EDISON

Tyman

H118 results

Well positioned going into H2

Construction & materials

North American growth remains the primary driver of underlying growth and acquisitions are also contributing to moving earnings forward. Good housekeeping with regard to ongoing operational footprint improvement and careful management of pricing against input cost rises are also important contributors to underlying business momentum. Investor sentiment should remain supportive, especially given a favourable US economic growth outlook.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	457.6	62.1	25.3	10.5	13.8	3.0
12/17	522.7	68.3	26.7	11.3	13.0	3.2
12/18e	579.1	76.9	29.2	12.5	11.9	3.6
12/19e	611.2	86.9	32.4	13.5	10.7	3.9

Note: *PBT and EPS (fully diluted) are normalised, as defined by Tyman, excluding intangible amortisation and exceptional items.

Hard-earned progress in H1

H1 progress was hard-earned, with pricing, some volume and acquisition effects all contributing to group revenue and EBIT growth with a slightly improved group margin (+6%, +8% and +30bp to 13.9%, respectively). Larger addressed markets have mostly seen growth, although all have been affected by rising input costs (chiefly metals and metal-based products), which have been covered well in most regions. In-year acquisitions (Ashland and Zoo) pushed net debt up to £219m at the end of June with good underlying cash flow control evident during H1. Underlying EPS rose by 8% and was closely followed by DPS (+7%).

Largely positive outlook going into H2

Period-end momentum including rising order books in some cases suggest that Tyman is well positioned at the beginning of the seasonally stronger H2 trading period. Although UK demand remains subdued, acquisitions and footprint reorganisation actions should enhance underlying group profit progress. We have lowered our UK EBIT expectation for the current year with no other changes to underlying estimates. Updating our model for the stronger US dollar (vs sterling) raises our overall group earnings estimates modestly in all years. We also expect Tyman to end FY18 with net debt below £200m or 1.9x FY18 EBITDA.

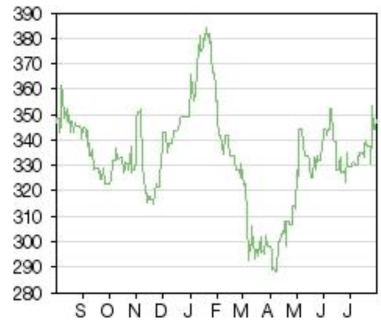
Valuation: US important driver

A strengthening US dollar since mid-April has provided a favourable backdrop for a rising Tyman share price from the end of March, although it is flat on a one-year view and c 5% down in 2018 to date. An EPS CAGR to FY20 approaching 9% (matched by DPS) reduces the current year P/E from 11.9x to 10.1x by FY20, with EV/EBITDA declining from 8.7x to 6.8x over the same time period. We expect progress in Tyman's US markets to be the primary near-term share price driver as the company trades through the seasonally important Q3/H2 period and current macroeconomic readings are favourable here.

31 July 2018

Price	**348.0p**
Market cap	**£683m**
	£/U$ 1.30
Net debt (£m) at end-June 2018	218.6
Shares in issue	196.2m
Free float	91%
Code	TYMN
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	5.6	11.2	(3.6)
Rel (local)	4.9	8.4	(7.9)
52-week high/low		384.0p	288.0p

Business description

Tyman's product portfolio substantially addresses the residential RMI and building markets with increasing commercial sector exposure following acquisitions. It manufactures and sources window and door hardware and seals, reporting in three divisions: AmesburyTruth (North America 63%), ERA (UK 18%) and SchlegelGiesse (RoW 19%). (Percentages are pro forma FY17 revenue, including post year-end Ashland Hardware and Zoo Hardware acquisitions.)

Next events

H118 DPS 3.75p ex dividend	3 August
H118 DPS to be paid	7 September
Trading update	7 November

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Edison profile page

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H118 results overview

Two of Tyman's three divisions improved LFL and reported revenue and profitability, while the UK market remains more challenged. Newly acquired businesses appear to have settled in well and we expect seasonally stronger H2 trading and cash flow to result in a year-end net debt position below £200m and be equivalent to c 1.9x EBITDA.

