EDISON

Tyman

FY19 results & COVID-19 update

FY19 results and response to COVID-19 impact

Construction & materials

Trading uncertainties arising from the coronavirus pandemic are currently overshadowing some positive aspects seen in Tyman's H219 performance. Steps are being taken to reduce costs and control cash outflows (including cancelling the FY19 final dividend) to manage business liquidity within existing funding facilities and sustain operational agility to respond to normalising conditions when they occur. For now forward guidance has been withdrawn, as have our estimates.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/18	591.5	72.7	27.5	12.0	5.7	7.7
12/19	613.7	71.0	27.4	3.9	5.7	2.5

Note: *PBT and EPS (fully diluted) are normalised, as defined by Tyman, excluding intangible amortisation and exceptional items. FY19 DPS is the interim dividend only as no final dividend payment is to be made now.

AmesburyTruth and cash flow were H219 highlights

FY19 profitability came in a bit better than we were expecting; a firmer operating performance in North America was more significant in profit terms than minor undershoots in the other two regions against our expectations and, after higher interest costs, group PBT was c £0.3m above our estimate. Although US like-for-like revenues remained down at the full-year stage, there was no further deterioration in H2 and some margin recovery on the same basis. On the other hand, SchlegelGiesse and ERA both saw tougher H2 like-for-like trends including negative revenue like-for-like development and further EBIT margin pressures. Tyman ended FY19 with core net bank debt pre-IFRS 16 of c £163m, a year-on-year decrease of £46m (including £4.5m from favourable FX) and some £20m lower than expected.

Near-term actions focusing on business resilience

The spread of COVID-19 has accelerated since Tyman reported FY19 results on 5 March. A management update on 3 April noted that the company's European manufacturing facilities had been temporarily closed in line with national government guidance and while North American facilities were still operational order intake there had reduced markedly. Consequently, the near-term focus has been on reducing costs and tightly controlling cash flows to preserve business liquidity. In this context, management expressed confidence in the group's ability to withstand a prolonged period of reduced trading. In line with quoted peers, the company's forward guidance has been withdrawn in these exceptional market conditions. Our estimates have also been withdrawn pending greater visibility on the scale and duration of coronavirus effects on group financial performance.

Valuation: Low trailing metrics pending trading clarity

Tyman's share price has been affected by general market uncertainty regarding the extent of COIVD-19 impacts on earnings and is down c 42% ytd compared to a c 26% decline in the FTSE All Share Index. In the absence of estimates for FY20 and beyond, we note that the trailing P/E ratio for FY19 is currently 5.7x with an EV/EBITDA (pre-IFRS 16 and adjusted for pensions cash) of 4.8x.

15 April 2020

Price	**156.0p**
Market cap	**£306m**
	US$1.23/£
Net debt (£m) at end December 2019	162.8
Shares in issue	196.2m
Free float	91%
Code	TYMN
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(26.9)	(41.6)	(39.3)
Rel (local)	(31.6)	(22.8)	(22.8)
52-week high/low		291p	134p

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% of reported FY19 revenue), ERA (UK; 17%) and SchlegelGiesse (RoW; 20%).

Next events

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FY19 results overview

Group PBT for FY19 was slightly ahead of our expected level with a more robust US profit performance more than compensating for softer H2 trading in other regions. Like-for-like revenue and EBIT declined by c 2% and 5% respectively for the year as a whole, but favourable FX translation and acquisition effects (and an IFRS 16 benefit) resulted in year-on-year progress in these metrics on a reported basis. A strong cash flow performance, particularly working capital, resulted in year-end core net debt of c £163m, c £20m better than we had expected. A final FY19 dividend was initially declared but has subsequently been cancelled as part of a number of proposed cash preservation measures in the light of the COVID-19 pandemic.

