18 December 2018

HARDMAN & CO.

TITON HOLDINGS PLC

Good moon rising

Titan is the largest moon of Saturn. It is blessed with a generally smooth surface and few impact craters. It would also look 11.4 times larger than our moon in the night sky. Its nearest terrestrial eponym possesses similarly attractive characteristics; and it appears to be much larger than it is. Our supernal Titon is a veteran, too, and well equipped to live long and prosper in what is an asteroid-strewn global geopolitical hubbub.

- **Ignition:** (With apologies to John Fogerty) PBT in the year to 30 September 2018 rocketed ahead 20% to £3m on net revenue up 5% at £30m. DPS was also lifted by 13% to 4.75p with cover at 4.0x. South Korea fired its PBT contribution 27% to £2.1m, more than two-thirds of Titon's PBT.

- **Lift-off:** RONA was 20.7% on an adjusted basis with Capital Turn at around 2.0 (which is unearthly). Liquidity was weightless, too, with a Quick Ratio also near 2.0, while net cash is equivalent to 18% of net assets. We also expect Titon to continue to fly cash-positive.

- **Orbit:** We have nudged up our profit forecasts and had a first look at 2021. The volume of new UK housing is up 8.4% in 2018 year-to-date which is good news for Titon – while in South Korea, GDP is set to grow at 2.6% and 2.5% in 2019 and 2020 (albeit both forecasts shed 10 basis points this month – on 13 December).

- **Re-entry:** **We all know about** Brexit uncertainty at home but Experian is forecasting annual growth in construction of 1.1% p.a. in 2018 through 2020 with private housebuilding at 3.3% p.a. Meantime, South Korea continues to be an enviably strong economy with other regions seed corn for the future. The Group produces both prosaic and truly innovative products which is a useful combination and affords protection and good reach.

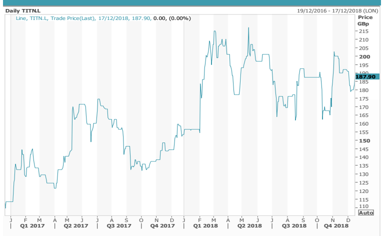
- **Mission control:** The Hardman UK Building Materials Sector comprises 23 companies with a market value of £6.9bn and a valuation of 7.8x EV/EBITDA on a trailing 12-month basis (priced on 14 December). Titon is on just 6.6x despite its jet-propelled number one Total Shareholder Return (TSR) of 18% over 12 months, especially against the Sector average of minus 12% (i.e. only seven stocks were positive).

Financial summary and valuation

Year-end Sept (£m)	2016	2017	2018	2019E	2020E	2021E
Net revenue	23.7	28.0	29.9	31.0	32.9	34.1
EBITDA	2.33	2.46	2.85	2.96	3.27	3.55
Underlying EBIT	1.77	1.85	2.19	2.25	2.49	2.69
Statutory PBT	2.14	2.49	2.98	3.20	3.58	3.89
Underlying EPS (p)	15.2	16.5	19.2	19.4	21.5	22.9
Statutory EPS (p)	15.2	16.5	19.2	19.4	21.5	22.9
Net (debt)/cash	2.4	3.3	3.4	4.0	4.5	5.0
Shares issued (m)	10.9	11.0	11.1	11.1	11.1	11.1
P/E (x)	11.8	10.9	9.4	9.3	8.4	7.9
EV/EBITDA (x)	8.3	7.6	6.6	6.2	5.6	5.1
DPS (p)	3.50	4.20	4.75	4.85	5.25	5.50
Dividend yield	1.9%	2.3%	2.6%	2.7%	2.9%	3.1%

Source: Hardman & Co Research

Construction & Materials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**TON**
Price (p)	180.0
12m High (p)	217.0
12m Low (p)	148.5
Shares (m)	11.1
Mkt Cap (£m)	20.0
EV (£m)	18.8
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

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www.titonholdings.com

Key shareholders

Rights & Issues IT	11.4%
MI Discretionary UF	7.2%
Chairman	8.8%
Other Directors	7.9%
Founder/NED	15.7%
Family	6.9%

Diary

20 Feb '19	AGM

Analysts

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Prologue

Titan is the largest moon of Saturn and the only object in space, other than Earth, where clear evidence of stable bodies of surface liquid has been found. It would also appear 11.4 times larger in the night sky than our Moon viewed from Earth.

On terra firma, Titon (the middle-English spelling) also provides clear evidence of stable bodies, which is rare in the building materials universe. No, it is not the biggest entity around but it does appear to be much larger than it is.

Check out, too, its speed of light performance in TSR of 18% over the past 12 months (through 14 December) in a Sector where the average is negative.