Exhibit 1: Tyman interim and divisional splits

December year-end (£m)	H117	H217	2017	H118	H118 % change	H118 % change
					Reported	LFL
Group revenue	**260.4**	**262.3**	**522.7**	**274.9**	**5.6%**	**3.0%**
AmesburyTruth	166.1	166.7	**332.7**	176.6	6.4%	3.6%
SchlegelGiesse	54.4	55.3	**109.7**	55.5	2.1%	3.2%
ERA	39.9	40.3	**80.3**	42.8	7.0%	(2.2%)
Group operating profit (reported, post-SBP)	**35.5**	**41.9**	**77.4**	**38.2**	**7.7%**	**3.0%**
AmesburyTruth	27.4	32.3	**59.7**	30.0	9.5%	6.0%
SchlegelGiesse	6.3	6.5	**12.8**	6.8	7.0%	9.8%
ERA	5.6	4.6	**10.2**	4.8	(14.0%)	(28.6%)
Central costs	(3.8)	(1.5)	**(5.3)**	(3.4)		

Source: Company

AmesburyTruth (H118 revenue U$243m, EBIT pre-central U$41.3m, margin 17.0% +50bp)

In North America, the respective US newbuild segments have all exhibited low single-digit growth ytd, while Canada has seen modest overall growth, with single family dwelling starts flat y-o-y. Repair and remodelling activity also picked up at the beginning of the year. AmesburyTruth's (AT) underlying revenue progress including higher pricing appeared to be slightly ahead of its markets in aggregate. A 50bp EBIT margin increase during a period of some input cost pressures (especially zinc and aluminium) also reflects well on pricing actions taken.

All four of the primary US manufacturing facilities (identified as centres of excellence) are now operational with the latest at Statesville, NC building activity levels since Q3 last year. The early part of 2017 was particularly affected by ramping up volumes at Juarez and Sioux Falls, SD and the y-o-y benefit from improving operating efficiencies here was in the order of $0.75m in H118. This has also facilitated progress with smaller Tier 3/4 customers; we believe that there is scope for this to accelerate under the new national third-party distribution agreement with ICS, which has just reached its first anniversary. Network investment by ICS and additional products/more pile weatherstrip capacity coming on stream will also support growth in this segment. The consolidation of operations at Statesville still has some equipment lines to be moved in but there does not appear to have been any material divisional level disruption. An exited Statesville site was sold in February and a separate site in Amesbury, MA is actively being marketed for disposal.

Among the newer businesses, Bilco (acquired mid-2016) saw like-for-like revenue growth of 5.7% with a healthy commercial market and improving demand for its residential lines (eg lightwells) after a sluggish prior year. This business is fully integrated now and management notes U$3.5m total synergy benefits achieved and improved y-o-y EBIT margin, we believe. The in-year acquisition of Ashland Hardware (which completed on 15 March) made an implied contribution of c U$26m and over U$4m to revenue and EBIT, respectively, during H118. Moreover, management's expectation is now for Ashland to be earnings-enhancing this year, which implies a c U$11m EBIT contribution in 2018, which is in line with the full year prior to acquisition. This may include an early capture of some of the anticipated U$4m of synergy benefits by 2020. For the existing AT footprint programme, U$2m efficiency benefits are expected to accrue 2018 also, with a higher run rate by the year-end going into 2019.

SchlegelGiesse (H118 revenue €63.1m, EBIT pre-central €7.7m, margin 12.2% +60bp)

SchlegelGiesse's (SG) like-for-like run rate was pretty flat at the AGM stage, so to end H1 with a 3% underlying revenue increase suggests that Q2 was stronger. The earlier order book uptick gave an indication that this might be the case and chimes with management's comments that the majority of end-markets continue to strengthen, ie the overall picture improved as H1 progressed.

There were no acquisitions in the period or annualised acquisition effects from 2017. Similarly, no significant manufacturing, operational or restructuring changes were made in H118 so the progress outlined above is a fair representation of underlying performance, we believe. Continental European demand was good overall, as was the Middle East, with EMEAI revenues +6% y-o-y. Bearing in mind that Italy is the largest market in this region (ie pre-acquisition-Giesse's domestic market and now the divisional headquarters) and sales here were flat against the prior year in a relatively sluggish local economy, gains elsewhere were clearly above the headline rate. Other regions also saw mixed country outcomes with double-digit revenue growth in China diluted by lower y-o-y contributions from the rest of the Asia-Pacific bloc, including Australia. In Latin America, volume and prices both rose in Argentina and Brazilian volumes were flat with both countries facing economic challenges. Based on a rising order book (book to bill ratio at 108.9 at the end of June) the suggestion is that underlying volume momentum is likely to be better in H2 than H1 and this may reflect an increase in commercial and/or project-related work in the Asia-Pacific region.

