**	(192.6)
Cash and cash equivalents at beginning of year		**24.8**	206.8
Effect of exchange rates on cash and cash equivalents		**(0.6)**	10.6
Cash and cash equivalents at end of year		**41.7**	24.8

Alternative Performance Measures[1]

	Note	**2022 £m**	2021 £m
Free cash flow	13	**120.4**	108.8
Adjusted earnings	13	**133.9**	106.1
Free cash flow conversion %	13	**90%**	103%

1 The adjusted numbers set out above are non-statutory measures which are defined and reconciled in note 13 of the financial statements

Notes to the Consolidated Financial Statements
For the year ended 30 September 2022

1. General information
Diploma PLC is a public company limited by shares incorporated in the United Kingdom, registered and domiciled in England and Wales and listed on the London Stock Exchange. The address of the registered office is 10-11 Charterhouse Square, London EC1M 6EE. 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 21 November 2022. These statements are presented in UK sterling, with all values rounded to the nearest 100,000, except where otherwise indicated.

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Diploma PLC transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 October 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework. The accounting policies have been consistently applied in the current and the comparative year.

The consolidated financial statements of the Group have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

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 2022 and 2021. Statutory financial statements for the year ended 30 September 2022 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 2022, which were approved by the Directors on 21 November 2022, will be sent to shareholders in December 2022 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 2022 and 2021. 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 9:00am on 18 January 2023 in The Charterhouse, Charterhouse Square, EC1M 6AN. The Notice of Meeting will be sent out in a separate Circular to shareholders.

2. Business Sector analysis
The Chief Operating Decision Maker ("CODM") for the purposes of IFRS 8 is the CEO. The financial performance of the business Sectors is 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 this operating segment level. 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, retirement benefit assets, acquisition related assets and corporate assets that cannot be allocated on a reasonable basis to a business Sector. Sector liabilities exclude borrowings (other than lease liabilities), retirement benefit obligations, deferred tax liabilities, acquisition related 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		Corporate		Group	
	2022 £m	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Revenue – existing	**178.0**	180.4	**294.4**	263.7	**481.9**	343.3	**–**	–	**954.3**	787.4
Revenue – acquisitions	**10.6**	-	**37.0**	–	**10.9**	–	**–**	–	**58.5**	–
Revenue	**188.6**	180.4	**331.4**	263.7	**492.8**	343.3	**–**	–	**1,012.8**	787.4
Adjusted operating profit – existing	**39.7**	43.2	**57.0**	46.5	**104.0**	72.4	**(18.2)**	(13.4)	**182.5**	148.7
Adjusted operating profit – acquisitions	**1.3**	–	**5.6**	–	**1.8**	–	**–**	–	**8.7**	-
Adjusted operating profit	**41.0**	43.2	**62.6**	46.5	**105.8**	72.4	**(18.2)**	(13.4)	**191.2**	148.7
Acquisition related and other charges	**1.5**	(4.6)	**(16.6)**	(9.7)	**(30.5)**	(30.1)	**(1.3)**	–	**(46.9)**	(44.4)
Operating profit	**42.5**	38.6	**46.0**	36.8	**75.3**	42.3	**(19.5)**	(13.4)	**144.3**	104.3
Operating assets	**74.0**	51.2	**207.5**	134.4	**211.5**	164.8	**–**	–	**493.0**	350.4
Goodwill	**106.2**	81.4	**125.2**	60.0	**140.9**	119.3	**–**	–	**372.3**	260.7
Acquisition intangible assets	**74.9**	47.2	**100.2**	50.4	**279.9**	247.3	**–**	–	**455.0**	344.9
	255.1	179.8	**432.9**	244.8	**632.3**	531.4	**–**	–	**1,320.3**	956.0
Unallocated assets:										
– Deferred tax assets							**0.2**	0.4	**0.2**	0.4
– Cash and cash equivalents							**41.7**	24.8	**41.7**	24.8
– Acquisition related assets							**1.8**	–	**1.8**	–
– Retirement benefit assets							**6.4**	–	**6.4**	–
– Corporate assets							**8.6**	2.2	**8.6**	2.2
Total assets	**255.1**	179.8	**432.9**	244.8	**632.3**	531.4	**58.7**	27.4	**1,379.0**	983.4
Operating liabilities	**(41.7)**	(30.2)	**(103.3)**	(58.4)	**(92.6)**	(68.1)	**–**	–	**(237.6)**	(156.7)
Unallocated liabilities:										
– Deferred tax liabilities							**(38.4)**	(22.3)	**(38.4)**	(22.3)
– Retirement benefit obligations							**–**	(4.9)	**–**	(4.9)
– Acquisition related liabilities							**(31.4)**	(23.7)	**(31.4)**	(23.7)
– Corporate liabilities							**(32.8)**	(28.6)	**(32.8)**	(28.6)
– Borrowings							**(370.6)**	(206.2)	**(370.6)**	(206.2)
Total liabilities	**(41.7)**	(30.2)	**(103.3)**	(58.4)	**(92.6)**	(68.1)	**(473.2)**	(285.7)	**(710.8)**	(442.4)
Net assets	**213.4**	149.6	**329.6**	186.4	**539.7**	463.3	**(414.5)**	(258.3)	**668.2**	541.0