Exhibit 1: Tyman divisional and interim splits

Year end 31 December, £m	H1	H2	2018	2018R	H1	H2	2019	% change y-o-y, reported		% change y-o-y, like-for-like	
								H1	FY*	H1	FY*
Revenue (net external)	**274.9**	**316.7**	**591.5**	**591.5**	**301.9**	**311.8**	**613.7**	**9.8%**	**3.7%**	**-1%**	**-2%**
AmesburyTruth	176.6	202.1	**378.7**	**377.9**	187.4	198.6	**386.0**	6.1%	1.9%	-3%	-3%
SchlegelGiesse	55.5	61.6	**117.2**	**116.2**	61.5	59.0	**120.5**	10.8%	2.8%	4%	1%
ERA	42.8	53.0	**95.7**	**97.4**	53.0	54.2	**107.2**	24.0%	12.0%	1%	-1%
EBIT (reported, post SBP)	**38.2**	**45.4**	**83.6**	**83.6**	**41.9**	**45.4**	**85.4**	**9.6%**	**2.2%**	**-4%**	**-5%**
AmesburyTruth	30.0	32.3	**62.3**	**62.5**	31.2	32.3	**64.5**	4.0%	3.6%	-5%	-3%
SchlegelGiesse	6.8	8.3	**15.0**	**15.2**	7.6	8.3	**14.8**	12.4%	-1.7%	2%	-8%
ERA	4.8	7.7	**12.5**	**12.7**	6.9	7.7	**13.8**	42.6%	10.4%	13%	-2%
Central costs	(3.4)	(2.9)	**(6.3)**	**(6.8)**	(3.8)	(2.9)	**(7.7)**				

Source: Tyman

Summary: Although US like-for-like revenues remained down at the full year stage in FY19, there was no further deterioration in H2 and some margin recovery on the same basis. On the other hand, SchlegelGiesse and ERA both saw tougher H2 like-for-like trends including negative revenue like-for-like development and further EBIT margin pressures.

North America (AmesburyTruth): Performance pick up in H2

Financial performance: In local currency terms, AmesburyTruth's (AT) headline revenue declined by c US$13m to c US$493m in FY19. Excluding Ashland Hardware and adjusting for a small amount of discontinued business (sub US$10m annual revenue non-core lines, previously produced at the now exited Rochester site) full year like-for-like revenue was down c 3%, the same as seen in H1. Markets served were broadly flat for the year – slightly down in H1, slightly up in H2 – and seals production problems largely explained AT's relative sales underperformance.

Like-for-like EBIT comparators improved as the year progressed (ie from -5% in H1 to -3% FY; small tweaks to the divisional presentation[1] mean that the H1 and FY figures are not strictly comparable though the year-on-year comparisons for each period are). For the full year, divisional gross margin nudged up by 10bp (to 30.2% vs restated 2018) compared to the prior year with EBIT margin doing slightly better (+20 bp to 16.7%), generating EBIT of c US$56.7m. We estimate that the underlying full year reduction in AT EBIT was in the US$6–7m range. Management previously noted an estimated c US$6m (£4.7m) impact from seals problems in H1, which was updated to c US$10m (£8.1m) for the full year. Consequently, we note the slightly reduced direct seals-related

[1] For FY19 (and restated FY18) divisional revenue presentation was amended slightly to reflect inter-divisional eliminations while profit presentation adjustments included a) reallocation of depreciation of manufacturing assets from opex to COGS and b) re-allocation of all share-based payment charges to Central. As shown in Exhibit 1, the adjustments to restated FY18 figures were minor. FY19 also saw the adoption of IFRS 16 for the first time, benefiting reported group EBIT by £1.6m, which is excluded from l-f-l calculations and had a negative impact on group PBT of £1.4m

impact in H2 and this also appeared to be partly offset by other actions, and signs of greater profit stability are encouraging despite markets still having challenges. Given that the H120 EBIT margin was below its H119 equivalent, the inferred H2 and full year progress is an indicator that measures taken to improve operational performance began to take effect. Recovery of input cost inflation and business mix are both likely to have contributed to the full year outturn as well.

Operating performance: The original US footprint project moves completed during the year and exited properties have either been sold or handed back at the end of their lease. Having completed the consolidation of AmesburyTruth's core window and door hardware manufacturing in an earlier phase, the relocation of seal manufacturing (from Rochester, NY, and Amesbury, MA, to a new purpose-built facility at Statesville, NC) did not run smoothly. The process of establishing production on new equipment began in mid-2018 but the performance of existing extruded door seal lines and customer acceptance of a new replacement fell below expected levels. We estimate that total AT seal sales were c US$67m in 2018 (c 17% of the regional total), of which c US$27m related to the door seals in question. Sales in that year appear to have held up – and even benefited from some customers stocking up around the move – but weaker underlying (ex-acquisition) H218 EBIT margin performance was a flag. Customer disruption issues were acknowledged by new management at the May 2019 AGM and referenced again at the half year. We conclude that parallel running of the old and new lines was able to meet customer requirements in 2018 though not especially efficiently. At the point at which old production was turned off, the new equipment was still not performing at required levels and service levels suffered (either qualitatively or quantitatively). Consequently, customers progressively and substantially re-sourced the lines in question over the course of 2019; this explains management's reference to c US$20m annualised sales lost. Half of this occurred in FY19 and the other half is to affect FY20 sales' progress. The only outstanding related issue is the reinstatement of the problematic door seals line for which the options are still under review. We understand that with one exception, dual product customers (ie seals and hardware) have not also re-sourced/switched their hardware business as a consequence.