ERA (H118 revenue £42.8m, EBIT pre-central £4.8m, margin 11.3% -280bp)

Consistent with the AGM update, difficult market conditions persist in UK repair, maintain or improve (RMI) spending, with subdued housing transactions levels and consumer confidence readings. Management estimates that share has been gained in a residential hardware market that is thought to have declined by c 8% ytd. This environment is also restricting the extent to which input cost increases in 2018 can be recovered and resulting in EBIT margin pressure in the first six months. More positively, commercial Access Solutions saw double-digit like-for-like revenue growth (and a small annualised Howe Green acquisition benefit), while Ventrolla also grew modestly. Zoo (acquired in May) made implied revenue and EBIT contributions in H118 in the order of c £3.2m and £0.3m, we believe and underlying revenue growth was +11% y-o-y. The new divisional head office site (which consolidated certain distribution operations at i54, near Wolverhampton) will form the platform for improved customer engagement, including testing and training, in addition to new product development and service. The launch of new electronics-based ranges is a good example of this and sales momentum should gather here going forward. ERA may well also bring in some light manufacturing and/or assembly functions. Momentum at Zoo, commercial order books and improved margins form the basis for confidence in a better H2 outturn in 2018.

Net debt up following acquisitions, solid underlying cash flow

The acquisitions of Ashland and Zoo were the primary influence on a c £56m increase in net debt to almost £219m over the six months ending June 2018.

EBITDA rose by £2m y-o-y and this was largely reflected in the increase in operating cash flow to £22m in the period. Non-trading cash flows (relating to provision movements/ restructuring, M&A fees and pensions) were collectively above £5m in this half but the y-o-y increase was substantially offset by a lower working capital outflow. Directionally, the change in the reported working capital line items was consistent with normal seasonal investment (in inventory and receivables, part-funded by payables). That said, the increase in each case was smaller than in the prior year, giving an impression of retained business control during a period of underlying growth and M&A activity.

Further down the cash flow statement, interest and tax cash payments were both lower y-o-y (in aggregate £8.6m versus £14.9m) due to timing differences. Gross capex including intangible spend was over £1m higher at c £7.4m (or 1.1x depreciation/own amortisation) but netted down to £4.9m after taking asset disposal proceeds into account, sold at around book value. After all of the above, free cash flow (FCF) was +£8.5m, stronger than H117 but seasonally less important than H2.

This positive FCF performance, together with higher borrowings, funded:

- net acquisition spend of £37m (ie Ashland £73m, net of £50m equity funding and Zoo £14m)
- c £15m final FY17 dividend payment
- c £3m own shares purchased for the EBT to fund share awards
- c £2m refinancing costs[1]
- c £6m adverse FX translation on overseas debt

Cash flow outlook: Tyman is well placed for its seasonally stronger second-half trading period. We expect H2 FCF of c £40m; net of the c £6m H118 interim dividend payment and a c £10m adverse FX adjustment leaves our projected end-FY18 net debt at £195m. This represents 1.9x EBITDA generated during the year and slightly lower allowing for annualised acquisition contribution effects. In the absence of any further acquisitions, we expect Tyman to generate net cash inflows in excess of £30m in the following two years, leaving net debt standing at c £127m by the end of FY20 or 1.1x EBITDA in that year. That said, we consider further bolt-on M&A activity to be very likely – further infilling the product portfolio and segment/geographic presence. As things stand and based on our projections, Tyman appears to have headroom to pursue smaller deals if opportunities arise.

Macroeconomic expectations support existing growth forecasts

The US, Tyman's largest sales region, is currently growing strongly (OECD real GDP growth: 2018 +2.9%, 2019 +2.8%) while the Euro area, Argentina and Brazil are all expected to expand by c 2% in 2018. In this company, the UK remains the laggard with projected growth of 1.3–1.4% this year and next on the same basis, with private consumption progress seen below this.

Our underlying earnings estimates are substantially unchanged, save for a £1m lower ERA contribution in the current year. Updating our £/U$ assumption (from 1.38 to 1.35) increases AT's sterling profitability by just over £2m. Further down the P&L, a higher bank interest cost (from increased net debt and currency effects) is offset in our model by lower other finance charges (chiefly fee amortisation). The net increases in headline metrics are shown in Exhibit 2. Our dividend expectations are unchanged.