Acquisition related and other charges are £46.9m (2021: £44.4m) and comprise £42.4m (2021: £33.1m) of amortisation of acquisition intangible assets, £10.5m of acquisition expenses as defined in note 13 (2021: £9.7m), a £7.3m (2021: £1.6m net charge) net gain on the disposal of businesses, which is set out in note 10, and one-off restructuring costs of £1.3m associated with the transition of the Group's Chief Financial Officer.

Other Sector information

	Life Sciences		Seals		Controls		Corporate		Group	
	2022 £m	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Capital expenditure	**8.0**	2.3	**3.7**	2.5	**2.7**	1.1	**0.9**	0.3	**15.3**	6.2
Depreciation and amortisation	**2.9**	2.6	**3.5**	2.9	**4.6**	4.1	**0.2**	0.3	**11.2**	9.9
Revenue recognition										
– immediately on sale	**176.4**	164.2	**315.6**	260.1	**492.8**	343.3	**–**	–	**984.8**	767.6
– over a period of time	**12.2**	16.2	**15.8**	3.6	**–**	–	**–**	–	**28.0**	19.8
	188.6	180.4	**331.4**	263.7	**492.8**	343.3	**–**	–	**1,012.8**	787.4

Accrued income ("contract assets") at 30 September 2022 of £0.1m (2021: £0.8m) and deferred revenue ("contract liabilities") of £3.5m at 30 September 2022 (2021: £2.5m) are included in trade and other receivables and trade and other payables, respectively.

3. Geographic segment analysis by origin

	Revenue		Adjusted operating profit		Non-current assets[1]		Trading capital employed		Capital expenditure	
	2022 £m	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
United Kingdom	**209.7**	142.5	**21.0**	10.5	**193.6**	82.5	**202.2**	83.4	**3.4**	0.5
Rest of Europe	**166.7**	166.5	**29.3**	31.9	**169.1**	115.3	**179.8**	140.3	**1.7**	0.8
North America	**561.0**	411.8	**129.5**	94.7	**519.2**	443.7	**614.2**	496.1	**8.9**	4.1
Rest of world	**75.4**	66.6	**11.4**	11.6	**57.1**	47.8	**62.3**	53.1	**1.3**	0.8
	1,012.8	787.4	**191.2**	148.7	**939.0**	689.3	**1,058.5**	772.9	**15.3**	6.2

1 Non-current assets excludes deferred tax assets, derivative assets and the retirement benefit asset.

4. Financial expense, net

	2022 £m	2021 £m
Interest (expense)/income and similar charges		
– bank facility and commitment fees	**(1.0)**	(0.5)
– interest income on short term deposits	**0.1**	–
– interest expense on bank borrowings	**(7.9)**	(4.1)
– notional interest expense on the defined benefit pension scheme	**–**	(0.1)
– amortisation of capitalised borrowing fees	**(0.2)**	(0.3)
– interest on lease liabilities	**(2.6)**	(1.8)
Net interest expense and similar charges	**(11.6)**	(6.8)
– acquisition related finance charges	**(3.2)**	(0.9)
Financial expense, net	**(14.8)**	(7.7)

Acquisition related finance charges includes fair value remeasurements of put options for future minority purchases of £1.4m debit (2021: £0.1m debit), unwind of discount on acquisition liabilities of £0.4m debit (2021: £nil), and £1.4m debit (2021: £0.8m debit) for the amortisation of capitalised borrowing fees on acquisition related borrowings.

