Tyman

Strategic progress in all regions

AGM update, acquisitions & FY17 results

Construction & materials

FY18 to date has been in line with management's full-year expectations, building on the good financial progress delivered in FY17. We believe the competitive position in all three divisions continues to be enhanced via investment and, including post-year end acquisitions of Ashland Hardware and Zoo Hardware, we anticipate further profit growth in FY18 and beyond. There is little appreciation of overseas earnings exposure or the significant strategic strides taken in the current share price, in our view.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	457.6	62.1	25.3	10.5	13.4	3.1
12/17	522.7	68.3	26.7	11.3	12.6	3.3
12/18e	568.9	75.8	28.7	12.5	11.8	3.7
12/19e	599.8	84.8	31.7	13.5	10.7	4.0

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

Meeting challenges, making progress

The renamed SchlegelGiesse delivered the best all-round divisional performance in FY17, in our view. While AmesburyTruth and ERA had more testing operational and market challenges, all three divisions made good strategic progress in enhancing their competitive positions during the year. Acquisition and FX translation had clear positive effects on reported results and group EPS and DPS rose by 6% and 7% respectively in the year. Net debt ended FY17 down y-o-y at £163m after taking into account significant investment activity. The acquisitions of Ashland Hardware (in the USA) and Zoo Hardware (in the UK) completed after the period end.

Underlying progress and acquisition effects

We made small increases to our underlying earnings model following FY17 results – driven by North America – and although this was more than offset by weaker translation effects into sterling, US tax regime changes meant there was still a positive group EPS effect overall. Ashland (acquired for US$101m on 15 March, part funded by new equity) has a modestly dilutive earnings impact in FY18 followed by a modestly positive one on our FY19 estimates, while Zoo Hardware (acquired for £19m on 10 May) has a c 2-3% earnings accretion effect in our forecast years. In underlying terms, the first four months trading in FY18 are described by management as encouraging and we believe that North America continued to be the primary driver of progress.

Valuation: Offering exposure to overseas growth

The share price has rallied from a 288p low in early April but still sits below the 382p seen in mid-January. Ex UK markets (80%+ of group EBIT before central costs) appear to have the best local demand characteristics and we believe this remains a key sector differentiator. On our estimates, a three-year EPS CAGR of c 8% reduces the trailing 12.6x P/E to just 10.0x by FY20, with EV/EBITDA declining from 8.5x to 6.7x over the same period. Tyman's share price is perhaps being affected by weaker sentiment regarding the UK building materials space, which is a comparatively small part of its investment case.

31 May 2018

Price	**338.0p**
Market cap	**£665m**
	£/US$1.39
Net debt (£m) at end December 2017	163
Shares in issue	196.8m
Free float	91%
Code	TYMN
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	8.0	3.7	0.0
Rel (local)	5.5	(2.3)	(2.5)
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 results	25 July

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AGM update and ERA site visit

The 10 May **AGM update** pointed to +3.7% CER LFL group revenue growth in the year to date to the end of April, or +1% on a reported basis. (The 10c+ adverse £/US$ movement yoy is largely offsetting the stated underlying growth plus acquisition contribution effects[1].)

Revenues firmer in North America. While no further specific data points were included in the announcement given that LFL revenues in two of the three regional reporting regions were both 'slightly behind' their prior year comparatives, this suggests that AmesburyTruth (AT) is probably ahead by c 6% in underlying terms. As the largest group revenue generator with the highest operating margin, this is particularly encouraging. Market conditions in the USA and Canada have remained favourable, Bilco momentum has been maintained and Ashland Hardware will progressively add to AT's growth in local currency terms. Elsewhere, ERA appears to have had a tougher couple of months; local management believes that the residential RMI market is down c 5-10% ytd. While ERA, with flattish LFL revenues including some pricing benefit has done better than this, the implication is that volumes overall are lower. In the commercial sub-sector, Bilco and Howe Green are ahead of the prior year revenue position with a positive order outlook though they represent c 10% of divisional sales at present. SchlegelGiesse also references positive order book development which suggests that the subdued LFL revenue performance ytd may well tick up. As with ERA, the same price increase offset by lower volume scenario also appears to apply here.

In line with management expectations. Management stated that the year has started in line with full year expectations but did not comment directly on profitability. Input costs are noted as being volatile; Tyman aims to recover any materials cost increases through a combination of contractual surcharges and market pricing. Compared to our revised estimates following FY17 results (see in later sections), we believe that underlying revenue trends are slightly ahead of our model in AT and slightly behind in the other two regions. Recent acquisitions appear to be performing well and the inclusion of Ashland Hardware and Zoo Hardware will supplement progress from existing operations. We made no further changes to estimates following the AGM update.

The AGM itself was hosted at **ERA's new head office and distribution facility** adjacent to the motorway network near Wolverhampton. The consolidation of three other sites onto one completed in Q118 and, after some temporary transition impact, high service standards (ie 95% on time, in full next day order delivery) have been regained. A tour of the site showed expanded training, test and development facilities, a modern warehouse and logistics space and selected hardware component and light assembly capability all of which had scope to accommodate higher activity levels.