Exhibit 2: Tyman estimate revisions

	EPS (p) FD Edison norm			PBT (£m) Edison norm			EBITDA (£m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2018e	28.4	28.9	+1.8	75.3	76.4	+1.5	102.6	102.5	---
2019e	31.4	32.2	+2.4	84.3	86.4	+2.5	113.2	114.2	+0.9
2020e	33.4	34.2	+2.4	89.7	92.0	+2.5	118.4	119.6	+1.0

Source: Edison Investment Research

One forthcoming change flagged by the company is the intended adoption of IFRS16 – Leases with effect from 1 January 2019. This requires the recognition of most assets and liabilities relating to leases on company balance sheets. Preliminary information provided by Tyman suggests that underlying earnings per share and net assets will both be reduced by c 1–3%, compared to the existing presentation with ROCE (noted as 13.9% for H118) lowered by their estimated 90–150bp. Net debt to EBITDA multiples will be inflated by this accounting standard. We will adjust our model for the FY18 base year when the full set of related information is available. Thereafter, subsequent years will be presented on the same basis.

1 Ahead of the Ashland acquisition, Tyman put new borrowing facilities in place comprising a £240m RCF and a £70m uncommitted accordion facility, both expiring February 2023 with a provision to extend by 12 months. The existing U$100m of fully drawn loan notes (repayable between 2021 and 2024) remain in place.

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Exhibit 3: Financial summary

