EDISON

Tyman

Driving international earnings

Trading update & Schlegel focus

Construction & materials

Compared to most UK-quoted building materials plays, Tyman offers better exposure to growth in international markets especially North America. The acquisition of Giesse last year has coincided with a recovering European market also and, together with other acquisitions, is bringing increased commercial opportunities to the enlarged group. Success in converting them will surely attract a premium rating for the company.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	353.4	44.9	19.2	8.8	17.8	2.6
12/16	457.6	62.1	25.3	10.5	13.3	3.1
12/17e	537.1	68.8	26.9	11.5	12.6	3.4
12/18e	550.4	72.1	28.2	13.8	12.1	4.0

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

Developing commercial opportunities overseas

Over 80% of Tyman's EBIT is generated from outside the UK from increasingly strong market positions in its AmesburyTruth and Schlegel International divisions. Both have taken actions to consolidate and improve their operational footprint and these programmes are well advanced. Acquisitions are opening up adjacent segments at divisional and group level and the commercial opportunities arising from this are being developed. Schlegel's acquisition of Giesse in 2016 illustrates this point well and we further explore the implications in this note. In the context of GDP growth resuming in Europe (the division's largest country bloc) the extent to which progress is made here will determine whether the enlarged division can achieve a stated target of a mid-teens EBIT margin, versus our estimate of c 10%.

AGM comments maintain existing guidance

FY16 results showed good y-o-y progress – above market expectations – and were well-received by investors. We raised FY17 and FY18 estimates on the back of this. AGM comments (12 May) reinforced existing guidance and reference an expectation of further progress over the remainder of FY17. This year's agenda includes further advances in the group's footprint development supported by investment, deeper integration of several acquisitions and ongoing management of input cost pressures.

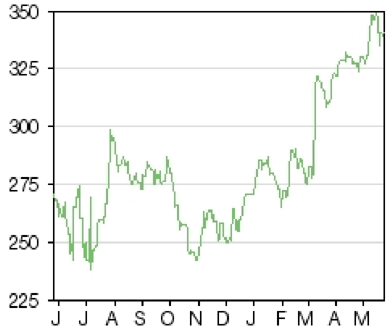
Valuation: Viewing overseas earnings favourably

Tyman's share price has outperformed the FTSE All-Share Index over the last year or so and is trading around all-time high levels. Earnings estimates have also risen over this time period and a prospective FY17 P/E of 12.6x and an EV/EBITDA (adjusted for pensions recovery cash) of 8.4x do not suggest that the share price rally has stretched the valuation. This is also borne out by comparison to other UK-quoted building materials plays, which illustrate that overseas earnings (as well as non-residential exposure) are currently being valued more highly. This should also benefit Tyman. A dividend yield of 3.1% does not itself represent a major differentiator, although expected DPS growth is above average

24 May 2017

Price	**340.3p**
Market cap	**£608m**
	US$1.30/£
Net debt (£m) at end December 2016	176
Shares in issue	178.6m
Free float	91%
Code	TYMN
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	4.1	19.4	25.8
Rel (local)	(0.7)	15.2	3.8
52-week high/low		349.0p	225.5p

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 62%), ERA (UK 15%) and Schlegel International (RoW 23%). (Percentages are pro forma FY16 revenue, including Giesse, Response, Bilco and Howe Green acquisitions full year effects.)

Next events

H117 results announcement	25 July 2017

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Edison profile page

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Investment summary

Company description

Tyman designs, manufactures, sources and distributes a portfolio of engineered building products (chiefly hardware and seals) for the door and window industries internationally. On a pro forma basis, including the full year effects of acquisitions in Europe, the US and, to a much smaller extent, the UK, around 60% of group revenue is generated in North America (which earns above group average margins), almost a quarter in other international markets and the remainder in the UK. Management has consistently pursued a clear buy and build strategy and Tyman now has a multi-region scale platform to deepen its exposure in current and adjacent segments.

Valuation: Overseas earners attract higher ratings

Earnings expectations and Tyman's share price have both moved ahead well over the last 15 months or so, driven by markets, underlying trading performance, acquisitions and FX effects. The company is trading on a prospective FY17 P/E of 12.6x and an EV/EBITDA (adjusted for pensions recovery cash) of 8.4x reducing to 11.3x and 7.3x, respectively, two further years out. Against a selected peer group, Tyman is rated above UK-focused, small-cap peers in the same markets but below other UK-centric, mid-cap building materials companies with larger non-residential sector exposure. Additionally, building materials distributors serving overseas markets are currently commanding higher valuations. We believe that Tyman's exposure to international markets will generate superior earnings growth prospects in the near and medium terms and that this should translate to a premium sector rating. Overseas currency earnings and internal self-help actions (eg footprint optimisation) are additional attractions to the company's position in growing markets.

Financials: Cash generation to accelerate after FY17

The recent AGM update was consistent with FY16 results commentary and ytd performance has been in line with raised earnings expectations at that time. (We lifted FY17 and FY18 PBT norm estimates by c 7% and c 5% respectively.) Including acquisition and FX effects, our estimates show an FY17 revenue increase of c 17%, with EBIT up c 12%. For FY18 and FY19 we assume the group's blended market exposure generates top-line growth of 2.5% and some incremental margin improvement. Together, this results in 2016-19 company normalised EPS CAGR of 5.8% and 12.6% for DPS. Allowing for the usual seasonal working capital uptick around mid-year, we expect FY17 year-end net debt to reduce by c £11m to c £164m after significant investment in the year. Beyond this, net cash generation in excess of £20m pa reduces net debt on our estimates to c £120m by the end of FY19, representing 1.2x EBITDA (compared to c 2.1x at the end of FY16).

Sensitivities: North America and currency effects key

Tyman has a broad product portfolio with a diversified international revenue base and increasing exposure to non-residential markets. Around 60% of group revenue and c 70% of EBIT is generated in **North America**, chiefly the US. Industry data here in residential new build and RMI have remained robust and growth is currently projected to continue in 2018, possibly at slightly lower rates. This also applies to non-residential expenditure, so near-term market conditions appear to be set fair. To date, upward moves in the US interest rate cycle have not had a material impact on this outlook. The relative strength of **overseas currencies** has benefited the translation of non-UK earnings. The sharp downward move in sterling following the Brexit outcome has given rise to upward **input cost pressures** across the industry and, like others, Tyman aims to mitigate this impact through cost reduction measures and price increases. Tyman operates in established markets with strong leading customer relationships based on a broad portfolio offering, strong supply chain and service capability and new product innovation.

