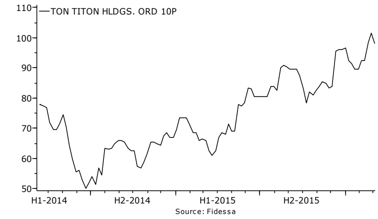
14th March 2016

hardman&co

Construction & Materials



Source: Fidessa

Market data	
EPIC/TKR	TON:LN
Price (p)	93.1
12m High (p)	103.6
12m Low (p)	60.5
Shares (m)	10.8
Mkt Cap (£m)	10.0
EV (£m)	7.2
Free Float* (%)	97%
Market	AIM

**As defined by AIM Rule 26*

Description

Titon designs, manufactures and supplies a comprehensive range of passive and powered ventilation products; plus handles, hinges and locking for doors and windows. "The home of domestic ventilation systems and door and window hardware"

Company information	
Executive Chairman	Keith Ritchie
Chief Executive	David Ruffell

01206 713800
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Next event	
Investor Forum	15 Mar 16
Interim Results	May-16

Titon Holdings Plc

Small, fresh and perfectly formed

Demand for the Group's core ventilation products is benefiting from dynamic building methods, tightening regulation and increasing focus on healthy buildings. What is more, almost half of Group revenue is international, including, unusually, a manufacturing and distribution business in South Korea, which on a net profit basis contributes more than the UK.

- **Strategy:** Titon was formed in 1972, went public in 1988 and its founder, John Anderson, remains as a Non-Executive Director and Deputy Chairman (and a 16% shareholder) 44 years on. If not unique, it is certainly very rare and beacon-like as many industry players have been subsumed into largely continental European entities.

- **Ethos and track record:** The Group's founder has also instilled an enduring ethos of excellence in quality, design, R&D and customer service, combined with an innate financial prudence. In 28 years as a listed company it has paid a dividend every single year.

- **Valuation:** Titon has financially outperformed many of its peers, yet it remains the cheapest stock in our sector on a derisory EV/EBITDA of less than 4x and there is complimentary yield above 3%.

- **Risks:** Q1 of 2016 has been characterised by force 10 turbulence in the financial markets. Similarly, geopolitical risks are omnipresent in the Middle East and elsewhere, China is a source of concern. The Group is pegged to the fortunes of both the UK and South Korean economies, neither of which are challenge-free.

- **Investment summary:** Titon is a constituent of the Hardman UK Building Materials Sector - which is having something of a renaissance (six IPOs in three years) and the Group is as cheap as wood chips.

Financial summary and valuation

Year end Dec (£m)	2013	2014	2015	2016E	2017E	2018E
Sales	15.7	19.3	22.3	24.0	25.0	26.0
EBITDA	0.88	1.70	2.13	2.30	2.40	2.49
Underlying EBIT	0.23	1.14	1.56	1.69	1.76	1.84
Reported EBIT	0.23	1.14	1.56	1.69	1.76	1.84
Underlying PTP	0.51	1.33	1.87	2.02	2.11	2.20
Statutory PTP	0.51	1.33	1.87	2.02	2.11	2.20
Underlying EPS (p)	2.9	8.5	12.6	13.4	14.0	14.6
Statutory EPS (p)	2.9	8.5	12.6	13.4	14.0	14.6
Net (debt)/cash	2.2	2.1	2.9	3.6	4.3	5.1
Shares issued	10.8	10.8	10.8	10.8	10.8	10.8
P/E (x)	32.4	10.9	7.4	6.9	6.6	6.4
EV/sales (x)	8.9	4.6	3.4	2.8	2.4	2.0

Source: Hardman & Co Research

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Prologue

Titon is the shepherd in the opera 'Titon et l'Aurore' by the French composer Jean-Joseph de Mondonville. It was first performed at the Académie Royale de Musique in Paris in 1753. It belongs to the genre known as the pastorale héroïque and scored serious points against the Italians; at the time they were the self-appointed boss boys of opera.

The plot is typically colourful, too, because Titon (a mere mortal) is in love with the Goddess of the Dawn, Aurore, and she with him. However, Eole, the God of the Winds, also has the hots for Aurore and, to really complicate things, another goddess, Palès, is in love with Titon. In short order, Aurore tells Eole to take a hike as does Titon to his suitor - but, by way of spite, Palès puts a spell on the shepherd and curses him with premature old age. But L'Amour (*aka* Cupid) enters from stage left and reverses the spell, which allows Titon and Aurore to live happily ever after.

Success in adversity, good triumphing over evil … inspiration you might think for a 29-year-old starting his own business? Group founder John Anderson agreed but nonetheless wanted 'Titan'. In classical Greek mythology, the Titans were immortal giants of great strength who ruled the world before the Olympians.

Unfortunately, in 1972 'Titan' had already been registered so John had to be content with 'Titon'. However, he still adopted the Corinthian helmet as the Group's logo. It hominifies protection for Gods and is a life-saver for mere mortals.

John had previously worked as a sales manager for a window and hardware company but had become increasingly disillusioned with the product design and performance. Incidentally, his father, Peter, had worked at Crittalls for many years and when he retired in 1973 he became an important member of the new Titon team.

The Group started life, however, in very unglamorous conditions. It was literally a garden shed measuring 12 by 8 feet which cost a princely £96.76. The three-day week was just around the corner, too (from December 1973 through February 1974); and the rest is history …

Forty-four years on, John remains a Non-Executive Director on the Board and Deputy Chairman (and a 16% shareholder). He stepped down from the Executive Chairman's role in 2012 just before his 70th birthday and it is certainly rare, if not unique, that a founder is associated with a business for more than four decades. His original ethos of excellence in design, quality, R&D and customer service remains front and centre - combined with an innate financial prudence. The Group is also constantly bringing new products to market, although John's first patent the 'Trimvent' (a passive or background trickle air vent) remains a product offering today. Titon puts great store on technical back-up and support and many of its employees are long-serving.

John took Titon public in 1988, joining a UK building material sector which has seen great attrition (particularly over the last 20 years) as household name after household name was subsumed, mostly into continental European entities. For example, Blue Circle, Marley, Pilkington, Tarmac and many more lost their independence. Happily, there has been some movement the other way with six IPOs in the past three years, with the likes of Polypipe and Ibstock returning to the fray. Within this hurly burly though, Titon is a constant.

It is also true that the ventilation market has moved front and centre. Buildings, houses in particular, have become more and more airtight (primarily to save energy) and there is, commensurately, a greater and greater need for air flow. Here, Titon designs, manufactures and supplies both passive and mechanical ventilation units; in the case of the latter (since 2007), these systems partially recover the heat which is expelled from a dwelling when it is being ventilated by using that heat to warm the incoming cold air.

At the same time, indoor air quality is becoming a major health focus. For example, it is claimed that four fifths of people in the UK are at risk of suffering from a respiratory or dermatological condition because of poor air quality inside their home - often as a result of condensation and associated mould growth. Ventilation is the key to reducing both.

An increasing governmental focus on building regulations is also aiding and abetting demand for the Group's products at home and internationally. In fact, almost half of Titon's revenue (and a majority of its net profit) is outside the UK and, in an apparent coals-to-Newcastle foray, the Group operates very successfully on the ground in that hotbed of industry and production, South Korea, where it has been active since 2008. It also has a wholly-owned US subsidiary and a raft of local distributors across continental Europe. In additional to ventilation products, the Group designs and builds window handles, hinges and locking mechanisms for door and window manufacturers. Many of these products are instantly recognisable as being Titon, and many are complementary.

Uniquely, at Hardman, we have defined a nouveau UK Building Materials Sector which comprises 23 stocks and more than £6 billion of market value. Within this universe, too, Titon is the least expensive stock.

> *"But the basics remain the same - customer service, innovative products, improved communications, hard-working employees - all will contribute to an exciting future for Titon."*

John Anderson: 'Titon: the First 40 Years' 2013

Global and UK Economic Outlook to 2018

Global and UK Economic Outlook to 2018 (%)					
Global economy	**2014A**	**2015E**	**2016F**	**2017F**	**2018F**
Volume of World trade	3.4	2.6	3.4	4.1	4.5
World GDP	3.4	3.1	3.4	3.6	3.8
Eurozone GDP	0.9	1.5	1.7	1.7	1.8

Source: IMF; Experian

In January 2016, the IMF took its red pencil out and reduced the 2015 outturn for global growth as it did 2016 and 2017 by 10% (i.e. 0.4 percentage points); the 2018 number comes from Experian (all the numbers in the table are post-revisions). The revisions were even more severe on World Trade - in the neighbourhood of 30% and 16% in 2016 and 2017 respectively. For the record, the Eurozone and the UK were left largely unscathed, albeit the IMF is more cautious on the UK than Experian (see later table).

In its January missive, the IMF said the pickup in global activity is projected to be more gradual than in the October 2015 World Economic Outlook (WEO), especially in emerging market and developing economies. This means that in advanced economies, a modest and uneven recovery is expected to continue, with a gradual further narrowing of output gaps.

The picture for emerging market and developing economies, however, is a diverse one and, in many cases, challenging. Similarly, the slowdown and rebalancing of the Chinese economy, lower commodity prices, and strains in some large emerging market economies will continue to weigh on growth prospects in 2016-17. That said, the projected pickup in growth over the next two years, despite the ongoing slowdown in China, reflects, primarily, forecasts of a gradual improvement of growth rates in countries currently in economic distress, notably Brazil, Russia, and some countries in the Middle East; albeit even this projected partial recovery could be frustrated by new economic or political shocks.

Indeed, says the IMF, risks to the global outlook remain tilted to the downside and relate to ongoing adjustments in the global economy: a generalised slowdown in emerging market economies; China; lower commodity prices; and the gradual exit from extraordinarily accommodative monetary conditions in the US. If these key challenges are not successfully managed, global growth could be derailed.

UK economy

At the end of 2015, the UK economy locked in three years of long-term-trend GDP growth of around an average 2.5% per annum, and expansion is expected to continue at close to this rate for the next three years.

The prospects for further rises in household expenditure, which makes up the bulk of GDP, are good. Employment growth has strengthened again after a hiatus during the summer. Earnings growth in relation to inflation continues to be positive and the likely start of Bank Rate rises has been put back to, perhaps, 2017 - and will be even more gradual than predicted six months ago.

Thus, although household consumption growth will moderate from its very strong rate last year, expansion will remain robust over the forecast period, averaging about 2.5% a year to 2018.

Fixed investment is also projected to continue to rise, aided by benign economic conditions and the low cost of finance, although growth will be at a more moderate rate of around 3.6% a year on average, rather than the 7.5% seen in 2014. Not surprisingly, the business investment component of this is likely to be stronger than the Government one.

The main drag on economic performance will continue to be poor export growth and a net trade deficit, at least in 2016. However, this is expected to ease over the forecast period as a Eurozone recovery gathers pace and the Sterling-to-Euro exchange rate weakens further.

UK: % change per annum

	2014A	2015E	2016F	2017F	2018F
GDP	2.9	2.4	2.4	2.4	2.4
Household Consumption	2.6	3.0	2.7	2.4	2.2
Government Consumption	1.9	2.3	0.1	-1.1	-0.3
Gross Fixed Investment	7.5	3.9	4.1	3.3	3.5
Bank Base Rate (average for year)	0.5	0.5	0.6	1.1	1.6
CPI (annual)	1.4	0.0	0.7	1.4	2.1
House Prices (yoy; DCLG measure)	10.0	6.2	4.4	3.7	3.1

Source: ONS; Experian, DCLG (Department for Communities and Local Government)
(yoy = year on year)

UK Construction

Total construction output is projected to expand by 3% a year on average between 2016 and 2018, taking output in the latter year to £143.3 billion in 2012 prices, a new high.

Growth will continue to be centred largely in the private sectors with public procurement of construction services remaining constrained by tough expenditure controls. New work should also perform better than RMI (Repair, Maintenance and Improvement), with the former seeing annual average growth of 4% over the three years to 2018, compared with a little over 1% for the latter.

Housing

The prospects for the public housing sector are poor. Housing starts here were down by 14% in the first three quarters of 2015 compared with the same period a year earlier and new orders have declined by 37%. Also, while some of these falls have already been reflected in output declines in 2015, they suggest another reasonably substantial contraction this year. Further ahead, the extension of Right-to-Buy to housing associations and the annual rent reductions imposed by the Government over the next five years are inevitably going to impact balance sheets and make them less attractive to investors.

Output in the private housing sector was estimated to have been around 96% of its 2006 peak in 2015 in real terms, despite a much lower level of starts and completions and a much less active housing market. This could reflect the changing mix of properties being built - and where. Growth is expected to be fairly moderate going forward for a number of reasons. Firstly, labour shortages could continue to impact the ability of house builders to raise volumes. Secondly, recent changes to the tax and Stamp Duty regimes for buy-to-let purchases are likely to take some of the steam out of this area of the market. Finally, 'consolidation' in the market since the global financial crisis means there are significantly fewer small and medium-sized house builders to drive volumes forward.

Turning to RMI, there is every reason to expect a further gentle contraction in public housing RMI output through 2018. Ongoing financial constraints will limit the amount of funding available for this work, while further inroads on the social housing stock under the Right-to-Buy programme will shift more properties into the private sector.

That said, growth in private housing RMI tends to be tied to disposable incomes and consumer spending, thus Experian's forecasts for the sector are roughly in line with household consumption increases. While the demise of the Green Deal (where the Government lent money to energy efficient product makers) will not directly affect the amount of energy efficiency and renewable generation work being undertaken, it could indirectly do so through a reduction in the number of households undertaking energy assessments.

Infrastructure

As long as there is no further slippage on nuclear new build, infrastructure is expected to see the most robust growth of any sector over the forecast period. Activity in the water-and-sewerage sub-sectors under Asset Management Programme 6 (AMP6), which runs from 2015 to 2020, should peak around 2017-18 if historical precedent is anything to go by, and the sub-sector will be further boosted by the start of work on Thames Tideway in the second half of this year.

The principal civils work on Hinkley Point is forecast to start early in 2017 (or is it?), with HS2 kicking-off a year later. Add in increasing additional expenditure on the UK's roads network and the prospects for the infrastructure sector over the next three years are very good.

Non-residential building

While the focus of further public expenditure cuts will be primarily on resource rather than capital spending, it is unlikely that there will be any significant uplift in the latter, except for large infrastructure projects. Thus, the outlook for public non-residential construction is dull, albeit there could be some modest growth after five years of decline.

Any expansion is likely to be led by the education subsector, particularly universities in the short term. Then, towards the end of the forecast period, a pick-up in defence works as part of the £1.6 billion Basing Plan should boost the miscellaneous sub-sector (Basing sets out the location changes for the British Army and confirms the drawdown of all units from Germany by 2020).

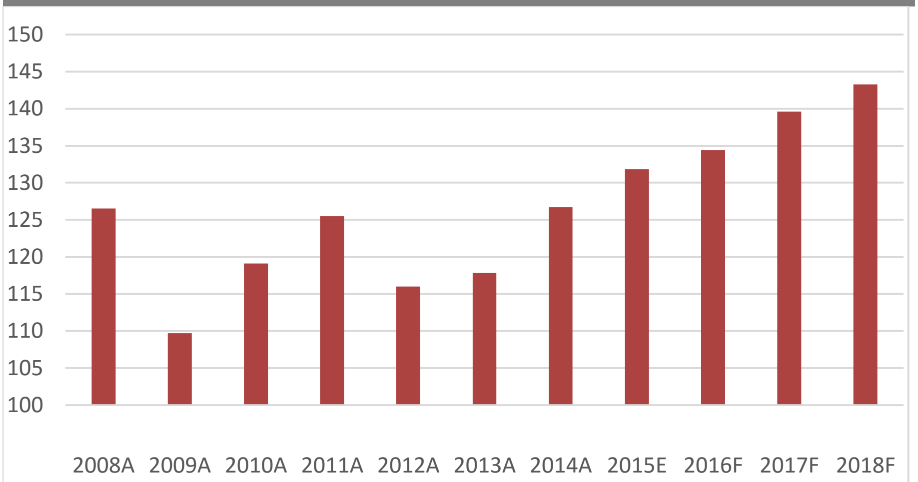
Expansion in the industrial construction sector is projected to moderate over the forecast period after its quite strong showing in 2015. However, it is still expected to post annual average growth in excess of 4% in the three years to 2018, largely driven by the warehouse subsector, which should benefit from demand for distribution and logistics facilities around upgraded transport routes such as the A1 between Leeming and Barton in North Yorkshire, due to complete in 2017. This should take output up to £4.94 billion in 2012 prices by 2018, its highest level since 2007.

Growth in commercial construction output should accelerate again after a poor-ish 2015. The offices market remains buoyant with some speculation that the London market is approaching the peak of its current development cycle. However, further tightening of Grade A space availability is leading to a return of speculative building in many of the main regional markets.

Prospects for new retail construction remain more mixed with the traditional food retailers, who have often been the main drivers of growth in recent years, still embroiled in a price war with the up-and-coming discounters. In the leisure sub-sector there is a good mix of theme park, resort, hotel and sport stadia in the pipeline which should drive construction growth over the forecast period. Output in the public non-residential RMI sector is expected to stabilise this year after a bad 2015, but the prospects for both public and private sector look dull in the forecast period.

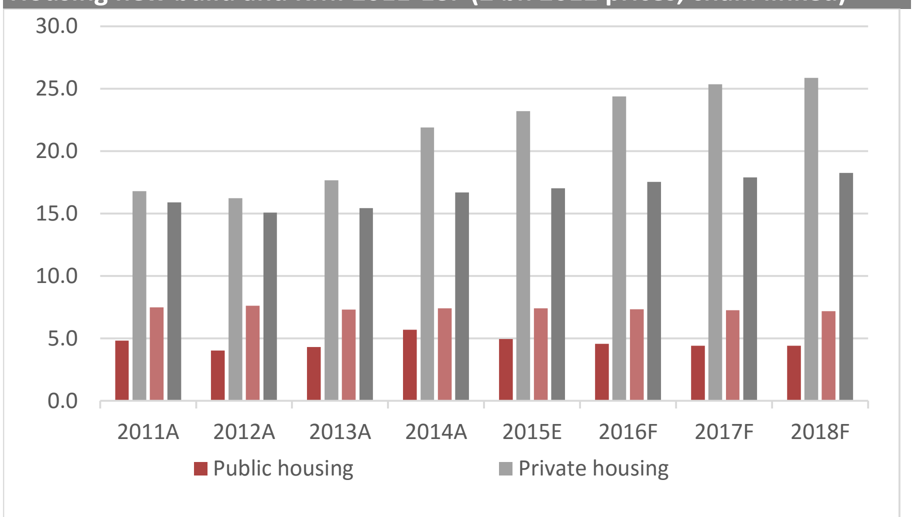
The first chart below looks at Total Construction Output in the UK, while the second one on Housing new build and RMI addresses Titon's core domestic markets.