5. Tax expense

	2022 £m	2021 £m
Current tax		
The tax charge is based on the profit for the year and comprises:		
UK corporation tax	**10.0**	5.5
Overseas tax	**30.8**	21.5
	40.8	27.0
Adjustments in respect of prior year:		
UK corporation tax	**(0.2)**	2.1
Overseas tax	**0.1**	0.5
Total current tax	**40.7**	29.6
Deferred tax		
The net deferred tax credit based on the origination and reversal of timing differences comprises:		
United Kingdom	**(3.1)**	(1.9)
Overseas	**(3.5)**	(0.8)
Total deferred tax	**(6.6)**	(2.7)
Total tax on profit for the year	**34.1**	26.9

In addition to the above credit for deferred tax included in the Consolidated Income Statement, a net deferred tax charge relating to the retirement benefit scheme and cash flow hedges of £3.9m was debited (2021: £0.9m debit) to the Consolidated Statement of Comprehensive Income. A further £0.4m was credited (2021: £1.0m credit) to the Consolidated Statement of Changes in Equity, comprising current tax of £0.4m (2021: £0.8m) with nil deferred tax in the current year (2021: £0.2m), the prior year relates to share-based payments.

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 £129.5m and the amount set out above is as follows:

	2022 £m	2021 £m
Profit before tax	**129.5**	96.6
Tax on profit at UK effective corporation tax rate of 19.0% (2021: 19.0%)	**24.6**	18.4
Effects of:		
– higher tax rates on overseas earnings	**6.7**	4.7
– adjustments in respect of prior years	**(0.1)**	2.6
– change to future tax rate in the United Kingdom	**–**	0.5
– other permanent differences	**2.9**	0.7
Total tax on profit for the year	**34.1**	26.9

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 statutory tax rate for UK corporation tax in respect of the year ended 30 September 2022 was 19.0% (2021: 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 profits earned in the US, Canada, Germany and Australia are taxed at higher rates than the UK. The UK deferred tax assets and liabilities at 30 September 2022 have been calculated by reference to the future UK corporation tax rate of 25.0% (2021: 25.0%), as substantively enacted to be effective from 1 April 2023.

At 30 September 2022, the Group had outstanding tax liabilities of £11.8m (2021: £10.0m) of which £1.9m (2021: £2.7m) related to UK tax liabilities and £9.9m (2021: £7.3m) related to overseas tax liabilities. These amounts are expected to be paid within the next financial year.

6. Earnings per share

Basic and diluted earnings per share

Basic earnings per ordinary 5p share are calculated on the basis of the weighted average number of ordinary shares in issue during the year of 124,533,060 (2021: 124,468,210) and the profit for the year attributable to shareholders of £94.7m (2021: £69.8m). Basic earnings per share is 76.1p (2021: 56.1p). Diluted earnings per share is 75.9p (2021: 55.9p) and is based on the average number of ordinary shares (which includes any potentially dilutive shares) of 124,855,007 (2021: 124,794,473).

Adjusted earnings per share

Adjusted EPS, which is defined in note 13, is 107.5p (2021: 85.2p).

	2022 pence per share	2021 pence per share	**2022 £m**	2021 £m
Profit before tax			**129.5**	96.6
Tax expense			**(34.1)**	(26.9)
Minority interests			**(0.7)**	0.1
Earnings for the year attributable to shareholders of the Company	**76.1**	56.1	**94.7**	69.8
Acquisition related and other charges and acquisition related finance charges, net of tax	**31.4**	29.1	**39.2**	36.3
Adjusted earnings	**107.5**	85.2	**133.9**	106.1