In aggregate, we believe that AT's traditional core hardware and seals accounted over 80% of the company's c US$493m revenues in FY19. Primary manufacturing operations are now in four centres of excellence (Owatonna MN, Statesville NC, Sioux Falls SD and Juarez Mexico) in modern facilities. (There are also smaller support/satellite operations in Ontario and Cannon Falls, MN) Fixing the seal challenges was a distraction in 2019 but we sense that a wider re-boot of AmesburyTruth is underway. A new CEO/president was appointed in June (previously MD of Ashland Hardware) and other senior hires were also made during the year. Most notably, a more directed sales approach to Tier 2 customers (explicitly recognising medium volume customer needs, as happens with Tier 1 and more distribution-oriented Tier 3 and 4) and embedding a new continuous improvement manufacturing approach appear to be the key focus areas.

Two acquisitions – **Ashland Hardware**[2] and **Bilco**[3] (together accounting for c 15% of AT revenues) – were made after the US footprint optimisation project began and have been commented on separately. **Ashland** now fits into the above sales and marketing structure having brought in complementary hardware products to balance out the 'good-better-best' portfolio offer. Like-for-like annual revenues rose by c 1% for Ashland, which contributed an additional three months of trading to the FY19 results, generating above-average divisional margins. **Bilco** is more of a standalone business with a predominantly commercial product portfolio. It grew sales by 4% l-f-l broadly

[2] Ashland was acquired March 2018; it is a complementary hardware supplier with primary manufacturing in Monterrey, northern Mexico, with a satellite facility in Woodbridge, Ontario, and a distribution facility in Freeport, IL.

[3] Bilco was acquired June 2016; it is a leading manufacturer of specialty access products (including roof access hatches and smoke vents) largely for commercial building applications. It has manufacturing sites in Zanesville OH, Trumann AR and Juarez, Mexico, with a head office in New Haven, CT.

consistently across both halves of the year despite reference to weaker segment trends in H2 having expanded distribution relationships we believe.

We note that the new management team has taken the decision to further consolidate AT's internal supply chain by closing the Fremont, NA, stamping facility (Overland Products, acquired in 2011) and relocating lines to other locations. An associated impairment charge of £2.5m was recognised in the FY19 accounts.

International (SchlegelGiesse): Tighter markets, managing costs

FY19 started well with like-for-like revenue progress of +4% in H1, but competitive conditions and softness in some markets towards the period end continued into H2 leading to lower year-on-year revenues in generally softer market demand. For the year as a whole, like-for-like revenue was slightly ahead, but operating margin erosion that was visible at the end of H1 appeared to intensify in H2, leaving full year underlying EBIT down by 8%. In its first full year, **Reguitti**[4] chipped in c £5m incremental revenue and moderately more profitability at below average margins for the division we believe. Sterling translation provided a modest drag to year-on-year reported divisional results.

Markets outside Europe and China were seen to be soft or challenging for most of the year and full year commentary for Australia, Latin America and the Middle East – for different reasons – confirmed this to have been the case. Hence, the initially positive, turning negative like-for-like pattern described above reflected a good start to the year in the leading markets of Europe and China (carrying other territories and sustaining forward momentum) before seeing tougher trading conditions in H2. All three of the largest countries by revenue experienced specific pressures arising from lower competitor pricing actions – including new regional entrants – but responded by gaining share (Italy, Spain), increasing the proportion of seals revenue (Spain) and broadening distribution routes to market (China). The integration of Reguitti's product range completed during the year. There also appeared to be a step up in cross-selling the whole portfolio (ie hardware and seals) in the execution of an 'all in one' sales and marketing strategy.