Focus on innovation. While UK residential RMI market volumes are lower yoy, ERA has continued to invest in an active new product development programme addressing faster growing subsectors. The company has identified wireless/electronic security products as a £330m market at end user selling prices. Under its new ERA Smartware branding, the Homeguard (alarm systems) product suite and Doorcam (video doorbell) have been launched this year and is to be followed by Touchkey (keyless smart lock). All of these products are based on secure wireless protocols, can be operated remotely using proprietary mobile apps and represent a clear range extension to the established mechanical lock ranges. Distribution channels are being developed over the course of this year. Separately, new ERA Lockdown products (a limited range of fast deployment mechanical door barricades) developed by the company are seeing high levels of potential customer interest. In more traditional segments, ERA's offering continues to evolve with new cylinder locks, opening restrictors and bi-fold door suite hardware all relatively new to market enhanced products.

[1] Average exchange rates: FY18 four months to end April: £/US$ 1.3945, £/€ 1.1351. Compared to H117: £/US$ 1.26, £/€ 1.626 and FY17: £/US$ 1.2887, £/€ 1.414

Zoo Hardware extends ERA’s commercial range

Alongside the AGM trading update, Tyman also announced the acquisition of Zoo Hardware, a UK designer and supplier of architectural hardware to the commercial sector to complement ERA’s existing door and window hardware product portfolio. Expected consideration of £19m (including £1.4m in 420,926 new shares and £1.5m cash deferred for two years) is equivalent to 6.8x FY18 (year to March) EBITDA.

Business: Zoo was founded in 2010 by Robin Graham (who previously founded and sold Carlisle Brass, in 1986 and 2006 respectively) and reached c £17.8m revenue in FY18 with c 50 staff operating from a 43,000sf facility in Carlisle. With a similar model to ERA, Zoo designs, sources and supplies a wide range of internal door hardware products and a smaller window hardware range largely for the commercial building sector. Products are sourced from China in a variety of materials including brass, zinc, stainless steel and aluminium; lever handles/escutcheons and lock products each account for 25%+ of sales with hinges a further 15%+ and the remainder is made up of other door accessory items (eg stops, pull handles and knobs). Zoo utlises a number of sub-brands (including Vier, Rosso Maniglie, Fulton & Bray) to segment its product offer.

From start up to number three player: Revenues have grown every year since inception and the company became EBITDA positive from 2013/14, attaining a 15.7% EBITDA margin in FY18 (comparable to ERA’s 16.5% before central costs in FY17). With a relatively short time period, Zoo has grown to become the third largest company in its segments in the UK and is considered to be a challenger brand to some more established players. Based on management information, the UK commercial hardware market is scaled at £160m at manufacturers’ selling prices; Carlisle Brass (£45m revenue) and Dorma (£23m) are the largest suppliers currently, with a further six companies including Zoo in the £10m-20m range. The market is projected to be flat over the next three years but Zoo anticipates increasing market share by filling in product ranges (now in conjunction with ERA) and adding new lines in relatively under-represented segments including door closers.

ERA commercial range extension: Only c 10% of ERA’s FY17 revenues were generated in the commercial sector through the Bilco and Howe Green building access and egress products. While Zoo’s portfolio has limited direct overlap with these existing companies, it represents an accelerated development opportunity in commercial product categories that are well understood. On a last reported basis, Zoo will represent c 20% of annualised divisional revenue and EBITDA. This enhanced market presence will improve channel access, benefit new product development and provide other scale economies most notably in the supply chain (specifically sourcing and transporting products from China). In due course, we would expect to see the launch of a commercial equivalent to the residentially-focused ERA Everywhere online ordering platform to better address distributor customers. Additionally, Zoo has understandably had limited export exposure during its development phase but may now access SchlegelGiesse’s international distribution network.

Financial implications: Tyman management has identified c £0.75m of synergy benefits that it expects to accrue in a two year period. This is material in the context of the £2.8m EBITDA achieved by Zoo in its last full year. We assume that this is fully realised by FY20 and this acquisition enhances our previous group earnings estimates by almost 2% in FY18 and almost 3% in the following two years. By the end of FY18, we project group net debt of c £185m which is equivalent to c 1.8x EBITDA that we expect to be generated in the year (or slightly less on an acquisitions annualised basis). There is some scope we believe to rationalise the existing ERA and Zoo ranges which may result in a reduction in SKUs and possibly some working capital benefit as a result. As with ERA’s approach to residential new product development earlier, the division’s commercial focus will also be on faster growth opportunities and consequently there is an expectation of growth despite flat near term market conditions.

Ashland consolidates North American residential offer

The acquisition of Ashland Hardware was announced with FY17 results on 7 March, and completed on 15 March. It further consolidates AmesburyTruth's North American residential offering bringing complementary products, facilities and process expertise. Tyman expects to pay U$101m (cash free/debt free) for Ashland, which generated revenue and EBITDA of US$67.2m and U$11.2m respectively in 2017 (or c 14% of the enlarged division on both metrics based on FY17 results).