Titan was discovered in 1655; while Titon was founded in 1972

Titan was discovered in 1655 by the Dutch astronomer Christiaan Huygens, whereas Titon was founded in 1972 by current Deputy Chairman and astrophysicist John Anderson. Today, it operates two business orbits in natural ventilation products plus window and door hardware (i.e. handles, hinges and locking mechanisms) together with, since 2007, mechanical ventilation systems.

Broadly half its revenue payload is generated in the UK but its largest profit earner is South Korea (accounting for more than two-thirds of pre-tax profit), where it is also the market leader in natural ventilation with a space market share of more than 75%. No other visitor has done this.

Titon well equipped to prosper in what is an asteroid-strewn global geopolitical hubbub

On 13 December, it promulgated its full-year financial flight plan for the 12 months to 30 September 2018 – and what a good one it was. Net revenue rose 5% to £30m while pre-tax profit increased 20% to £3.0m; and DPS for the year was raised 13% to 4.75p (and it is covered four times). Equally, adjusted RONA was 20.7% with liquidity positively weightless i.e. a Quick Ratio of 1.97. Finally, net cash at the year-end was £3.4m.

Okay, it is difficult to find an asteroid-free trajectory in the hubbub that is the global geopolitical clime right now – but the good ship Titon is a veteran of many missions; and yet it sells at 6.6x EV/EBITDA which is significantly below the NASA and Sector average (priced on 14 December).

In the UK galaxy, for example, the extreme solar wind of Brexit continues to blow and many investors have taken cover. Growth has been – and still is – below trend but the major economic forecast variables have remained remarkably stable, too, over the past year or so; which is rare. We are now experiencing ‘slow normal’ with UK GDP growth at between 1% and 2% (the average was 2.8% in 2000 through 2007). But it is still growth and Experian (ex-a-no-deal-Brexit) is forecasting an uncontroversial GDP rise of 1.5% p.a. in both 2019 and 2020. At the same time, UK construction activity is not a moon shot either and, in the first 10 months of 2018, output is down 1.6% in real terms. Within this trajectory, however, the Private Housing Sector, is up 8.4% in output volumes on the same basis; and this Sector is Titon’s pilot of choice. Similarly, Experian expects 3% p.a. volume growth in the Private Housing sub-sector in both 2018 and 2019 with 4% on the wing in 2020. For my sins, I am a First Officer with the Experian orbital forecast team.

Significant global tensions

Flying next to South Korea, the world’s 12th largest economy, is the envy of many of its peers. However, it is not on a totally smooth cruise control. Yes, higher government spending should support increased levels of economic activity, says FocusEconomics; and although monetary policy will be tighter, it will remain accommodative by historical standards. That said, significant global trade tensions, an economic slowdown in China and elevated domestic household debt are sources of outlook concern. This means that FocusEconomics (on 13 December 2018) prudently shaded its GDP forecast by 10 basis points in both 2019 and 2020 to

2.6% and 2.5% respectively. Titon may also see more competition from mechanical ventilation spacemen as opposed to natural.

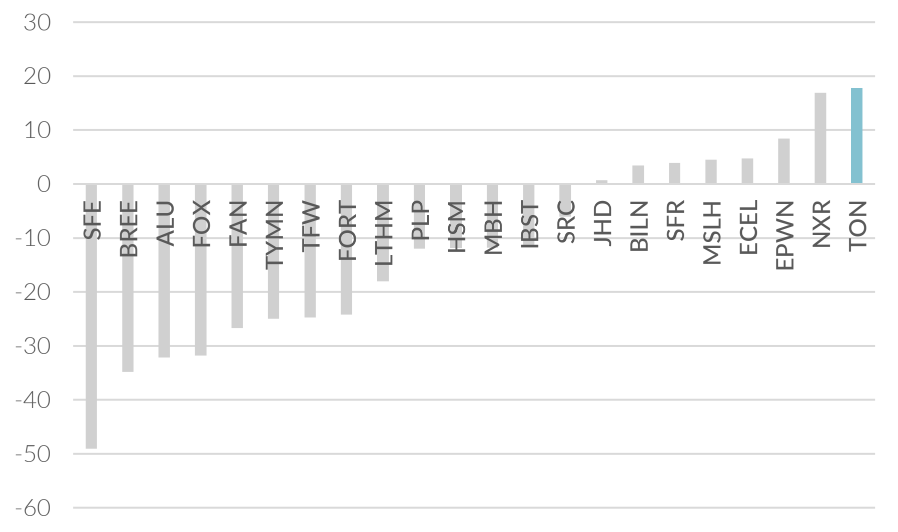
EBITDA is set to continue to grow at an average 7.7% p.a.

Taking all this into account, though, we are still forecasting the Group's EBITDA to grow at an average 7.7% p.a. in 2019, 2020 and 2021.