The regional sales mix development became more adverse in H2 with historically higher-margin territories making a disproportionately larger impact on the divisional margin outturn. For the year as a whole, EBIT came in 8% lower than the prior year with the EBIT margin down 80bp (to 12.3%) y-o-y. While a full year contribution from Reguitti may have made a marginal contribution to this margin change, such an impact was not apparent in H1. With a 7.8% annualised return on acquisition investment, management acknowledges that Reguitti (accounting for c 7% of divisional sales) needs to improve its performance to meet the company's internal 14% target. The launch of a new value-engineered product suite during H2 is partly aimed at countering the lower priced competitive threat referred to earlier. SchlegelGiesse's (SG) investment in additional sales and marketing resource at the end of FY18 and beginning of FY19 perhaps sustained year end momentum initially in 2019, but given the competitive pressures described above were subsequently at least partly unwound during H2.

In addition to the specific actions mentioned, SG undertook a commercial review of markets and costs, concluding that Australasia and ASEAN markets could be served without local manufacturing. Consequently, an exit from production in Australia and China and a Singapore distribution hub location was said to be underway and scheduled to complete in H120, while other opportunities are also being appraised. The FY19 results announcement also flagged the progression of an active new product development phase; while some of this output is now in the market, it may well be the case that a pause will be scheduled for the expected 2020 launches, including new value engineered hardware for the Chinese market.

4 Acquired August 2018; it is a Brescia, Italy-based designer and manufacturer of a broad range of largely interior door hardware mainly for the commercial sector.

UK & Ireland (ERA): Relative outperformer, challenging markets

Quoted UK building products companies collectively commented on slowing business conditions as 2019 progressed, more so in H2 with uncertainties arising from the changing government leadership, parliamentary gridlock and another missed Brexit deadline at the end of October before culminating with a decisive election outcome in December. In this context, ERA performed creditably with relatively little like-for-like revenue variance (+1% in H1, -1% FY19), which management considers to be better than its underlying markets. With some prior year price increase benefit in the year – which was more of a H119 effect – this implies that underlying volumes were down in the low- to mid-single-digit percentages.

We estimate that OEM and distributor sales accounted for c 80% of divisional sales in FY19 and Access 360 a further c 15% (including acquisition effects). The component parts of the underlying like-for-like revenue movement included, for residential seal and hardware products and services:

- **OEM sales** (direct to window and door fabricators) **-5% (H1 -2%)**
- **Distribution channel sales** (via trade supply chain outlets) **+6% (H1 +11%)**
- **Ventrolla** (specialist sash window renovation and manufacture) **-15% (H1 -22%)**

And, in the commercial sector:

- **Access 360**[5] (manufacture and supply of exterior and interior access products) **+9% (H1 +2%)**

It is interesting to note here that there was no common H1/H2 performance pattern across these sectors. The OEM and distribution segments both saw like-for-like revenue declines in H2. Overall one of them grew, the other declined over the year as a whole and we understand that both outperformed their relative sub-sectors. Ventrolla appeared to regain some sales momentum in H2 after a change in management. Following the launch of ERA's combined commercial offer under the Access 360 umbrella brand sales into this sub-sector (which tends to be more project-oriented) strengthened as the year went on. We conclude that management actions led to a relatively good overall performance from ERA's constituent parts in otherwise lacklustre and increasingly challenging markets in the UK in FY19.

Additional contributions from 2018 acquisitions Zoo Hardware (in distribution) and Profab (Access 360) supplemented underlying revenues together with the smaller Y-Cam (acquired February 2019), and boosted headline divisional revenue progress to 12%. Zoo performed strongly while Profab was held back in FY19 by capacity constraints from an improving order book position. Y-Cam focused on building a stronger market presence and launching a second generation cloud-based smartware suite (Homeguard, integrating Response Electronics' discrete products).

At 35.5%, the full year **divisional gross margin** was 50bp lower than its 2018 (restated) equivalent with a marginal 10bp decline (to 12.9%) on the same basis at the EBIT level. We believe that the restatement means that the H1 margins are not strictly comparable to the full year. That said, along with favourable y-o-y pricing effects, H119 is likely to have seen some clear benefits coming through from the consolidation of certain operations during H118 and, by inference, these were effectively offset in lower volume conditions during H2. We note that Ventrolla and Y-Cam both generated trading losses in the year, thereby diluting the divisional margin outturn, but we are unable to quantify these effects. Investment in new product development is expensed as incurred to keep abreast of end market changes (eg slim window profiles, patio/bi-fold doors), introduce new security features, points of differentiation and enhance to portfolio range. In conjunction with a design for manufacture focus and supply chain management, this can provide opportunities to enhance margins but also reduce commoditisation and price competition effects. Some 12% of divisional revenues in FY19 were generated from products launched in the last three years.