7. Reconciliation of operating profit to cash flow from operating activities

	2022 £m	**2022 £m**	2021 £m	2021 £m
Operating profit		**144.3**		104.3
Acquisition related and other charges (note 2)		**46.9**		44.4
Adjusted operating profit		**191.2**		148.7
Depreciation or amortisation of tangible, other intangible assets and leases – right-of-use assets	**23.9**		20.7	
Share-based payments expense	**2.8**		1.8	
Defined benefit pension scheme payment in excess of interest	**(0.6)**		(5.8)	
Profit on disposal of assets	**(1.6)**		(2.8)	
Acquisition and disposal expenses paid	**(6.5)**		(4.2)	
Other non-cash movements	**0.1**		0.1	
Non-cash items and other		**18.1**		9.8
Operating cash flow before changes in working capital		**209.3**		158.5
Increase in inventories	**(35.6)**		(13.5)	
Increase in trade and other receivables	**(10.6)**		(16.3)	
Increase in trade and other payables	**17.5**		17.2	
Increase in working capital		**(28.7)**		(12.6)
Cash flow from operating activities		**180.6**		145.9

8. (Net debt)/cash funds

The movement in (net debt)/cash funds during the year is as follows:

	1 Oct 2021 £m	Cash flow[1] £m	Exchange movements £m	Other non-cash movements £m	**30 Sep 2022 £m**
Cash and cash equivalents	24.8	17.5	(0.6)	–	**41.7**
Borrowings	(206.2)	(131.3)	(30.9)	(2.2)	**(370.6)**
Net debt	(181.4)	(113.8)	(31.5)	(2.2)	**(328.9)**

	1 Oct 2020 £m	Cash flow £m	Exchange movements £m	Other non-cash movements £m	30 Sep 2021 £m
Cash and cash equivalents	206.8	(192.6)	10.6	–	24.8
Borrowings	–	(202.9)	(1.8)	(1.5)	(206.2)
Cash funds/(net debt)	206.8	(395.5)	8.8	(1.5)	(181.4)

[1] The borrowings cash flow includes £3.5m of debt fees which have been capitalised and are included within interest paid in the Consolidated Cash Flow Statement.

On 13 October 2020, the Group entered into a debt facility agreement ("SFA") which comprised a three-year term loan for an aggregate principal amount of £136.0m ($170.0m) and a committed multi-currency revolving facility ("RCF") for an aggregate principal amount of £135.0m, which was increased to £185.0m during the previous financial year.

During the year, the Group has amended the SFA to increase the total facility size. As at 30 September 2022, the SFA comprises a committed multi-currency revolving facility ("RCF") for an aggregate principal amount of £359.7m, an amortising term loan for an aggregate principal amount of £114.2m ($127.5m), a bullet term loan for an aggregate principal amount of £59.1m ($66.0m) and a further bullet term loan for an aggregate principal amount of £45.3m. The SFA is due to expire in December 2024 and there is an option to extend for a further 12-month period.

The Group's debt facilities are subject to interest at variable rates. During the year the Group entered into interest rate swap contracts with the effect of fixing the interest rate on $100.0m (£89.6m) of debt. The effective fixed rate debt was 24% of total debt. Subsequent to year end, the Group has entered into further interest rate swap contracts with the effect of fixing the interest rate on an additional $100.0m of debt.

At 30 September 2022, the Group's Net Debt/EBITDA ratio is 1.4x, as illustrated in note 13.

As at 30 September 2022, the term loans have an aggregate outstanding principal amount of £173.3m ($193.5m) and the Group has utilised £201.0m of the revolving facility. There remains £158.7m undrawn on the revolving facility and £45.3m undrawn on the bullet term loan. Borrowings include £1.0m (2021: £0.4m) of accrued interest and the carrying amount of capitalised debt fees is £4.7m (2021: £2.8m).

As at 30 September 2021, under the SFA the Group had a drawn term loan with an aggregate principal amount of £113.5m ($153.0m) and drawings of £95.1m under the revolving facility. As at 30 September 2021 the undrawn revolving facility amount was £89.9m.

Total net debt is £398.0m (2021: £229.7m) comprising cash funds of £41.7m (2021: £24.8m), borrowings of £370.6m (2021: £206.2m), and lease liabilities of £69.1m (2021: £48.3m). Bank covenants are tested against net debt funds only (i.e. excluding lease liabilities).