UK Construction Output 2008A to 2018F (£ bn 2012 prices, chain linked)



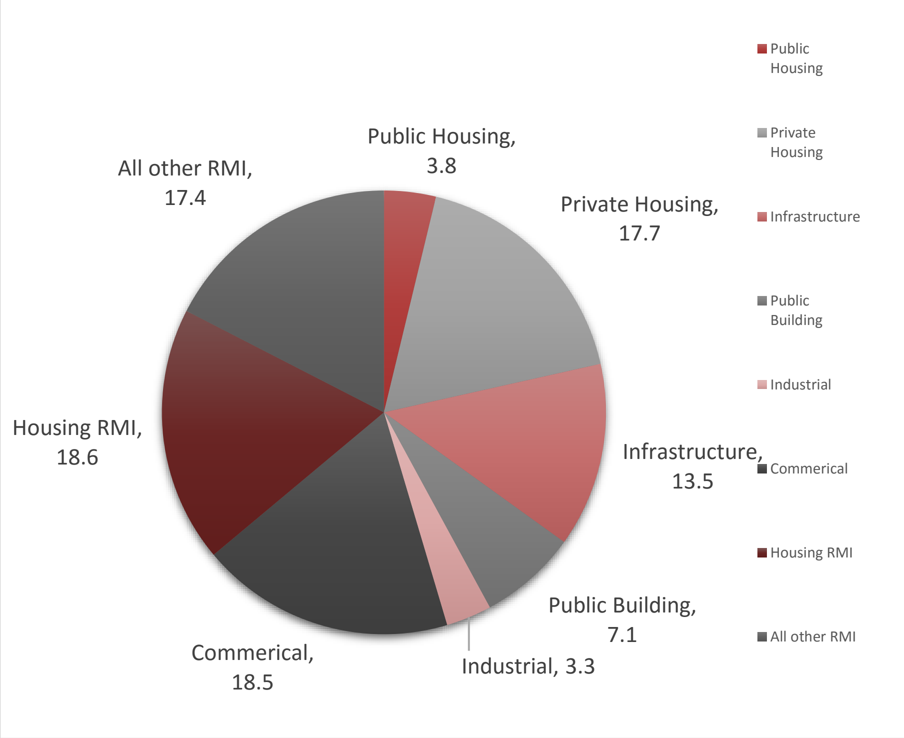
Source: Hardman & Co

Housing new build and RMI 2011-18F (£ bn 2012 prices, chain linked)



Source: Hardman & Co

UK Construction Output by sector 2015 (% share)



Source: Hardman & Co
Data are in chain-linked £ billion at 2012 prices

For the record, Commercial, Private Housing and Infrastructure are the three largest 'New Build' Sectors - and they account for 19, 18 and 14% respectively of Total UK Construction Output. Overall, though (and typical of a developed economy), it is Repair, Maintenance and Improvement (RMI) which stands like a colossus at 36% and, within it, Private Housing RMI is the largest single sub-sector.

Risk management

Q1 of 2016 has been characterised by force 10 turbulence in the financial markets and a headless oil price. It remains to be seen, however, whether this is a bout of pecuniary dyspepsia or a symptom of a terminal illness. Of course, this is far from unprecedented and we remain sanguine. Experian is pretty much in the same camp (although not as close to the fire) and, in its latest missive, highlights four global risks to its forecasts …

- **Geopolitical:** the continuing tension in the Ukraine and the conflict in the Middle East could have adverse economic repercussions, with potential disruption in the production/transportation of gas or crude. These conflicts could also weaken confidence and curb aggregate demand - and constrain global trade (after a poor showing in 2015).
- **China:** a sharper than expected decline in China's growth rate would cut World output growth via depressed global trade and the impact of lower commodity prices on primary producers.
- **The 2007-08 legacy:** several advanced economies and some emerging markets are still dealing with the aftermath of the 2007-08 financial crisis. High private and/or public debt will continue to pose a threat to economic growth prospects and financial stability.
- **Exchange rates:** a sharp rise in the dollar would undermine balance sheets of borrowers in dollars. Those who borrowed to finance commodity production are especially vulnerable.

… and four risks at home …

- **Brexit:** less the result and more the uncertainty leading up to the vote; *viz* the fall in Sterling when Boris Johnson threw his hat into the 'leave' ring.
- **Interest rates:** just how used to low and static rates has the consumer become?
- **Buy-to-let:** there are risks of additional negative Government policies which could damage the markets severely here.
- **Large project slippage:** further delays to nuclear new build, for example.

Postcard from South Korea

In 2015, Titon generated more than 30% of its gross revenue and segment profit in South Korea, where it has been active since 2008; and, net of unallocated overheads, South Korea contributes two-thirds of profit.

South Korea is a member of the OECD and the G20 major economies and boasts a market economy which ranks 11th in the World by nominal GDP and 13th by purchasing power parity (PPP). It is a developed country, with a developed market and a high income economy. South Korea is also the only developed country included in the group of 'Next Eleven' countries. South Korea had one of the World's fastest-growing economies from the early 1960s to the late 1990s - and remains one of the fastest growing developed countries since 2000.

Similarly, in 2012, South Korea became the 7th member of the 20-50 club (with a population surpassing 50 million and maintaining per capita income of US$20,000), chronologically, after Japan, the US, France, Italy, Germany and United Kingdom.

The nation has an export-oriented economy and, following the Asian financial crisis in late 1990s, its economy grew at an average 1.1% quarter-on-quarter, fuelled by exports, which account for half of its GDP. South Korea is the world's leading producer of displays and memory semiconductors and the second largest shipbuilding producer.

In common with other national Governments (and the IMF) official GDP forecasts for 2016 - from the Bank of Korea - have been reduced from 3.2% to 3.0%. Nonetheless, this is still higher than 2015's expected final outturn of 2.6%; and momentum will come largely from planned policy stimulus and an anticipated mild turnaround in exports following a slump last year.

The Ministry of Strategy and Finance in South Korea is also on record as saying that national expansionary fiscal policy should continue to boost domestic demand in 2016. To this end, too, the Government plans to run a wider fiscal deficit for additional stimulus this year and frontload the national budget spending. However, exports - which still account for half the country's output growth - are likely to remain limited by sluggish global trade, a slowdown in China (which takes a quarter of South Korea's exports) and the weaker currencies of competing economies. South Korean shipments overseas declined 7.4% from a year earlier in the first 11 months of 2015. Despite, this, the Ministry does expect a modest uptick in exports this year (+1.1%). Employment creation remains robust too and the Government forecasts as many as 350,000 new jobs this year following an estimated 320,000 in 2015. The domestic labour force is estimated at 25.2 million and the latest unemployment rate is 3.1%.

In 2015, the Central Bank cut interest rates twice - the last time in June - and financial markets (late February) are talking about a further move.

The IMF assesses that the South Korean financial sector's near-term vulnerabilities are limited and banks' funding and liquidity conditions are stable. The country's banking system is well-capitalised; the Tier 1 Capital ratio stood at 11.5% in September 2015, according to the Financial Supervisory Service. Outstanding household credit continues to rise, too, with an 8.5% annualised increase as at October 2015.

The next presidential election will be held in December 2017; President Park Geun-hye from the Saenuri Party will not be able to run for the presidency again due to a single five-year term limit. Parliamentary elections will take place in April 2016. President Park's policy goals are focused on the improvement of the welfare system while lessening the dominance of the country's large conglomerates and decreasing the economy's export dependence. However, approaching elections will likely redirect policymakers' attention away from long-term structural issues. At the same time, political and military developments in North Korea remain a potential source of instability.

Specifically on Titon's prime market, housebuilding, the state-run Korea Development Institute (KDI), by way of a preliminary estimate, says that some 490,000 new homes were built last year, which is much higher than the annual 270,000 average from 2000-2014. Much of this is driven by Government stimuli and low interest rates, neither of which is likely to change pro-tem. However, concern remains about house price inflation (+4.1% annualised in Q3 2015 and up from 3.3% in Q2) and personal indebtedness. Household debt grew 10.4% year-on-year to US$ 985.10 billion in Q3 2015, according to the Bank of Korea; and between 2007 and 2014, the outstanding mortgage-to-GDP ratio rose from 28% to 31%.

What it does

"The home of domestic ventilation systems and window and door hardware"

Titon was founded 44 years ago, in 1972, by the Group's current Deputy Chairman, John Anderson. What is more, his first patented product, the 'Trimvent' is still in production.

In 1988, Titon was floated on the USM (Unlisted Securities Market) and joined the full list of the London Stock Exchange four years later, in 1992.

The Group's head office is in Colchester, Essex, and it runs a large manufacturing unit in Haverhill, also in Essex. It employs more than 200 people in the UK, US, continental Europe and South Korea.

Titon is involved in the design and manufacture of ventilation products and door and window fittings. In the UK, it makes and sells a comprehensive range of passive (*aka* 'background') and powered ventilation products to, principally, housebuilders, electrical contractors and window manufacturers. Here, too, organic growth has been driven by legislation in the form of UK Building Regulations which have raised the air tightness standards for buildings; and, Titon has developed a fine line of low energy mechanical ventilation systems (often bespoke).

Additionally, it designs and builds window handles, hinges and locking mechanisms for door and window manufacturers. Many of these products, too, are instantly recognisable as being Titon.

Internationally, the focus is largely on the marketing of passive and powered ventilation products with a particular focus on South Korea, where Titon manufactures and distributes, and the US.

By product, the Group now operates two distinct business streams:

- Traditional trickle ventilation and window and door hardware business, in which Titon has operated since its formation in 1972.
- Mechanical ventilation, which the Group entered in 2007.

In the UK, Titon employs a direct sales force for both businesses which targets winning specification of products by house builders, architects, building services engineers and local authorities. In addition, it also sells directly to a wider customer base of electrical contractors, installers and window fabricators.

Internationally, and in addition to South Korea and the US, the Group generated sales in 24 countries last year. Its policy for exporting, in respect of both window and door hardware and mechanical ventilation products, is to appoint local distributors and it has a first class spread in continental Europe in particular which grows each year.

The Group is also zealous in its pursuit of new products which it has identified as a key element in its growth track; and, to this end, it undertakes continuing in-house research and development. This means that the current year will see a number of new products launched in both window and door hardware and mechanical ventilation in the UK and continental Europe.

In the longer term, the increased usage of 'mechanical-ventilation-with-heat-recovery' (MVHR) systems in both the UK and continental Europe is a key growth opportunity. These systems partially recover the heat which is expelled from a dwelling when it is being ventilated by using that heat to warm the incoming cold air. With increasingly high new homes standards of air tightness, too, ventilation per se is important where the fresh air from outside cannot easily infiltrate the building naturally.

It is currently estimated that less than one in five new build dwellings in the UK are fitted with an MVHR system, meaning that the potential for growth is significant. It would be helped in scale, of course, if the UK Government enacted further regulations to drive up energy efficiency standards in new houses. Currently, the Building Regulations for England & Wales which are of most relevance to Titon products are Parts (Approved Documents) F Ventilation and L Conservation of fuel and power.

It is also true that the concept of using MVHR systems is more accepted in many other Western European countries; and has a growing penetration in Central and Eastern Europe with particular emphasis on the need to reduce energy consumption.

In South Korea, the demand for the Group's products has been increasing year on year due to the introduction of Building Regulations for Ventilation in 2008. These Regulations specify that all new houses and apartments have to be adequately ventilated. In addition, the use of natural ventilation products over mechanical ventilation has been championed by the major South Korean social housing authorities. It is also anticipated that the market for the Group's products will continue to grow as the private house building sector embraces window ventilation products, in preference to mechanical systems, in order to reduce construction costs.

Domestic ventilation products for all types of dwellings

Ventilation has become one of the key issues in the building industry, both in the UK and internationally; and, at home, the Building Regulations have been (and continue to be) revised.

Continuing on from the Code for Sustainable Homes, the drive to energy efficient homes has gathered pace and is, veritably, changing the face of UK housing, increasing quality and improving building methods. Existing ventilation products can still comply with the revised Building Regulations. Titon, however, is one of the few background ventilator manufacturers which has developed a fully revised and improved range to offer compliance with Part F (Ventilation) of the UK Building Regulations - from trickle vents to mechanical ventilation systems with heat recovery.

Handles, fittings & ventilation for aluminium windows and doors

Aluminium windows and doors have long been the mainstay of the non-domestic commercial market and, more recently, aluminium has penetrated the social housing and new build apartments market.

Titon's aluminium department provides a full (and often unique) range of hardware for the aluminium market and supplies the market's most notable branded manufacturers such as Sobinco, Securistyle and Peder Nielsen. Products include locks - both traditional and multipoint - espagnolettes (a locking device mounted on a metal frame), hinges, tilt and turn mechanisms, handles and exit panic devices.

Titon also manufactures a range of specialist window ventilation products ideally suited to aluminium windows.

Handles, fittings and ventilation for PVCu or timber windows and doors

The majority of houses built in the UK have windows manufactured from timber or PVCu. Titon's range of products, including trickle ventilators, lock systems, espagnolettes, handles and hinge systems can be fitted to both newly-built houses and replacement windows. These include its signature trickle ventilator 'Trimvent Select', as well as surface mounted, recessed and glazed-in vents, together with acoustic ventilators. Plus the 'Select' range of handles which feature push button opening, self-latching closure, tilt and turn, higher security options and refined ergonomics. This die-cast range was created to match the Trimvents.

Indoor air quality: a major issue

- 81% of people are at risk of suffering from a respiratory or dermatological condition because of poor air quality inside their home.
- 54% of people have experienced mould or condensation in their home.
- 15.3 million (65%) homes in the UK are at risk of 'Toxic Home Syndrome'.
- Indoor air may contain over 900 chemicals, particles and biological materials with potential harmful health effect.
- The increasing prevalence of dampness and mould in the home also increases the number of people susceptible to asthma and allergies.

Source: myhealthmyhome.com

Poor indoor air quality caused by a build-up of indoor air pollutants can lead to an impact on the health of a building and its occupants. Similarly, the most common pollutants are biological, such as mould spores, pollen and dander. Other pollutants are VOCs, gases, carbon monoxide and building materials such as paint containing lead, formaldehyde and asbestos.

Ventilation (everything you wanted to know…)

Energy efficiency is increasingly the focus of Government, suppliers and consumers as a means of reducing cost and greenhouse gases. This means that houses, in particular, have become more and more airtight, which prevents air from 'changing' (existing air is allowed to escape from a room, new air comes in from outside). But getting the ventilation right is vital. Indeed, ventilation, heating and insulation are the three factors which combine to affect a building's performance, and also the occupants' health; and, specifically, ventilation is the key to reducing condensation and associated mould growth.

To achieve improved levels of ventilation, heating and insulation and the balance between them, the Building Regulations and Technical Standards in the UK, as well as in other countries, are being regularly updated, but the emphasis continues towards more whole building ventilation solutions.

For domestic situations there are more involved requirements which take into account total ventilation levels throughout the dwelling. Windows and doors play an important part in providing ventilation in a house, whether it is opening a window for ‘purge’ ventilation or through the use of trickle vents for controlled and secure background ventilation.

Titon's ventilation range includes full whole house systems, which have come to the fore due to the emphasis on improved energy efficiency, as well as trickle vents and window hardware. Similarly, where replacement windows are fitted to reduce air leakage and insulate from the cold outside, it is essential to fit trickle ventilators because they compensate for the reduction in accidental air leakage around old or poorly fitted frames and glass. Unsurprisingly, the majority of major building research bodies and energy efficiency programmes advocate the need for secure background ventilation.

Finally, Titon also has a number of fittings and accessories suitable for use in what are called ‘limited access’ situations. This includes windows and ventilators which cannot be reached in normal circumstances, for instance over a sink, in a stairwell or high up in a sports hall, as well as windows where the user has limited dexterity or mobility.

ISO

Titon has full ISO9001 Certification which is the internationally recognised standard for the quality management of businesses. ISO9001 ensures standards are met and monitored in eight core quality management areas, including customer focus, leadership, the involvement of people, a process approach, a systematic approach to management, continual improvement, a factual approach to decision making and a mutually beneficial supplier relationship. In 2007, Titon was also awarded an ISO14001 Environmental Management Standard certification.

Affiliations

Titon is affiliated with the following organisations and trade associations:

- **Residential Ventilation Association (RVA)** - the trade association for ventilation in housing which is part of the Heating Ventilating & Air Conditioning Manufacturers Association.
- **Council for Aluminium in Building (CAB)** - the trade association for aluminium in building.
- **Home Builders Federation (HBF)**.
- **Secured by Design (SBD)** - owned by the Association of Chief Police Officers and aimed at crime prevention through the use of high quality building products and processes.
- **BEAMA** – which represents manufacturers of electrical infrastructure products and systems from transmission through environmental systems and services in the built environment.

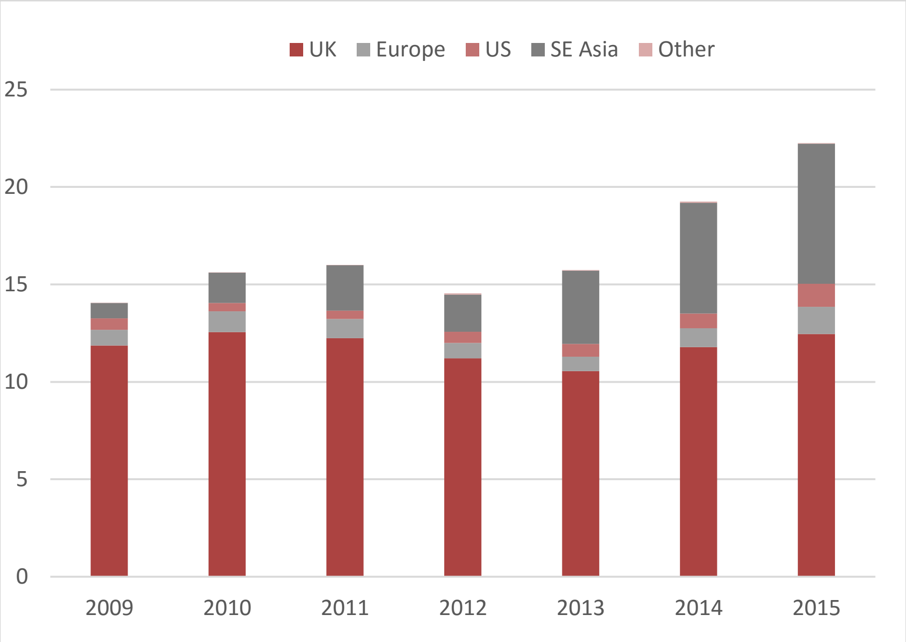
Financial record

Geography

Since 2009, Titon has grown net revenue at 8% per annum to reach a net figure of £22.3 million in 2015. The UK has accounted for 56% of the total over the past two years (fiscal 2014 and 2015) when the annual increases were 12% and 6% respectively.

Second in scale is South East Asia (essentially Korea) which accounted for 32% (just over £7 million) of net revenue in 2015. Last year, too, it grew 27% and this after rising 90% and 50% in fiscal 2013 and 2014 (Titon started doing business in South Korea in 2008). Elsewhere, continental Europe and the US accounted for 6% and 5% of revenue and displayed year-on-year growth of 45% and 55% respectively.

Revenue generated by region (£m) 2009-15



Source: Company data, Hardman & Co

Turning to profit, this is provided on a segmented basis for the UK, South Korea and all Other regions; and 2013, 2014 and 2105 are shown here (note, too, that 'Other' and, thus, the total include inter-segment sales).

In fiscal 2015, the UK contributed £2.6 million of profit and South Korea £1.3 million, which were up 20% and 43% respectively. Profitability-wise, the UK generated a return of 20.9% (2014: 18.5%) and South Korea 17.5% (2014: 15.6%). Note, too, that the Group manufactures (in Paju) and distributes product in South Korea. The former, Titon Korea, is a 51% owned, and the latter an associate company, Browntech Sales, which is 49% owned. This means that in the formal profit and loss account, South Korea is included in both the EBIT and the Associate profit line (where it is the sole contributor); the Nation also accounts for 100% of the Minorities charge.

It is important to note, here too that 'segment' profit for the UK is pre-unallocated expenses while for South Korea it is 'post'. This means that net of these charges, the UK contributes approximately one third of profit and South Korea two thirds.

Finally, the 'Other' category (which includes continental Europe and the US) grew revenue at 46% to clear £3 million in 2015 and generated an 8.8% return (2014: 5.7%). The Group has operated in the US since 1989 and owns a wholly-owned subsidiary, the eponymous Titon Inc., which is located in South Bend, Indiana.