£'m	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e
December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS	**Cont.**	**Cont.**								
Revenue	216.3	228.8	298.1	350.9	353.4	457.6	522.7	579.1	611.2	627.3
Cost of Sales	(145.2)	(154.0)	(198.8)	(236.1)	(234.0)	(290.4)	(331.8)	(362.7)	(376.0)	(384.1)
Gross Profit	71.1	74.7	99.3	114.8	119.4	167.3	190.9	216.4	235.1	243.2
EBITDA	27.7	28.5	39.4	54.6	60.9	82.5	91.7	102.5	114.2	119.6
Operating Profit (Edison)	22.4	23.4	33.0	46.9	52.9	70.9	78.8	88.7	99.3	104.2
Net Interest	(5.9)	(3.3)	(3.4)	(4.5)	(6.0)	(6.9)	(8.0)	(10.1)	(10.8)	(10.1)
Other Finance	(3.6)	(0.9)	0.2	(2.2)	(0.6)	(0.4)	(0.8)	(0.7)	(0.7)	(0.7)
Share Based Payments	(0.2)	(0.5)	(0.7)	(0.9)	(1.0)	(1.0)	(2.0)	(1.4)	(1.4)	(1.4)
Intangible Amortisation	(10.6)	(10.8)	(16.6)	(17.8)	(19.6)	(21.7)	(22.9)	(26.0)	(28.2)	(28.2)
Exceptionals	0.7	(33.4)	(11.4)	(9.3)	(9.4)	(10.9)	(10.0)	(7.6)	(2.9)	(1.8)
Other	(0.1)	(0.4)	(0.4)	(0.3)	(0.4)	(0.5)	(0.6)	(0.2)	(0.2)	(0.2)
Profit Before Tax (Edison norm)	12.7	18.7	29.2	39.3	45.4	62.5	68.0	76.4	86.4	92.0
Profit Before Tax (Company norm)	17.4	21.3	28.6	41.6	45.4	62.1	68.3	76.9	86.9	92.4
Profit Before Tax (FRS 3)	2.6	(25.8)	0.8	11.9	16.1	29.4	34.5	42.6	55.2	61.8
Tax	6.4	3.7	0.2	(2.6)	(8.0)	(8.6)	(3.3)	(12.4)	(14.9)	(16.4)
Profit After Tax (norm)	19.1	22.4	29.4	36.8	37.3	53.8	64.7	64.0	71.6	75.6
Profit After Tax (FRS 3)	9.1	(22.1)	1.0	9.3	8.1	20.7	31.2	30.2	40.3	45.4
Average Number of Shares Outstanding (m)	129.7	129.7	152.8	167.8	168.2	173.0	177.2	191.4	194.8	194.8
EPS - Edison normalised (p) FD	6.7	9.6	13.9	17.1	19.3	25.5	26.6	28.9	32.2	34.2
EPS - Company normalised (p) FD	9.4	10.2	13.5	18.4	19.4	25.3	26.7	29.2	32.4	34.5
EPS - FRS 3 (p)	6.8	(16.7)	0.6	5.6	4.8	12.0	17.6	15.8	20.7	23.3
Dividend per share (p)	3.4	4.5	6.0	8.0	8.8	10.5	11.3	12.5	13.5	14.5
Gross Margin (%)	32.9	32.7	33.3	32.7	33.8	36.5	36.5	37.4	38.5	38.8
EBITDA Margin (%)	12.8	12.5	13.2	15.6	17.2	18.0	17.5	17.7	18.7	19.1
Operating Margin (before GW and except.) (%)	10.4	10.2	11.1	13.4	15.0	15.5	15.1	15.3	16.3	16.6
BALANCE SHEET	**Cont.**	**Cont.**								
Fixed Assets	352.8	298.1	404.2	410.6	398.4	564.7	511.5	576.6	557.9	536.6
Intangible Assets	312.7	258.7	354.4	355.7	340.5	480.0	427.2	485.7	458.2	430.7
Tangible Assets	30.5	29.8	39.9	42.9	42.8	71.7	68.4	79.1	85.7	91.9
Investments	9.6	9.5	9.8	12.1	15.0	12.9	15.9	11.9	14.0	14.0
Current Assets	96.4	90.7	118.9	124.0	111.0	180.6	188.1	256.3	287.7	327.8
Stocks	26.6	27.6	40.7	47.6	46.0	70.7	75.3	96.3	95.9	97.9
Debtors	49.3	27.3	34.7	37.1	35.0	69.0	70.2	83.7	84.5	86.4
Cash	20.4	35.9	43.6	39.3	30.0	40.9	42.6	76.2	107.2	143.5
Current Liabilities	(55.1)	(44.2)	(60.8)	(52.3)	(44.4)	(86.4)	(82.0)	(89.1)	(87.4)	(90.7)
Creditors	(42.2)	(36.7)	(54.0)	(52.3)	(44.4)	(86.4)	(80.9)	(89.1)	(87.4)	(90.7)
Short term borrowings	(12.9)	(7.5)	(6.8)	0.0	0.0	0.0	(1.1)	0.0	0.0	0.0
Long Term Liabilities	(144.8)	(96.9)	(161.7)	(176.2)	(156.7)	(285.3)	(251.4)	(330.1)	(329.3)	(328.5)
Long term borrowings	(100.2)	(63.6)	(115.5)	(128.0)	(111.6)	(216.5)	(204.3)	(271.5)	(271.5)	(271.5)
Other long term liabilities	(44.6)	(33.3)	(46.2)	(48.2)	(45.1)	(68.8)	(47.0)	(58.6)	(57.8)	(57.1)
Net Assets	249.2	247.7	300.6	306.1	308.3	373.6	366.2	413.7	428.9	445.1
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CASH FLOW	**Cont.**	**Cont.**								
Operating Cash Flow	32.6	23.6	38.9	40.1	49.4	79.9	67.0	86.5	104.6	114.1
Net Interest	(6.7)	(4.2)	(2.6)	(4.6)	(6.2)	(7.0)	(7.6)	(10.1)	(10.8)	(10.1)
Tax	(1.9)	(4.9)	(6.2)	(6.3)	(8.9)	(12.7)	(15.1)	(10.9)	(13.4)	(14.9)
Capex	(4.9)	(6.8)	(8.1)	(10.2)	(10.9)	(15.3)	(12.6)	(17.5)	(22.3)	(22.3)
Acquisitions/disposals	(10.3)	51.2	(131.2)	(6.5)	6.8	(96.1)	(6.3)	(87.2)	0.0	(1.5)
Financing	(0.3)	(1.1)	68.1	(4.3)	(2.6)	16.7	(0.8)	47.1	(2.0)	(2.0)
Dividends	(2.6)	(5.8)	(7.0)	(10.9)	(14.6)	(15.6)	(19.5)	(21.2)	(25.2)	(27.2)
Net Cash Flow	6.0	51.9	(48.2)	(2.8)	13.0	(50.0)	5.1	(13.4)	31.0	36.2
Opening net debt/(cash)	91.7	92.7	35.2	78.7	88.7	81.6	175.6	162.9	195.3	164.2
HP finance leases initiated	(2.7)	0.0	0.0	0.0	0.0	0.0	0.0	(2.0)	0.0	0.0
Other	(4.4)	5.6	4.7	(7.2)	(5.9)	(44.0)	7.6	(17.0)	0.0	0.0
Closing net debt/(cash)	92.7	35.2	78.7	88.7	81.6	175.6	162.9	195.3	164.2	128.0

Source: Company, Edison Investment Research

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