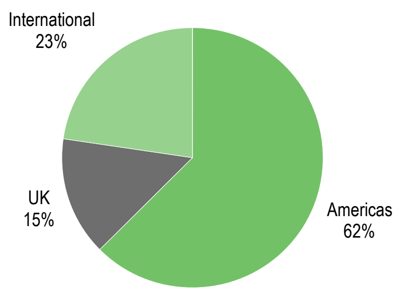
Company description: Building internationally

Tyman designs, manufactures, sources and distributes its portfolio of engineered building products for the door and window industries internationally. Recent acquisitions have increased the group's exposure to commercial construction market segments, building on an established primary presence in residential. The integration of these acquisitions in the context of an active footprint management programme across all three regional reporting divisions is a key operational focus as part of a strategy to enhance returns and further develop market positions.

Broad residential and commercial portfolio offering

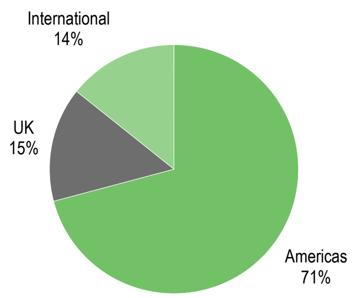
The longest-standing products in Tyman's growing portfolio are ranges of hardware (eg locks, handles, hinges, balances) and seals relevant to the functional operational performance of doors and windows. Giesse (acquired in March 2016) brought in a complementary commercial hardware offering and Bilco (acquired in July 2016) added speciality access products (eg hatches, vents, doors) also largely for commercial applications. The residential offering is also being developed with other access products and, increasingly, electronics. Exhibits 1 and 2 show our group pro forma FY16 revenue and EBIT figures, factoring in full year contributions for Giesse (International), Bilco (Americas), and two small UK acquisitions (Response Electronics and Howe Green, acquired in March 2016 and March 2017 respectively).

Exhibit 1: FY16 pro forma revenue c £505m



Source: Tyman, Edison Investment Research. Note: FY16 reported was c £458m.

Exhibit 2: FY16 pro forma EBIT c £81m



Source: Tyman, Edison Investment Research. Note: FY16 reported was c £70m.

There are regional product portfolio differences, further segmented into system types. The local design for manufacture approach is facilitated through a combination of sourced and internally produced components using a variety of processes, which are then assembled increasingly via automation and shipped. Production footprint changes are underway, which will bring greater integration to the internal supply chain. All regions access the group's Asian supply chain expertise. Residential RMI remains the dominant group sector and we estimate that this represents c 80% of Americas revenue, 90%+ in the UK but less than half for International now.

Dual-track organic and acquisitive strategy

Tyman has an experienced and stable executive and divisional MD team executing an established strategy of developing a leading international building products group. A material non-core business disposal in 2009 was an early facilitator here and acquisitions have clearly contributed to progress, although we also note that management has gently pruned other smaller, non-core operations over time. Moreover, a culture of continuous development/self-improvement is embedded, most obviously evident in the programme of investing in and optimising manufacturing footprints (and implicitly regional cost structures) in the US, UK and, to a lesser extent currently, in Europe.

FY16 results overview

FY16 results came in with a decent surprise to the upside, with reported PBT norm £62.1m, FD EPS 25.31p and DPS 10.5p (vs our expected £54.5m, 21.98p and 9.25p respectively. This outturn was attributable to a better than anticipated end to the year in all three regions. As shown in Exhibit 3, acquisitions and favourable FX translation accounted for most of the y-o-y revenue and operating profit increase, although there was some improvement in organic revenue and margin also.

Exhibit 3: Tyman FY16 revenue and EBIT progress breakdown

	Revenue		Underlying operating profit**	
	£m	% change	£m	% change
FY15 – continuing operations*	**341.0**		**50.1**	
Organic	4.8	1	3.5	7
Acquisitions	78.3	23	10.4	21
FX	33.5	10	5.8	12
FY16	**457.6**	**34**	**69.8**	**39**

Source: Tyman. Note: *FY15 continuing = FY15 reported, with EWS (disposed H215) stripped out. % change columns may not add due to rounding. **Company reported, after SBP.

Tyman ended FY16 with £176m net debt, a y-o-y increase of c £94m, broadly equivalent to cash acquisition consideration paid in the year. Otherwise, a positive cash flow performance – enhanced by a small equity fund-raise – was effectively offset by adverse translation effects on overseas debt. The next section covers divisional trading performance.

Exhibit 4: Tyman divisional & interim splits

£m	H1	H2	2015	H1	H2	2016	H116	FY16	H116	FY16
							Reported	Reported	CER/l-f-l	CER/l-f-l
Group revenue	**173.8**	**179.6**	**353.4**	**201.0**	**256.6**	**457.6**	**15.7%**	**29.5%**	**4%**	**1%**
AmesburyTruth	112.1	125.9	**238.0**	126.8	164.5	**291.3**	13.1%	22.4%	6%	1%
Schlegel International	19.7	17.6	**37.4**	38.9	55.7	**94.6**	96.9%	153.2%	-4%	-3%
ERA	42.0	36.1	**78.1**	35.4	36.4	**71.8**	-15.6%	-8.1%	2%	4%
Group operating profit*	**22.2**	**29.2**	**51.4**	**27.2**	**42.6**	**69.8**	**22.3%**	**35.7%**	**9%**	**7%**
AmesburyTruth	18.8	24.8	**43.5**	21.8	33.0	**54.8**	16.0%	25.9%	8%	5%
Schlegel International	0.7	0.9	**1.6**	3.3	6.1	**9.4**	362.3%	498.0%	18%	-4%
ERA	6.1	5.5	**11.6**	5.8	5.8	**11.6**	-5.7%	-0.2%	11%	14%
Central costs	(3.4)	(1.9)	**(5.3)**	(3.7)	(2.3)	**(6.0)**				

Source: Company. Note: *Company reported, after SBP.