Segment revenue and profits 2013-2015 (pre-unallocated expenses)

Revenue (£m)	**2013**	**2014**	**2015**
UK	10.548	11.781	12.461
South Korea	3.680	5.662	7.161
Other*	1.812	2.221	3.237
Total*	**16.040**	**19.664**	**22.859**
Segment profit (£m)			
UK	1.806	2.181	2.606
South Korea	0.649	0.884	1.234
Other*	-0.012	0.127	0.286
Total	**2.443**	**3.192**	**4.156**
% changes in Revenue			
UK	-6	12	6
South Korea	92	54	26
Other	11	23	46
Total	**9**	**23**	**16**
% changes in Profit			
% changes			
UK	23	21	19
South Korea	na	36	43
Other*	na	na	125
Total	**70**	31	**30**
Margins (%)			
UK	17.1	18.5	20.9
South Korea	17.6	15.6	17.7
Other*	na	5.7	8.8
Total	**15.2**	**16.2**	**18.2**

**Includes inter-segment*

Source: Hardman & Co

In terms of product type, the Group changed its classification in 2013. From 2009 through 2012, Manufactured Products accounted for two thirds of revenue, 'Bought in' items accounted for the balance. Then, from 2012-2015 'Trickle Ventilation plus window and door hardware' has taken 80% of net revenue with 'Mechanical Ventilation' accounting for the balance – an important and growing product line.

Revenue by type of product: 2009-12; and 2012-15

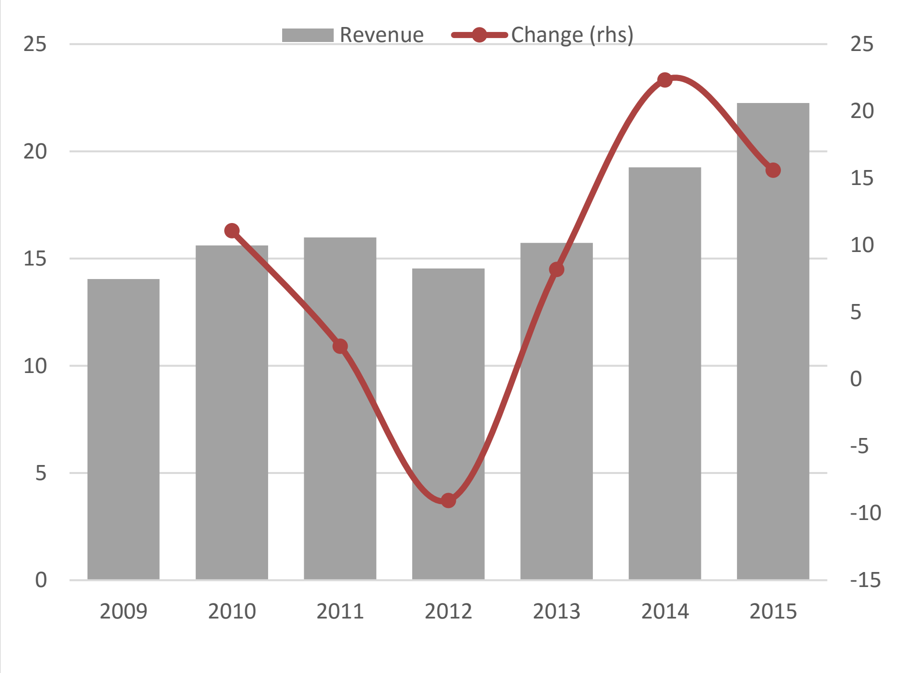
£ million	**2009**	**2010**	**2011**	**2012**
Group manufactured products	8.077	10.025	10.774	10.018
Brought in products	5.976	5.584	5.221	4.530
Total	**14.053**	**15.609**	**15.995**	**14.548**
£ million	**2012**	**2013**	**2014**	**2015**
Trickle ventilation/window & doors	11.620	13.299	15.763	17.589
Mechanical ventilation	2.928	2.441	3.493	4.669
Total	14.548	15.740	19.256	22.258

Source: Company data, Hardman & Co

Group revenue and profit

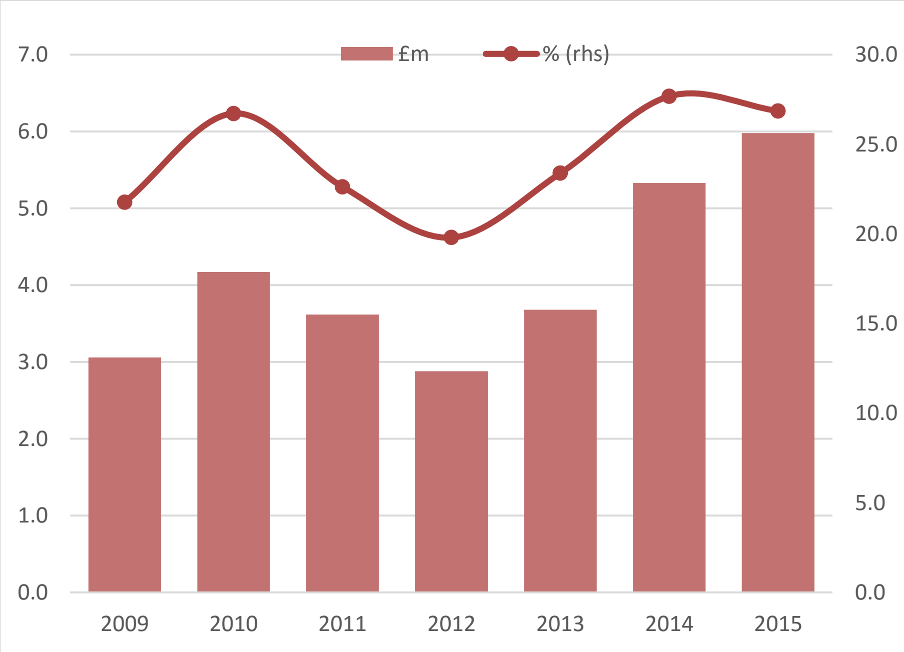
Net revenue has grown at 8% per annum since 2009 and 15% over the past three years. Similarly, Gross Profit has risen 15% over six years and 28% over three years. This means that the Gross Margin has averaged 24.1% since 2009 and 26.0% since 2012. In fiscal 2015, it was 26.9%.

Revenue (£m) and annual growth (%) 2009-15



Source: Company data, Hardman & Co

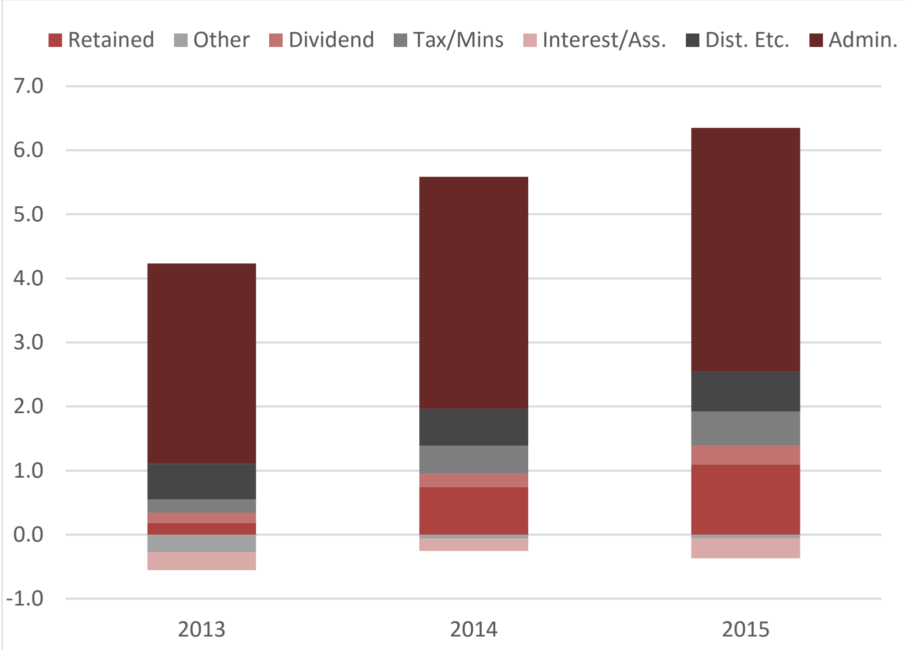
Gross profit (£m) and gross margin (%) 2009-15



Source: Company data, Hardman & Co

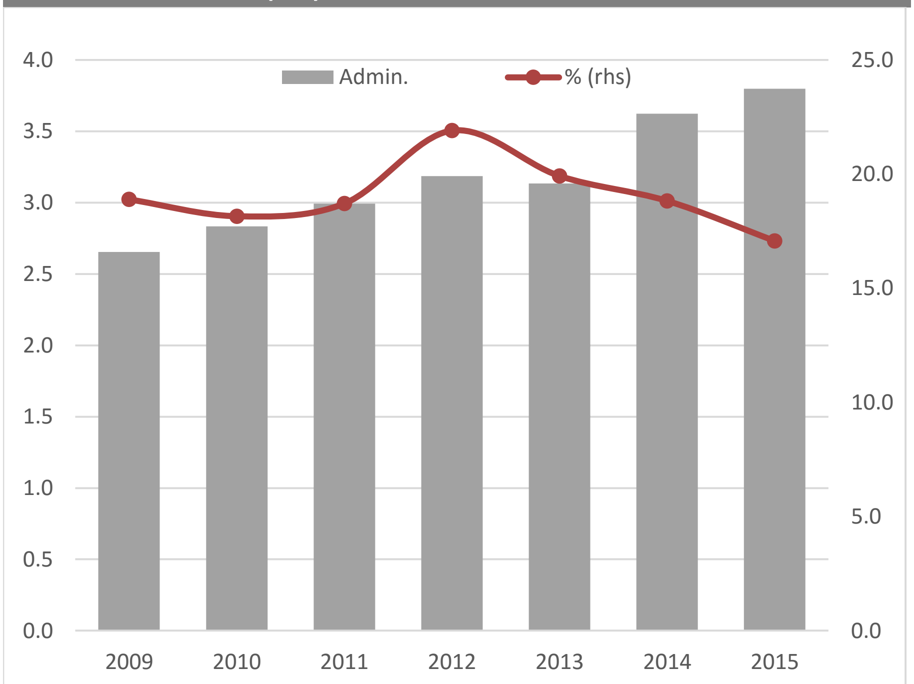
The composition of the Gross Margin sees Administrative Expenses accounting for the dominant share since 2013, with growing support from Retained Profit. However, Administration as a percentage of revenue has fallen sharply since 2012 (a peak 21.9%) to 17.1% last year.

Composition of gross profit (£m) 2013-15



Source: Company data, Hardman & Co

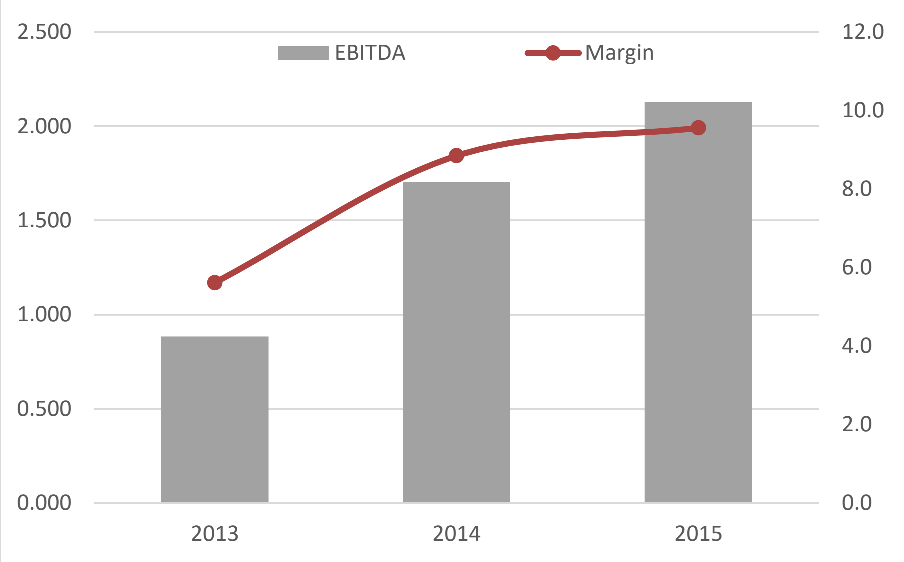
Administrative costs (£m) and as % of revenue 2009-15



Source: Company data, Hardman & Co

EBITDA has doubled since 2013 and with it margins have gone from 8.8% to 9.6%.

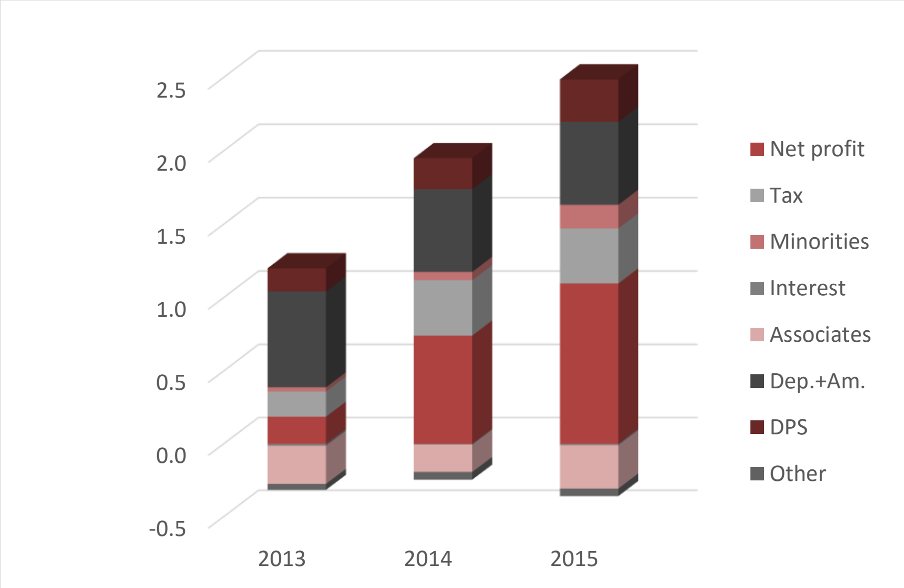
EBITDA (£m) and margin (%) 2013-15



Source: Company data, Hardman & Co

In terms of EBITDA, the composition, Net Profit has grown in significance markedly since 2013, while Minorities and Associates have nudged up and Depreciation/Amortisation has eased back as a share.

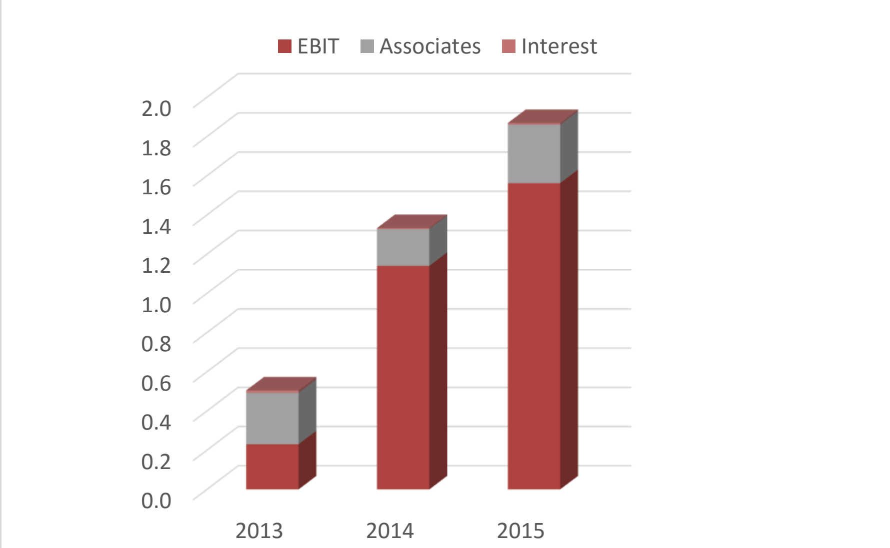
Composition of EBITDA (£m) 2013-15



Source: Company data, Hardman & Co

Profit before tax (PBT) soared in 2014 (to £1.3 million) and in 2015 rose by a further 48% to reach £1.9 million. The same is true of earnings per share (EPS) which increased three-fold in 2014 and by 48% last year to 12.6 pence. Further analysis of earnings follows in later sections.

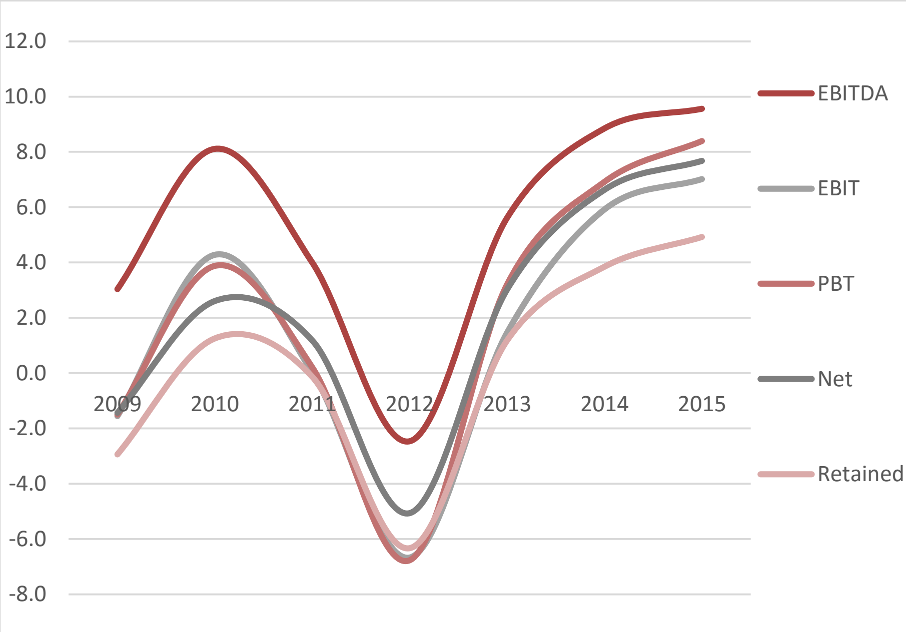
Profit before tax (£m) 2013-15



Source: Company data, Hardman & Co

In the 'Margins' chart below, we have looked at their evolution since 2009 and no surprise that the global financial crisis 2008-09 and its aftermath through 2012 took its toll. It was the sharpest and most prolonged downturn for the UK economy and the construction industry since the 1970s (when Titon was founded) and there was simply no place to hide. Fortunes for Titon, however, bottomed out in 2012 and since then EBIT margins have increased five-fold to 7.0% (2014: 5.9%). Note, too, that all margins are now in new territory.

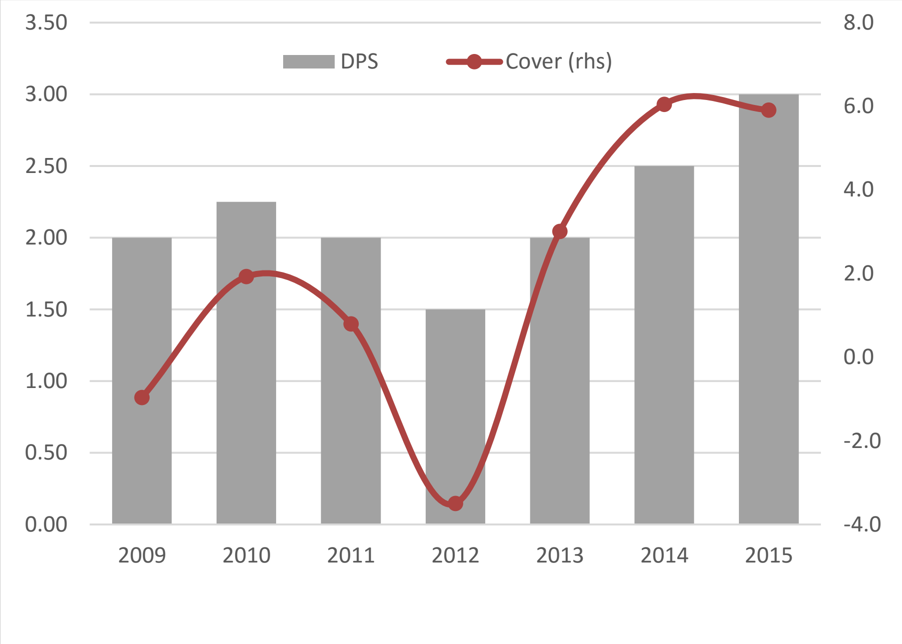
Margins (%) EBITDA, EBIT, Net, & Retained 2009-15



Source: Company data, Hardman & Co

In what is rare practice in this industry, Titon has paid a dividend every year since it was listed in 1988 and, since 2009, the average annual increase has been 9.1%. Last year the pay-out rose 20% (2014: 25%) and in only two years (2011 and 2012) did the dividend decline. Cover, meantime, has averaged 1.9x since 2009 (including being negative in 2012) and last year it was 5.9x.