Titan was the first known moon of Saturn, and the sixth known planetary satellite (after Earth's moon and the four Galilean moons of Jupiter). Titan orbits Saturn at 20 Saturn radii and from Titan's surface, Saturn subtends an arc of 5.09 degrees.

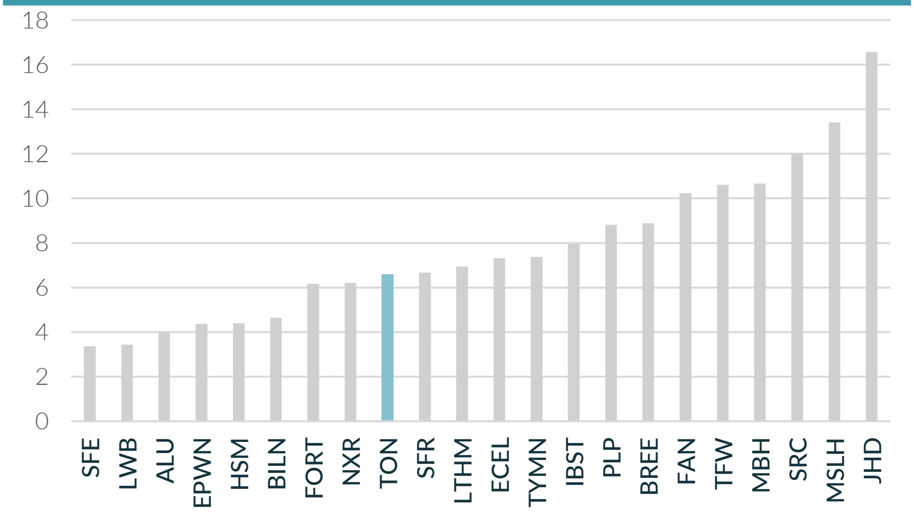
Following the Cassini-Huygens mission to Titan in 2004, it was also discovered that its geologically young surface is generally smooth with few impact craters. The same is true of its earthly eponym; and our Titon dispenses cleaner air for good measure.

Hardman UK Building Materials Sector: TSR (%) 12 months



Source: Hardman & Co Research, Bloomberg – ex-LWB on minus 72%

Hardman UK Building Materials Sector: EV/EBITDA (x) TTM



Source: Hardman & Co Research; Bloomberg – ex-loss-making FOX; TTM is Trailing 12-month basis

Notes:

Alumasc (ALU), Billington (BILN), Breedon (BREE), Epwin (EPWN), Eurocell (ECEL), Forterra (FORT), Fox Marble (FOX), J. Halstead (JHD), Samuel Heath (HSM), IBST (IBST), Low & Bonar (LWB), Marshalls (MSLH), Michelmersh (MBH), Norcros (NXR), Polypipe (PLP), Safestyle (SFE), Severfield (SFR), SigmaRoc (SRC), F W Thorpe (TFW), Titon (TON), Tyman (TYMN), Volution (FAN).

Preliminary full-year results to 30 September 2018

Profit & loss

Net top line gain of 8% in constant currency

In the 12 months ending 30 September 2018, Titon's gross and net revenue rose 5% and 7%, respectively, to £30.4m and £30m (and the £429,000 difference is derived from inter-segment trading exclusively in the UK). For the record, too, the net top-line gain on a constant currency basis was 8%.

At the same time, the gross margin increased from 25.9% to 26.8%.

Administrative Expenses as a percentage of net revenue inched up 50 basis points to 15.7%, albeit both Distribution Costs and R&D moved down by some 20 basis points each to 2.4% and 1.5% respectively.

EBITDA rose by a handsome 16% to £2.85m with EBIT doing slightly better at +18% to £2.19m. This meant that EBIT margins widened from 6.6% to 7.3%.

Pre-tax profit surged 20%

Net interest contributed £13,000 (2017: £10,000) while the Group's South Korean 49%-owned Associate, Browntech Sales Co. Limited (BTS), increased its contribution very smartly indeed by 23% to £778,000.

In turn, pre-tax profit surged 20% from £2.49m to £3.0m; and there was no change to this on a constant currency basis.

The taxation rate as a percentage increased by 100 basis points but was still only 11.8%. This was due to a variety of factors, the largest of which relates to R&D and the Group's associate company.

Titon Korea, the Group's 51%-owned eponymous business (like its sister subsidiary) had a very good half year, raising profits by 30%, which meant that the 'non-controlling interest' or minority debit was £514,000 (2017: £420,000). Unsurprisingly, Group net profit added 17% with basic EPS doing almost the same at +16% to 19.2p i.e. there were 1.1% more shares in issue here.