North America/AmesburyTruth (FY16: c 64% group revenue, 73% EBIT, pre-central costs)
US$ revenue US$395m, EBIT pre-central costs US$74.3m
As previously noted, the year started strongly for AmesburyTruth (AT) but slowed towards the end of H1. Implicitly, revenues declined y-o-y during H2, although we understand that trading had begun to improve before the year end. Underlying profitability was relatively robust throughout the year and, notwithstanding softer revenues in H2, y-o-y margin uplifts were achieved in both half years. The acquisition of Bilco on 1 July contributed c U$29m revenue and c U$4.6m EBIT in the six months of ownership (c 8% and c 6% respectively of the division in FY16). Giesse also has a US presence – now subsumed within AT, which also generated modest product revenues for AT in FY16.

Apart from a dip in August, residential new build activity trended up gently over the course of the year with a good final quarter. We conclude that the pattern of sector customer demand easing as the year progressed reflected a lowering of confidence and expectations in RMI. Industry data appear to back this up. A flat Canadian market, compounded by a weaker average C$/U$ versus 2015 (affecting US cross-border exports) will also have provided a drag on performance. In contrast, US commercial construction activity was relatively firm throughout the year. Historically, this has not been a major segment for AT although management has specifically been pursuing a strategy of increasing presence here and the acquisition of Bilco was an important step forward.

Tyman acquired **Bilco** for US$71m (or £50.7m), equivalent to 1.25x historic revenue and 8.8x EBITDA. Its sector revenue profile on acquisition was c 80% commercial (engineered access and egress hatches and vents) and c 20% residential (basement doors and window wells, primarily new build). Bilco is thought to have market shares between 25%-50% in its product groups. AT had a small market position in operators and balances for commercial window applications and Giesse also had a small US foothold with its window hardware. Bilco brings much greater commercial market presence with the opportunity of pulling through and developing a wider AT portfolio offering in hardware and seals. Management originally flagged integration synergy benefits of at least US$2.5m pa attained by 2019 (at a cash cost of US$2.5m) but faster progress – including consolidating warehouse space in Europe, North America and Brazil – brought this forward into FY17. Based on FY16 results, we believe that AT's annualised revenue run rate was c US$430m, split geographically 90% US:10% Canada and by sector 85% residential:15% commercial.

Footprint update: Tyman first announced plans to undertake a comprehensive US footprint optimisation programme – moving to four centres of manufacturing and design excellence with some satellite locations – in 2015 with execution beginning in 2016 to be completed in 2019. Phase 1 is now complete (expansion and ramp-up at Juarez, new facilities constructed at Sioux Falls and Statesville). Peak P&L and capex cash costs will occur this year and next (FY17 US$13m, FY18 US$10.5m) and P&L benefits are expected to start to flow this year at US$2m, rising to a cumulative US$7m saving by FY19. Other opportunities to co-locate manufacturing of products for the commercial market may emerge in due course.

Rest of World/Schlegel International (FY16: c 21% revenue 12% EBIT)

The acquisition of Giesse in March 2016 for £61m enterprise value was the key development of the year. This brought in a profitable, Italy-based, international supplier of residential and commercial window hardware into the group and more than doubled Schlegel's annualised revenue base (to in excess of £110m). We discuss the importance of this in a later section, but concentrate for now on the division's FY16 financial performance. In underlying terms, the existing Schlegel businesses collectively saw small revenue and profit reductions with margins remaining below the group average. European markets have dominated to date and they largely saw growth (the exceptions being Russia and Turkey), while some internal changes affected Asia-Pacific progress and Brazil/LATAM remained relatively weak. Prior period actions (eg closure of a Barcelona facility and relocation of work to the UK) bedded in during the year and the acquisition of Giesse provided further momentum for cost reduction measures as part of the integration process. Over and above the underlying performance for existing operations, Giesse itself contributed c £56m revenue and approaching £8m EBIT to the divisional result during its nine months of ownership. Additionally, currency translation had a favourable impact on reported results.

UK/ERA (FY16: c 16% revenue 15% EBIT)

Reported year-on-year financial performance was distorted by the disposal of EWS (a non-core reinforcer business) in September 2015. Excluding this and a small contribution from Response Electronics (acquired in March 2016), the underlying ERA operations achieved both revenue growth and an improved margin despite comparatively flat market conditions. In fact, the year-on-year performance in H2 was better than that in H1 as volumes were sustained on higher pricing. Sterling weakness followed the Brexit result in the middle of the year; we believe that FX hedging, together with pricing surcharges, provided protection for UK operations against higher overseas input costs (especially from Asia), although they began to have an impact during Q4. The previously flagged consolidation of some assembly, administration and warehouse activities is now expected to occur in Q118 following the completion of a new purpose-built facility. The acquisition of Howe Green (a manufacturer of wall, ceiling and floor access hatches) occurred after the year end in March 2017; it is small in the context of existing UK operations but, together with Bilco's distribution presence, lifts annualised commercial sector revenues to £7-8m.

AGM comments consistent with existing guidance

At the time of the FY16 results announcement in March, management commented that the year had started positively and in line with expectations for each of the divisions and for the group as a whole. Compared to FY16, improving market conditions were anticipated in the US and in Europe, although the UK faces greater challenges from a prospective consumer squeeze (and slower housing market) and rising input costs for non-sterling denominated materials.

Updated comments accompanying the AGM (12 May), pointed to a “solid start” to 2017. The regional themes were largely repeated, although **North America** is described as stable – with Canadian demand appearing to firm up – rather than growing thus far. At face value, a flat underlying AT revenue performance ytd could be seen as mildly disappointing. However, Q116 was up 8% y-o-y (and Q216 +3%, before a small slide in H216), so we view it as a promising start to the year in the US as comparative data are less onerous as the year progresses. It is still relatively early days for the Bilco-centric expanded commercial offer (ie aligning internal manufacturing, sales, marketing and distribution functions). Acknowledging a different, specification-led route to market, we would hope to see some evidence of combined product package sales by the year end. **UK** volumes are slightly down but the market appears to be accepting input cost driven price increases so far, such that revenue is ahead y-o-y in the first four months of 2017. In anticipation of subdued market conditions here, our model factors in lower FY17 profitability compared to FY16. Lastly, the trading performance in **International** is, as usual, showing a range of differing individual country conditions, but the important European markets are showing signs of a sustained recovery, consistent with the experience of others in the building materials space.

All in all, Tyman has a full agenda including footprint realignment, acquisition integration and contending with input cost pressures. In the context of market conditions, which are playing out as anticipated so far this year, we believe these aspects are being managed in line with previous guidance.

