EDISON

Tyman

H115 results

Progress in variable markets

Construction & materials

H115 results moved ahead y-o-y with little help from Tyman's underlying markets. Conditions look to be improving generally going into the seasonally important H2 trading period, though we have modestly reduced our estimates based on H1 performance and updated FX assumptions. A broad change programme is underway, providing an enhanced business platform for further expansion. Some growth is priced into Tyman's current rating but the company is being positioned for more, in our view.

Year end	Revenue (£m)	PBT* (£m)	EPS FD* (p)	DPS (p)	P/E (x)	Yield (%)
12/13	298.1	28.6	13.5	6.0	22.8	1.9
12/14	350.9	41.6	18.4	8.0	16.7	2.6
12/15e	372.5	45.6	19.1	9.0	16.1	2.9
12/16e	385.6	49.4	21.0	9.5	14.7	3.1

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

AmesburyTruth drives H115 progress

Although market conditions were mixed to generally quiet, progress in H115 was driven by self-help actions, some improvement in US markets and a favourable US dollar translation effect. Trading at ERA and Schlegel overall was relatively subdued. Underlying group revenue and EBIT rose by 0.9% and 5.8% respectively (and by 5.1% and 14.6% in sterling terms) including a 110bp margin increase (at both gross and EBIT levels). A lower working capital investment in the period led to reduced cash outflow compared to the prior year. That said, net debt still rose (to c £104m vs £88.9m at the start of the year) following the usual seasonal pattern.

Embracing change and acquisition strategy

Tyman has started a significant change programme in North America designed to optimise AmesburyTruth's manufacturing footprint. The four-year execution means that the impact will be gradual rather than immediate, but also supports ongoing progress over an extended timeframe. ERA and Schlegel are also to review their operations in the UK and Europe respectively, so there is currently a very busy period of strategic execution ahead. This said, management has clearly identified an appetite for bolt-on acquisitions that fit with the existing product portfolio, which is another route to achieving above-market growth.

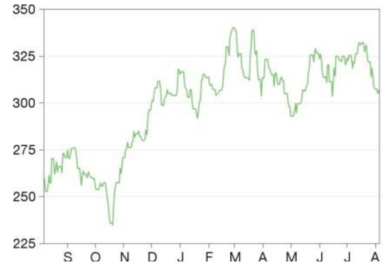
Valuation: Scope for progress

Tyman's share price has mostly traded in the 300-340p range year to date. It is now towards the lower end of this range and slightly below its start-year level. On our revised estimates, the company is trading on a current year P/E of 16.1x, falling to 14.7x on year out with EV/EBITDAs of 8.5x and 8.0x over the same time horizon. So, some growth is priced in but we believe that the cycle is still to fully establish itself in the key North American and UK markets and, with the change strategy outlined above, there is clear scope for further progress over and above this.

6 August 2015

Price	**308p**
Market cap	**£522m**
	US$1.55/£
Net debt (£m) at June 2015	104.4
Shares in issue* *Weighted average adjusts for EBT shares	169.6m
Free float	91%
Code	TYMN
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(5.2)	4.4	14.2
Rel (local)	(7.3)	6.2	10.4
52-week high/low		340.0p	234.8p

Business description

Tyman's product portfolio primarily addresses the residential RMI and building markets. It manufactures and sources window and door hardware and seals largely for the North American (AmesburyTruth 63%) and UK (ERA 26%) markets. (Percentages are for FY14 revenue.)

Next events

Trading update	10 November
Year end	December

Analysts

Toby Thorrington +44 (0)20 3077 5721

Roger Johnston +44 (0)20 3077 5722

industrials@edisongroup.com

Edison profile page

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H115 results overview

Progress at AmesburyTruth drove underlying y-o-y progress in H115, further aided by a more favourable average sterling/US dollar rate in the period. This is expected to continue in H2, with indications that trading in the other two divisions will also improve as the year unfolds.