The dividend for the year was increased by 13% to 4.75p with cover little changed at 4.04x (2017: 3.94x). This includes a final dividend of 3.0p (2017: 2.7p).

Profit and loss			
12 months to 30 Sept (£m)	2018	2017	% chg.
Gross revenue	30.375	28.869	5
Inter-segment	-0.429	-0.858	
Net revenue	**29.946**	**28.011**	7
Cost of sales	-21.920	-20.746	
Gross profit	**8.026**	**7.625**	11
Administration	-4.707	-4.249	
Distribution	-0.704	-0.717	
R&D	-0.446	-0.467	
Other income	0.018	0.018	
EBIT	**2.188**	**1.850**	18
Net interest	0.013	0.010	
Associate	0.778	0.633	23
Profit before tax	**2.979**	**2.493**	20
Tax	-0.352	-0.269	
Post-tax profit	2.627	2.224	18
Minorities	-0.514	-0.420	
Net profit	**2.113**	**1.804**	**17**
Dividends	-0.489	-0.410	
Other	0.043	0.014	
Retained profit	1.667	1.408	18
Basic EPS (p)	19.17	16.55	16
DPS (p)	4.75	4.20	13
No. of shares (m)	11.024	10.903	

Source: Company data, Hardman & Co Research

Ratios		
Margins (%)	2018	2017
Gross	26.8	25.9
EBITDA	9.5	8.8
EBIT	7.3	6.6
PBT	9.9	8.9
Net	8.8	7.9
Retained	5.6	5.0
Tax (% rate)	*-11.8*	*-10.8*
DPS cover (x)	4.0	3.9
EBITDA (£m)		
EBIT	2.188	1.850
Depreciation	0.448	0.438
Amortisation	0.209	0.175
Total	**2.845**	**2.463**

Source: Company data, Hardman & Co Research

Geographical analysis

UK revenue up 6% annualised

The UK, with almost £15m of revenue, accounted for 49% of the Group total in 2018 (2017: 50%) and it rose 6% annualised, including double-digit growth in the second half of the fiscal year. The Group's home market also contributed £1.0m of segment profits in 2018, which was up 42% year-on-year (including more than 50% in 2H). At the same time, UK profitability moved healthily ahead from 5.1% to 6.8%.

In particular, there was a strong performance in the Hardware business, comprising sales of our traditional natural or trickle vents – and window and door hardware. Here, sales into the aluminium window and door sector continued to perform strongly, up 12%. In addition, sales of Titon branded door and window hardware products had a strong year with a 34% annualised increase in revenue.

Within the ventilation unit, sales of mechanical ventilation products generated a 7.5% increase in revenue, including exports as new customers have been introduced. The latter reflects a continued targeting of, and investment in, new geographical markets, particularly Eastern Europe. Within the UK, sales in this sub-sector were up marginally on 2017 as Titon restructured its sales areas outside of London and the South East.

South Korean profit +27%

In South Korea, revenue rose 22% to £11.6m due to higher private sector demand. Profits from the region (including an Associate) were struck at £1.64m, which was an increase of 27%. Titon Korea, the Group's 51%-owned subsidiary, manufactures natural window ventilation products and is the national market leader in the southern half of the Korean Peninsula with an estimated market share in this core sub-sector in excess of 75%.

The Group's associate company, BTS, also operates exclusively in South Korea and raised its contribution 23% to £778,000 (it is the sole contributor to the Associate line in the profit and loss account). In terms of activity, BTS distributes ventilation products in South Korea and both invests in and develops schemes in the domestic residential real estate market; and there are three active schemes active at this time: the first is a secured loan, which is expected to be repaid in 2019; the second is a residential refurbishment in Seoul, which is tenanted; and the third is the development of a residential property in Seoul, which is completed and being marketed. Note, too, that Titon Korea accounts for 100% of the Group's Minorities charge, which was £514,000 in the year (2017: £420,000).

But US had a difficult year

The US, however, had a difficult year and revenue virtually collapsed from £1.8m to just over £650,000; and a small trading loss of £100,000 or so was struck (2017: a contribution of £166,000). The damage was done by the ending of a subsidised window replacement programme in New York and a general market slowdown in Washington State. That said, Titon has "very low fixed costs" in the US business as it distributes products imported from the UK. This means that the region actually made a positive contribution overall to the Group's results.

'Other' nations (largely in continental Europe) had an okay half year revenue-wise with a 5% rise to almost £3m. However, as with the US, a tiny trading loss (£1,000) was incurred (2017: minus £17,000). This is all about building a market presence and position for the future. In 2018, 'Other' nations accounted for 10% of Group revenue.