Estimates raised post FY16 results and unchanged on AGM

Our interpretation of the FY16 results and market prospects at the time led us to raise our EPS estimates as follows: FY17 +6.3%, FY18 +4.1% and introduce an FY19 estimate for the first time, which showed further y-o-y growth. This gave a three-year (2016-19) CAGR of 5.8%. Higher EBIT expectations across all three divisions – with good acquisition experiences supporting this –were the primary driver, as well as lower bank interest costs. The common challenge across the group is rising input prices. The extent to which these can be mitigated by internal actions and/or passed through to end-customers will be important for sentiment and the near-term progression of earnings. Optically, revenue and cost inflation can lead to an impression of margin compression but following the AGM update, we are happy to stand by our post-FY16 results revised estimates, as shown in Exhibit 5.

Exhibit 5: Tyman revised estimates

	EPS, fully diluted, normalised (p)			PBT, normalised (£m)			EBITDA (£m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2017e	25.3	26.9	+6.3%	64.2	68.8	+7.2%	87.8	92.3	+5.1%
2018e	27.1	28.2	+4.1%	68.8	72.1	+4.8%	92.6	96.1	+3.8%
2019e	N/A	30.0	N/A	N/A	76.7	N/A	N/A	100.7	N/A

Source: Edison Investment Research. Note: Edison norm includes ‘other’ finance (including borrowing cost amortisation) and excludes ‘other’ (pension net finance costs).

We were too conservative with regard to FY16 expectations; a 20% increase for the year (slightly higher for final) was c 13% higher than we had anticipated. Consequently, our DPS projections have moved ahead faster than the EPS changes shown above and the three-year (2016-19) CAGR is now in excess of 12%.

Schlegel International – third leg steps up

The Schlegel businesses are the longest standing part of the group, although their development until recently has been constrained by challenging market conditions. The acquisition of Giesse scaled up the division's international presence (ie outside North America and the UK) and broadened the restructured business platform that was already in place. It provides opportunities to cross-sell complementary products, enter adjacent segments and draw on group expertise to be the provider of choice across all of the main frame types.

Group takes shape, but Schlegel market constrained

The original Schlegel building products businesses came into the group in April 2006. At that time, it was primarily a supplier of weather seal (foam and pile door and window seals) with a limited door and window hardware offering, sourced from third parties. It comprised operations in 10 countries (seven manufacturing sites including two in the US, four sales/distribution hubs in different continents) and four sales offices selling into over 60 customer countries.

The acquisition of Laird Security Systems (known as the Amesbury Group) in 2007 added further seals capability and also brought in hardware, addressing both UK and US window and door markets. Subsequently, all US operations – including Schlegel's seals activities – were consolidated under the Amesbury umbrella and all non-US operations (including the Laird Security Systems UK activities) were brought together as Schlegel International.

International/RoW and UK building products financial performance have been separately disclosed and branded since 2009, at which point Schlegel International's reported revenues and EBIT were c £38m and £2.5m respectively. By the time today's MDs were appointed in 2012 (ie Peter Santo at International and Darren Waters in the UK) Schlegel was at broadly similar levels. Hence, at that time, the third business leg had remained relatively small in the wake of a global recession, with a fragmented market spread and still fragile and variable market conditions.

Consolidation phase: FY13 – March 2016

While some of the markets being developed outside Europe (including Australia, Brazil and Singapore) were providing growth opportunities, the core heartland continued to experience challenging conditions and, after central costs, Schlegel was loss-making between 2013 and 2015. During this period, manufacturing operations were consolidated:

- Belgium: exited non-core lines, transferred ongoing production to other sites) in 2013/14.
- Spain: transferred production to Newton Aycliffe, UK 2015.

Schlegel extended its manufacturing reach to South America in 2014 with the acquisition of Vedasil of Brazil to become the country market leader and its existing local distribution hub was then co-located with Vedasil.

By the time Giesse was acquired in March 2016, only four of the original seven manufacturing sites were retained. (Schlegel's two US sites were transferred to Amesbury, one of which was closed, and we include AmesburyTruth's sites in Exhibit 6 to show the group-wide capability.)

Exhibit 6: Tyman window and door seals manufacturing footprint

Schlegel International		Pile	Foam	Other	AmesburyTruth		Pile	Foam	Other
UK	Newton Aycliffe	●		●	US	Amesbury, MA		●	●
UK	Henlow		●		US	Statesville, NC	●		●
Germany	Hamburg		●	●	US	Cannon Falls, MN			●
Australia	Sydney	●	●		US	Rochester, NY		●	
Brazil	Valinhos (acquired with Vedasil)	●							

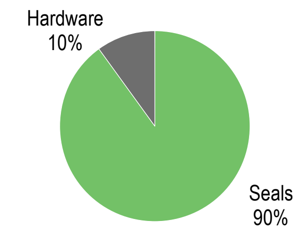
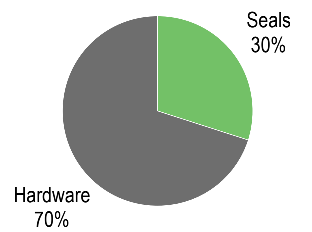
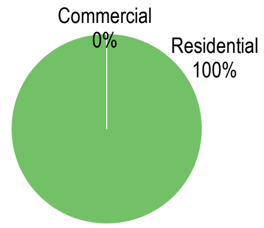
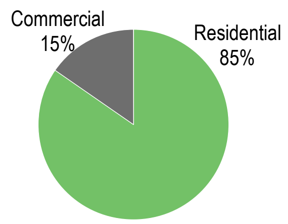
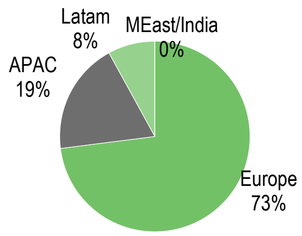
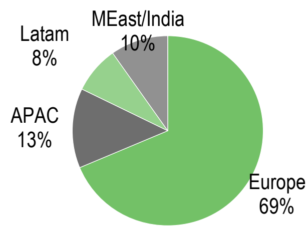
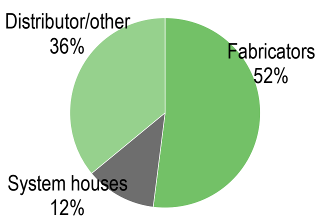
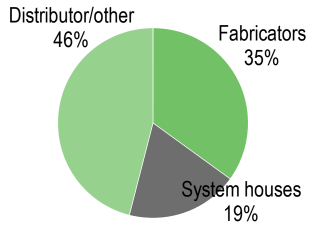
Source: Tyman, Edison Investment Research. Note: Seals are principally made by extruding materials (eg pile – polypropylene filaments, foam – polyurethane) finished with other processes and carrier extrusions.