DPS (p) and Cover (x) 2009-15

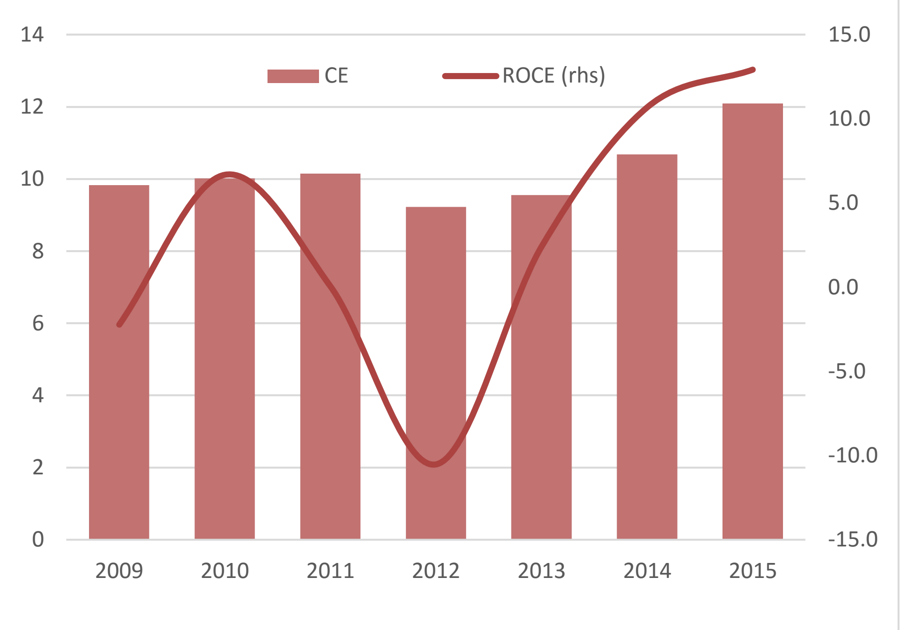


Source: Company data, Hardman & Co

Balance sheet

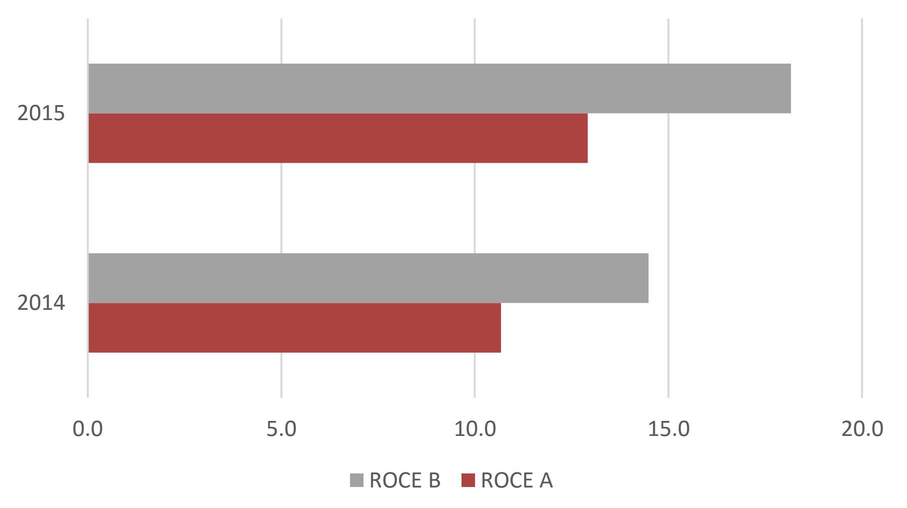
ROCE or Return on Capital Employed was 12.9% in 2015 (2014: 10.7%) and since 2009 it has been positive every year. Additionally, however, we have made adjustments to Capital Employed for Intangible Assets (an average £0.7 million since 2009) and cash (an average £2.6 million over seven years) which we have netted off capital employed. This results in ROCE of 18.2% last year and 14.5% in 2014.

Capital Employed (£m) and ROCE (%) 2009-15



Source: Company data, Hardman & Co

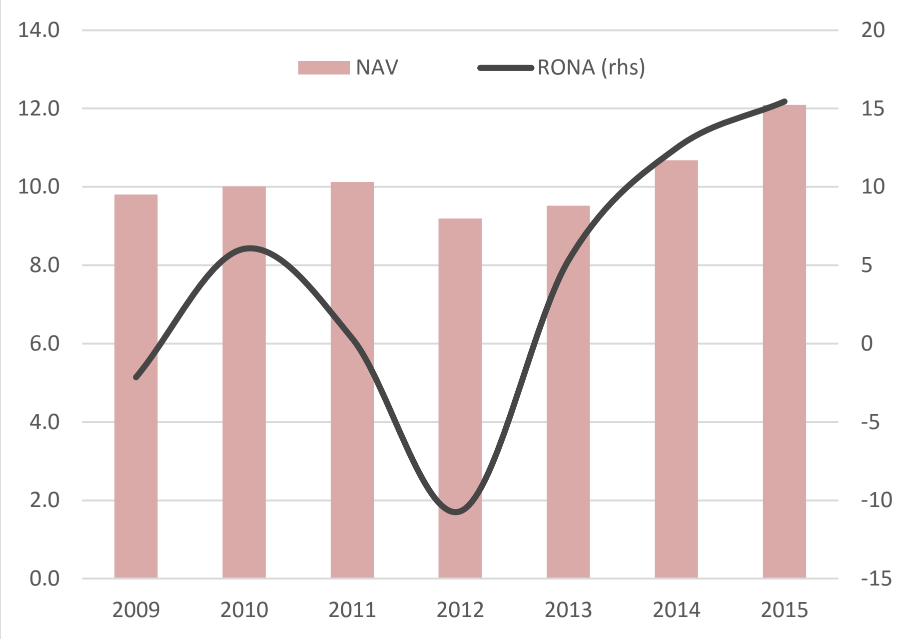
Adjusted and actual ROCE (%) 2014 and 2015



Source: Company data, Hardman & Co

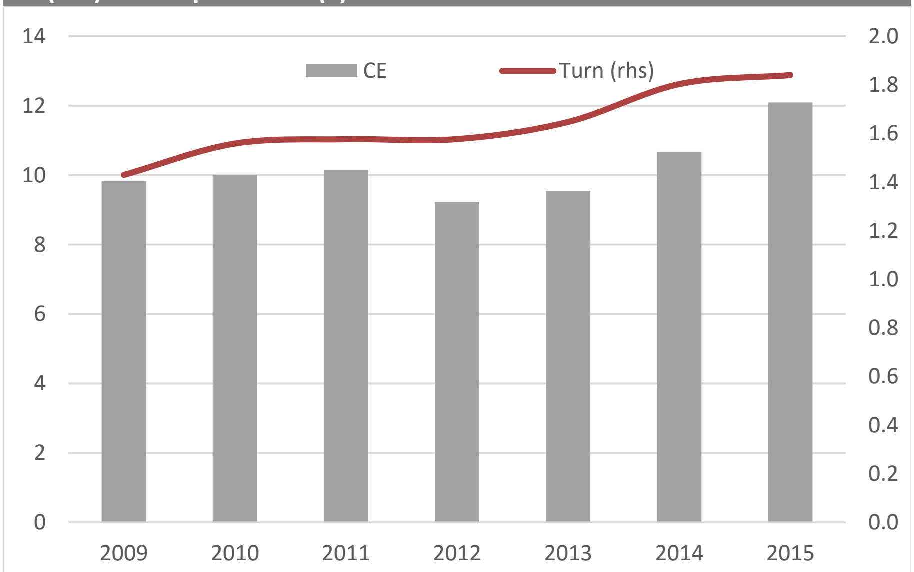
The other dimension here is Capital Turn, which we like. It is calculated by dividing revenue by capital employed - and it has been exemplary, averaging 1.6x since 2009 and 1.8x times over the past three years. It is also a much neglected ratio, in our view, but, importantly, it measures how efficiently capital is utilised i.e. there are two ways to make a profit: maximise revenue and constrain costs on the one hand; and use your capital efficiently on the other - preferably a combination of both. Capital Turn can also be used to focus management and employees on using capital efficiently, avoiding waste and the like.

Net Assets (£m) and RONA (%) 2009-15



Source: Company data, Hardman & Co

CE (£m) and Capital Turn (x) 2009-15



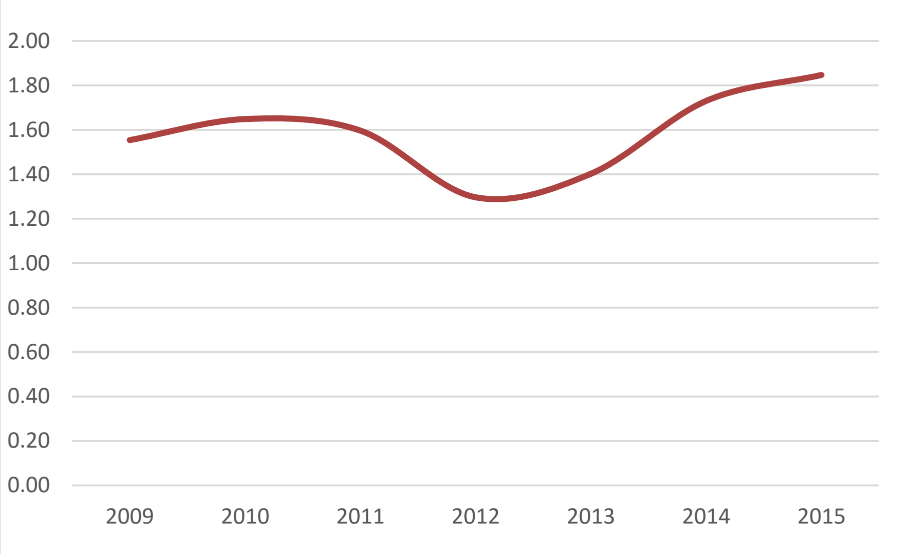
Source: Company data, Hardman & Co

Return on Net Assets (RONA - sister to 'ROCE') was 15.5% last year and 12.5% in 2014. It has also been positive every year bar one (2012) since 2009. Once again, we have made an adjustment to the denominator for intangibles and cash, after which the returns balloon to 16.9% in 2014 and a splendid 21.6% last year.

Turning to liquidity, we focus on the Current and Quick Ratios which are calculated by dividing current assets by current liabilities ('Current') and current assets-less-stocks divided by current labilities ('quick' - and where above 1.0 is very good). The former has averaged a luxuriant 2.3 since 2009 and 2.5 over the past three years

(2.74 in 2015). At the same time, the quick ratio has averaged 1.6 over seven years (which is again excellent) and 1.7 over three. In 2015, too, it was 1.85 (2014: 1.73).

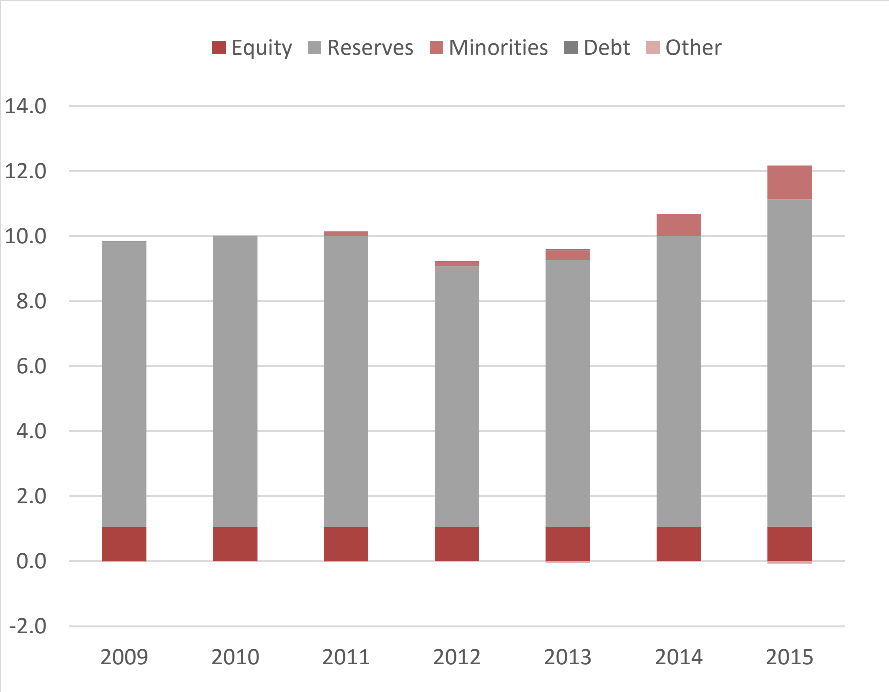
Quick Ratio 2009-15



Source: Company data, Hardman & Co

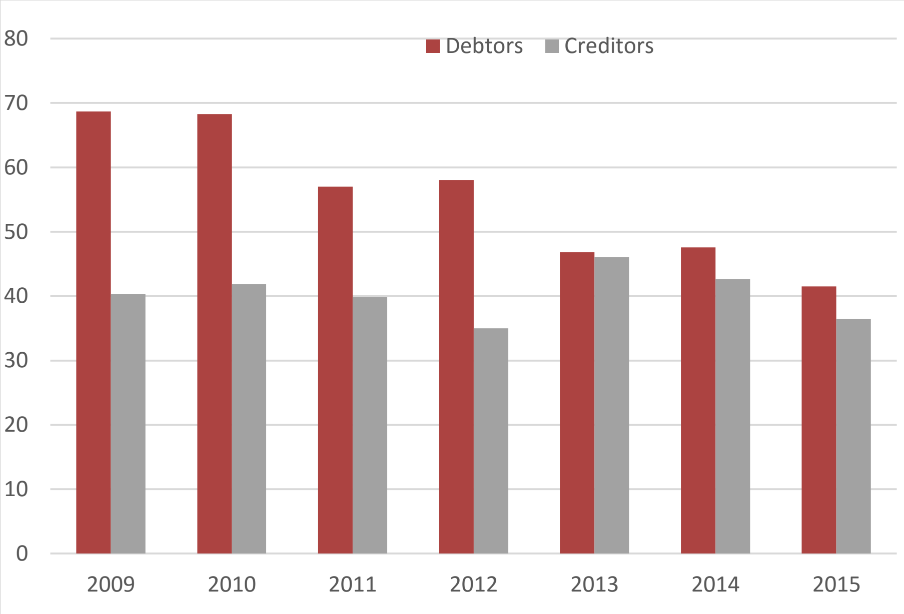
In terms of the composition of Capital Employed, one side is dominated by Reserves (as pure equity is minor; and there are only tiny incidents of debt). On the other side, fixed assets, stocks and cash dominate, while 'Debtors-less-creditors' has averaged 4% per annum since 2009.

1. Analysis of capital employed (£m) 2009-15



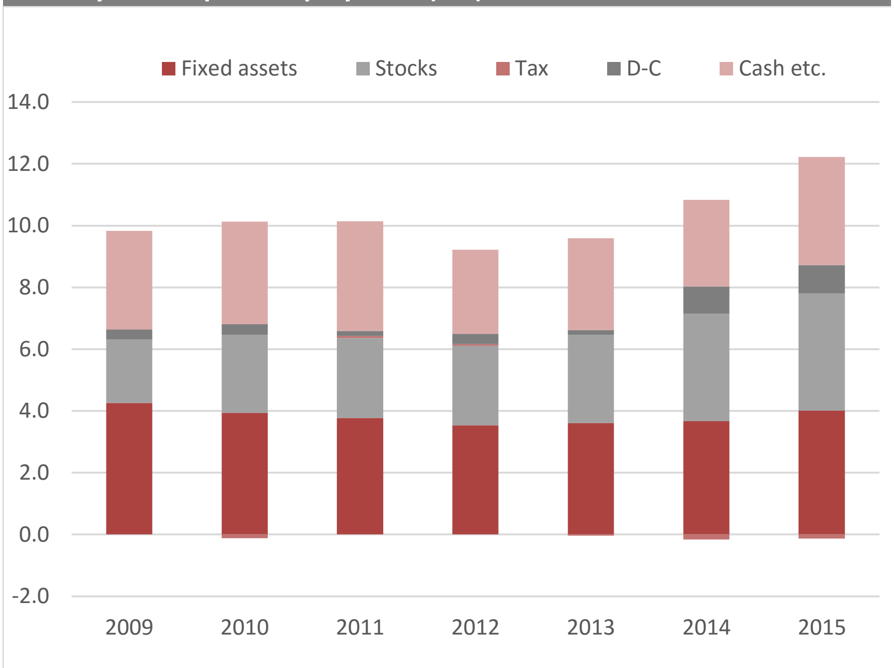
Source: Company data, Hardman & Co

Debtor and Creditor Days (no.) 2009-15



Source: Company data, Hardman & Co

2: Analysis of capital employment (£m) 2009-15



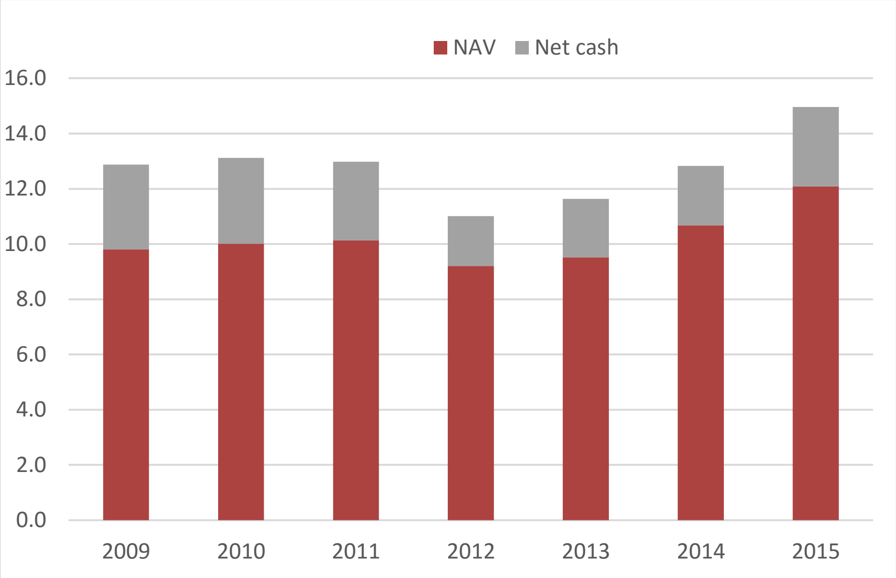
Source: Company data, Hardman & Co

'Timing is everything' of course, and it is clear from the way Debtor Days descend gracefully from left to right that the Group is being paid quicker: in 2009 the number was 69; whereas it is now 41 days. This is less true of Creditor Days which have moved from 40 (2009) to 36 (2015) and have averaged 40 over seven years.

Another truism 'cash is king' is also popular at Titon - and it has consistently adopted a cautious stance on debt. This means that gross and net cash have respectively averaged £2.8 million and £2.6 million per annum since 2009; and in only three years

(2011, 12 and 13) did the Group have any debt at all; and in each case these were scraps (an average overdraft of £22,000). Such prudence is clearly a factor in Titon's longevity and its ability to pay a dividend every year.