9. Goodwill

	Life Sciences £m	Seals £m	Controls £m	**Total £m**
At 30 September 2020	62.0	60.5	36.5	**159.0**
Acquisitions	24.1	6.8	86.7	**117.6**
Disposals	(3.8)	–	–	**(3.8)**
Reclassification to held for sale	–	(4.7)	–	**(4.7)**
Exchange adjustments	(0.9)	(2.6)	(3.9)	**(7.4)**
At 30 September 2021	81.4	60.0	119.3	**260.7**
Acquisitions	19.0	56.8	5.2	**81.0**
Exchange adjustments	5.8	8.4	16.4	**30.6**
At 30 September 2022	106.2	125.2	140.9	**372.3**

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 ("CGUs"), 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.

The key assumptions used to prepare the cash flow forecasts relate to operating margins, revenue growth rates, working capital movements and the discount rate and climate related risks (based on an initial high level assessment which will be further refined in FY 2023). The operating 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; working capital movements are projected to remain consistent as a percentage of revenue. The cash flow forecasts use the budgeted figures for 2023, and then the three-year strategy cash flows for the next two years. From year four onwards a long-term growth rate of 2% is utilised.

The cash flow forecasts are discounted to determine a current valuation using market derived pre-tax discount rates; Life Sciences 13.9% (2021: 10.6%), Seals 13.8% (2021: 11.3%) and Controls 13.8% (2021: 11.7%). These rates are 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.

Based on the criteria set out above, no impairment in the value of goodwill in the CGUs 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 CGUs.

10. Acquisitions and disposals of businesses

Acquisition of R&G Fluid Power Group Limited

On 6 April 2022, the Group completed the acquisition of 98% of the share capital of R&G Fluid Power Group Limited ("R&G"), a value-added aftermarket distributor of a diverse range of industrial, hydraulic and pneumatic products in the United Kingdom. The initial cash payment was £91.7m, net of cash acquired of £1.7m. Deferred consideration of up to £7.4m is payable based on the acquired business achieving certain performance targets in the period up to 31 December 2022.

Acquisition expenses of £2.3m have been recognised in FY 2022.

The provisional fair value of R&G net assets acquired excluding acquisition intangibles, related deferred tax, and cash is £13.3m following fair value adjustments of £1.3m. The goodwill represents the technical expertise of the acquired workforce and the opportunity to leverage any revenue synergies through cross-selling within other businesses. The principal fair value adjustments relate to an increase in the provisions held against inventory (£0.6m) and recognition of a dilapidations provision (£0.5m). The intangible assets of £47.6m relates to customer relationships (£43.9m) and brand (£3.7m).

Minority interests of £2.5m have been recognised at fair value upon acquisition of R&G, comprising the 2% minority interest held in R&G, as well as the 10% minority interest stake in Pneumatic Services Limited, a company for which R&G owned 90% of the share capital at the time of acquisition by the Group.

Acquisition of Accuscience

On 10 May 2022, the Group completed the acquisition of 100% of the share capital of Medilink Services (NI) Limited and Accu-Science Ireland Limited, (collectively "Accuscience") a market-leading life sciences and med-tech distributor in Ireland, for consideration of £49.9m (€58.2m), net of cash acquired of £3.2m (€3.8m).

Acquisition expenses of £1.0m have been recognised in FY 2022.

The provisional fair value of Accuscience net assets acquired excluding acquisition intangibles, related deferred tax, and cash is £2.2m (€2.3m) following fair value adjustments of £0.8m (€0.9m). The provisions held against inventory and trade receivables were increased by £0.6m (€0.7m) and £0.2m (€0.2m), respectively.

Other acquisitions

The Group completed a further five other acquisitions during the year. This comprised the purchase of the trade and assets of Silicone Solutions Limited ("Silicone Solutions") (9 September 2022); 100% of the share capital of LJR Electronics, LLC ("LJR") (2 February 2022), Anti Corrosion Technology Pty Limited ("ACT") (29 July 2022), Hydraproducts Limited ("Hydraproducts") (12 May 2022) and AMG Sealing Limited ("AMG") (19 May 22).

The combined initial consideration for these acquisitions was £30.6m, net of cash acquired of £1.2m. Deferred consideration of up to £3.6m is payable based on the performance of the businesses.

Acquisition expenses of £0.7m have been recognised in respect of these transactions in the financial year.

The provisional fair value of the combined net assets acquired excluding acquisition intangibles, related deferred tax, and cash is £9.2m following fair value adjustments of £1.2m. Fair value adjustments principally relate to an increase in provisions held against inventory of £0.9m.