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5 Access 360 is the new umbrella brand for ERA's commercial product offering comprising Bilco UK (roof access hatches, panels and vents), Howe Green (floor access) and Profab (wall access)

Positive FY19 cash flow performance

Tyman ended FY19 with net bank debt of £162.8m, a year-on-year decrease of £46m (and down c £60m from the seasonally higher H1). Of this, £4.5m was due to favourable FX translation at the period end, so the underlying net cash inflow was c £41m for the year. The following section comments on underlying cash movements and concludes with the key points associated with IFRS 16 leases.

Tyman's pre-IFRS 16 **operating cash inflow was c £102m**, a year-on-year increase of c £17m. While EBITDA on this basis was c £2m higher, the biggest positive year-on-year variance was seen in working capital swinging from a prior year c £4m outflow to a c £22m inflow in 2019. This included a c £41m inflow in H2; even allowing for seasonal effects, this was materially above anything seen previously and by a factor of more than 2x against the next highest (c £16m in H2 2016). This H2 inflow was generated by reductions in inventory – with a slightly larger contribution – and receivables. A small reduction in like-for-like revenues – more pronounced in H2 – together with a partly inflated starting position (arising from 2018 acquisitions, pre-Brexit inventory and US footprint actions) will have contributed to the noted working capital movement. We are unable to determine the extent to which the inflow was attributable to these factors versus underlying performance.

In addition to the above standard cash flow line items, Tyman highlighted **c £11m of exceptional outflows**, which were comprised of costs associated with the conclusion of the original US footprint project (specifically the closure and relocation of activities from the Amesbury and Rochester facilities) and the integration of acquisitions (2018: Ashland Hardware, Zoo Hardware, Profab, Reguitti and 2019 the small Y-Cam bolt-on) in broadly equal measure we believe. As seen in previous years, Tyman also made a **c £1m pension deficit recovery cash** contribution. Other notable items included:

- **Net bank interest/fees c £12m** (up from c £9m y-o-y) – increased due to higher average net debt arising from prior year acquisitions and at a slightly higher average cost
- **Cash tax payments c £14m** (+c £2m y-o-y) – the uplift here despite lower underlying profitability was attributable to its 2018 comparator being flattered by a refund receipt and a change in the UK collection system (giving rise to additional quarterly payments on account in the initial implementation year on a one-off basis).

  Capex c £11m – gross spend of £11.5m naturally tapered down from previous years (and £17.3m in 2018) as the significant footprint optimisation programme of recent years – chiefly in the US – concluded. For the record, this spend was 0.8x owned asset depreciation and amortisation of internally developed intangibles. Asset disposal proceeds netted down gross spend to c £11m (versus c £12m in 2018).

So, on our adjusted pre IFRS 16 basis, we assess Tyman's **FY19 free cash flow** to have been **c £68m**, compared to c £52m in FY18. These funds were partly applied in the year as follows:

- **Acquisition consideration c £1m** – Y-Cam (in the UK)
- **Cash dividends c £24m**
- **Treasury share purchases £2m**

Taking all of the above movements into account generated the previously noted c £41m underlying cash inflow for the group in 2019.

We have discussed Tyman's cash flow in this way to aid comparability with the reported 2018 year. The actual presentation on an **IFRS 16** basis includes £8.6m lease cash costs in total. Prior to the adoption of this standard, these would have been recognised above operating profit but are now split into £3m interest costs and £5.6m capital repayments in the cash flow statement. At the year end, **IFRS 16 leases** were valued at £60m on the balance sheet.

Guidance withdrawn owing to COVID-19 uncertainty

At the time of reporting the FY19 results, only Hubei province was in partial lockdown (including capital Wuhan) and primary business concerns were centred around China supply chain continuity. The World Health Organisation declared the spread of COVI-19 infections to be a pandemic on 11 March. At that time, four countries dominated reported infections (ie China, South Korea, Iran and Italy) but only two had formal quarantine arrangements in place. The subsequent virus spread has led to a series of national lockdown announcements, initially in Europe and then elsewhere. A subsequent trading update from Tyman (3 April) confirmed that FY20 trading to the middle of March had been in line with management expectations, but has been progressively affected subsequently. We now comment on the individual challenges at divisional level.