Business segment revenue and profit

12 months to 30 Sept (£m)	2018	2017
Revenue		
UK (net)*	14.792	13.965
South Korea	11.639	9.530
North America	0.652	1.781
Other	2.941	2.735
Total*	**29.946**	**28.011**
Segment profit (pre-tax)		
UK	1.005	0.706
South Korea**	2.084	1.638
North America	-0.109	0.166
Other	-0.001	-0.017
Total	**2.979**	**2.493**
% changes in revenue		
UK	6	8
South Korea	22	34
North America	-	4
Other	5	37
Total	**7**	**18**
% changes in profit		
UK	42	-6
S. Korea**	27	44
North America	-	-
Other	-	-
Total	**20**	**8**
**ex-inter-segment revenue*	*0.429*	*0.858*

Source: Company data; Hardman & Co Research
Notes:
** inter-segment revenue pertains to UK only*
***South Korea profit includes Group share of profit from associate BTS*

Balance sheet

Net assets, including minorities (*aka* non-controlling interest), rose 7% in the year to 30 September 2018 from £16.2m to £18.5m; and this included a rise in net cash from £3.27m to £3.42m i.e. 18% of NAV (2017: 20%).

RONA of 20.7%

RONA increased from 15.4% to 16.1% or, on an adjusted basis, from 20.2% to 20.7%. The latter excludes intangibles (at £638,000 and £737,000, respectively) and net cash (as above) from the denominator.

ROCE on an adjusted basis (as above) increased from 15.1% to 15.3% with annualised Capital Turn (revenue divided by capital employed) at 2.1x (2.3x in 2017and on the same basis. As is our wont, we like the relatively neglected Capital Turn ratio because it measures how efficiently capital is utilised. For the uninitiated, there are two ways to make a profit: maximise revenue and constrain costs on the one hand i.e. raise profitability; or use your capital efficiently/limit its extent 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.

Quick ratio of 1.97

Turning to liquidity, we highlight the Current and Quick Ratios, which are calculated by dividing current assets by current liabilities ('Current') and current assets less stocks divided by current liabilities ('Quick' – and where above 1.0 is good). The former was 2.96 (2017: 3.13), while the Quick Ratio was 1.97 (2017: 2.13) – positively 'out of this world'.

Capital employed

30 September 2018 (£m)	2018	2017
Ordinary shares	1.113	1.098
Share premium account	1.049	0.985
Revaluation reserve etc.	0.056	0.056
Profit & loss account	13.554	11.887
Other	0.475	0.189
Shareholders' funds	16.247	14.215
Minorities	2.221	1.986
Provisions for liabilities	0.000	0.000
Preference shares	0.000	0.000
Other loans/leases	0.000	0.000
Bank loans & ODs	0.000	0.000
Capital employed	**18.468**	**16.201**
Fixed assets	3.655	3.548
Investments	2.876	1.966
Stocks/WIP	5.667	4.670
Corporation tax	-0.142	0.016
Trade debtors	2.990	3.249
Other debtors	4.441	3.074
Deferred tax	0.015	0.077
Accruals/accrued income	0.368	0.321
Trade creditors	-3.438	-2.686
Other creditors	-2.116	-1.941
Intangibles/Other	0.737	0.638
Cash	3.415	3.269
Capital employed	**18.468**	**16.201**
Metrics:		
ROCE 1 (%)	11.8	11.4
ROCE 2 (%)*	15.3	15.1
Capital Turn 1 (x)	1.6	1.7
Capital Turn 2 (x)*	2.1	2.3
RONA 1 (%)	16.1	15.4
RONA 2 (%)*	20.7	20.2
Current Ratio	2.96	3.13
Quick Ratio	1.97	2.13
Stocks as % of revenue	19	17
Creditors as % of revenue	-19	-17
(Net debt)/cash (£,000)	3.415	3.269
Net assets (£,000)	18.468	16.201
Gearing % (-ve)/+ve	18	20

Source: Company data, Hardman & Co Research
*Notes: *adjusted for intangibles and net cash*

Cashflow

Cash generated from operations was £302,000 lower year-on-year due largely to a rise in both inventories and debtors. Creditors also spiked by more than £700,000. In terms of investing activities, taxation was lower, while capex was broadly unchanged at £578,000. Dividends paid rose 19% to £489,000.