Exhibit 1: Tyman divisional and interim splits

Year-end December (£m)	H1	H2	2014	H115	Actual	CC l-f-l
					y-o-y %	y-o-y %
Group revenue	**166.981**	**183.918**	**350.899**	**175.438**	**5.1**	**0.9**
AmesburyTruth	101.670	119.019	**220.689**	113.733	11.9	3.4
ERA (formerly grouphomesafe)	45.872	46.534	**92.406**	44.967	(2.0)	(2.0)
Schlegel International	19.439	18.365	**37.804**	16.738	(13.9)	(7.5)
Group operating profit	**19.382**	**26.695**	**46.077**	**22.213**	**14.6**	**5.8**
AmesburyTruth	13.697	19.471	**33.168**	16.522	20.6	9.5
ERA (formerly grouphomesafe)	6.088	7.651	**13.739**	6.033	(0.9)	(0.9)
Schlegel International	(0.403)	(0.427)	**(0.830)**	(0.342)	N/M	N/M

Source: Tyman

AmesburyTruth (H115: 65% group revenue, 74% EBIT)

Management estimates that its mix of addressable North American markets grew by 1-2%. RMI demand in the US and Canada rose c 1% and although (single family) housing completions were ahead in the US, market activity levels were lower than anticipated. AmesburyTruth saw a constant currency l-f-l revenue increase of 3.4% (excluding exited non-core operations). Door (especially patio) hardware sales were the strongest segment, though a weaker Canadian dollar versus US dollar (- c 11% y-o-y) slowed exports from US-based facilities and the translation of local earnings. A 100bp margin expansion (to 14.5%) was largely achieved from post-Truth acquisition synergies and virtually all the expected US$8m run-rate gain has, we believe, now been delivered (ie expected +US$3m increment in FY15). Some pricing gains arose in H1 from targeted actions on certain lines and a general increase was put through at the end of the half. The end-H1 order position was clearly positive (+11.9%), boding well for the important H2 trading period, especially leading into Q3. Relative US dollar strength (+8.7% y-o-y versus sterling on average) benefited UK earnings translation and should also be seen in H2, though not to the same extent on current rates.

ERA (H115: 26% group revenue, 27% EBIT)

An accurate reading of activity in ERA's dominant RMI sector has become more difficult due to industry registration changes, but there appeared to have been subdued conditions (estimated to have been down 2-3% y-o-y) during most of H1. Revenue and EBIT were at similar levels to the prior year. We believe that slightly lower volumes and net pricing[1] had a comparable impact on H1 revenue and the modest margin pick-up (+10bp to 13.4%) probably reflected mix effects, including growth from the premium-end Fab & Fix and also from new products. We continue to believe that macroeconomic and industry-specific indicators remain broadly positive for ERA. Although its period-end order book – including higher pricing – was flat, management expects improvement in H2, partly driven by new product sales. This follows the elevation of ERA to the UK masterbrand (formerly grouphomesafe) during Q115 and an associated marketing programme.

Schlegel International (H115: 9% group revenue, EBIT loss)

Across the other regions not covered by other divisions, Schlegel International continued to show variable country-by-country market performance but reduced its headline trading loss modestly. Schlegel's four largest European markets all saw revenue declines of more than 5%, with Russia hit

[1] Lower steel prices exceeding some price increases on products sourced in the Far East in US dollars.

particularly hard. This was partly compensated by growth in some other countries in the region and ongoing progress in Australia/New Zealand and Singapore. Currency movements against sterling exaggerated underlying revenue performances. We believe that non-European profitability improved in the period (including two extra months of Vedasil contribution adding £0.4m) but European losses increased (despite the elimination of Belgian losses from closing a facility there) and a review of the manufacturing footprint is underway. More positively, the period-end order book for the division was 9% ahead y-o-y with a marginal improvement in Europe noted.

Lower seasonal cash outflow y-o-y and balanced financing position

Tyman ended June with net debt of £104.4m (£15.7m higher than December but a similar level to H114). This was after a small free cash outflow, EBT share purchases and the £10.1m FY14 final dividend cash payment. Within free cash flow, the c £3m y-o-y improvement in EBIT described above, combined with a c £5m lower seasonal working capital outflow in H1, were the primary drivers of an £8.7m y-o-y swing in trading cash flow (to an overall £6.5m inflow). A material working capital build in the first half (and flowing back in the second half) is a typical pattern for Tyman. In H115, we believe a relatively quiet trading period in Q2 would have limited the growth in receivables compared to H114, while the inventory movement was partly influenced by increasing new product launch activity. Overall, the working capital investment was £17.8m compared to £23m in the prior year. Elsewhere in the cash flow statement, higher interest costs reflected the issue of private placement notes in November (average coupon 5.15%) and a higher tax payment is understood to have been a timing difference only, with no material underlying changes here. FX had a minimal impact on the reported net debt position compared to the end of FY14.