Funding, acquisition multiples and impact on estimates: Tyman funded the Ashland purchase from a c £51m gross (£49m net) equity placing (17.8m new shares at 290p) and c £25m debt from the new group banking facility put in place in February. Factoring in an expected US$4m synergies (US$3m cash cost, full annualised benefits to flow from 2020), the 9x EBITDA entry multiple falls to c 6.6x before including any other growth achieved. On our estimates, including the additional shares in issue, the acquisition is marginally dilutive in the current year and marginally accretive in FY19, the first full year of ownership including some growth and c US$2m synergy benefits.

Product portfolio fit: around 70% of Ashland's revenues are generated from its window opening (ie operators, hinges) and closing (ie locks, latches) product range. The remainder derives from door products (ie hinges, locks, handles) and some other lower value contract manufacturing work, which is gradually being exited. Following this acquisition, we estimate that hardware accounts for c 50% of AT's revenue, followed by seals, balances and speciality access products. Within individual categories, Ashland brings its Optima brand and Sentinel Locking System, which Tyman management expects to complement its premium end operator (winding mechanism) and door locking offerings respectively. Additionally, for hung/sash and sliding windows, Ashland's range of hardware represents a one-stop supplier offer to the builder/installer segment. Taken together with AT's existing ranges, management believes the acquisition boosts customer price/quality choice ('good, better, best') from individual builders up to the major window/door OEMs.

Regional considerations: Ashland manufactures in two locations (Monterrey, Mexico and Woodbridge, Canada) has two US distribution facilities (Dallas, TX and Freeport, IL) and a small Dallas head office. This will be AT's second substantial Mexican facility (244,000sq ft compared to 150,000 now at Juarez site) and both are full service plants including component manufacture, assembly and finishing. Over time, this may present opportunities to optimise lines and activities and possibly integrate the smaller Bilco site (40,000sq ft also in Juarez) although its product portfolio differs. In Canada, Woodbridge is less than 10km from AT's Brampton site; the latter is larger (at 70,000sq ft vs 12,000sq ft) and previously had a bigger footprint and, although there are process differences, there may be a consolidation opportunity here. There is geographic overlap with AT's new distribution partner in Dallas, but we would expect no major changes to Ashland's network in the near term. Looking at the bigger picture, we do not believe the acquisition has any material impact on the existing AT footprint optimisation project that has been underway since 2015.

Joint benefits: we think the industrial logic behind this transaction is pretty clear, adding complementary products/market position and additional low-cost manufacturing capacity with some opportunities to align overlapping cost areas. As well as property, materials costs purchasing (especially in stainless steel and zinc) are likely to offer synergistic benefits in our view. We believe that Monterrey and the expanded Juarez facility together improve access to the southern states and, in particular, new third-party partner distribution facilities in Dallas and, during 2018, Nashville. The focus here is on tier three and four customers (ie small regional and independent businesses) and, as described above, Ashland's offer has a good fit here. If improved service level capability is also achievable from the combined footprint, this response from larger customers should also be favourable, although we do not take this for granted. Lastly, the development of best practice across group sites with common processes may yield incremental gains and we understand that Monterrey's paint shop/finishing process can bring further insights in this regard.

FY17 results overview

FY17 results were well ahead of the prior year substantially driven by favourable FX translation and positive y-o-y acquisition effects. Following significant investment activity and modest underlying cash inflow, year-end net debt reduced to £163m (1.8x EBITDA). The Ashland Hardware acquisition completed after the year end and complements Tyman's North American product offering.

Exhibit 1: Tyman interim and divisional splits

£m	H1	H2	2016	H1	H2	2017	H117	FY17	H117	FY17	H117	FY17
							% chg	% chg	% chg	% chg	% chg	% chg
							Actual	Actual	CER	CER	l-f-l	l-f-l
Group revenue	**201.0**	**256.6**	**457.6**	**260.4**	**262.3**	**522.7**	**29.5%**	**14.2%**	**17%**	**9%**	**2%**	**2%**
AmesburyTruth	126.8	164.5	**291.3**	166.1	166.7	**332.7**	31.0%	**14.2%**	15%	**8%**	0%	2%
SchlegelGiesse	38.9	55.7	**94.6**	54.4	55.3	**109.7**	40.0%	**16.0%**	25%	**11%**	7%	0%
ERA	35.4	36.4	**71.8**	39.9	40.3	**80.3**	12.8%	**11.8%**	13%	**12%**	5%	3%
Group op profit (reported)	**27.2**	**42.6**	**69.8**	**35.5**	**41.3**	**76.8**	**30.6%**	**10.0%**	**17%**	**5%**	**4%**	**-2%**
AmesburyTruth	21.8	33.0	**54.8**	27.4	32.3	**59.7**	25.8%	**8.9%**	11%	**3%**	1%	0%
SchlegelGiesse	3.3	6.1	**9.4**	6.3	6.5	**12.8**	90.2%	**35.7%**	70%	**29%**	50%	19%
ERA	5.8	5.8	**11.6**	5.6	4.6	**10.2**	-2.5%	**-11.5%**	-2%	**-12%**	-12%	-25%
Central costs	-3.7	-2.3	**-6.0**	-3.8	-2.1	**-5.9**						

Source: Company, Edison Investment Research. Note: % chg figures are all y-o-y.