In the early part of March, a COVID-19 outbreak had started in northern Italy but **SchlegelGiesse**'s Italian production had experienced no disruption. Subsequent lockdown activity has led to the temporary closure of both primary manufacturing sites here (in Bologna and Brescia) and also we assume is likely to have created significant disruption in many of SG's sales territories. At the time of writing, SG's three largest markets (Italy, Spain and China) were among the countries most affected globally. As previously noted, the division's model for accessing markets in Asia and Australasia is changing from direct manufacturing/local distribution to export from group facilities elsewhere. We understand that this process, which began before the end of FY19, is now pretty much complete.

ERA is the main user of a Chinese supply chain in the group and - save for a few discrete processes that have been relocated into production space at the i54 facility – is likely to continue to do so. Across a wide range of industries, others (eg Norcros, 1 April) have reported that manufacturing supply capability in China is nearing normal levels again. However, the UK is currently in its own lockdown phase (from Monday 23 March) so near-term volume requirements are significantly reduced. ERA has followed government lockdown guidance; c 80% of its workforce is currently furloughed. The lockdown is initially intended to last three weeks with a post-Easter review flagged. We feel that a significant change to government guidance is unlikely to occur in the short term. Hence, it remains to be seen whether UK economic optimism following the post December election bounce in sentiment can be regained and whether the previously common view for some recovery in housing transactions as the year progresses leading to rising repairs, maintenance and improvement spend (albeit with a lag) is restored. More restrictive mortgage lending and greater employment uncertainties are a clear obstacle to this scenario currently.

In the US, **AmesburyTruth's** largest market, some travel restrictions had been put in place but there was still a relatively low incidence of coronavirus cases by the end of February. There was a more visible government response from 13 March when a national emergency was declared but by the end of March the US had recorded the highest number of reported cases (initially heavily concentrated in the north eastern states of New York and New Jersey). The building materials supply chain workforce has been categorised as 'essential' though individual state behaviours have varied as has the issuance of 'stay at home' directives. AT's own operations are in nine US states (excluding Nebraska where a site exit is underway) with two each also in Canada and Mexico. Tyman's 3 April update noted that its North American sites were operating albeit with a lower order intake. End customer activity levels have obviously decreased; while the US still appears to be in a phase of accelerating incidence of COVID-19 cases demand patterns are unlikely to change in our view and, if anything the greater risk is that federal and state-level directives become more stringent.

Understandably, as a result of the above circumstances **Tyman has withdrawn forward-looking guidance** pending greater clarity on the trading environment. Likewise, we are withdrawing our estimates at this time.

Some modelling considerations: Volume is clearly a key driver of financial performance and swings here – noting a spread of reported gross margins (eg group 33.5% in FY19; SG 40%+, ERA, mid 30%, AT 30–35%) – will have varied impacts on divisional profitability. This gross margin range partly reflects supply chain differences but all divisions now record depreciation of manufacturing assets within COGS. (To illustrate, fully costed materials plus depreciation were around two-thirds of FY19 COGS adjusted to include depreciation, the latter element representing c 2% of this figure.) Below this, distribution costs should largely be variable with activity levels with a greater proportion of fixed/semi-fixed costs in other SG&A within opex. We would expect new product launch and development activity to be lower than previously budgeted by management providing some cost flex down opportunities in this area. We are not able to split reported staff costs between COGS and opex but referring again to FY19 note that in total they represented almost one quarter of revenue and c 36% of total costs in that year.

Clearly, operational performance does not adjust instantaneously from normal to lower levels but is subject to controlled activity reduction and this process also applies in reverse. The level of inventories on hand (raw materials through to finished goods) and downstream with customers and distributors, supply chain length and responsiveness and of course the shape of recovery of end market demand will all have a bearing on the ramp up phase. Notwithstanding indeterminate timing, we would expect companies to be planning for this now. It will be instructive to monitor OTIF (on time, in full) shipment metrics both inbound and outbound during a ramp up period and whether any changes in business terms – including receivables and payables days – are required to facilitate a return to normal operational levels.

Cash preservation at a premium: As stated in Tyman's 3 April update, corporate cash control measures are being implemented most obviously via cost savings (including senior management and board salary reductions) and lower rates of capex. Working capital reduction was specifically referenced also; given a strong starting position at the beginning of the year and that a seasonal build usually occurs at this time of year further reductions would be a significant achievement in our view, notwithstanding tempered short term inventory needs. Unsurprisingly, government supported actions including employment retention schemes and tax deferrals are also being used. Cancellation of the previously proposed FY19 final dividend will retain c £16m within the business.