Cashflow statement

12 months to 30 Sept (£m)	2018	2017
Profit before tax	2.979	2.493
Interest etc.	0.000	0.000
Depreciation etc.	0.657	0.613
Provisions	0.000	0.000
Asset sales	-0.016	0.000
Share issued/sold	0.122	0.056
Other	-0.778	-0.633
Sources	**2.964**	**2.529**
Capex	0.578	0.520
Disposals	-0.046	-0.045
Acquisitions	0.000	0.000
Inventories	0.836	0.133
Debtors	0.890	0161
Creditors	-0.792	-0.057
Tax	0.132	0.390
Dividends	0.489	0.410
Other	0.315	0.186
Uses	**2.402**	**1.698**
Surplus/(deficit)	**0.562**	**0.831**
Adjustment	-0.416	0.000
Movement (debt)/cash	**0.146**	**0.831**
Reconciliation & analysis of balance sheet debt:	**2018**	**2017**
(Net debt)/cash	3.415	3.269
Net assets	18.848	16.201
Gearing % (-ve)/+ve	18	20

Source: Company data, Hardman & Co Research

Titon Korea also paid a maiden dividend in the year and this led to a cash outflow from the Group to the non-controlling interests of £416,000 (see 'Adjustment' above), while simultaneously repatriating a similar amount to the UK as dividend to Titon Holdings plc.

In sum, then, there was a cash inflow of £146,000 (2017: inflow of £831,000) which took net cash to £3.42m and which is equivalent to 20% of net assets.

Forecasts

Forecasts raised and a first look at 2012

The fiscal 2008 results were very much in line with our forecasts and, in 2019 and 2020, some modest upward adjustments have been made to our top-line forecasts and also to profits. Taxation is a little higher and there are more shares in issue which has marginally impacted forecast EPS. Our estimates for 2021 are new.

The two largest regions for Titon are the UK and South Korea with 49% and 39% of Group revenue in 2018, respectively; remember, too, that Titon operates two Korean businesses, Titon Korea (51%-owned) and BTS which is an associate – which means its revenue is not formally booked.

UK margins rising

In 2018, the UK grew revenue by 6% to £14.8m and while fiscal 2019 will be a quieter one with +2%, our number for 2020 is +7% followed by +3% in 2021. Profitability, based on the segment split, was 6.8% (2017: 5.1% after a closure cost) which produced a contribution of just over £1m. Going forward, we see margins on a rising trend to 8.5% in fiscal 2021. This reflects product mix, higher exports and cost reductions.

Titon Korea's revenue rose 22% in 2018 to £11.6m. This rate of growth is expected to slow a little due to a less brisk pace of GDP appreciation (i.e. down 10 basis points in 2019 and 2020 at 2.6% and 2.5% respectively) and potentially more competition. Our forecasts are for 5% average growth p.a. through 2021. The segmental profit (£2.1m in 2018) includes BTS but not in the revenue line which means that looking at margins is not appropriate. In any event, our prudent contribution forecast sees 2018's £2.1m rising gently over the piece to £2.3m.

Other regions are seed corn for the future

Other regions, including continental Europe and the US, accounted for 12% of Group revenue at £3.5m and incurred a small loss, which was driven by a difficult market in the US. Profitability is restored in the current year and management is positive about export prospects to continental Europe in 2019. The US operation also has excellent long-term potential. In fiscal 2021, we are forecasting revenue from 'other regions' of over £4m and a modest contribution in excess of £200,000.

Titon is a zealous financial housekeeper (check out its Quick Ratio at around 2.0) and had net cash of £3.4m at the last balance sheet date. We are forecasting a continuing cash- positive business at the rate of ca.£0.5m p.a. This would also allow the Group to be discretionary on any significant capex plans or acquisitions.

Segmental revenue and profit

Revenue	2017	2018	2019E	2020E	2021E
UK	14.0	14.8	15.1	16.1	16.6
South Korea	9.5	11.6	12.2	12.8	13.4
Other	4.5	3.5	3.7	4.0	4.1
Total	**28.0**	**29.9**	**31.0**	**32.9**	**34.1**
Pre-tax Profit					
UK	0.706	1.005	1.056	1.221	1.413
South Korea	1.638	2.084	2.107	2.181	2.269
Other	0.149	-0.110	0.037	0.176	0.205
Total	**2.493**	**2.979**	**3.200**	**3.578**	**3.887**

Source: Company data, Hardman & Co Research

Chairman's statement

It was another record year for Titon, generating revenue of £30 million and delivering a 20% increase in profit before tax to £3.0 million. The total declared dividend for the year was also increased by 13%.

Profit and loss

In the year ended 30 September 2018, the Group's net revenue (which excludes inter-segment activity) rose 7% to £29.9 million (2017: £28.1 million). On a constant currency basis, however, the increase is 8%.

The gross margin increased from 25.9% to 26.8% and EBITDA was 16% higher at £2.85 million (2017: £2.46 million). Earnings before interest and tax (EBIT) or operating profit rose 18% to £2.19 million (2017: £1.85 million) with the operating margin higher at 7.3% (2017: 6.6%).

Net interest contributed £13,000 (2017: £10,000) while the share of profits from the Group's associate (in South Korea) rose 23% to £778,000 (2017: £633,000) resulting in profit before tax of £2.98 million, which was an increase of 20% (2017: £2.49 million). On a constant currency basis there was no material change to the 2018 profit before tax.