As previously mentioned, Schlegel's manufacturing footprint sells widely outside North America and the UK using strategic sales/distribution hubs (ie Singapore, Brazil, Italy and New Zealand) with specific sales presence in France, Poland and Russia also. Acquiring Amesbury/ERA in 2007 and Fab & Fix in 2012 allowed this distribution network to progressively carry selected proprietary hardware ranges to complement the seals portfolio offering to the same customer base.

Giesse: The game changer

The group's objective is to be the leading supplier of engineered door and window components in each of its chosen segments and regions. Amesbury and ERA have both been able to execute progressive buy and build strategies (in North America and the UK respectively), but a focus on rationalisation in Europe limited the extent to which Schlegel could further develop its portfolio and international offer. The acquisition of Giesse in March 2016 addressed both of these issues, significantly scaling up Schlegel in the process. The fundamental changes to the characteristics of Schlegel's operations are shown in Exhibit 7.

Exhibit 7: Schlegel International – impact of Giesse on divisional characteristics

	Schlegel International only revenue £38.1m	Pro forma Schlegel & Giesse revenue £116m
Hardware: offering significantly enhanced		
Prior to the Giesse acquisition, Schlegel carried a limited range of window and door hardware products, sourced mainly from other Tyman divisions. Hardware sales in total represented c 10% of Schlegel International's revenues. Giesse brought in high-quality engineered hardware ranges addressing the aluminium segment of the door and window markets. This included hinges, locking systems, handles, tilt-and-turn operating mechanisms. As a result, the composition of revenues has switched to c 70% hardware and c 30% seals.		
Commercial: meaningful entry into new segment		
All three of Tyman's reporting divisions have historically had a principal focus on residential applications. (AmesburyTruth had some commercial exposure, though this was relatively small prior to the acquisition of Bilco in July 2016.) Aluminium is the leading frame type in European commercial applications with c 40% market share and Giesse had developed hardware mechanisms for pivot and tilt-and-turn windows, folding doors and for curtain wall fastenings. At the point of acquisition, commercial represented c 22% of Giesse revenue.		
International footprint broadened		
Schlegel has been Europe-centric with Asia-Pacific (including Australia) and Brazil (including Vedasil). Giesse has similar European revenue exposure, adding scale as well as operational presence in the south (ie Greece, Portugal, Turkey and manufacturing in Italy); Schlegel is more exposed to northern countries. Giesse's Asia-Pacific revenue is similar (though a lower proportion) to Schlegel and it also manufactures in China. In Latin America, it brings in-country operations in Argentina (as well as Brazil). Lastly, Giesse brings direct exposure to India and the Middle East for the first time.		
Distribution: broader and deeper		
Historically, Schlegel has generated approaching two-thirds of revenue from OEM customers and just over one-third via distributors. In comparison, Giesse has been more evenly balanced between these two routes to market and the combined split reflects this. Within the detail, Schlegel's OEM bias is towards fabricators while system houses are Giesse's dominant OEM category – being especially strong in Europe and Asia-Pacific (ex China) compared to Schlegel. This provides further diversification and also opportunities for cross-selling of divisional and group portfolio products.		

Source: Tyman, Edison Investment Research

Giesse: FY16 progress, margin target and growth opportunities

Tyman paid €79m (or c £61m, 7.3x EBITDA) for Giesse, with a potential further c £1m depending on future financial performance (and payable in May 2018). Disclosed FY15 revenue and adjusted EBITDA were €80.8m and €10.8m respectively. On acquisition, Tyman flagged expected synergies of at least €4m pa (arising from a €4m cash integration cost) to be achieved in FY18. Phase 1 was completed six months early at the end of FY16 and generated €2.4m benefits in the year (of an estimated €8m EBIT nine-month contribution), arising from:

- divisional head office functions now in Bologna (Giesse's head office, main manufacturing);
- North America warehousing consolidated into the AmesburyTruth footprint;
- Giesse Brazil co-located with Schlegel Brazil;
- Schlegel Spain and Italy warehousing exited in favour of Giesse facilities; and
- Schlegel Singapore warehouse closed.

The remaining synergies (to be derived from more integrated commercial operations, including cross-selling, technical support and market development) are now expected to come in FY17. Depending on success here, there may be scope to exceed the initial €4m synergy target at some point. Management's stated target is for Schlegel to achieve a mid-teens EBIT margin.

Cross-selling – near term: aluminium frames are the dominant choice in southern Europe (PVC in the central band and timber in Scandinavia). We see the immediate and most obvious cross-selling opportunities in **Europe**, offering seals to Giesse's customers and hardware to Schlegel's customers serving the residential window and door market. Outside Europe, aluminium frames typically have higher market share (eg Asia-Pacific 60-80%, Latin America 40%+ and Australasia 80%+) and these territories should also be realistic opportunities, as follows:

- **Latin America** – seal manufacturing and hardware light assembly is already established in Brazil (with hardware distribution and assembly in Argentina also); build out a combined offer in the most attractive markets. Explore possible export opportunities.
- **Australasia** – introduce Giesse hardware via Schlegel's existing sales and distribution presence, with enhanced technical support.
- **Asia-Pacific** – optimise group hardware 'make or buy' strategy by jointly evaluating Giesse's manufacturing capability in China with Tyman's existing supply chain network in the same country.

Beyond these actions, which are most obviously within reach, we would highlight other, more medium- to longer-term opportunities that fit with group strategy.

- **Cross-selling – group**: for the first time, Tyman has scale capability in all three main frame types, though not yet in all regions. Bring together hardware/frame expertise (AmesburyTruth – timber, ERA – PVC/timber, Giesse – aluminium) with local channel presence in mixed frame choice markets, especially Europe and the US.
- **New product development:** already necessary to update the product offer in existing segments served. Facilitate deep penetration of new segments (eg in Europe glazing seals are the largest segment for each of the frame types, commercial seals), which are significant but not really addressed currently.
- **Acquisitions:** Tyman has a track record of making logical acquisitions with good strategic fit. We would expect other targets to be considered, which are consistent with the above objectives and can either offer a quicker or more economic route to achieve the same ends.