The following table summarises the consideration paid for the acquisitions completed in the period and fair value of assets acquired and liabilities assumed, with fair values being provisional pending completion of a final valuation. Given the limited time between the acquisitions and signing of these accounts, the fair valuation of acquired assets and liabilities (principally intangible assets and working capital provisions) is incomplete at the date of these financial statements.

During the year an additional £0.8m was paid out in relation to completion account adjustments on previous transactions.

	R&G		Accuscience		Others		**Total**	
	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m	**Book value £m**	**Fair value £m**
Acquisition intangible assets[1]	–	47.6	–	33.1	–	17.5	**–**	**98.2**
Deferred tax	(0.7)	(12.5)	–	(4.3)	–	(1.7)	**(0.7)**	**(18.5)**
Property, plant and equipment	5.9	5.9	0.7	0.7	0.1	0.1	**6.7**	**6.7**
Inventories	14.4	13.8	4.7	4.1	9.1	8.2	**28.2**	**26.1**
Trade and other receivables	14.4	14.3	5.5	5.3	2.8	2.7	**22.7**	**22.3**
Trade and other payables	(19.4)	(20.0)	(7.9)	(7.9)	(1.6)	(1.8)	**(28.9)**	**(29.7)**
Net assets acquired	**14.6**	**49.1**	**3.0**	**31.0**	**10.4**	**25.0**	**28.0**	**105.1**
Goodwill	–	52.5	–	18.9	–	9.2	**–**	**80.6**
Minority interests	–	(2.5)	–	–	–	–	**–**	**(2.5)**
Cash paid		93.4		53.1		31.8		**178.3**
Cash acquired		(1.7)		(3.2)		(1.2)		**(6.1)**
		91.7		49.9		30.6		**172.2**
Deferred consideration		7.4		–		3.6		**11.0**
Total investment		**99.1**[2]		**49.9**		**34.2**		**183.2**

1 On the acquisitions completed in the current year, acquired intangibles relate to customer relationships (£94.5m) and brand (£3.7m).

2 Diploma acquired R&G on a cash free/debt free basis. The total investment amounts to £99.1m (being cash paid (net of cash acquired) of £91.7m and deferred consideration of £7.4m). Of the initial cash paid, the vendor directed the funds in escrow to settle outstanding debt of £11.7m. The table below details this flow of funds:

	£m
Total investment	99.1
Debt settled	(11.7)
Net consideration	87.4

Acquisitions revenue and adjusted operating profit

From the date of acquisition to 30 September 2022, each acquired business contributed the following to Group revenue and adjusted operating profit:

	Acquisition date	Revenue £m	Adj.[2] £m	Pro forma revenue £m	Operating profit[1] £m	Adj.[2] £m	Pro forma operating profit[1] £m
LJR	2 Feb 2022	10.8	5.4	16.2	1.8	0.9	2.7
R&G	6 Apr 2022	34.3	34.3	68.6	4.8	4.9	9.7
Accuscience	10 May 2022	10.6	17.6	28.2	1.3	2.0	3.3
Hydraproducts	12 May 2022	1.6	2.5	4.1	0.4	0.6	1.0
AMG	19 May 2022	0.5	0.9	1.4	0.1	0.2	0.3
ACT	29 July 2022	0.6	3.0	3.6	0.3	1.5	1.8
Silicone Solutions	9 Sep 2022	0.1	2.1	2.2	0.0	0.8	0.8
		58.5	**65.8**	**124.3**	**8.7**	**10.9**	**19.6**

1 Adjusted operating profit.
2 Pro forma revenue and adjusted operating profit have been extrapolated (as prescribed under IFRS) 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 2021. 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.

Disposals

On 16 November 2021, the Group disposed of its 90% interest in Kentek Oy ("Kentek") for proceeds of £10.0m. A charge of £1.6m has been recognised within administration costs principally relating to the recycling of cumulative foreign currency translation losses arising on the disposal of Kentek.

On 3 May 2022, the Group disposed of its 100% interest in a1-envirosciences Limited and a1-envirosciences GmbH (collectively "a1-envirosciences") for proceeds of £11.4m. A gain of £8.9m has been recognised within administration costs comprising the profit on disposal of £8.7m and the recycling of cumulative foreign currency translation gains of £0.2m.