Earnings per share for the year increased 16% to 19.2 pence (2017: 16.5 pence). The effective rate of taxation increased to 12% (2017: 11%).

The Directors are proposing a final dividend of 3.0 pence per share (2017: 2.7 pence). When added to the interim dividend of 1.75 pence, paid on 21 June 2018 (2017: 1.5 pence), this represents a total dividend for the year of 4.75 pence (2017: 4.20 pence) a 13% rise on 2017. If approved by shareholders at the forthcoming, the dividend is payable on 26 February 2019 to shareholders on the register at 18 January 2019. The ex-dividend date is 17 January 2019.

Statements of financial position and cash flows

Net assets including non-controlling interests rose £2.3 million to £18.5 million with net cash at £3.42 million (2017: £3.27 million) which is equivalent to 18.5% of net assets (2017: 20.2%).

Inventory levels at the year-end increased by £997,000 on 2017 due to strong business growth in South Korea and the introduction of new products into the UK and European markets.

In turn, this meant that cash generated from operations in the year was £1.94 million (2017: £2.24 million).

Capital expenditure increased to £893,000 (2017: £706,000) and dividends paid to the shareholders of Titon Holdings Plc increased by 19% to £489,000 (2017: £410,000). Titon Korea also paid a maiden dividend in the year and this led to a cash outflow from the Group to the Non-Controlling Interests of £416,000 (2017: £0), whilst simultaneously repatriating a similar amount to the UK as a dividend to Titon Holdings plc.

The result of the above is an overall net increase in the Group's cash reserves in the period of £146,000 (2017: £831,000).

Net current assets were £11.2 million (2017: £9.9 million) with a Quick Ratio[1] of 1.97 (2017: 2.13).

ROCE[2] was 15.3% (2017: 15.1%) with Capital Turn at 2.1 (2017: 2.3).

Segment analysis

The Directors look initially at geographical areas to evaluate the Group's performance and then consider product Group splits at the secondary level.

UK and Europe

Revenue from the UK and Europe increased by 7% in fiscal 2018. This increase was derived chiefly from a strong performance in the Hardware business comprising sales of our traditional trickle vents, and window and door hardware. Here, sales into the aluminium window and door sector continued to perform strongly, up 12%. I am also pleased to report that sales of Titon branded door and window hardware products had a strong year with a 34% annualised revenue increase in the year, which reflects a lot of hard work put into this product area.

Results from the Ventilation System's sales of mechanical ventilation products saw an increase of 7.5% in revenue, with pleasing demand for exports again as new customers have been introduced. The latter reflects a continued targeting of and investment in new geographical markets, particularly Eastern Europe. Within the UK, sales were up marginally on 2017 as we restructured our sales areas outside of London and the South East.

Titon continues to invest in research and development which, in turn, yields a continuing number of new products for both the Ventilation Systems and Hardware businesses and this will also be true in 2019. The importance of air quality, both outdoors and indoors, continues to expand as the impact of poor-quality air becomes more understood by the medical profession, governments and consumers. Titon has worked with one of our trade associations, Beama (British Electrotechnical & Allied Manufacturers Association), which represents manufacturers of electro technical products, such as ventilation products, to promote the benefits of good indoor air quality. In October 2018, the Healthy Homes and Buildings All Party Parliamentary Group published a White Paper entitled *Building our* Future, Laying the Foundations for Healthy Homes and Buildings. I am very pleased to say that Titon was a significant contributor to this paper, which we hope will lead to healthier homes and higher sales of ventilation products.

The value of UK private and public housebuilding output is forecast to increase in 2018 by 4.5% against calendar 2017 according to the Construction Products Association. At the same time, the expected value of repair, maintenance and improvement (RMI) in the private and public residential sectors is forecast to be flat in 2018 against 2017.

South Korea

In South Korea, the Group's subsidiary, Titon Korea (51% owned), manufactures natural window ventilation products and is the national market leader with an estimated market share in this core sub-sector in excess of 75%. In fiscal 2018, it also had another very good year with revenue increasing by 21% to £11.6 million, due to higher private sector demand, and its contribution to Group profit after tax was up by 24% to £1.0 million.

The Group's associate company, Browntech Sales Co. Limited (BTS), also operates exclusively in South Korea and it generated another higher contribution in the year with the Group recognising a share of profits from BTS of £778,000 (2017: £633,000), up 23% on 2017. In terms of activity, BTS distributes ventilation products in South Korea and both invests in and develops schemes in the domestic residential real estate market. There are three such schemes active at this time: the first in the form of a secured loan, which is expected to be repaid in 2019; the second, a residential refurbishment in Seoul, which is tenanted; and the third, the development of a residential property in Seoul, which has now been completed and is currently being marketed. Taking Titon Korea and BTS together, South Korea is the largest contributor to the Group's profit after tax at £1.8 million for the year. (2017: £1.5 million).