North America/AmesburyTruth, AT (FY17: c 64% group revenue 72% EBIT, pre-central costs). (Revenue US$429m, EBIT pre-central costs US$77m.) A somewhat mixed scorecard for AT in FY17 with some notable strategic strides forward that also partly led to constrained underlying financial performance. Good overall revenue and profit progress was made in the year, substantially driven by y-o-y acquisition (largely Bilco) and FX translation effects. Markets were generally favourable; AT achieved marginal volume growth against a decent FY16 comparator. AT's footprint optimisation programme is now well into its execution phases; the expansion of Juarez/relocation of other manufacturing lines there had more inter-dependencies than perhaps we had appreciated. After some H1 ramp-up interruption, anticipated production run rates were achieved by the period end although process inefficiencies remained but were ironed out over H2. These effects can be seen in the l-f-l columns in Exhibit 1; revenue growth improved as FY17 progressed while profit progress lagged revenue in H2. To meet larger customer requirements, it was necessary to incur additional costs including freight. In these circumstances, as we have previously noted, AT is likely to have held off passing through rising input prices. This is not apparent in the divisional gross margin (+30bp to 34.4%) although part of the reason might be structural; Bilco (acquired at the end of H116) is a higher gross, lower EBIT margin business and both effects will have come through on an annualised basis in FY17. For the record, the reported EBIT margin for AT was 17.9% (-90bp y-o-y). Note that while there has been intensive footprint activity, the P&L benefits are yet to be realised. Beginning in 2018, the expected U$10m annualised cost saving run rate by FY20 remains intact. With regard to the footprint project status:

- **Four centres of manufacturing excellence** are now confirmed:
  - **Owatonna, MN** – 210,000sq ft manufacturing, 100,000sq ft finishing and finished goods freehold, originally a Truth Hardware facility, now divisional HQ
  - **Juarez, Mexico** – 150,000sq ft took additional space (previously 60,000sq ft) at the beginning of 2016, with a significant ramp-up period that extended into 2017.
  - **Sioux Falls, SD** – 167,000sq ft, newbuild occupied from December 2016, replaced a 112,000sq ft facility in the same area. Also now Giesse's distribution hub in North America.
  - **Statesville, NC** – 242,000sq ft newbuild occupied from August 2017), consolidating three former inter-connected sites in the same area into one.

- **Other sites:** in addition to the above, AT has three other satellite light manufacturing/assembly operations (ie Cannon Falls MN, Fremont NE and Toronto) within its retained footprint. Bilco brought in three manufacturing sites of its own (ie commercial products – Trumann, AR; Juarez and residential – Zanesville, OH) and distribution facilities in New Mexico and Canada. Most recently, Ashland Hardware (acquired March 2018) has two manufacturing and two distribution locations. We discuss the further integration of the newer businesses into the AT footprint below; we see scope for selective consolidation here but nothing on the scale of what has been executed to date. Having already exited three larger and three smaller locations, an exit from Amesbury's Rochester, NY, leasehold is the remaining significant one to go. Through a combination of freehold disposals, natural leasehold terms concluding and negotiated exits from others, management is to be commended for conducting a very orderly transition process without leaving any discernible drag from legacy property.

AT's other significant strategic achievement in FY17 was to establish a new third-party national distribution arrangement with Industrial Sales Corporation (ISC, a specialist glazing and fenestration products distributor). This supersedes a number of individual regional partnerships in the past that had mixed success in servicing smaller, so-called tier three and four customers. Coming into effect from the middle of the year, ISC's Dallas, TX, warehouse is already populated with AT hardware and a second location in Nashville, TN, is expected to open early in FY18. We believe that this relationship including a rising SKU count should significantly strengthen AT's presence in this sub-segment, bringing the potential to contribute additional market share gains.

AT outlook: We believe the footprint optimisation heavy lifting with regard to fixed asset investment is substantially done. The task is now to optimise the new network operationally at individual facility and collective levels over the next couple of years. FY18 is expected to see the first P&L cost savings from the programme coming through (c US$2m) with an annualised exit rate above this. The inclusion of Ashland trading for c 37 weeks will also provide a profit boost over and above market-related movements and we cover this in later sections. AT has increased selling prices by c 3% at the beginning of FY18 to cover still rising selling prices and management anticipates growth in the US residential and commercial and Canadian markets.