Deferred Consideration

Deferred consideration was £24.0m (2021: £18.5m) as at 30 September 2022 and principally relates to R&G, AHW, Kungshusen and ACT. During the year £7.1m was paid.

11. Dividends

	2022 pence per share	2021 pence per share	**2022 £m**	2021 £m
Interim dividend, paid in June	**15.0**	12.5	**18.7**	15.6
Final dividend of the prior year, paid in February	**30.1**	30.0	**37.5**	37.3
	45.1	42.5	**56.2**	52.9

The Directors have proposed a final dividend in respect of the current year of 38.8p per share (2021: 30.1p), which will be paid on 3 February 2023 subject to approval by shareholders at the Annual General Meeting ("AGM") on 18 January 2023. The total dividend for the current year, subject to approval of the final dividend, will be 53.8p per share (2021: 42.6p).

The Diploma PLC Employee Benefit Trust holds 71,033 (2021: 90,640) shares, which are ineligible for dividends.

12. Exchange rates

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

	Average		Closing	
	2022	2021	**2022**	2021
US dollar (US$)	**1.27**	1.37	**1.12**	1.35
Canadian dollar (C$)	**1.63**	1.73	**1.53**	1.71
Euro (€)	**1.18**	1.15	**1.14**	1.16
Swiss franc (CHF)	**1.20**	1.25	**1.10**	1.26
Australian dollar (AUD)	**1.79**	1.83	**1.74**	1.87

13. Alternative performance measures

The Group uses a number of alternative (non-Generally Accepted Accounting Practice ("non-GAAP")) financial measures which are not defined within IFRS. The Directors use these measures for internal management reporting of key performance indicators ("KPIs") in order to assess the operational performance of the Group on a comparable basis against the Group's KPIs, as a key constituent of the Group's planning process, as well as comprising targets against which compensation is determined. As such these measures should be considered alongside the IFRS measures. The following non-GAAP measures are referred to in this Annual Report & Accounts:

13.1 Adjusted operating profit and adjusted operating margin

"Adjusted operating profit" is defined as operating profit before amortisation and impairment of acquisition intangible assets or goodwill, acquisition expenses, post-acquisition related remuneration costs and adjustments to deferred consideration, the costs of a material restructuring or rationalisation of operations and the profit or loss relating to the sale of businesses. The Directors believe that adjusted operating profit is an important measure of the operational performance of the Group. Adjusted operating margin is the Group's adjusted operating profit divided by the Group's revenue.

	Note	**2022 £m**	2021 £m
Revenue		**1,012.8**	787.4
Operating profit		**144.3**	104.3
Add: Acquisition related and other charges included in administration costs		**46.9**	44.4
Adjusted operating profit	2,3	**191.2**	148.7
Adjusted operating margin		**18.9%**	18.9%

13.2 Adjusted profit before tax

"Adjusted profit before tax" is defined as adjusted operating profit, after net finance expenses (but before acquisition related finance charges) and before tax. The Directors believe that adjusted profit before tax is an important measure of the operational performance of the Group.

		2022 £m	2021 £m
Adjusted operating profit	2,3	**191.2**	148.7
Deduct: Net interest expense and similar charges	4	**(11.6)**	(6.8)
Adjusted profit before tax		**179.6**	141.9

13.3 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/(loss) attributable to minority interests, divided by the weighted average number of ordinary shares in issue during the year of 124,533,060 (2021: 124,468,210). The Directors believe that adjusted EPS provides an important measure of the earnings capacity of the Group.

	2022 pence per share	2021 pence per share	**2022 £m**	2021 £m
Profit before tax			**129.5**	96.6
Tax expense			**(34.1)**	(26.9)
Minority interests			**(0.7)**	0.1
Earnings for the year attributable to shareholders of the Company	**76.1**	56.1	**94.7**	69.8
Acquisition related and other charges and acquisition related finance charges, net of tax	**31.4**	29.1	**39.2**	36.3
Adjusted earnings	**107.5**	85.2	**133.9**	106.1

13.4 Free cash flow and free cash flow conversion

"Free cash flow" is defined as net cash flow from operating activities, after net capital expenditure on tangible and intangible assets, and including proceeds received from property disposals, but before expenditure on business combinations/investments (including any pre-acquisition debt like items such as pensions or tax settled post acquisition) and proceeds from business disposals, borrowings received to fund acquisitions and dividends paid to both minority shareholders and the Company's shareholders. "Free cash flow conversion" reflects free cash flow as a percentage of adjusted earnings.