NAV and net cash 2009-15 (£m)

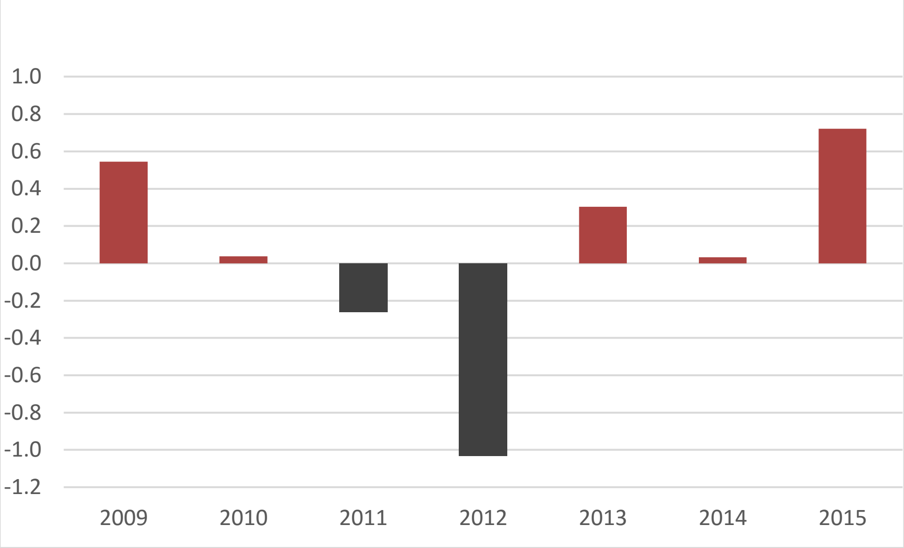


Source: Company data, Hardman & Co

Cash flow

Financial strength is a hallmark of Titon's modus operandi and, since 2009, there has been a cash inflow in five of the seven years, with the outflows occurring in the difficult GFC-aftermath years of 2011 and 2012 (it was just over £1.0 million in the latter). Note, too, that the Group has held an average one quarter of its Net Assets in cash each year since 2009.

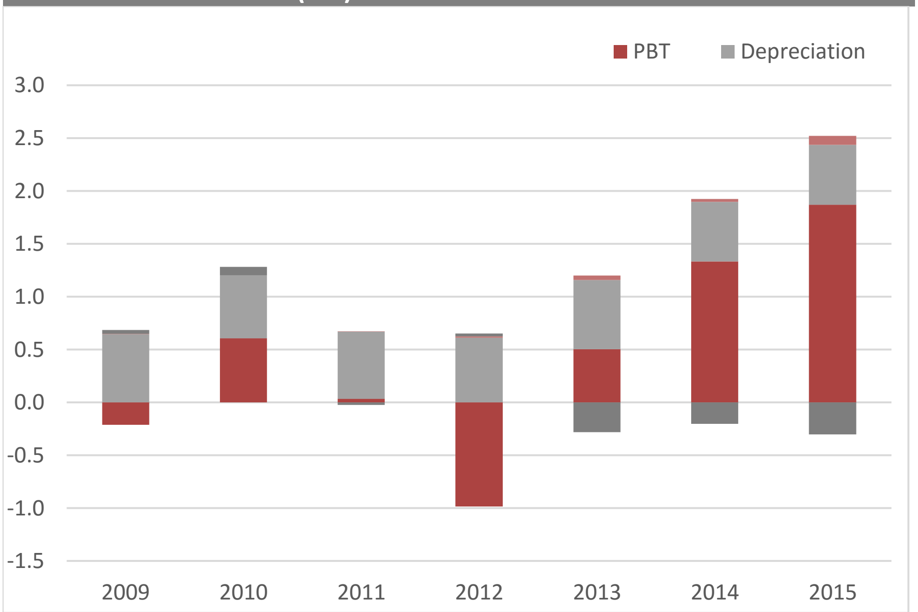
Net cash flow 2009-15 (£m)



Source: Company data, Hardman & Co

In terms of sources, profit before tax (PBT) has been the largest single contributor (save for 2009 and 2012). It has been supported by 'Depreciation and Amortisation' which has been consistent over the piece (some £600,000 per annum and/or around a third of the total).

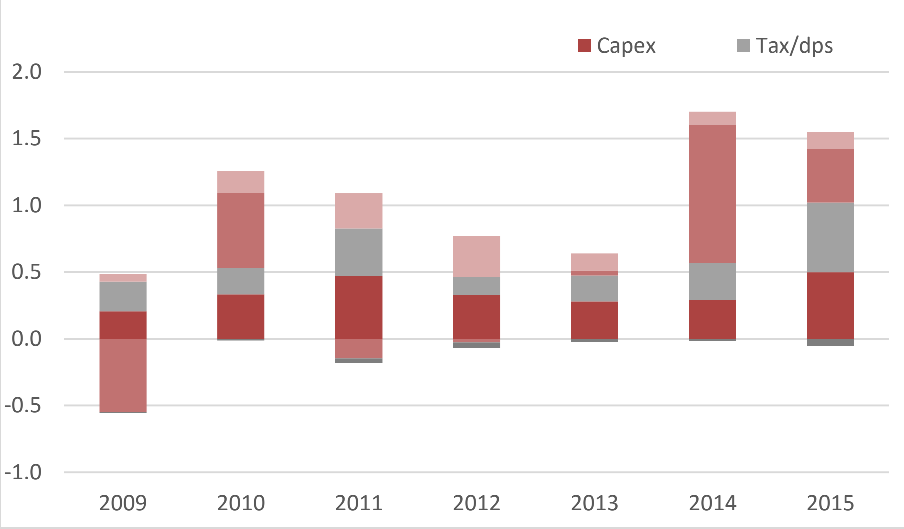
Source of cash 2009-15 (£m)



Source: Company data, Hardman & Co

Turning to spending, it is clear that tax/dividends have been a constant, as has capital expenditure, and these two have accounted for an average 37% and 26%, respectively, of spending since 2010. Unsurprisingly, too, there was a significant net commitment to working capital in both 2014 (£1 million) and 2015 (£400,000). Group revenue rose 15% in 2015.

Uses of cash 2009-15 (£m)



Source: Company data, Hardman & Co

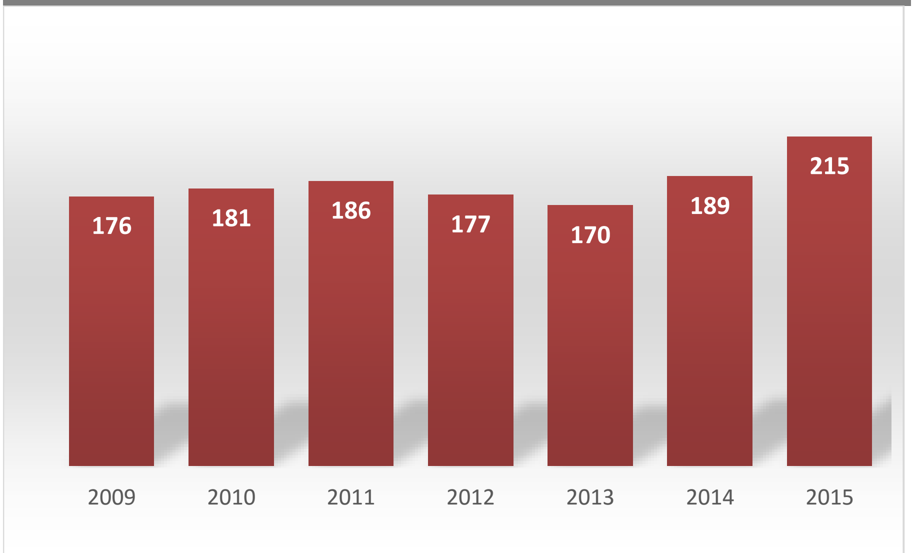
Remuneration

Numbers employed have averaged 187 since 2009 and the average-per-annum-rise since then is +4% (and +7% over the past three years). At the same time, annual wage inflation has been 5.4% per annum since 2009 and an average 8.3% since 2013.

In relative terms, wages-as-a-percentage-of-revenue has declined from 32% to 27% over the seven years. In terms of the split, too, between employees and Directors, this was 54:46 in 2009 and 57:43 last year.

This means that Directors - over the piece - are also taking a reduced share of

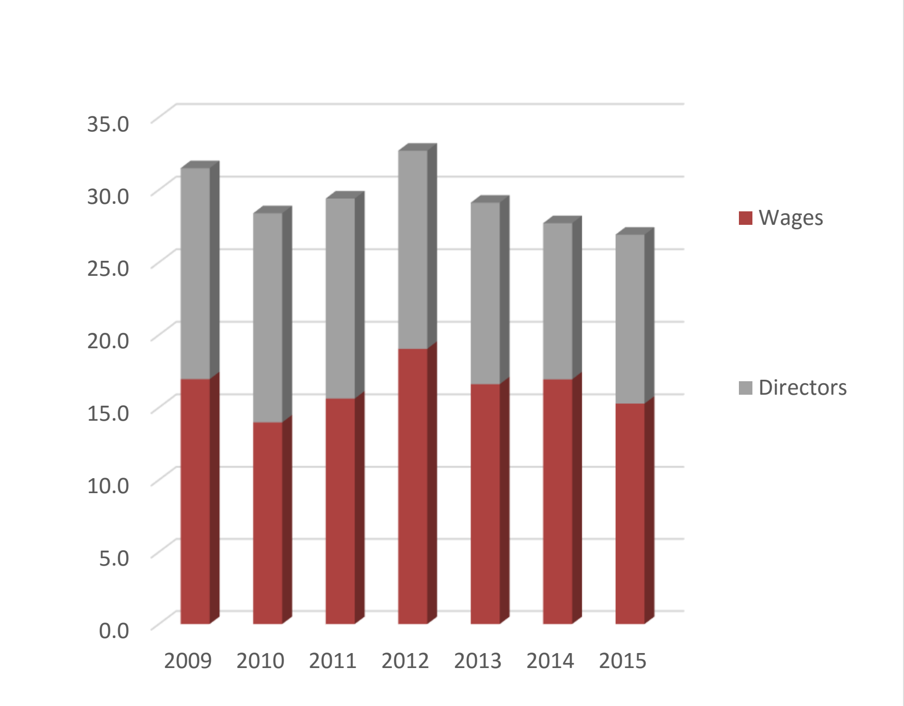
Numbers employed 2009-15



Source: Company data, Hardman & Co

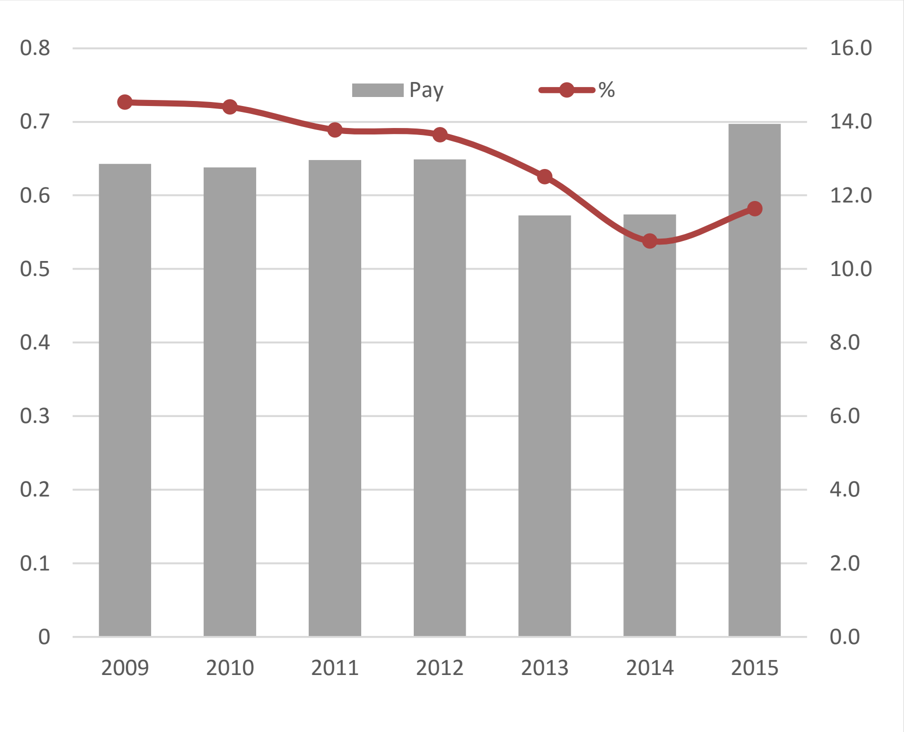
revenue in emoluments i.e. their pay as a percentage of revenue has fallen from 15% in 2009 to 12% in 2015. In terms of inflation, too, the rises here have been modest at 1.8% per annum since 2009 and 3.3% since 2013.

Wages as % of revenue including Directors share 2009-15



Source: Company data, Hardman & Co

Directors pay (£m) and as % of total wage bill 2009-15

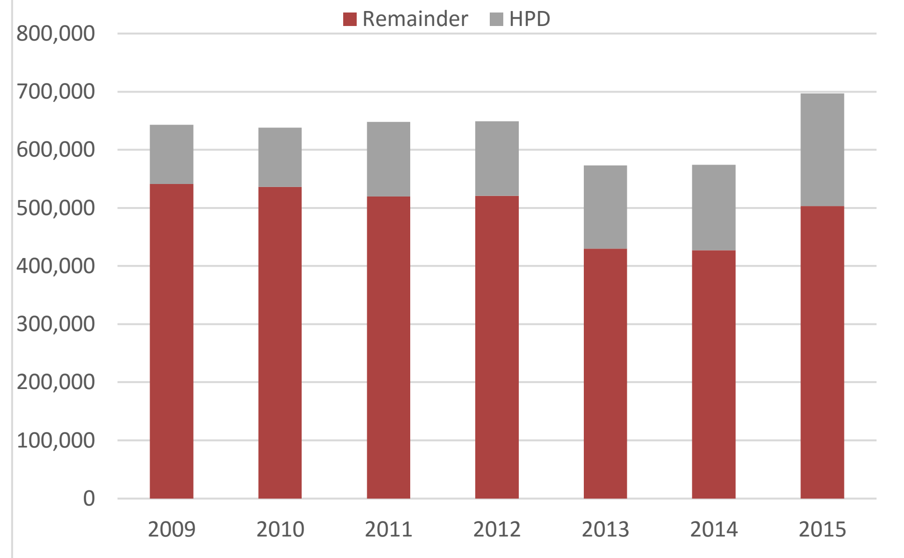


Source: Company data, Hardman & Co

Turning to the highest paid Director, he earned £194,000 last year (an incentive-led +32%), a number which has risen at an average of 12% per annum since 2009; and, in terms of his share of total Director emoluments, this has averaged 21% since 2009 and last year was 28%.

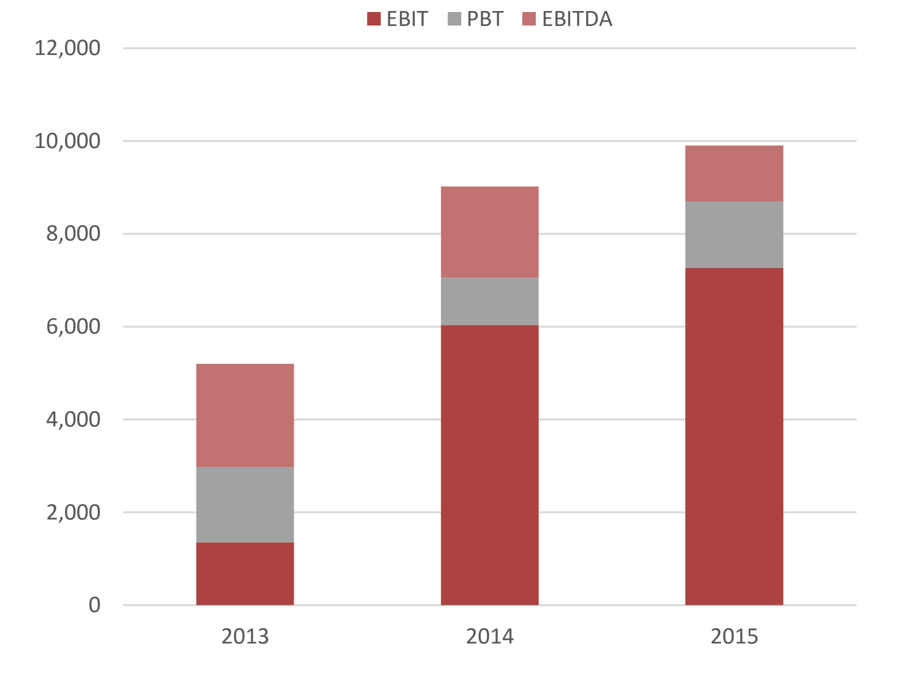
Finally, the profit performance per employee is considered - and over the past three years EBIT-per-employee has risen more than three-fold from £1,400 to £7,300. We have also shown the increments from Profit before tax (including net interest received and Associate profits) and EBITDA (depreciation and amortisation).

Highest paid Director with Directors' pay 2009-15 (£)



Source: Company data, Hardman & Co

EBIT, PBT and EBITDA per employee 2013-15 (£)



Source: Company data, Hardman & Co

Sector Comparatives

The Hardman UK Building Materials Sector

In days of yore, the UK Building Materials Sector boasted such household names as Blue Circle, Marley, Pilkington and Tarmac; a number of them FTSE 100 constituents. Since 1997, there has been a rash of mergers and acquisitions led largely by continental European protagonists.

It would be easy to believe that it had disappeared altogether but it has not; and last year we re-invented it with the June note entitled 'Material World - experience has made us rich' - on which Madonna graced the cover (a number of mature readers thought it was Marilyn Monroe). Yes, it is smaller now and less glamorous and ignored by the FTSE Actuaries Indices and many brokers (six of the 23 stocks included here have no consensus earnings forecasts in the market).

But it is nonetheless worthy and "is essential to our daily lives". There were also five building materials IPOs in 2014 and 2015, including the return of brickmaker Ibstock (*aka* Ibstock Johnson) last December.

Companies by product

ALUMASC	roofing, walls, solar, rainwater and metal engineered products
BILLINGTON	structural steel and construction safety products
ENSOR	drainage, roofing membranes and slates
EPWIN	extrusions, mouldings and fabricated low maintenance building products
EUROCELL	PVC windows, doors & roof lines
FOX MARBLE	marble quarrying
JAMES HALSTEAD	vinyl flooring
SAMUEL HEATH	taps, showers, bathroom accessories and architectural hardware
IBSTOCK	bricks and concrete products
JAMES LATHAM	vinyl flooring
LOW & BONAR	yarns, fabrics and fibres
MARSHALLS	hard landscape products in concrete
MICHELMERSH	bricks, land development and landfill
NORCROS	showers, taps, bathroom accessories, tiles and adhesives
POLYPIPE	plastic pipes and systems
SAFESTYLE UK	PVC windows & doors
SUPERGLASS	glass fibre insulation
SWP	rainwater products, metal staircases and insulation
F W THORPE	Lighting
TITON	ventilation products/controls and window/door hardware
TYMAN	door & window components
VOLUTION	ventilation products

Source: Hardman & Co

We have included 23 listed companies in the Hardman UK Building Materials Sector and they make everything from bricks to tiles. We have also eschewed distributors, namely SIG, Travis Perkins and Wolseley plus the Irish-domiciled hat-trick of CRH (which has a market capitalisation of Euro 19 billion), Grafton and Kingspan.