Updated banking position: Tyman has in place a £240m unsecured RCF to February 2024 and US Private Placement unsecured loan notes of US$100m (c £82m) of which $55m is repayable in November 2021, the remainder in November 2024. The company stated its end March cash position was £121m (versus £49m at the end of FY19); with £236m of the RCF drawn down and the $100m loan notes in place, this infers end March group net debt of c £190m (versus £163m at the end of FY19). At this level, a 3x covenant cover requires EBITDA of at least £63m, which compares to c £100m generated in FY19. Given that depreciation of owned tangible fixed assets is c £13m per annum – and assuming net debt to be a constant/cash flow neutrality – suggests that current headroom is able to accommodate a drop in EBIT of up to c 40%. Management has stated a confidence in in being 'well-placed to withstand a prolonged period of reduced trading'.

Strategic actions emerging, pending further details

The still relatively new management team has understandably deferred a proposed capital markets day designed to present an updated corporate strategy. We are already beginning to see closer divisional collaboration and some further refinements to footprint targeting operational efficiencies. There has also been a clear focus on organic development and we believe these to be ongoing business characteristics. We expect more details regarding the refreshed group strategy to emerge later in the year or when the impacts and any legacy effects from the coronavirus outbreak can be properly evaluated.

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Exhibit 2: Financial summary