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.

		Note	2022 £m	2021 £m
Net increase/(decrease) in cash and cash equivalents			**17.5**	(192.6)
Add:	Dividends paid to shareholders	11	**56.2**	52.9
	Dividends paid to minority interests		**0.2**	0.3
	Acquisition of minority interests		**0.3**	–
	Proceeds from minority interests		**–**	(0.7)
	Acquisition of businesses and payments of pre-acquisition debt-like items (net of cash		**177.6**	451.4
	Acquisition and disposal expenses paid	7	**6.5**	4.2
	Proceeds from sale of business (net of expenses)	10	**(13.7)**	(11.0)
	Proceeds from issue of share capital (net of fees)		**–**	0.6
	Deferred consideration paid		**7.1**	6.6
	(Proceeds from)/repayment of borrowings (net)	8	**(131.3)**	(202.9)
Free cash flow			**120.4**	108.8
Adjusted earnings			**133.9**	106.1
Free cash flow conversion			**90%**	103%

13.5 Trading capital employed and ROATCE

The below reconciliation includes "trading capital employed", being defined as net assets less cash and cash equivalents ("cash funds") and after adding back: borrowings (other than lease liabilities); 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) and re-translated at 12 month average exchange rates. Return on adjusted trading capital employed ("ROATCE") is defined as the pro forma adjusted operating profit, divided by adjusted trading capital employed, where pro forma adjusted operating profit is adjusted operating profit 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.

	2022 £m	2021 £m
Net assets	**668.2**	541.0
Add/(deduct):		
– Deferred tax, net	**38.2**	21.9
– Retirement benefit (assets)/obligations	**(6.4)**	4.9
– Acquisition related liabilities/assets, net	**29.6**	23.7
– Net debt	**328.9**	181.4
Reported trading capital employed	**1,058.5**	772.9
– Historic goodwill and acquisition related charges, net of deferred tax and currency movements	**99.6**	129.6
Adjusted trading capital employed	**1,158.1**	902.5
Adjusted operating profit	**191.2**	148.7
Pro forma adjustments[1]	**9.7**	8.7
Pro forma adjusted operating profit	**200.9**	157.4
ROATCE	**17.3%**	17.4%

1 Adjustment for annualisation of adjusted operating profit of acquisitions and disposals.

13.6 Net debt to EBITDA

Net debt to EBITDA is the net debt, defined as cash and cash equivalents and borrowings translated at 12 month average exchange rates, divided by EBITDA as defined in the Group's external facility covenants, which is the Group's adjusted operating profit adjusting for depreciation and amortisation of tangible and other intangible assets, the share of adjusted EBITDA attributable to minority interests, the annualisation of EBITDA for acquisitions and disposals made during the financial year and to remove the impact of IFRS 16 (Leases). The Directors consider this metric to be an important measure of the Group's financial position.

	Note	**2022 £m**	2021 £m
Cash and cash equivalents	8	**41.7**	24.8
Borrowings	8	**(370.6)**	(206.2)
Re-translation at average exchange rates		**23.1**	1.6
Net debt (average exchange rates)		**(305.8)**	(179.8)
Adjusted operating profit		**191.2**	148.7
Depreciation and amortisation of tangible and other intangible assets		**11.2**	9.9
IFRS 16 impact		**1.2**	(0.5)
Minority interest share of adjusted EBITDA		**(1.1)**	(0.8)
Pro forma adjustments[1]		**10.2**	8.3
EBITDA		**212.7**	165.6
Net debt to EBITDA		**1.4x**	1.1x

1 Adjustment for annualisation of adjusted EBITDA of acquisitions and disposals.

13.7 Dividend cover

Dividend cover is adjusted earnings per share (as per note 13.3) divided by the total dividend for the year (interim and final proposed).

	Note	**2022**	2021
Adjusted earnings per share	6	**107.5**	85.2
Total dividend for the year (interim and final proposed)	11	**53.8**	42.6
Dividend cover		**2.0**	2.0