Sector metrics

Peer Group data	LSE Ticker	Year end	Employees (number)	Revenue £m	PBT £m	NAV £m	Net debt / (cash)	Gearing %
ALUMASC	ALU	JUNE	558	98	8.4	15.9	-0.9	-6
BILLINGTON	BILN	DEC	284	45	1.9	14.3	-3.5	-25
BREEDON	BREE	DEC	1,106	270	21.4	167.2	66.3	40
ENSOR	ESR	MAR	256	36	3.3	11.4	1.6	14
EPWIN	EPWN	DEC	2,268	260	18.6	62.8	-1.1	-2
EUROCELL	ECEL	DEC	998	173	16.7	11.5	35.5	308
FOX MARBLE*	FOX	DEC	60	0.1	-1.7	7.3	-3.4	-47
JAMES HALSTEAD	JHD	JUN	838	227	44.2	106.5	-38.5	-36
SAMUEL HEATH	HSM	JUL	130	12	0.4	2.1	1.7	81
IBSTOCK	IBST	DEC	2,576	373	40.8	220.1	-53.5	-24
JAMES LATHAM	LTHM	MAR	341	175	10.1	62.2	-10.6	-17
LOW & BONAR	LWB	NOV	2,077	396	26.6	172.0	102.1	59
MARSHALLS	MSLH	DEC	2,132	359	22.4	181.9	30.5	17
MICHELMERSH	MBH	DEC	278	29	2.9	46.7	2.1	4
NORCROS	NXR	MAR	1,728	222	15.8	52.7	14.2	27
POLYPIPE	PLP	DEC	2,228	327	37.6	237.7	76.9	32
SAFESTYLE UK	SFE	DEC	661	136	16.8	27.8	-8.2	-29
SUPERGLASS	SPGH	AUG	156	21	-4.6	14.2	-1.2	-8
SWP	SWP	JUN	110	13	1.3	14.3	1.7	12
F W THORPE	TFW	JUN	547	74	14.4	82.9	-31.9	-39
TITON	TON	SEP	215	22	1.9	12.1	-2.9	-24
TYMAN	TYMN	DEC	2,897	351	46.1	309.0	90.7	29
VOLUTION	FAN	JUL	1,036	130	27.5	142.4	21.2	15
Totals			**23,480**	**3,748**	**373**	**1,975**	**289**	**383**
Averages			1021	163	16	86	13	17
Ex-Eurocell								3

Fox Marble reports in Euros converted at average 2015 rates

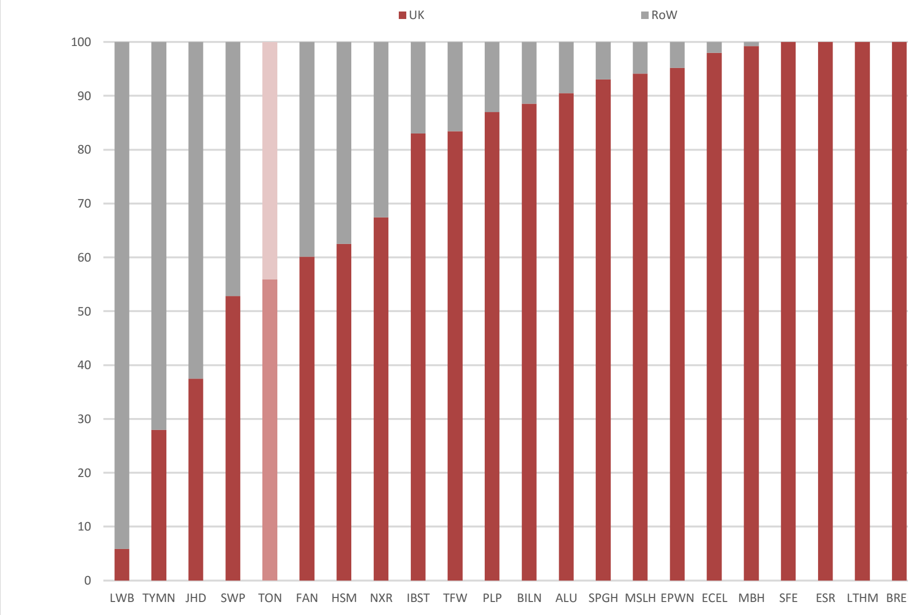
IPO calendar:
2012 Fox Marble
2013 Safestyle UK
2014 Epwin, Polypipe and Volution
2015 Eurocell and Ibstock

Source: Company data, Hardman & Co

Total revenue of the Sector is £3.8 billion (the sum of the 23 latest fiscal years) from a Net Asset base of £2.0 billion. It also employs more than 23,000 people. In terms of the average building materials company too, it generates revenue of £163 million from £86 million of net assets (plus £3 million of net debt); and it makes pretax profits of £16 million and employs 1,000 people.

By region, 77% of revenue is generated from the UK and 23% in the Rest of the World (RoW) and largely continental Europe. Titon (highlighted in all charts and tables) may be in the lower quarter in terms of scale but by international reach it is very much top quartile with almost a half and half split (56:44) between the UK and international markets. It is also a rare British operative in South Korea, a nation renowned for its manufacturing skills.

Revenue in UK & RoW (%) in latest fiscal year: average split 77:23



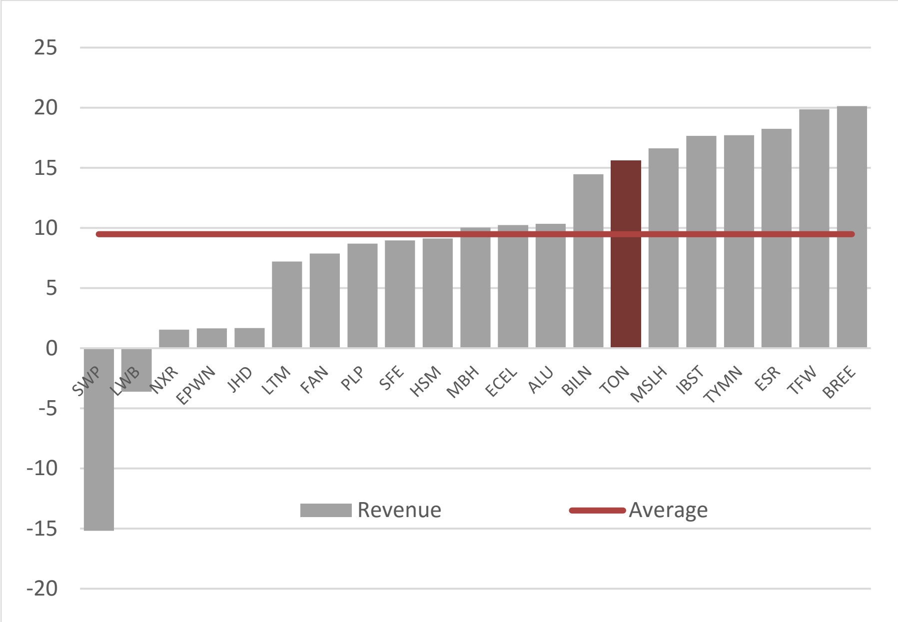
Source: Company data, Hardman & Co

Growth

The following charts compare the growth and performance of Sector constituents, with Titon highlighted. Note, however, that all 23 companies are not included in every chart due to their either being loss making, an absence of data or statistical anomalies. For example, the embryonic Fox Marble is excluded each time because of its scale and losses. Similarly, Superglass is loss making and, thus, also excluded a number of times. In addition, Norcros does not publish a Gross Profit and James Halstead does not divulge the emoluments of its Highest Paid Director.

Commencing with revenue growth, the average in the latest fiscal year is +9.5% in a band from minus 15 to +20%. Titon is seventh in the table (from 21) very comfortably above average at +16%.

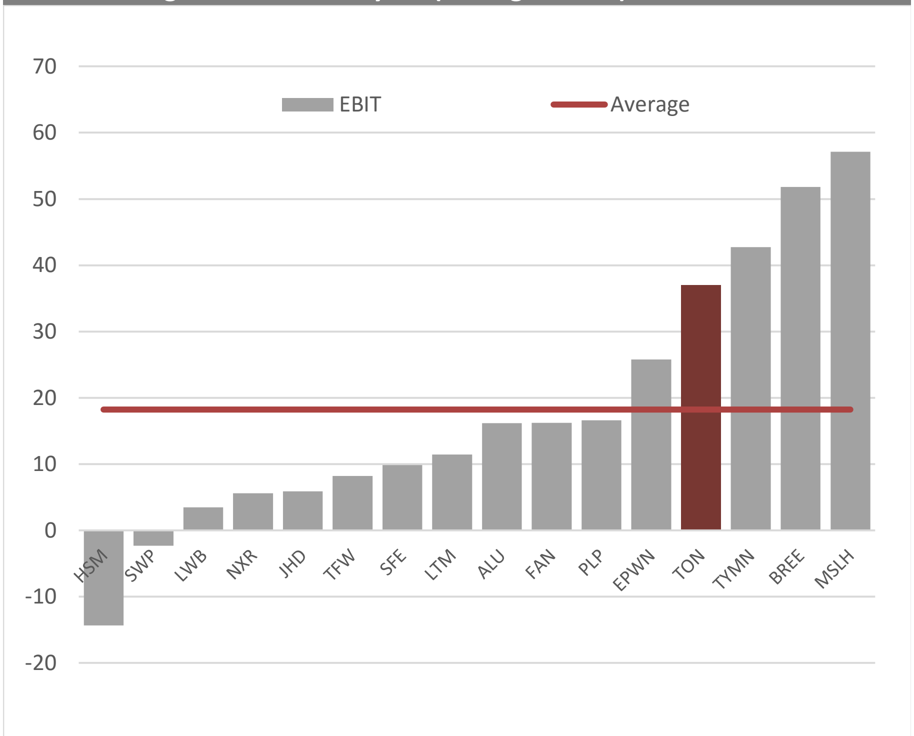
Revenue: % change in latest fiscal year (average +9.5%)



Source: Company data, Hardman & Co

EBIT growth is a similar picture and Titon charts fourth (out of 16 companies) and is almost twice the average at +37%.

EBIT: % change in latest fiscal year (average: +18%)



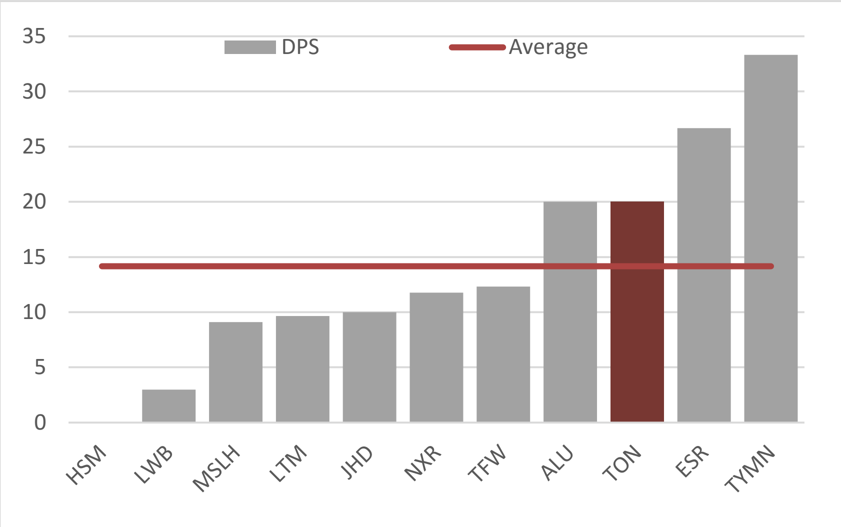
Source: Company data, Hardman & Co

At the earnings per share (EPS) level, Titon (+48%) is runner up to Polypipe (amongst 14 contenders).

Dividends

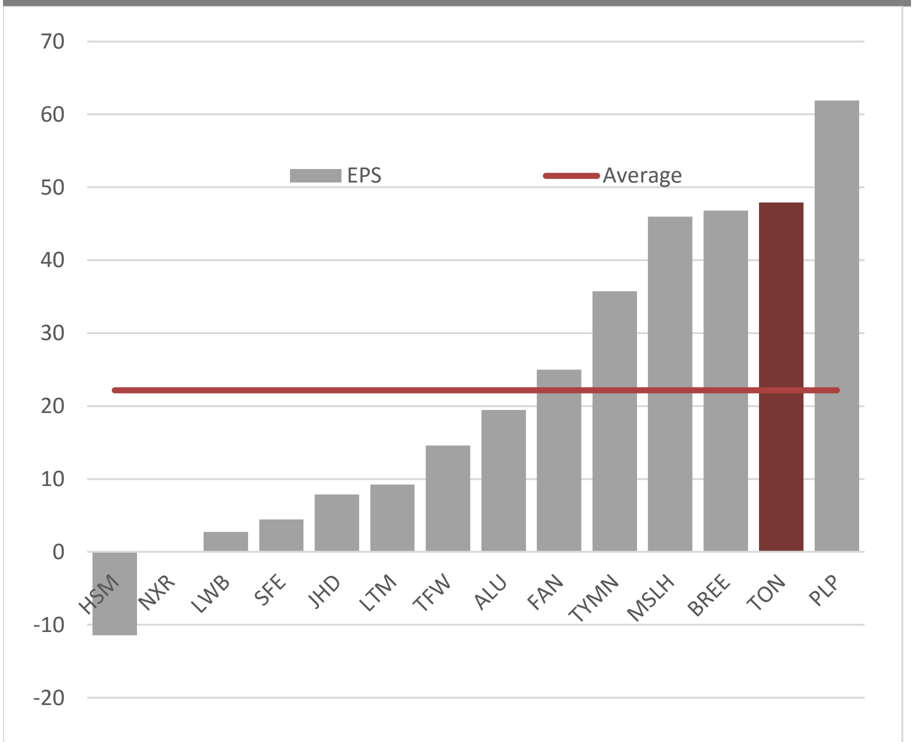
Titon has paid a dividend every year since 2009 and in 2015 increased its pay-out 20% against an average of +14% for a reduced (11) sample (companies which have had only one dividend over the past two fiscal years have been excluded). In turn, average dividend cover in the latest fiscal year is 3.0x (up from 2.9x). Titon is on a thick 5.9x (down from 6.1x) and only two companies, Ensor and Michelmersh, have more.

Dividend: % change in latest fiscal year (average +14%)



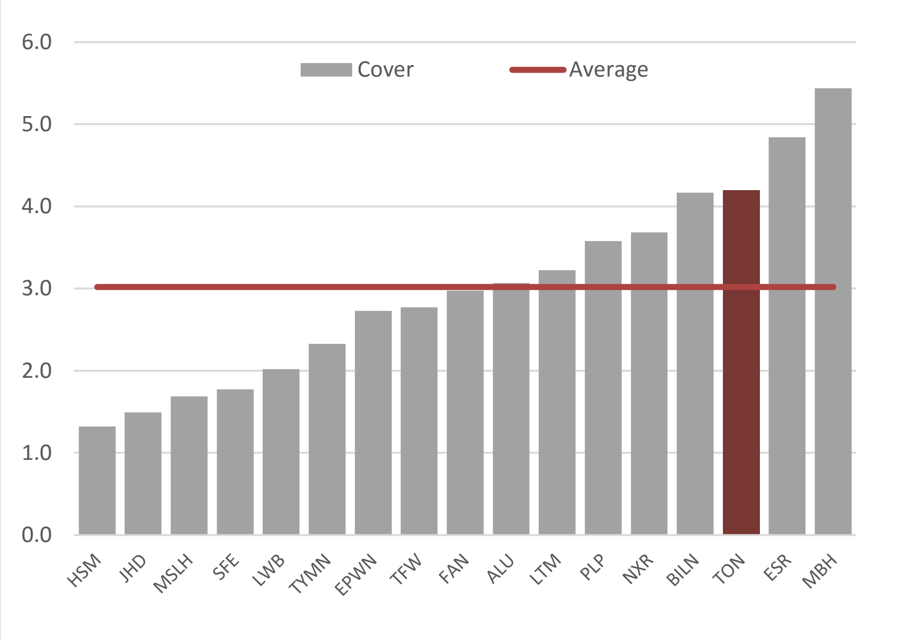
Source: Company data, Hardman & Co

EPS: % change in latest fiscal year (average +22%)



Source: Company data, Hardman & Co

Dividend cover in latest fiscal year (average 3.0x)

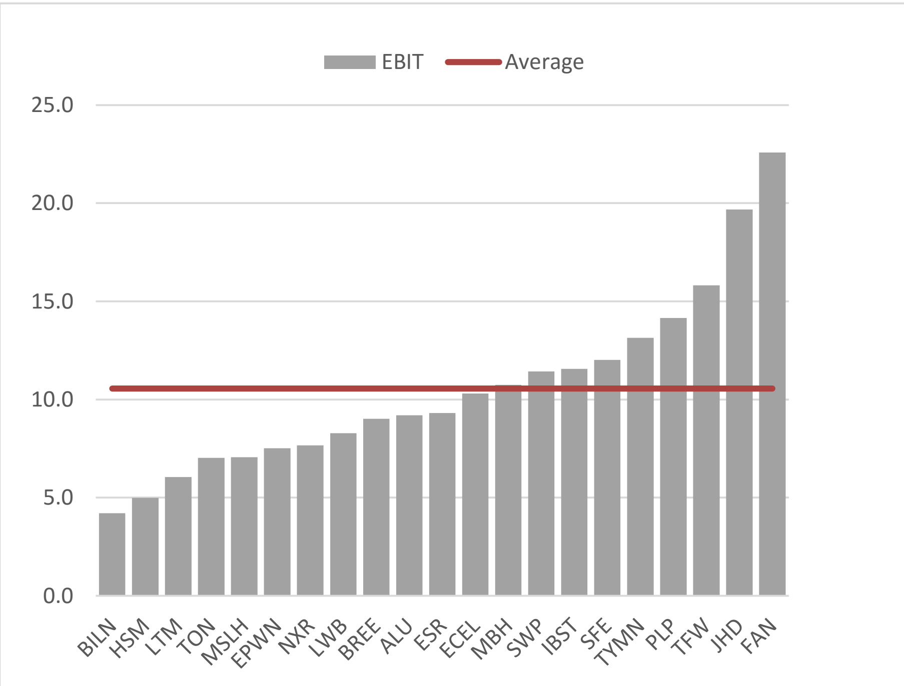


Source: Company data, Hardman & Co

Profitability

In terms of EBIT margins, Titon is in the bottom quartile at 7.0% against an average of 10.6% (from a sample of 21). To be fair, there are a number of high added-value producers in the top quartile, including Volution, James Halstead and Thorpe. That said, raising profitability is a well-documented business objective for the Group.

EBIT margin in latest fiscal year (average 10.6%)

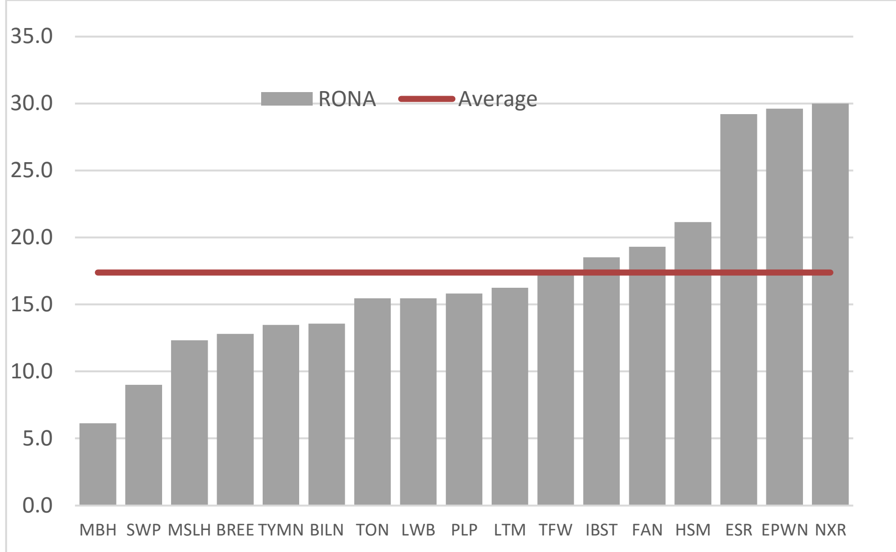


Source: Company data, Hardman & Co

Balance sheet

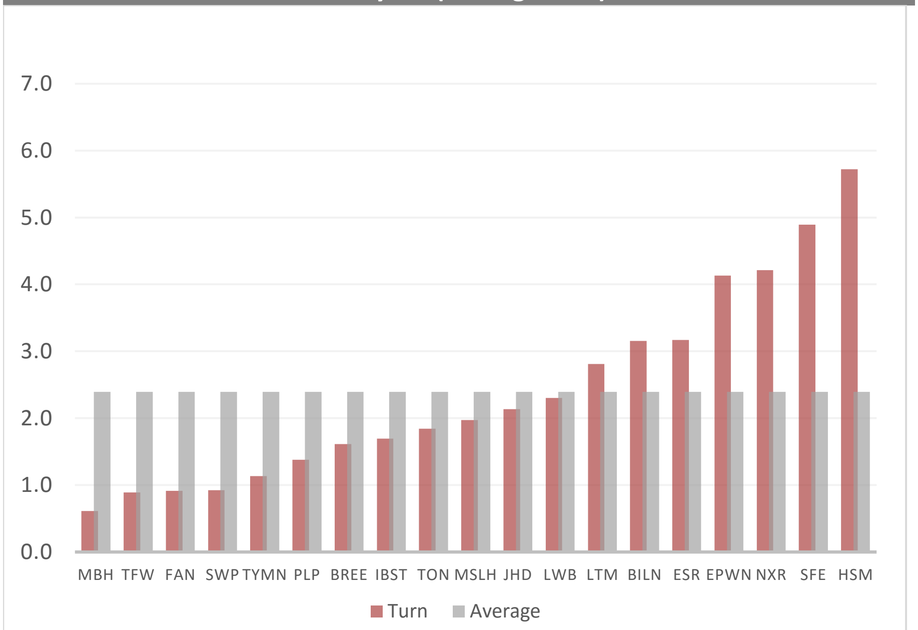
In terms of Return on Net Assets (RONA), superficially Titon is below average at 15.5% in its latest fiscal year and a sample of 17. However, as noted earlier when adjustments are made for intangibles and cash, the Group's RONA lifts to 21.6%. Meantime, on net-asset-turn, Titon scores well at 1.8x and is pretty much mid-table out of 19 players.