£m	2011	2012	2013	2014	2015	2016	2017	2018	2019
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS	**Cont.**	**Cont.**							
Revenue	216.3	228.8	298.1	350.9	353.4	457.6	522.7	591.5	613.7
Cost of Sales	(145.2)	(154.0)	(198.8)	(236.1)	(234.0)	(290.4)	(331.8)	(383.3)	(408.1)
Gross Profit	71.1	74.7	99.3	114.8	119.4	167.3	190.9	208.3	205.6
EBITDA (pre-IFRS16)	27.7	28.5	39.4	54.6	60.9	82.5	91.7	98.5	100.8
Operating Profit (Edison)	22.4	23.4	33.0	46.9	52.9	70.9	78.8	84.7	86.2
Net Interest	(5.9)	(3.3)	(3.4)	(4.5)	(6.0)	(6.9)	(8.0)	(10.0)	(11.9)
Other Finance	(3.6)	(0.9)	0.2	(2.2)	(0.6)	(0.4)	(0.8)	(1.3)	(3.5)
Share Based Payments	(0.2)	(0.5)	(0.7)	(0.9)	(1.0)	(1.0)	(2.0)	(1.1)	(0.8)
Intangible Amortisation	(10.6)	(10.8)	(16.6)	(17.8)	(19.6)	(21.7)	(22.9)	(25.8)	(23.5)
Exceptionals	0.7	(33.4)	(11.4)	(9.3)	(9.4)	(10.9)	(10.0)	(7.3)	(21.4)
Other	(0.1)	(0.4)	(0.4)	(0.3)	(0.4)	(0.5)	(0.6)	(0.3)	(0.3)
Profit Before Tax (Edison norm)	12.7	18.7	29.2	39.3	45.4	62.5	68.0	72.3	70.0
Profit Before Tax (Company norm)	17.4	21.3	28.6	41.6	45.4	62.1	68.3	72.7	71.0
Profit Before Tax (statutory)	2.6	(25.8)	0.8	11.9	16.1	29.4	34.5	38.9	24.8
Tax	6.4	3.7	0.2	(2.6)	(8.0)	(8.6)	(3.3)	(12.5)	(7.1)
Profit After Tax (norm)	19.1	22.4	29.4	36.8	37.3	53.8	64.7	59.8	62.9
Profit After Tax (statutory)	9.1	(22.1)	1.0	9.3	8.1	20.7	31.2	26.3	17.7
Average number of shares outstanding (m)	129.7	129.7	152.8	167.8	168.2	173.0	177.2	191.4	194.9
EPS - Edison norm (p) FD	6.7	9.6	13.9	17.1	19.3	25.5	26.6	27.3	26.8
EPS - Company norm (p) FD	9.4	10.2	13.5	18.4	19.4	25.3	26.7	27.5	27.4
EPS - statutory (p)	6.8	(16.7)	0.6	5.6	4.8	12.0	17.6	13.8	9.1
Dividend per share (p)	3.4	4.5	6.0	8.0	8.8	10.5	11.3	12.0	3.9
Gross Margin (%)	32.9	32.7	33.3	32.7	33.8	36.5	36.5	35.2	33.5
EBITDA Margin (%)	12.8	12.5	13.2	15.6	17.2	18.0	17.5	16.7	16.4
Operating Margin (before GW and except.) (%)	10.4	10.2	11.1	13.4	15.0	15.5	15.1	14.3	14.1
BALANCE SHEET	**Cont.**	**Cont.**							
Fixed Assets	352.8	298.1	404.2	410.6	398.4	564.7	509.9	612.5	618.8
Intangible Assets	312.7	258.7	354.4	355.7	340.5	480.0	427.2	516.9	475.3
Tangible Assets	30.5	29.8	39.9	42.9	42.8	71.7	68.4	77.0	125.2
Investments	9.6	9.5	9.8	12.1	15.0	12.9	14.2	18.6	18.3
Current Assets	96.4	90.7	118.9	124.0	111.0	180.6	188.1	244.8	213.9
Stocks	26.6	27.6	40.7	47.6	46.0	70.7	75.3	105.3	88.6
Debtors	49.3	27.3	34.7	37.1	35.0	69.0	70.2	87.7	76.3
Cash	20.4	35.9	43.6	39.3	30.0	40.9	42.6	51.9	49.0
Current Liabilities	(55.1)	(44.2)	(60.8)	(52.3)	(44.4)	(86.4)	(82.0)	(102.9)	(100.9)
Creditors	(42.2)	(36.7)	(54.0)	(52.3)	(44.4)	(86.4)	(80.9)	(101.4)	(100.6)
Short term borrowings	(12.9)	(7.5)	(6.8)	0.0	0.0	0.0	(1.1)	(1.5)	(0.3)
Long Term Liabilities	(144.8)	(96.9)	(161.7)	(176.2)	(156.7)	(285.3)	(251.4)	(320.5)	(315.5)
Long term borrowings	(100.2)	(63.6)	(115.5)	(128.0)	(111.6)	(216.5)	(204.3)	(259.2)	(211.5)
Other long term liabilities	(44.6)	(33.3)	(46.2)	(48.2)	(45.1)	(68.8)	(47.0)	(61.3)	(104.0)
Net Assets	249.2	247.7	300.6	306.1	308.3	373.6	364.5	433.8	416.3
	0.000								
CASH FLOW	**Cont.**	**Cont.**							
Operating Cash Flow	32.6	23.6	38.9	40.1	49.4	79.9	67.0	85.0	111.3
Net Interest	(6.7)	(4.2)	(2.6)	(4.6)	(6.2)	(7.0)	(7.6)	(9.1)	(15.0)
Tax	(1.9)	(4.9)	(6.2)	(6.3)	(8.9)	(12.7)	(15.1)	(12.3)	(14.2)
Capex	(4.9)	(6.8)	(8.1)	(10.2)	(10.9)	(15.3)	(12.6)	(12.0)	(10.7)
Acquisitions/disposals	(10.3)	51.2	(131.2)	(6.5)	6.8	(96.1)	(6.3)	(106.4)	(0.9)
Financing	(0.3)	(1.1)	68.1	(4.3)	(2.6)	16.7	(0.8)	47.2	(2.0)
Dividends	(2.6)	(5.8)	(7.0)	(10.9)	(14.6)	(15.6)	(19.5)	(22.4)	(23.6)
Net Cash Flow	6.0	51.9	(48.2)	(2.8)	13.0	(50.0)	5.1	(30.1)	44.9
Opening net debt/(cash)	91.7	92.7	35.2	78.7	88.7	81.6	175.6	162.9	208.8
Finance leases initiated	(2.7)	0.0	0.0	0.0	0.0	0.0	0.0	(2.0)	(0.3)
Other	(4.4)	5.6	4.7	(7.2)	(5.9)	(44.0)	7.6	(13.9)	1.4
Closing net debt/(cash)	92.7	35.2	78.7	88.7	81.6	175.6	162.9	208.8	162.8
Lease finance (under IFRS 16)									60.0

Source: Company accounts, Edison Investment Research. Note: *EBITDA and net debt both shown on a pre-IFRS16 basis.

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