Due to geographic spread and fragmentation, we are unable to judge competitive positions and any potential response in each market. This will inform group thinking on geographic expansion and may also provide focus for further acquisition activity to in-fill product lines and/or geographic gaps.

Sensitivities

Tyman is a building products supplier with a broad portfolio. Group revenues are diversified internationally and we believe that demand across the three reporting regions is largely independent; the International division itself, while Europe-centric, also serves a spread of markets. Commercial sector exposure is rising and providing some balance to traditional residential focus.

North America & US dollar: while Tyman's operations are exposed to GDP growth, interest rate cycles and construction sector activity within each country served, c 60% of group revenue and c 70% of EBIT is generated in North America, chiefly the US. Notwithstanding rising interest rates, US residential new build activity and existing home transactions have remained robust y-o-y so far in 2017. Additionally, Harvard's latest LIRA report indicates that remodelling spend is expected to exceed its long-term growth of 5% pa, although 2018 is likely to be below 2017. AIA's Consensus Forecast at the beginning of the year pointed to expected non-residential expenditure growth at or above 5% for 2017 and 2018. So, near-term market conditions appear to be favourable currently.

Movements in the US dollar affect group trading and results in a number of ways, most obviously through the translation of AmesburyTruth's (AT) earnings back into Tyman's sterling reporting currency. For this region, a stronger dollar is also beneficial for the cost of imported materials (including the group's Juarez, Mexico facility). For other regions, which import from Asia, a relatively strong dollar increases component costs; after existing hedging rolled off around the turn of the year, this has been an industry challenge post Brexit currency movements. The impact on reported margins will depend on the extent to which cost increases can be either mitigated or passed on to customers in their respective markets. An additional factor that has arisen with the change of US government at the beginning of 2017 is the potential for protectionism with regard to sourcing from Mexico. Juarez supplies less than 20% of the value of components consumed by AT; the prospect of penal tariffs is thought to be low by management, although more bureaucratic border crossing for goods and services could create short-term supply disruption.

Established and competitive markets: in most of Tyman's leading territories, building and construction markets and their supply chains are well established. We consider that the threat of material new entrants is low and incumbent operators compete in three main areas:

- **Product portfolio:** historically, Tyman companies have offered a broad range of seals and hardware for residential markets. Over time, this has been refined through 'good – better – best' segmentation with infills from both new product development (NPD) and acquisitions. Ongoing NPD is an important requirement and electronic security feature demand is growing. The acquisitions of Giesse and Bilco in 2016 represent a significant increase in the company's presence in commercial segments and we expect this to be further developed.
- **Supply chain management:** Tyman combines in-house component manufacture/assembly capability with third party sourcing. Group scale purchasing benefits and internal processes control provide a balanced materials cost base. The company has a continuous improvement culture – eg recent ERP system implementation, current footprint optimisation programme – with a clear focus on maintaining a competitive cost base.
- **Customer relationships & service levels:** 'on time, in full' is the industry mantra for fulfilling customer orders and this requires aligned and responsive manufacturing and distribution. A broad product portfolio adds complexity to service levels but also creates entry barriers if done well. Historically, AT and ERA have had relatively strong positions in the top account tiers in the US and UK respectively; footprint changes may facilitate better reach to smaller customers.

Footprint changes are being made over multi-year phases and are well underway. Consequently, we see limited execution risk here and management has clearly outlined expected financial benefits. They also represent a reinforcement of the highlighted points and competitive position.

Valuation

We consider Tyman's primary markets (the US, Europe, UK) to be substantially independent, save for the extent to which global interest rates are linked over time. In each region, it is largely exposed to cyclical building materials demand, largely for residential markets with a growing commercial offer. We believe the company's exposure to international markets will generate superior earnings growth prospects in the near and medium terms and that this should translate to a premium sector rating. Overseas currency earnings and internal self-help actions (eg footprint optimisation) are additional attractions to the company's position in growing markets.

Established business model with clear financial characteristics

Under a stable management team, Tyman has an established business model based on a hybrid manufacturing and sourcing model serving international building materials markets locally. Underlying profit and cash generation characteristics are clear; the company is in an investment phase currently and the integration of recent acquisitions and ongoing progress in optimising regional footprints are designed to reinforce market positions. Our model includes three-year (2016-19) CAGRs of company PBT norm +7.1%, EPS norm +5.8% and DPS +12.6%. Conventional earnings, cash flow and peer group metrics are appropriate valuation measures for Tyman.

Earnings and valuation outlook contain some caution

Since the previous AGM (13 May 2016)), our normalised FD EPS estimates for FY17 and FY18 have increased by c 15% from a combination of underlying upgrades and more favourable FX effects with a small acquisition effect also. Over the same time period, Tyman's share price has risen by c 21%, underperforming the FTSE All-Share Index by c 1%. On our revised estimates, Tyman is trading on a prospective FY17 P/E of 12.6x and an EV/EBITDA (adjusted for pensions recovery cash) of 8.4x. By FY19, these metrics reduce to 11.3x and 7.3x respectively. General caution on the impact of rising input prices across the group and, possibly, the wider implications of a gradual tightening in interest rates appear to be resulting in a conservative earnings and valuation outlook. We believe that these risks are well discounted and the company is well placed to progress. From a historic dividend yield position of 3.1%, we see good growth prospects for DPS, ie a three-year (2016-19) CAGR in excess of 12% – covered at or above 2x throughout this period.

Market valuing overseas earnings more highly

We now look at UK quoted building materials peers, segmented by activity, as shown in Exhibit 8.

Exhibit 8: UK quoted peers

	P/E (x)			EV/EBITDA (x)			Dividend yield (%)		
	2017e	2018e	2019e	2017e	2018e	2019e	2017e	2018e	2019e
Tyman	**12.9**	**12.3**	**11.6**	**8.6**	**8.0**	**7.4**	**3.3**	**4.0**	**4.3**
Small-cap window/door plays[1]	11.8	11.0	10.4	8.2	7.8	7.5	4.3	4.6	4.8
Mid-cap building materials manufacturers[2]	17.7	16.3	15.3	11.5	10.8	10.3	2.6	2.9	3.3
Distributors with European exposure[3]	14.2	13.0	11.9	9.3	8.7	8.1	2.6	2.7	2.9
Wolseley (calandarised)	16.2	14.8	13.1	10.5	9.5	N/A	2.4	2.6	N/A

Source: Bloomberg. Note: [1]Epwin Group, Eurocell, Safestyle UK. [2]Marshalls, Polypipe. [3]Grafton, SIG. Prices as at 11 May 2017.