The previously announced North American footprint optimisation programme, to be executed over the next four years or so, started during H115 but the cash impact was only US$0.1m in the period. The expected implementation cash costs are c US$2.5m in each of the next four years including 2015. Associated capex is anticipated to be US$2m in 2015, and between US$13-21m in total over the following three years (the range depending on whether property is leasehold or acquired outright). The P&L savings from this programme are scheduled to begin in FY17, reaching an annualised US$10m in FY20. There were no material adjustments to previous guidance with the H115 results at this early stage of the programme's execution.

Tyman had £128m non-current borrowing at the end of H115, split evenly between private placement and term debt (from a committed £180m RCF to 2019). With £32m cash on hand, RCF headroom and an additional £60m accordion facility (also to 2019) Tyman has a balanced financing position with retained liquidity, long-term funding and flexibility if other, non-organic opportunities become available. Note that we expect end-FY15 net debt to be over £20m below the H115 level, though this partly depends on the timing of capex and working capital flowing back to the company.

Regional trading patterns and updated FX reflected in modestly-trimmed estimates

At the end of H115, the regional order book positions were reasonably encouraging, perhaps less so for ERA. For the current year, we have trimmed existing ERA and Schlegel estimates reflecting H1 trading with an unchanged North American contribution (the net effect of an underlying upgrade offset by the new US$1.55/£ FX assumption). Changes to subsequent years reflect the same FX rate with no other adjustments to underlying profitability at this stage.

Exhibit 2: Tyman estimate revisions

	EPS (fd) norm (p)			PBT norm (£m)			EBITDA (£m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2015e	19.7	19.0	(3.7)	46.4	45.5	(2.0)	62.0	61.5	(0.8)
2016e	21.0	20.9	(1.1)	49.6	49.2	(0.8)	65.5	65.0	(0.7)
2017e	23.2	23.0	(1.1)	54.7	54.2	(0.9)	70.5	70.0	(0.7)