Return on Net Assets, latest fiscal year (%)



Source: Company data, Hardman & Co

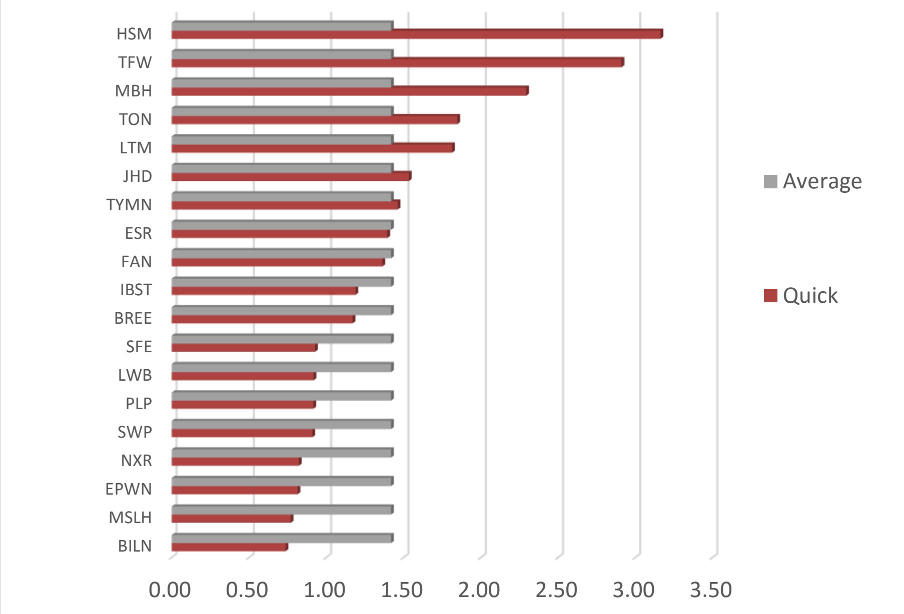
Net-Asset-Turn in latest fiscal year (average 2.4x)



Source: Company data, Hardman & Co

On liquidity, Titon is once more in the upper quartile with a first class 1.85, which compares with an average (from 19 contestants) of 1.42. Unsurprisingly, too, the Group is very firmly in the net cash camp with net cash equivalent to 24% of net assets. Note, too, that the split of 19 companies is 8:9 net cash and net debt respectively.

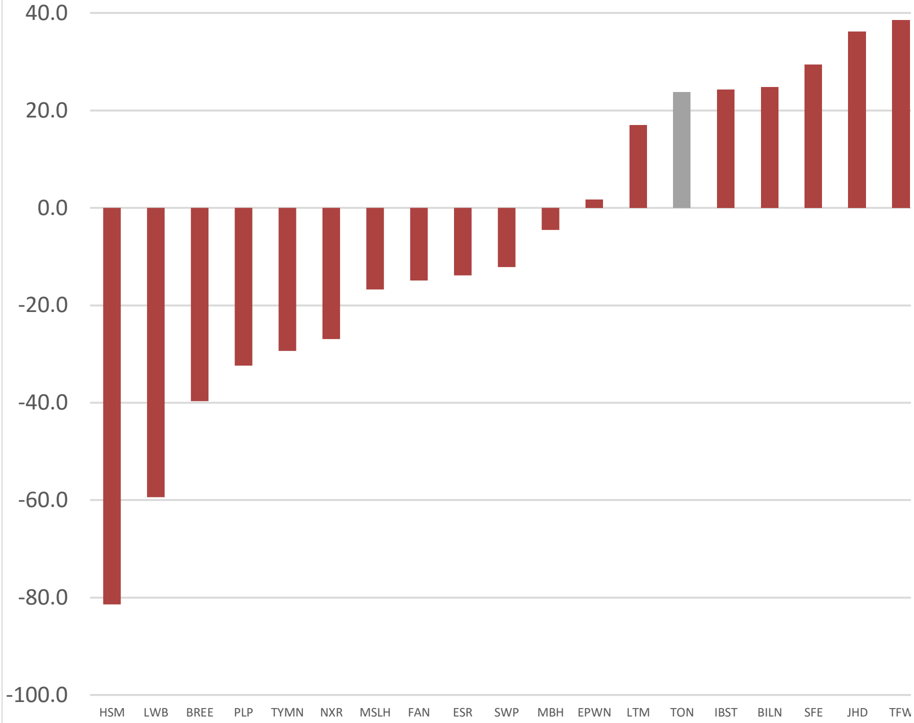
Quick ratio in latest fiscal year (average 1.42)



Source:

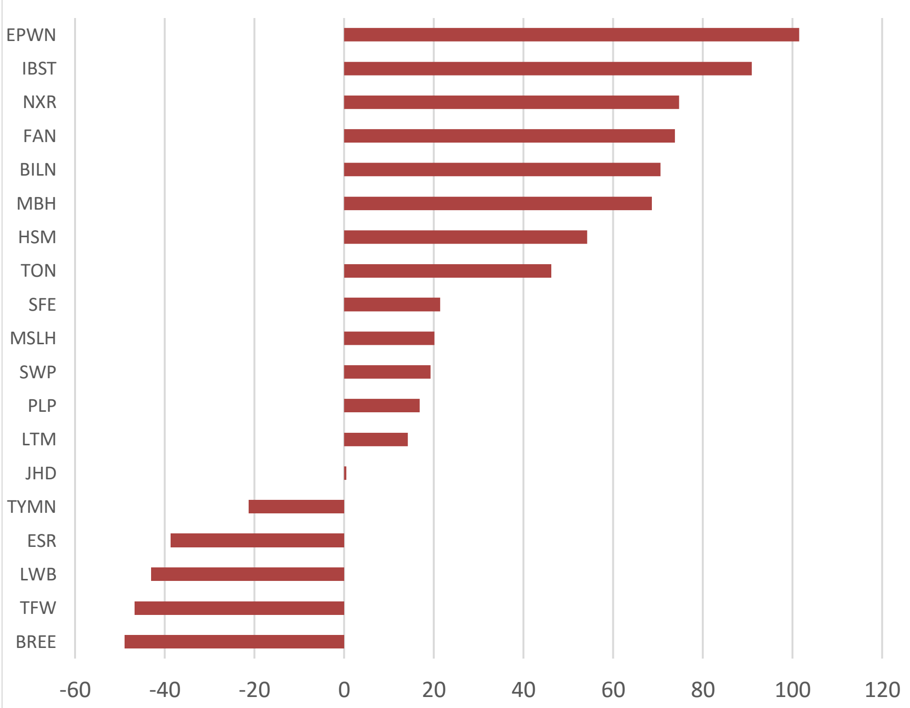
Finally, on cash flow, three-quarters of Sector companies had positive cash flow and Titon generated almost half its EBIT as cash.

Gearing: net debt (red & net cash (green) as % of NAV



Source: Company data, Hardman & Co

Net cash flow as % of EBIT in latest fiscal year



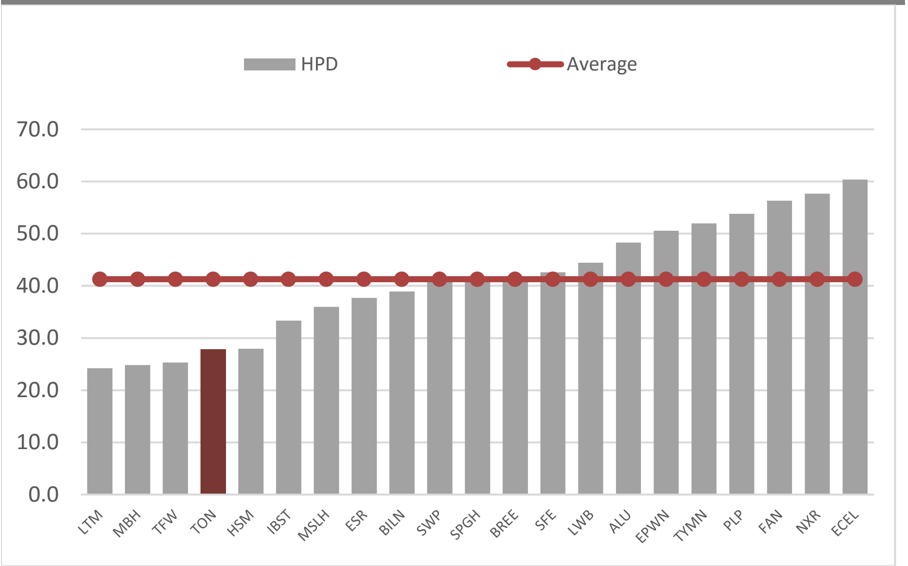
Source: Company data, Hardman & Co

Remuneration

Taking the wage bill as a percentage of revenue, the average is 24% from 22 companies (all but Fox Marble is included here) and Titon charts slightly above the line at 27%.

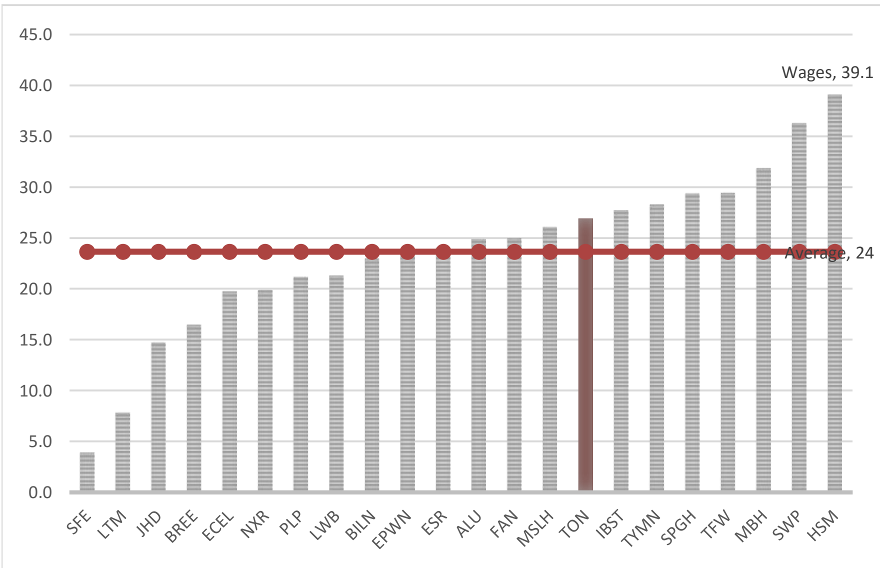
On the final two charts and in the table, it is okay to be in the bottom left or the foot. For example, from its total payments to Directors, less than 30% goes to the Highest Paid Director (HPD); and from 21 companies, only Michelmersh awards its HPD less than Titon.

HPD as % of Directors' pay latest year



Source:: Individual company data, Bloomberg and Hardman & Co

Wages as a % of revenue in latest year (average 24%)



Source: Individual company data, Bloomberg and Hardman & Co

Highest Paid Director (HPD)

Company	HPD
Michelmersh	163,000
Titon	194,000
Ensor	201,000
Superglass	232,000
Samuel Heath	233,000
Billington	247,000
SWP	252,578
Latham	261,000
Safestyle	262,000
Epwin	332,000
F W Thorpe	370,000
Eurocell	487,000
Alumasc	606,000
Volution	621,000
Low & Bonar	668,727
Ibstock	735,000
Polypipe	955,000
Breedon	1,088,332
Norcros	1,090,934
Tyman	1,156,000
Marshalls	1,924,000

Source: Individual company data, Bloomberg and Hardman & Co

Valuation

Market capitalisation

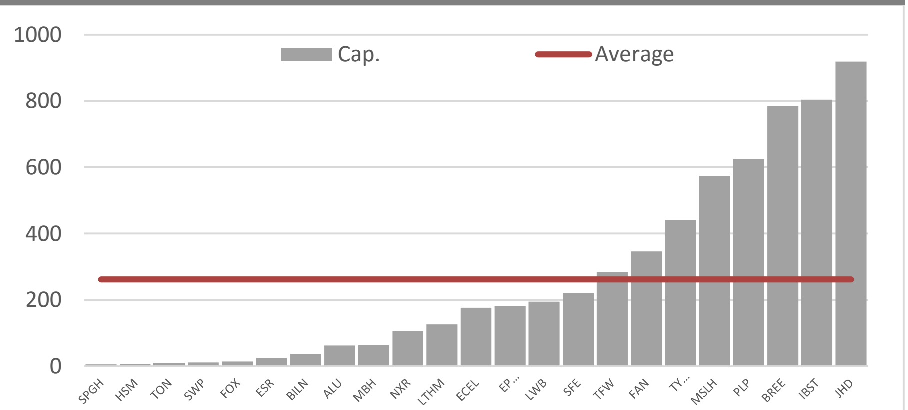
The stock market value of the Hardman UK Building Materials Sector, comprising 23 companies, is just over £6 billion in a band from £7 million to 900 million. The average market capitalisation (Market Cap.) is £264 million and Titon is the third smallest at £11.0 million.

Name	Ticker	Share price (p)	Market Cap. (£m)
Alumasc	ALU	176.5	63
Billington	BILN	292.5	38
Breedon	BREE	68.3	784
Ensor	ESR	83.5	25
Epwin	EPWN	128.0	181
Eurocell	ECEL	176.5	177
Fox Marble*	FOX	11.6	15
James Halstead	JHD	442.8	919
Samuel Heath	HSM	277.5	7
Latham	LTHM	650.0	126
IBST	IBST	198.2	804
Low & Bonar	LWB	59.3	195
Marshalls	MSLH	288.0	574
Michelmersh	MBH	78.0	63
Norcros	NXR	174.0	106
Polypipe	PLP	314.0	626
Safestyle	SFE	274.8	220
Superglass	SPGH	3.9	6
SWP	SWP	6.0	12
F W Thorpe	TFW	238.5	284
Titon	TON	101.5	11
Tyman	TYMN	260.0	441
Volution	FAN	173.0	346
Total			6,022

**Fox Marble market cap. is converted from Euros*

Source: Bloomberg, 26 February 2016

Market capitalisation (£m): average £262 million

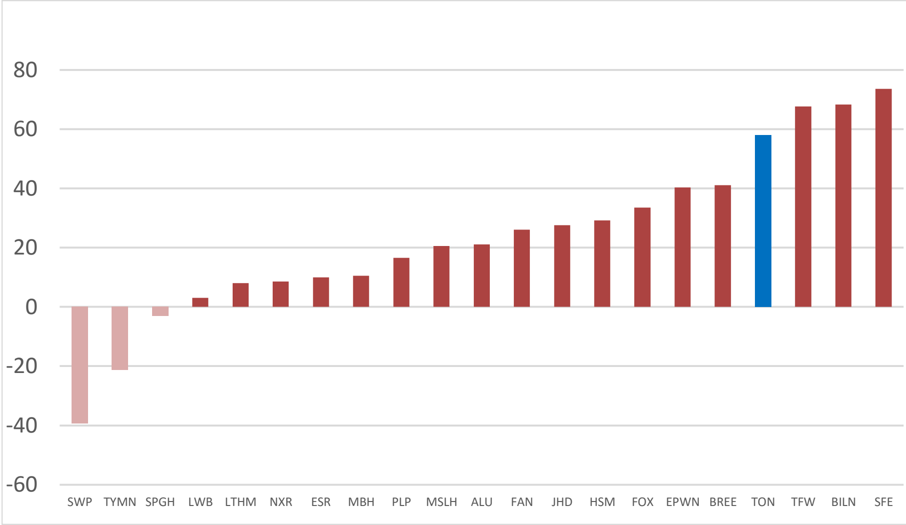


Source: Bloomberg; Hardman & Co

Total Shareholder Return (TSR)

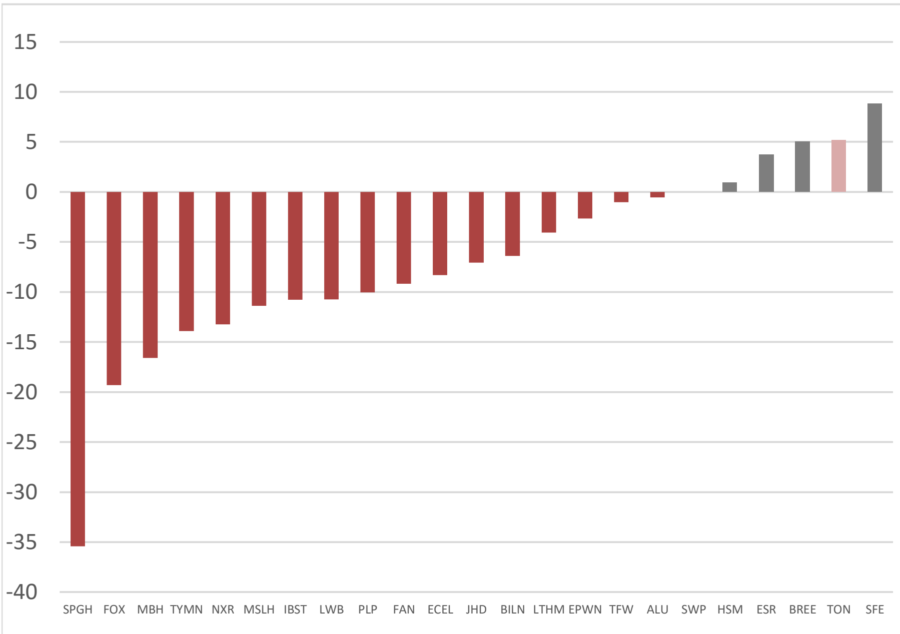
TSR is calculated from both share price movement and dividend income; and here they are sourced from Bloomberg. Over 12 months, the average is an exuberant +23.8%; and Titon does even better at +58.1%. It is, however, a less pretty picture in 2016 to date (through 26 February; we don't do leap year); and, amid the turmoil which has prevailed in global equity markets, the average movement has been -6.8%. Titon, however, is one of only five stocks to be in positive territory with 5.2%. The sample is 21 on this occasion because Eurocell and Ibstock were newly listed during 2015.