Rest of World/SchlegelGiesse, SG (FY17: c 21% revenue 16% EBIT)
(Revenue €125m, EBIT pre-central costs €14.6m.) This division has been renamed, acknowledging the importance of Giesse (acquired March 2016), its retained brand value and scale contribution to the enlarged business. It also signifies that the integration is effectively complete, including a unified management structure, some new regional appointments and inter-relationships with other divisions. As with AmesburyTruth, this division benefitted from both full-year acquisition effects and favourable FX translation. In addition, underlying profit progress was also strong despite an apparent slowing of l-f-l revenue growth during the second half. We estimate that c 40% of revenue is generated in Europe and c 30% in emerging territories (including Latin America, China/South East Asia and the Middle East) with the UK, Australia and US being other significant markets. Looking at regional performance, continental Europe was consistently positive during FY17 while other areas were more variable with the Middle East and Latin American markets improving as the year progressed, China deteriorating and Australasia and South East Asia patchy throughout. China could be an important end market in due course, but it appears that SG still has some work to do to refine the way it services the supply chain and this probably exacerbated generally weak end demand conditions. So, the l-f-l revenue growth figures shown in Exhibit 1 are an amalgam of these disparate markets and performances.

At the underlying EBIT level, good y-o-y progress was achieved with an improved 160bp overall margin improvement (to 11.6%) with gains in both half years. A higher run rate of Giesse synergy benefits had been flagged and, by the end of FY17, this had reached €6.9m compared to €1.9m at the end of FY16. (Note, there was also c €0.7m property-related benefit taken below the line.) We note that this incremental c €5m uplift was ahead of the c €3m implied by published figures (ie EBIT FY17 €14.6m, FY16 €11.5m). While there may have been FX effects in here also, there may have been some underlying drag on profitability from rising input prices during the year, as seen at AT. Nevertheless, it is clear that the initially flagged Giesse cost synergies have been exceeded. Additionally, it has also provided some early intra- and inter-divisional revenue synergies that have contributed c €2m incremental profit.

SG outlook: We expect that Europe will continue to progress and positive contributions from Latin America, the Middle East and US markets should be sufficient to deliver top-line volume growth in 2018. Hardware and seals prices have been increased at the beginning of the year and this should amplify volume growth. We consider SG to be single entity now and, apart from the annualised gains from factory consolidation in Bologna, cost synergies have been substantially achieved. That said, we anticipate margin improvement arising from higher volumes. We will continue to watch the relative development of hardware and seals product lines as an indicator of performance and, integration complete, it would be reasonable to expect an increase in new product development activity. Additionally, in conjunction with Bilco, gaining momentum in the commercial segment in North America would be a positive indicator of Giesse's influence on the wider group.

UK/ERA (FY17: c 15% revenue 12% EBIT)

As well documented elsewhere, UK consumer confidence weakened as 2017 progressed. Together with input cost increases that were difficult to pass on, this translated to a tougher H2 trading environment for ERA. (Note that prior year profit included a c £1m one-off hedging gain in H216, which distorts the y-o-y comparative shown in Exhibit 1.) According to management, the market declined by 6-8% in value terms but, despite these headwinds, ERA did achieve underlying growth through a combination of slightly lower volumes and better pricing. ERA's sales to OEM customers declined by less than the market (c -3%), while signs of regained momentum in the distribution segment (c +7%) suggests share gains in both sub-segments.

A key focal point for ERA's traditional window and door security hardware operations was the consolidation of three site operations into one. These were the former head offices and light assembly/storage/distribution facilities of ERA (Willenhall, 64,000sq ft) and Fab & Fix (Coventry, 25,000sq ft) plus a smaller warehouse location (Wolverhampton, 20,000sq ft), which moved into newbuild premises near to Wolverhampton, 136,000sq ft long leasehold). This move will allow enhanced and more efficient customer service levels, with scope for further business expansion. Although there were no substantive trading comments regarding Response Electronics (wireless home security specialist, acquired Q116) we note that the ERA Smartware sub brand has now been launched encompassing a wide range of alarms and intercom products, which we believe are suited to a number of distribution channels. This clearly complements and extends ERA's traditional offer and we also expect to see combinations such as wireless/keyless entry products before long.

In other areas, the newly established commercial division (incorporating Bilco's UK operations and Howe Green, acquired March 2017) made a good first year contribution of £7.2m revenue and, we estimate, around £1m EBIT. The combined businesses have a wide range of engineered access (floor, wall, ceiling, roof) and ancillary products addressing public and private sector building and amenity projects. Given that there is a common 'specifier' customer base, Giesse hardware products are also to be promoted through the same channels, although the offering is not strictly complementary. Lastly, Ventrolla (the timber sash window repair specialist) increased revenue by 7% in FY17 (to £5.2m) and also relocated to new premises (from 9,000sq ft to 21,000sq ft under a longer lease) to accommodate expansion including larger value commercial orders.

ERA outlook: price increases that were put through in November will benefit FY18 trading. However, management expects market volumes to be below the prior year so, although there will be some benefit from the inclusion of Howe Green for a full year, ERA will require further share gains to generate top-line progress overall in the year. The introduction of new products could play a part in this as could enhanced service levels from the consolidated main ERA facility. We note that a legacy lease at large former ERA facility in Essex concluded in FY17, which should bring a small ongoing cash benefit.