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

Exhibit 3: Financial summary

£m	2010	2011	2012	2013	2014	2015e	2016e	2017e
Year-end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS	**Group**	**Continuing**	**Continuing**					
Revenue	266.2	216.3	228.8	298.1	350.9	372.5	385.6	399.0
Cost of Sales	(173.4)	(145.2)	(154.0)	(198.8)	(236.1)	(250.7)	(259.4)	(268.5)
Gross Profit	92.8	71.1	74.7	99.3	114.8	121.9	126.1	130.5
EBITDA	40.2	27.7	28.5	39.4	54.6	61.5	65.0	70.0
Operating Profit (Edison)	33.7	22.4	23.4	33.0	46.9	53.5	56.5	61.0
Net Interest	(8.9)	(5.9)	(3.3)	(3.4)	(4.5)	(6.0)	(5.9)	(5.4)
Other Finance	(2.9)	(3.6)	(0.9)	0.2	(2.2)	(1.1)	(0.5)	(0.5)
Share Based Payments	(0.1)	(0.2)	(0.5)	(0.7)	(0.9)	(0.9)	(0.9)	(0.9)
Intangible Amortisation	(11.7)	(10.6)	(10.8)	(16.6)	(17.8)	(18.0)	(18.0)	(18.0)
Exceptionals	(0.4)	0.7	(33.4)	(11.4)	(9.3)	(2.7)	(3.5)	(3.5)
Other	(0.3)	(0.1)	(0.4)	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)
Profit Before Tax (Edison norm)	21.9	12.7	18.7	29.2	39.3	45.5	49.2	54.2
Profit Before Tax (Company norm)	24.8	17.4	21.3	28.6	41.6	45.6	49.4	54.3
Profit Before Tax (FRS 3)	9.5	2.6	(25.8)	0.8	11.9	24.5	27.3	32.3
Tax	(2.5)	6.4	3.7	0.2	(2.6)	(7.9)	(8.4)	(9.8)
Profit After Tax (norm)	19.4	19.1	22.4	29.4	36.8	37.5	40.8	44.4
Profit After Tax (FRS 3)	7.0	9.1	(22.1)	1.0	9.3	16.6	19.0	22.6
Average Number of Shares Outstanding (m)	129.8	129.7	129.7	152.8	167.8	167.9	167.9	167.9
EPS - Edison normalised (p) FD	10.7	6.7	9.6	13.9	17.1	19.0	20.9	23.0
EPS - Company normalised (p) FD	11.4	9.4	10.2	13.5	18.4	19.1	21.0	23.1
EPS - FRS 3 (p)	5.3	6.8	(16.7)	0.6	5.6	9.9	11.3	13.4
Dividend per share (p)	2.0	3.4	4.5	6.0	8.0	9.0	9.5	10.5
Gross Margin (%)	34.9	32.9	32.7	33.3	32.7	32.7	32.7	32.7
EBITDA Margin (%)	15.1	12.8	12.5	13.2	15.6	16.5	16.9	17.5
Operating Margin (before GW and except.) (%)	12.7	10.4	10.2	11.1	13.4	14.4	14.7	15.3
BALANCE SHEET	**Group**	**Continuing**	**Continuing**					
Fixed Assets	367.4	352.8	298.1	404.2	410.6	392.2	378.3	365.6
Intangible Assets	328.2	312.7	258.7	354.4	355.7	333.7	317.8	301.9
Tangible Assets	31.5	30.5	29.8	39.9	42.9	43.5	47.2	50.4
Investments	7.7	9.6	9.5	9.8	12.1	15.0	13.3	13.3
Current Assets	86.7	96.361	90.7	118.9	124.0	145.6	164.0	186.0
Stocks	26.0	26.6	27.6	40.7	47.6	50.5	52.3	54.1
Debtors	28.2	24.1	23.7	29.9	31.5	33.4	34.6	35.8
Cash	27.7	20.4	35.9	43.6	39.3	56.1	71.6	90.5
Current Liabilities	(51.8)	(55.1)	(44.2)	(60.8)	(52.3)	(56.2)	(60.3)	(64.5)
Creditors	(46.6)	(42.2)	(36.7)	(54.0)	(52.3)	(56.2)	(60.3)	(64.5)
Short term borrowings	(5.2)	(12.9)	(7.5)	(6.8)	0.0	0.0	0.0	0.0
Long Term Liabilities	(163.7)	(144.8)	(96.9)	(161.7)	(176.2)	(178.9)	(177.9)	(176.9)
Long term borrowings	(114.3)	(100.2)	(63.6)	(115.5)	(128.0)	(136.1)	(136.1)	(136.1)
Other long term liabilities	(49.4)	(44.6)	(33.3)	(46.2)	(48.2)	(42.8)	(41.8)	(40.8)
Net Assets	238.6	249.2	247.7	300.6	306.1	302.7	304.1	310.3
		0.000						
CASH FLOW	**Group**	**Continuing**	**Continuing**					
Operating Cash Flow	38.6	32.6	23.6	38.9	40.1	50.8	58.5	63.4
Net Interest	(9.3)	(6.7)	(4.2)	(2.6)	(4.6)	(6.0)	(5.9)	(5.4)
Tax	(2.3)	(1.9)	(4.9)	(6.2)	(6.3)	(6.4)	(6.9)	(8.3)
Capex	(3.5)	(4.9)	(6.8)	(8.1)	(10.2)	(11.3)	(14.3)	(14.3)
Acquisitions/disposals	0.0	(10.3)	51.2	(131.2)	(6.5)	0.0	0.0	0.0
Financing	0.0	(0.3)	(1.1)	68.1	(4.3)	(3.5)	0.0	0.0
Dividends	0.0	(2.6)	(5.8)	(7.0)	(10.9)	(14.6)	(15.8)	(16.4)
Net Cash Flow	23.5	6.0	51.9	(48.2)	(2.8)	8.9	15.5	19.0
Opening net debt/(cash)	111.0	91.7	92.7	35.2	78.7	88.7	80.0	64.5
HP finance leases initiated	(0.0)	(2.7)	0.0	0.0	0.0	0.0	0.0	0.0
Other	(4.2)	(4.4)	5.6	4.7	(7.2)	(0.3)	(0.0)	(0.0)
Closing net debt/(cash)	91.7	92.7	35.2	78.7	88.7	80.0	64.5	45.5

Source: Company accounts, Edison Investment Research

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
245 Park Avenue, 39th Floor
10167, New York
US

Sydney +61 (0)2 9258 1161
Level 25, Aurora Place
88 Phillip St, Sydney
NSW 2000, Australia

Wellington +64 (0)48 948 555
Level 15, 171 Featherston St
Wellington 6011
New Zealand