- Tyman is being valued by the market between UK-oriented small- and mid-cap manufacturing peers on FY17 earnings, but is nearer to the small-cap group on an EV/EBITDA basis.
- The distributors with European exposure offer faster earnings growth than the small-cap peer group; this is reflected in Grafton's rating, with SIG more in line with Tyman.
- Wolseley (also a FTSE 100 distributor) has the largest North American exposure and attracts a premium rating based on superior earnings growth prospects.

Financials

Following the FY16 results, we raised our PBT norm estimates for FY17 and FY18 by c 7% and c 5% respectively (EPS norm upgrades were slightly lower reflecting a higher expected tax rate) with a good uplift in dividend expectations also. Subject of course to market conditions, the completion of regional footprint programmes, integration of acquisitions and ongoing business improvement and development initiatives will be key drivers of Tyman's financial performance.

Ongoing growth in earnings and dividends

All three reporting regions achieved underlying EBIT growth in FY16, supplemented in the Americas and International by acquisitions and favourable FX translation. As things stand, the latter effects will also benefit FY17 chiefly in H1. In underlying terms, we have factored in modest growth in revenue and EBIT in the Americas, a flat performance from International and a softer outturn in the UK reflecting market conditions and input cost pressures. Taken together, our estimates show a c 17% increase in group revenue in FY17 and a c 12% EBIT uplift. Thereafter, for the following two years we assume that the group's blended market exposure generates top line growth of 2.5%, with some incremental margin improvement. For the **2016-19** period as a whole, we project:

- **EPS company norm CAGR of 5.8%; and**
- **DPS CAGR of 12.6%.**

On our estimates, dividend cover moves gradually lower from 2.4x in FY16 to 2.0x by FY19e.

Cash generation to fund business investment & debt reduction

FY16 saw a strong free cash flow (FCF) performance from Tyman but, after taking into account acquisitions, cash dividends and adverse FX translation effects, net debt rose from c £82m a year ago to c £176m at the end of FY16. The major components of this were:

- **Free cash inflow of £45m** was significantly higher than the prior year and our expectations. The major contributors to this were increased profitability, a stronger debtor collection performance and, while capex was slightly ahead of depreciation, footprint change phasing was less advanced than originally planned.
- **Acquisition-related spend in the year was c £100m** (including cash consideration, debt assumed, transaction and integration costs less net new equity proceeds).
- **Returns to shareholders £17.5m** (comprising dividends £15.6m, share buybacks £1.9m).
- **Adverse translation effects accounted for c £25m** of the increase in reported debt, primarily due to the movement in the year-end £/US$ rate.

Regarding FY17, we expect operating cash flow to be broadly in line with FY16 (ie the profit uplift is offset by working capital absorption and higher footprint change costs). Factoring in the associated step-up in footprint capex – which peaks this year – brings our expected FY17 FCF in at c £33m. After cash dividends and share buybacks, group cash inflow for the year is c £11m in our model. Beyond this, we expect cash generation to exceed £20m in both FY18 and FY19 such that group net debt reduces below £120m by the end of this period. Cash interest cover remains at or above 10x throughout this time, with year-end net debt trending down from c 2.1x in FY16 to 1.2x in FY19.

Balance sheet movements reflect FX and acquisitions

The c £70m increase in net assets in FY16 (to c £377m, or NAV of 211p/share) primarily reflected the aforementioned equity issue and favourable FX translation effects on overseas assets. Increases in the main asset and liability categories were clearly affected by acquisition activity too.