Cashflow funding investment and dividends in FY17

Tyman's end FY17 net debt position was £163m, down from £176m a year earlier (and US$189m at the seasonally higher interim stage during the year). Of this y-o-y movement, almost US$9m was attributable to a favourable US dollar translation effect, suggesting a small positive actual cash inflow overall. The following sections comment on FY17 actual cash flow performance and also the outlook, including the pro forma impact of acquiring Ashland and Zoo after the period end.

Excluding the effects of provisions and pension contributions, Tyman generated c £76m underlying operating cash flow (OCF) in FY17 and c £41m at the free cash flow (FCF) level on the same basis. (The prior year comparative figures were £88m and £53m respectively.) FY17 OCF primarily comprised c £90m EBITDA less £15m working capital absorption. Having already noted increased profitability, it is therefore clear that the lower FY17 OCF was substantially due to a c £20m working capital swing compared to the inflow achieved in the prior year. The combined cash outflow into inventory and creditors was similar in both years (at c £11m), so the noted variation occurred in the debtor/receivables line. As previously commented, a strong debtor performance at the end of FY16 will have unwound during H117 and, together with revenue growth and possibly some lengthening of US terms associated with service issues, will have explained the outturn in the year, we believe.

Cash outflows associated with interest and tax payments both rose y-o-y reflecting higher average net debt (and the annualised effects of FY16 acquisitions) and increased profitability respectively. The cash tax rate at c 22% remains c 800bp below its underlying P&L equivalent principally due to timing differences. Consistent with footprint optimisation programmes, especially in North America, fixed asset spending has continued to increase y-o-y and, including c £1m on intangibles, gross capex exceeded £16m in the year, well ahead of depreciation. Footprint progress has also meant that Tyman has also begun to generate some cash inflow by exiting from/disposing of sites no longer required; in total some £4m receipts from this source came in during FY17, which obviously reduced net capital spending. As inferred above, the combined cash outflow on all of these three categories (ie interest, tax and net capex) was effectively in line with the prior year at £35m, leaving underlying FCF at £41m as described earlier.

Including pension cash contributions (just over £1m), provision movements/footprint costs (c £6m) and other exceptional items (c £2m, largely M&A fees), group reported FCF was £32m. Below this, c £6m M&A spend, chiefly Howe Green, c £1m EBT share purchases (both in line with H117) and c £19m full-year cash dividend payments accounted for the remaining group cash outflow leaving a £4-5m actual inflow overall. Period end group net debt was equivalent to 1.8x FY17 EBITDA.

Cash outlook: We expect many of the features described above to recur in FY18, with further increases in EBITDA, interest, tax and capex but a more modest incremental working capital investment to leaving free cash flow in the £40-45m range; rising dividend payments (arising from uplifts in both per share declarations and number of shares in issue) and relatively modest additional EBT cash outflows should together account for just over half of the indicated FCF.

Acquisitions immediately add c £40m to Tyman's 2018e net debt position (Ashland and Zoo cash consideration less Ashland's part equity funding) before taking group trading effects into account. On our estimates, the group net debt position is now expected to be c £185m at the end of FY18. Beyond this, our model shows annual net cash inflows of at least £30m in the following two years which, in the absence of any further M&A activity, would bring net debt down to c £119m by the end of FY20 which is almost exactly in line with our EBITDA projection for that year.

Many moving parts, overall net increase to estimates

FY18 has started well for Tyman with y-o-y volume and pricing increases noted in all three trading divisions. UK confidence and spending levels are expected to remain subdued but we anticipate ongoing market growth in Tyman's main North American and European markets and each division continues to target share gains.

In underlying terms, we have factored in an improved contribution from AT (revenue and profit) and a smaller central cost increase to before but also trimmed that for ERA. While the net result was a 1-2% group EBIT increase, this was more than offset by re-setting the modelled £/US$ rate (from 1.30 to 1.39), which provides a drag on sterling reported profits. However, favourable changes to the US corporate tax regime mean that underlying earnings per share for FY18 and FY19 were c 3% higher than our previously published estimates overall. Factoring in the Ashland acquisition had a modestly dilutive impact on FY18 (42 week contribution) on our estimates and a modestly positive one in FY19. We have added FY20 estimates for the first time, as shown in Exhibit 2.

After all of the above effects as previously noted, the acquisition of Zoo Hardware enhances our post results, post Ashland acquisition earnings estimates by almost 2% in FY18 (33 week contribution) and almost 3% in the following two years.

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.
2017	26.1	26.6	+1.9	68.2	68.0	-0.3	90.9	91.7	+0.9
2018e	28.2	28.4	+0.7	73.7	75.3	+2.2	96.9	102.6	+5.9
2019e	30.0	31.4	+4.7	78.5	84.3	+7.4	102.2	113.2	+10.7
2020e	N/A	33.4	N/A	N/A	89.7	N/A	N/A	118.4	N/A

Source: Edison Investment Research. Note: 2017 old = estimate, new = actual.