TSR over 12 million (%) to 26 February 2016



Source: Bloomberg, Hardman & Co

TSR in year-to-date (%): to 26 February 2016 ex-ECEL and IBST

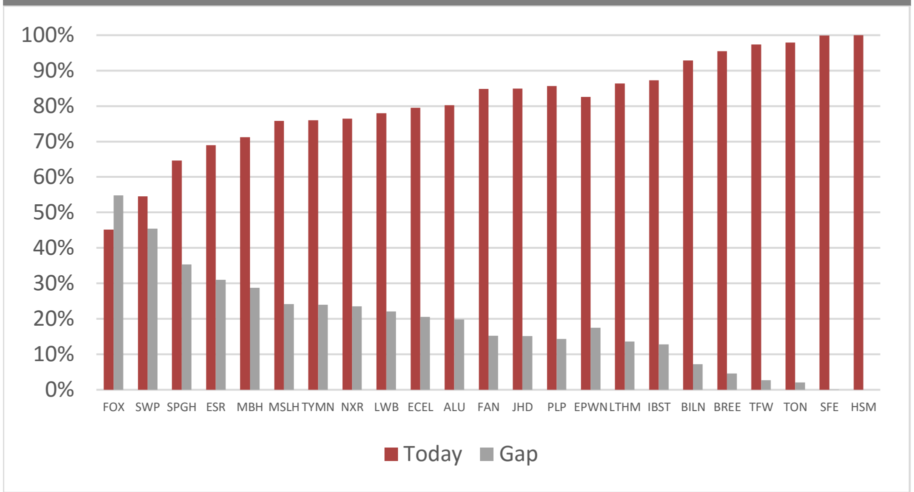


Source: Bloomberg; Hardman & Co

Share prices

Looking at the 52 week share price highs and lows, the average 'deficit' between current share prices (i.e. at 26 February) and their most recent peak is 18%. Titon, however, is only 2% off its 52 week high.

Current share prices as % of 52 week at 26 February 2016



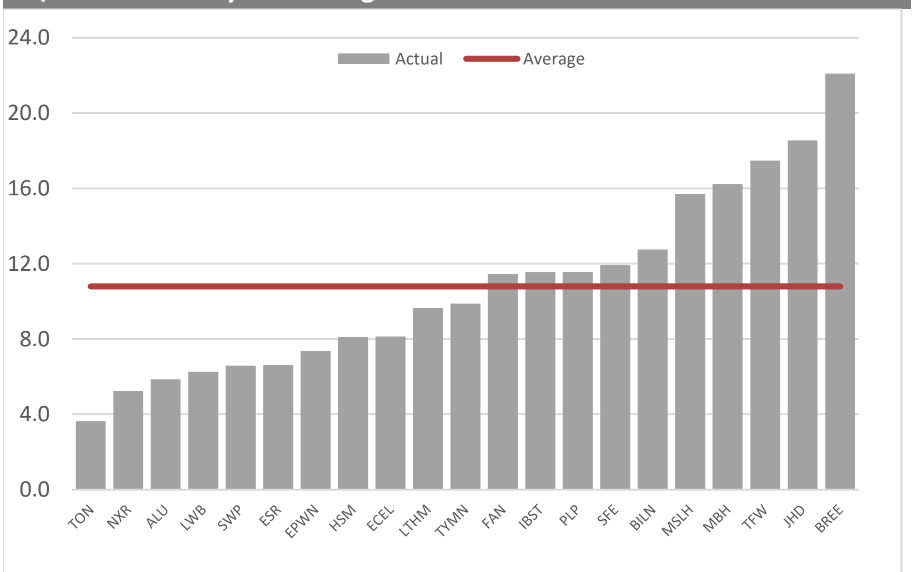
Source: Bloomberg; Hardman & Co

EV/EBITDA

Here, Enterprise Value (EV) is divided by EBITDA, where EV is market capitalisation (as at 26 February) plus net debt/minus net cash as at the last balance sheet date. Similarly, EBITDA is for the most recent fiscal year.

The average valuation is 10.8x and Titon is in the bottom left hand corner of the chart (3.8x) and it is the cheapest stock, by a street, in the Hardman UK Building Materials Sector.

EV/EBITDA latest year: average 10.8x ex-FOX and SPGH



Source: Bloomberg; Hardman & Co

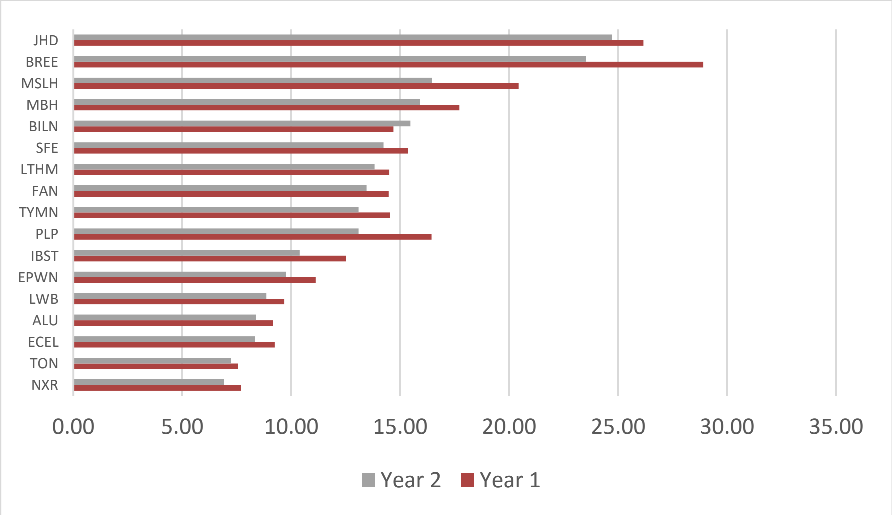
Prospective valuation: PER and Yield

In the most recent historic year, the Sector grew earnings by 22%, while Titon grew at twice this clip. The Group is also forecast to outperform over the next two prospective years and it is the second cheapest stock on a forward PER of 7.6x falling to 7.2x - and this compares with an average for the Hardman UK Building Materials Sector of 14.7x and 13.2x respectively.

Titon shares also yield 3.5% in Forecast Year 1 rising to 3.9% in Year 2. The average for the Sector is 3.1% rising to 3.4%. Nor is there an issue on Dividend Cover with Titon on more than four times and the Sector on three.

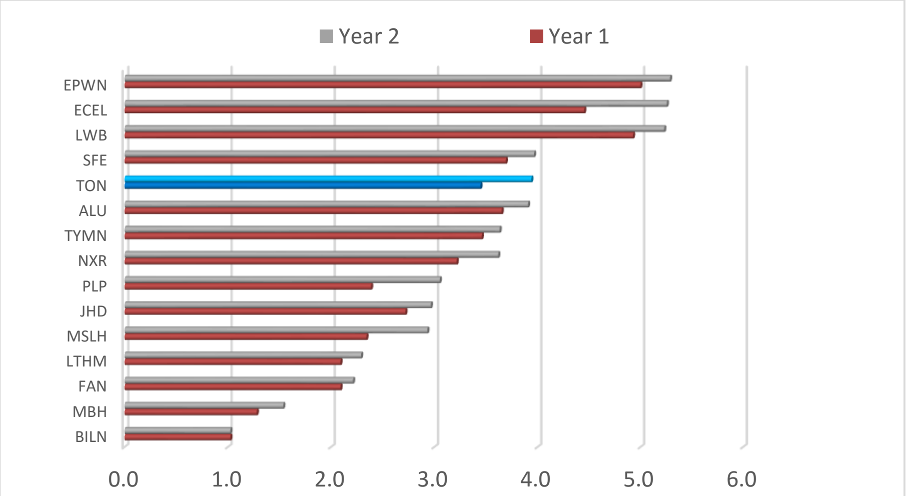
Note, too, that the sample here is 17 companies.

PER Forecast Year 1 (average 14.7x) and Year 2 (average 13.2x)



Source: Morningstar; Hardman & Co

Yield Forecast Year 1 (av. 3.1%) and Year 2 (av. 3.4%)



Source: Morningstar; Hardman & Co

As at 26 February 2016			
Sector average	**Historic**	**Forecast**	**Forecast**
EARNINGS		Year 1	Year 2
PER (actual) x	18.5	14.7	13.2
PER (weighted) x	22.0	19.0	15.3
Earnings growth (%)	22	20	11
DIVIDENDS:			
Cover (x)	3.0	3.0	2.9
Yield (%)	2.6	3.1	3.4
Growth (%)	14	18	12

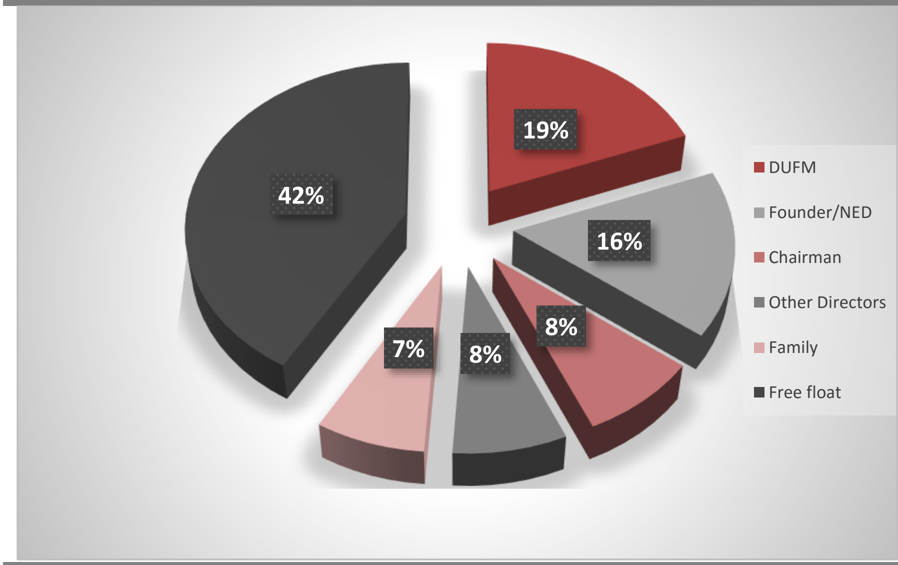
Source: Morningstar; Hardman & Co

Appendices

Shareholding

As at end-February, there were 10.776 million shares in issue and the free float is 42%.

Titon shareholding (%)



Source: Company data; Hardman & Co

Founder and Non-Executive Director John Anderson holds 16.4% with Executive Chairman Keith Ritchie at 8.1% and Other Directors (including Tyson Anderson) holding a further 7.6%. Additionally, another family member, Amanda Clipsham, has 7.3%. The largest shareholder, however, is Discretionary Unit Fund Managers (DUFM) with 19.4%.

Financials

Profit and loss

Year End Sept	2009	2010	2011	2012	2013	2014 Restated	2015
Gross revenue	14.230	15.806	16.155	14.761	16.040	19.664	22.859
Inter-segment	-0.177	-0.197	-0.160	-0.213	-0.300	-0.408	-0.601
Net revenue	**14.053**	**15.609**	**15.995**	**14.548**	**15.740**	**19.256**	**22.258**
Cost of sales	-10.993	-11.438	-12.376	-11.668	-12.059	-13.926	-16.280
Gross profit	**3.060**	**4.171**	**3.619**	**2.880**	**3.681**	**5.330**	**5.978**
Administration	-2.654	-2.833	-2.992	-3.186	-3.134	-3.624	-3.799
Distribution	-0.625	-0.670	-0.622	-0.665	-0.554	-0.578	-0.628
Other income	0.000	0.000	0.000	0.000	0.237	0.012	0.011
EBIT	**-0.219**	**0.668**	**0.005**	**-0.971**	**0.230**	**1.140**	**1.562**
Net interest	0.037	0.029	0.036	0.026	0.013	0.005	0.009
Associate	-0.028	-0.091	-0.007	-0.039	0.262	0.188	0.298
Profit before tax	**-0.210**	**0.606**	**0.034**	**-0.984**	**0.505**	**1.333**	**1.869**
Tax	0.008	-0.199	0.155	0.247	-0.029	-0.056	-0.160
Net	-0.202	0.407	0.189	-0.737	0.476	1.277	1.709
Minorities	0.000	0.000	-0.018	0.016	-0.173	-0.378	-0.376
Net profit	**-0.202**	**0.407**	**0.171**	**-0.721**	**0.303**	**0.899**	**1.333**
DPS	-0.211	-0.211	-0.237	-0.211	-0.158	-0.211	-0.289
Other	0.000	0.000	0.045	0.011	0.041	0.053	0.052
Retained	-0.413	0.196	-0.021	-0.921	0.186	0.741	1.096
EPS (p)	-1.91	3.85	1.62	-6.83	2.87	8.52	12.60
DPS (p)	2.00	2.25	2.00	1.50	2.00	2.50	3.00
No. of shares	10.556	10.556	10.556	10.556	10.556	10.543	10.576
Margins (%)							
GP	21.8	26.7	22.6	19.8	23.4	27.7	26.9
EBITDA	3.0	8.1	4.0	-2.5	5.6	8.8	9.6
EBIT	-1.56	4.28	0.03	-6.67	1.46	5.92	7.0
PBT	-1.5	3.9	0.2	-6.8	3.2	6.9	8.4
Net	-1.4	2.6	1.2	-5.1	3.0	6.6	7.7
Tax	*4*	*-33*	*456*	*25*	*-6*	*-4*	*-9*
Retained	-2.9	1.3	-0.1	-6.3	1.2	3.8	4.9
Cover (x)	-1.0	1.9	0.8	-3.5	3.0	6.1	5.9
EBITDA (£m):	-0.219	0.668	0.005	-0.971	0.230	1.140	1.562
EBIT	0.616	0.560	0.530	0.496	0.462	0.419	0.403
Depreciation	0.030	0.038	0.105	0.117	0.192	0.145	0.163
Amortisation	0.427	1.266	0.640	-0.358	0.884	1.704	2.128

Source: Company data; Hardman & Co

Capital employed

At 30 Sept (£m)	2009	2010	2011	2012	2013	2014	2015
Ordinary shares	1.056	1.056	1.056	1.056	1.056	1.056	1.063
Share premium account	0.865	0.865	0.865	0.865	0.865	0.865	0.891
Revaluation Reserve etc	0.056	0.056	0.056	0.056	0.056	0.056	0.056
Profit & loss account	7.842	8.038	8.017	7.096	7.282	8.023	9.119
Other	-0.013	-0.002	-0.013	-0.007	-0.046	-0.004	-0.079
Shareholders funds	9.806	10.013	9.981	9.066	9.213	9.996	11.050
Minorities	0.000	0.000	0.147	0.131	0.304	0.682	1.043
Provisions for liabilities	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Preference Shares	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other loans/leases	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Bank loans & ODs	0.023	0.000	0.017	0.027	0.035	0.000	0.000
CAPITAL EMPLOYED	9.829	10.013	10.145	9.224	9.552	10.678	12.093
Fixed assets	3.972	3.744	3.682	3.484	3.298	3.169	3.218
Investments	0.288	0.200	0.087	0.048	0.310	0.498	0.796
Stocks/WIP	2.057	2.523	2.593	2.578	2.855	3.479	3.786
Corporation tax	0.008	-0.117	0.065	0.055	-0.042	-0.162	-0.125
Trade Debtors (one year)	2.644	2.921	2.498	2.314	2.019	2.510	2.530
Other Debtors (one year)	0.251	0.299	0.591	0.614	1.105	2.002	2.212
Deferred tax	-0.361	-0.449	-0.392	-0.210	-0.105	0.027	0.064
Accruals/accrued income	0.052	0.090	0.085	0.093	0.070	0.077	0.250
Other Creditors	-0.714	-0.733	-0.876	-1.084	-0.947	-1.482	-1.910
Trade creditors (1 yr)	-1.552	-1.789	-1.747	-1.394	-1.987	-2.250	-2.221
Creditors (1 yr+)	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other	0.088	0.214	0.695	0.886	0.825	0.661	0.623
Cash	3.096	3.110	2.864	1.840	2.151	2.149	2.870
CAPITAL EMPLOYED	9.829	10.013	10.145	9.224	9.552	10.678	12.093
METRICS:							
ROCE (%)	-2.2	6.7	0.0	-10.5	2.4	10.7	12.9
Capital turn (x)	1.4	1.6	1.6	1.6	1.6	1.8	1.8
RONA	-2.1	6.1	0.3	-10.7	5.3	12.5	15.5
Current ratio	2.08	2.30	2.26	1.96	2.14	2.62	2.74
Quick ratio	1.55	1.65	1.60	1.30	1.40	1.73	1.85
Trade debtor days (no.)	69	68	57	58	47	48	41
Trade creditor days (no.)	40	42	40	35	46	43	36
Stocks as % of revenue	15	16	16	18	18	18	17
Creditors as % of revenue	-16	-16	-16	-17	-19	-19	-19
(Net debt)/cash (£,000)	3.073	3.110	2.847	1.813	2.116	2.149	2.870
Net assets (£,000)	9.806	10.013	10.128	9.197	9.517	10.678	12.093
Gearing % (-ve)/+ve	31	31	28	20	22	20	24

Source: Company data; Hardman & Co

Cashflow

£ million	2009	2010	2011	2012	2013	2014	2015
Profit before tax	-0.210	0.606	0.034	-0.984	0.505	1.333	1.869
Interest etc	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Depreciation	0.646	0.598	0.635	0.613	0.654	0.564	0.566
Provisions	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Asset sales	0.008	-0.012	-0.031	-0.011	-0.019	-0.015	-0.004
Share issued/sold	0.003	0.000	0.003	0.011	0.041	0.026	0.085
Other	0.028	0.091	0.007	0.039	-0.262	-0.188	-0.298
SOURCES	0.475	1.283	0.648	-0.332	0.919	1.720	2.218
Capex	0.206	0.332	0.470	0.327	0.280	0.290	0.498
Disposals	-0.005	-0.012	-0.033	-0.040	-0.023	-0.015	-0.052
Acquisitions	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Stocks	-0.437	0.461	0.079	-0.021	0.323	0.564	0.363
Debtors	-0.274	0.360	-0.127	-0.151	0.209	1.209	0.491
Creditors	0.161	-0.256	-0.099	0.145	-0.496	-0.736	-0.454
Tax	0.011	-0.014	0.119	-0.074	0.037	0.068	0.234
Dividends	0.211	0.211	0.237	0.211	0.158	0.211	0.289
Other	0.057	0.164	0.265	0.305	0.128	0.096	0.128
USES	-0.070	1.246	0.911	0.702	0.616	1.687	1.497
Surplus/(deficit)	0.545	0.037	-0.263	-1.034	0.303	0.033	0.721
Adjustment	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Movement (debt)/cash	0.545	0.037	-0.263	-1.034	0.303	0.033	0.721
	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Reconciliation & Analysis of Balance Sheet Debt:							
(Net debt)/cash	3.073	3.110	2.847	1.813	2.116	2.149	2.870
Net assets	9.806	10.013	10.128	9.197	9.517	10.678	12.093
Gearing % (-ve)/+ve	31	31	28	20	22	20	24
Change	0.545	0.037	-0.263	-1.034	0.303	0.033	0.721

Source: Company data, Hardman & Co

Headcount

Staff costs including Directors (£m)	2009	2010	2011	2012	2013	2014	2015
Wages	3.865	3.869	4.014	4.037	3.987	4.584	5.191
SS	0.351	0.360	0.365	0.376	0.337	0.415	0.478
Pension	0.206	0.201	0.320	0.332	0.217	0.282	0.268
Shares	0.003	0.000	0.003	0.011	0.041	0.053	0.052
Total	4.425	4.430	4.702	4.756	4.582	5.334	5.989
% change		*0*	*6*	*1*	*-4*	*16*	*12*
Headcount (no.):							
Manufact.	104	103	102	104	107	125	148
Sales etc	72	78	84	73	63	64	67
Total	176	181	186	177	170	189	215
% change		*3*	*3*	*-5*	*-4*	*11*	*14*
Directors (£m):							
Cost	0.643	0.638	0.648	0.649	0.573	0.574	0.697
% change		*-1*	*2*	*0*	*-12*	*0*	*21*
Number	9.8	8.0	7.0	6.4	6.7	6.0	5.5
HPD (£)*	101,900	101,900	128,000	128,000	143,000	147,000	194,000
% change		*0*	*26*	*0*	*12*	*3*	*32*

**Highest Paid Director*

Source: Company data; Hardman & Co

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