Exhibit 9: Financial summary

£m	2010	2011	2012	2013	2014	2015	2016	2017e	2018e	2019e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS	**Group**	**Cont.**	**Cont.**							
Revenue	266.2	216.3	228.8	298.1	5,398.7	353.4	457.6	537.1	550.4	563.3
Cost of Sales	(173.4)	(145.2)	(154.0)	(198.8)	(3,632.9)	(234.0)	(290.4)	(348.8)	(354.6)	(361.1)
Gross Profit	92.8	71.1	74.7	99.3	1,765.8	119.4	167.3	188.3	195.8	202.3
EBITDA	40.2	27.7	28.5	39.4	54.6	60.4	82.5	92.3	96.1	100.7
Operating Profit (Edison)	33.7	22.4	23.4	33.0	46.9	52.4	70.9	79.3	82.6	86.7
Net Interest	(8.9)	(5.9)	(3.3)	(3.4)	(4.5)	(6.0)	(6.9)	(9.0)	(9.0)	(8.5)
Other Finance	(2.9)	(3.6)	(0.9)	0.2	(2.2)	(0.6)	(0.4)	(0.4)	(0.4)	(0.4)
Share Based Payments	(0.1)	(0.2)	(0.5)	(0.7)	(0.9)	(1.0)	(1.0)	(1.1)	(1.1)	(1.1)
Intangible Amortisation	(11.7)	(10.6)	(10.8)	(16.6)	(17.8)	(19.6)	(21.7)	(23.0)	(23.0)	(23.0)
Exceptionals	(0.4)	0.7	(33.4)	(11.4)	(9.3)	(9.4)	(10.9)	(9.2)	(7.6)	(4.0)
Other	(0.3)	(0.1)	(0.4)	(0.4)	(0.3)	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
Profit Before Tax (Edison norm)	21.9	12.7	18.7	29.2	39.3	44.9	62.5	68.8	72.1	76.7
Profit Before Tax (Company norm)	24.8	17.4	21.3	28.6	41.6	44.9	62.1	68.8	72.1	76.6
Profit Before Tax (FRS 3)	9.5	2.6	(25.8)	0.8	11.9	15.6	29.4	36.1	41.0	49.2
Tax	(2.5)	6.4	3.7	0.2	(2.6)	(7.9)	(8.6)	(14.1)	(15.1)	(16.5)
Profit After Tax (norm)	19.4	19.1	22.4	29.4	36.8	37.0	53.8	54.7	57.0	60.2
Profit After Tax (FRS 3)	7.0	9.1	(22.1)	1.0	9.3	7.7	20.7	22.1	25.9	32.7
Average Number of Shares Outstanding (m)	129.8	129.7	129.7	152.8	167.8	168.2	173.0	177.0	177.0	177.0
EPS - Edison normalised (p) FD	10.7	6.7	9.6	13.9	17.1	19.1	25.5	26.9	28.2	30.0
EPS - Company normalised (p) FD	11.4	9.4	10.2	13.5	18.4	19.2	25.3	26.9	28.2	30.0
EPS - FRS 3 (p)	5.3	6.8	(16.7)	0.6	5.6	4.6	12.0	12.5	14.7	18.5
Dividend per share (p)	2.0	3.4	4.5	6.0	8.0	8.8	10.5	11.5	13.8	15.0
Gross Margin (%)	34.9	32.9	32.7	33.3	32.7	33.8	36.5	35.1	35.6	35.9
EBITDA Margin (%)	15.1	12.8	12.5	13.2	1.0	17.1	17.8	17.0	17.3	17.7
Operating Margin (before GW and except.) (%)	12.7	10.4	10.2	11.1	0.9	14.8	15.5	14.8	15.0	15.4
BALANCE SHEET	**Group**	**Cont.**	**Cont.**							
Fixed Assets	367.4	352.8	298.1	404.2	410.6	398.4	564.7	556.5	541.8	526.6
Intangible Assets	328.2	312.7	258.7	354.4	355.7	340.5	480.0	459.8	439.7	419.5
Tangible Assets	31.5	30.5	29.8	39.9	42.9	42.8	71.7	80.7	86.2	91.2
Investments	7.7	9.6	9.5	9.8	12.1	15.0	12.9	15.9	15.9	15.9
Current Assets	86.7	96.361	90.7	118.9	124.0	111.0	180.6	204.1	227.7	255.5
Stocks	26.0	26.6	27.6	40.7	47.6	46.0	70.7	75.0	76.2	77.6
Debtors	28.2	24.1	23.7	29.9	31.5	29.5	62.5	70.4	72.1	73.8
Cash	27.7	20.4	35.9	43.6	39.3	30.0	40.9	52.3	73.0	97.7
Current Liabilities	(51.8)	(55.1)	(44.2)	(60.8)	(52.3)	(44.4)	(86.4)	(98.8)	(106.2)	(114.5)
Creditors	(46.6)	(42.2)	(36.7)	(54.0)	(52.3)	(44.4)	(86.4)	(98.8)	(106.2)	(114.5)
Short term borrowings	(5.2)	(12.9)	(7.5)	(6.8)	0.0	0.0	0.0	0.0	0.0	0.0
Long Term Liabilities	(163.7)	(144.8)	(96.9)	(161.7)	(176.2)	(156.7)	(285.3)	(284.3)	(283.4)	(282.4)
Long term borrowings	(114.3)	(100.2)	(63.6)	(115.5)	(128.0)	(111.6)	(216.5)	(216.5)	(216.5)	(216.5)
Other long term liabilities	(49.4)	(44.6)	(33.3)	(46.2)	(48.2)	(45.1)	(68.8)	(67.8)	(66.9)	(66.0)
Net Assets	238.6	249.2	247.7	300.6	306.1	308.3	373.6	377.5	380.0	385.3
		0.000								
CASH FLOW	**Group**	**Cont.**	**Cont.**							
Operating Cash Flow	38.6	32.6	23.6	38.9	40.1	48.9	79.9	78.0	87.5	96.5
Net Interest	(9.3)	(6.7)	(4.2)	(2.6)	(4.6)	(6.2)	(7.0)	(9.0)	(9.0)	(8.5)
Tax	(2.3)	(1.9)	(4.9)	(6.2)	(6.3)	(8.9)	(12.7)	(12.6)	(13.6)	(15.0)
Capex	(3.5)	(4.9)	(6.8)	(8.1)	(10.2)	(10.9)	(15.3)	(23.8)	(20.8)	(20.8)
Acquisitions/disposals	0.0	(10.3)	51.2	(131.2)	(6.5)	6.8	(96.1)	0.0	0.0	0.0
Financing	0.0	(0.3)	(1.1)	68.1	(4.3)	(2.6)	16.7	(2.0)	(2.0)	(2.0)
Dividends	0.0	(2.6)	(5.8)	(7.0)	(10.9)	(14.6)	(15.6)	(19.2)	(21.4)	(25.4)
Net Cash Flow	23.5	6.0	51.9	(48.2)	(2.8)	12.5	(50.0)	11.4	20.7	24.7
Opening net debt/(cash)	111.0	91.7	92.7	35.2	78.7	88.7	81.6	175.6	164.2	143.5
HP finance leases initiated	(0.0)	(2.7)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	(4.2)	(4.4)	5.6	4.7	(7.2)	(5.4)	(44.0)	0.0	(0.0)	0.0
Closing net debt/(cash)	91.7	92.7	35.2	78.7	88.7	81.6	175.6	164.2	143.5	118.8

Source: Tyman accounts, Edison Investment Research. NB Cash flow FY16 other movement is a combination of adverse year end FX translation effects on overseas debt and borrowing assumed with acquisitions.

Contact details	Revenue by geography (FY16 pro forma)
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Management team	
CEO: Louis Eperjesi	**FD: James Brotherton**
Loius Eperjesi has been CEO since February 2010. He was previously a main board director and divisional MD at Kingspan. Other industry experience in building products includes Baxi Group, Redland, Lafarge and Caradon.	James Brotherton initially joined Tyman in 2004 as head of corporate development before becoming CFO in May 2010. He was previously a director in the Investment Banking division of Citigroup and is a chartered accountant.
Chairman: Martin Towers	
Martin Towers became chairman following the AGM in May, having joined as NED in 2009. He is also chairman of Norcros and NED at RPC Group and was previously CEO at Spice and FD at Kelda Group, Spring Ram and McCarthy & Stone. He is a chartered accountant.	

Principal shareholders (at 31 December 2016)	(%)
Wellington Management Co	11.2
Standard Life Investments	10.8
Columbia Threadneedle Investments	7.0
Aviva Investors	6.9
GVQ Investment Management	5.7
BMO Global Asset Management	3.9
Schroder Investment Management	3.9
Hargreave Hale	3.5
GMO	3.0

Companies named in this report
Epwin Group, Eurocell, Grafton, Marshalls, Polypipe, Safestyle UK, SIG, Wolseley

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