Not shown in Exhibit 2, but as FY17 declared dividends were lower than we expected, we reflect this lower base level in subsequent years but still show a c 9% three year CAGR to FY20.

Valuation: Strategy and overseas exposure create value

The OECD's November 2017 projections for 2018 and 2019 clearly contained stronger GDP growth characteristics in the US, Canada and the euro area (a broadly consistent c 2.1% followed by 1.9% nominal growth rates) compared to the UK (1.2%, 1.1%). As mentioned earlier, over 80% of Tyman's ongoing revenue and EBIT before central costs is earned outside the UK. These projections are after taking into account, post monetary easing, the rising interest rate scenarios in leading western economies. Investors can be sensitive to the impact of this on building materials cycles but we believe ex UK relative growth attractions provide important context for Tyman.

Compared to a year ago, our FY18 EPS estimate is slightly higher with FY19 more so (+0.8% and 4.7% respectively), reflecting underlying trading progress, acquisitions and lower US tax charges being partly offset by more adverse FX translation cross-rates. The share price has not progressed on a one-year view and sits slightly lower y-o-y, in contrast to a c 3% increase in the FTSE All-Share Index over the same period. In our view, both the organic and acquisition strategic strides taken have improved the business potential operationally and competitively and this has not been reflected in share price performance.

Our three-year earnings CAGR is c 8%, which represents a PEG of around 1.5x against the FY17 P/E and may suggest an expectation of faster growth. The FY18 P/E of 11.8x and EV/EBITDA of 8.4x are certainly not stretched in conventional terms; we expect to see a lengthy favourable economic cycle outside the UK in Tyman's core markets; this is a clear relative attraction. As an illustration, Ferguson (formerly Wolseley) has a similar overseas/UK revenue split (with a larger North American bias) and trades on a calendarised FY18 P/E of c 17x.

Exhibit 3: Financial summary

£m	2010	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e
December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS	**Group**	**Cont.**	**Cont.**								
Revenue	266.2	216.3	228.8	298.1	350.9	353.4	457.6	522.7	568.9	599.8	615.6
Cost of Sales	(173.4)	(145.2)	(154.0)	(198.8)	(236.1)	(234.0)	(290.4)	(331.8)	(350.4)	(364.7)	(372.5)
Gross Profit	92.8	71.1	74.7	99.3	114.8	119.4	167.3	190.9	218.4	235.1	243.2
EBITDA	40.2	27.7	28.5	39.4	54.6	60.4	82.5	91.7	102.6	113.2	118.4
Operating Profit (Edison)	33.7	22.4	23.4	33.0	46.9	52.4	70.9	78.8	87.4	96.9	101.6
Net Interest	(8.9)	(5.9)	(3.3)	(3.4)	(4.5)	(6.0)	(6.9)	(7.9)	(9.9)	(10.4)	(9.7)
Other Finance	(2.9)	(3.6)	(0.9)	0.2	(2.2)	(0.6)	(0.4)	(0.8)	(1.1)	(1.1)	(1.1)
Share Based Payments	(0.1)	(0.2)	(0.5)	(0.7)	(0.9)	(1.0)	(1.0)	(2.0)	(1.1)	(1.1)	(1.1)
Intangible Amortisation	(11.7)	(10.6)	(10.8)	(16.6)	(17.8)	(19.6)	(21.7)	(22.9)	(26.0)	(28.2)	(28.2)
Exceptionals	(0.4)	0.7	(33.4)	(11.4)	(9.3)	(9.4)	(10.9)	(10.0)	(7.6)	(2.9)	(1.8)
Other	(0.3)	(0.1)	(0.4)	(0.4)	(0.3)	(0.4)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)
Profit Before Tax (Edison norm)	21.9	12.7	18.7	29.2	39.3	44.9	62.5	68.0	75.3	84.3	89.7
Profit Before Tax (Company norm)	24.8	17.4	21.3	28.6	41.6	44.9	62.1	68.3	75.8	84.8	90.2
Profit Before Tax (FRS 3)	9.5	2.6	(25.8)	0.8	11.9	15.6	29.4	34.5	41.1	52.7	59.1
Tax	(2.5)	6.4	3.7	0.2	(2.6)	(7.9)	(8.6)	(3.3)	(12.5)	(14.3)	(15.8)
Profit After Tax (norm)	19.4	19.1	22.4	29.4	36.8	37.0	53.8	64.7	62.8	70.0	73.9
Profit After Tax (FRS 3)	7.0	9.1	(22.1)	1.0	9.3	7.7	20.7	31.2	28.6	38.4	43.4
Average Number of Shares Outstanding (m)	129.8	129.7	129.7	152.8	167.8	168.2	173.0	177.2	192.2	194.8	194.8
EPS - Edison normalised (p) FD	10.7	6.7	9.6	13.9	17.1	19.1	25.5	26.6	28.4	31.4	33.4
EPS - Company normalised (p) FD	11.4	9.4	10.2	13.5	18.4	19.2	25.3	26.7	28.7	31.7	33.7
EPS - FRS 3 (p)	5.3	6.8	(16.7)	0.6	5.6	4.6	12.0	17.6	14.9	19.7	22.3
Dividend per share (p)	2.0	3.4	4.5	6.0	8.0	8.8	10.5	11.3	12.5	13.5	14.5
Gross Margin (%)	34.9	32.9	32.7	33.3	32.7	33.8	36.5	36.5	38.4	39.2	39.5
EBITDA Margin (%)	15.1	12.8	12.5	13.2	15.6	17.1	18.0	17.5	18.0	18.9	19.2
Operating Margin (before GW and except.) (%)	12.7	10.4	10.2	11.1	13.4	14.8	15.5	15.1	15.4	16.2	16.5
BALANCE SHEET	**Group**	**Cont.**	**Cont.**								
Fixed Assets	367.4	352.8	298.1	404.2	410.6	398.4	564.7	511.5	562.1	541.2	519.8
Intangible Assets	328.2	312.7	258.7	354.4	355.7	340.5	480.0	427.2	468.9	442.7	416.5
Tangible Assets	31.5	30.5	29.8	39.9	42.9	42.8	71.7	68.4	81.4	86.6	91.4
Investments	7.7	9.6	9.5	9.8	12.1	15.0	12.9	15.9	11.9	11.9	11.9
Current Assets	86.7	96.4	90.7	118.9	124.0	111.0	180.6	188.1	212.2	243.0	282.4
Stocks	26.0	26.6	27.6	40.7	47.6	46.0	70.7	75.3	93.3	93.1	95.1
Debtors	32.9	49.3	27.3	34.7	37.1	35.0	69.0	70.2	83.1	84.1	86.0
Cash	27.7	20.4	35.9	43.6	39.3	30.0	40.9	42.6	35.8	65.8	101.3
Current Liabilities	(51.8)	(55.1)	(44.2)	(60.8)	(52.3)	(44.4)	(86.4)	(82.0)	(89.1)	(89.0)	(93.9)
Creditors	(46.6)	(42.2)	(36.7)	(54.0)	(52.3)	(44.4)	(86.4)	(80.9)	(89.1)	(89.0)	(93.9)
Short term borrowings	(5.2)	(12.9)	(7.5)	(6.8)	0.0	0.0	0.0	(1.1)	0.0	0.0	0.0
Long Term Liabilities	(163.7)	(144.8)	(96.9)	(161.7)	(176.2)	(156.7)	(285.3)	(251.4)	(266.3)	(265.1)	(263.9)
Long term borrowings	(114.3)	(100.2)	(63.6)	(115.5)	(128.0)	(111.6)	(216.5)	(204.3)	(220.4)	(220.4)	(220.4)
Other long term liabilities	(49.4)	(44.6)	(33.3)	(46.2)	(48.2)	(45.1)	(68.8)	(47.0)	(45.9)	(44.7)	(43.5)
Net Assets	238.6	249.2	247.7	300.6	306.1	308.3	373.6	366.2	418.9	430.1	444.3
		0.000									
CASH FLOW	**Group**	**Cont.**	**Cont.**								
Operating Cash Flow	38.6	32.6	23.6	38.9	40.1	48.9	79.9	67.0	83.6	102.6	112.3
Net Interest	(9.3)	(6.7)	(4.2)	(2.6)	(4.6)	(6.2)	(7.0)	(7.6)	(9.9)	(10.4)	(9.7)
Tax	(2.3)	(1.9)	(4.9)	(6.2)	(6.3)	(8.9)	(12.7)	(15.1)	(11.0)	(12.8)	(14.3)
Capex	(3.5)	(4.9)	(6.8)	(8.1)	(10.2)	(10.9)	(15.3)	(12.6)	(20.7)	(22.3)	(22.3)
Acquisitions/disposals	0.0	(10.3)	51.2	(131.2)	(6.5)	6.8	(96.1)	(6.3)	(88.2)	0.0	(1.5)
Financing	0.0	(0.3)	(1.1)	68.1	(4.3)	(2.6)	16.7	(0.8)	47.3	(2.0)	(2.0)
Dividends	0.0	(2.6)	(5.8)	(7.0)	(10.9)	(14.6)	(15.6)	(19.5)	(22.7)	(25.2)	(27.2)
Net Cash Flow	23.5	6.0	51.9	(48.2)	(2.8)	12.5	(50.0)	5.1	(21.7)	30.0	35.5
Opening net debt/(cash)	111.0	91.7	92.7	35.2	78.7	88.7	81.6	175.6	162.9	184.6	154.6
HP finance leases initiated	(0.0)	(2.7)	0.0	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)	7.6	0.0	0.0	0.0
Closing net debt/(cash)	91.7	92.7	35.2	78.7	88.7	81.6	175.6	162.9	184.6	154.6	119.1

Source: Company, Edison Investment Research. Note: *Operating Profit (Edison) strips out share-based payment costs.

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