United States

Finally, as I noted in the interim results, revenue in the US was substantially lower and this continued in the second half, although the US represents only a small proportion of Group sales (2% in 2018 and 6% in 2017). In fact, sales for the year were down by almost two-thirds against 2017, which was very disappointing and due largely to the ending of a subsidised window replacement programme in New York and a general market slowdown in one of our core markets in Washington State. It is important to add, however, that we benefit from very low fixed costs in our US business and the region has made a positive contribution overall to the Group's results.

Board

We have not made any changes to the Board in the last twelve months. However, we have agreed, in connection with our move to AIM, that we will appoint another independent Non-executive Director to the Board in 2019. The process of selecting an appropriate person for this role is underway and an announcement will be made in due course.

Employees

Once again, I offer my sincere thanks to all of the employees of Titon as the success of the Group is down to their hard work and talents. We continue to grow and develop as a business and it would not be possible without their contribution. As with last year, we have continued to make increases in the wages of our UK weekly paid employees in line with the National Minimum Wage.

Investors

We have now completed our move from the Main Market of the London Stock Exchange to the AIM market, which was effective from 10 December 2018. We are very pleased that shareholders voted in favour of this change as the Board believes it offers significant benefits to existing shareholders and new investors in Titon.

We have continued to engage the corporate research house Hardman & Co. which regularly writes and distributes investment research on Titon and which we believe has both widened interest in the Group and continues to have a positive impact in the share price over the past three years. We have engaged Shore Capital as our Nominated Advisor and Broker for the purposes of the move to AIM and they will initiate research coverage on Titon in early 2019.

Finally, here, I would like to mention again the Group's dividend reinvestment programme (DRIP), which has operated for a number of years. This represents a straightforward and cost-effective way for shareholders to increase their holdings in Titon should they wish to do so.

Outlook

It was another record year for Titon with revenue of £30 million and profit before tax ahead by a fifth to £2.98 million. The dividend for the year was also increased by 13% which is the 6th consecutive year of rising dividends.

The UK economy continues to grow at a modest rate in both historic and relative terms with consensus forecasts for GDP growth clustered around 1.5% per annum in both 2019 and 2020. These forecasts, too, are made assuming that the UK reaches an agreement with the EU about withdrawing in an orderly manner and any continuing uncertainty is unwelcome to our business. By way of a failsafe, though, we have already placed orders for certain extra components with our EU suppliers. That said, in the first two months of the new fiscal year, we are very pleased with UK and continental European trading, which is in line with the same period in 2017, when October and November were particularly good months.

In South Korea, the World's 12th largest economy[3] and the Group's largest net profit contributor, Q3 of calendar 2018 saw slightly slower GDP growth in relative terms at 2.0% compared with 2.8% in Q2 due largely to weaker construction and business investment. We anticipate that rising levels of air pollution may raise demand for mechanical ventilation units over natural ventilation products in fiscal 2019, resulting in a slowdown in our core natural ventilation business. We are, however, in the process of developing new solutions for the South Korean ventilation market. Most importantly, the trajectory of the South Korean economy remains enviably positive with FocusEconomics forecasting GDP growth of 2.6% in both 2019 and 2020 as Government spending increases and monetary policy remains accommodative. We are therefore positive on the medium-term outlook for our South Korean business.

Titon builds and delivers popular products and has a unique geographical spread. It has good people and a perennially strong balance sheet. We also continue to look for new opportunities for growth within our target markets. 2019 will be a more testing year in the UK and in South Korea as noted above. However, provided that Brexit doesn't negatively impact the UK economy we expect another year of growth in revenue and profits for Titon in line with market expectations.

Principal risk and uncertainties

The key financial and non-financial risks faced by the Group are disclosed in the Group's Annual Report and Accounts for the year ended 30 September 2017 within the Report on Risk Management (pages 9 to 13) available at www.titonholdings.com The Board considers that these remain a current reflection of the risks and uncertainties facing the business.

Basis of preparation

The financial information for the year ended 30 September 2018, together with the comparative year has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The accounting policies of the Group under International Financial Reporting Standards (IFRSs) are set out in detail in the 2017 Financial Statements, which are available from the Group's website at www.titonholdings.com.

Except for the implementation of the amendments below, which had no material impact on the Group, there have been no changes to the accounting policies during the year.

Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12). The amendments to IAS 12 are intended to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instrument financial assets measured at fair value.

Disclosure Initiative: Amendments to IAS 7. The amendments to IAS 7 are intended to improve information provided to users of financial statements about changes in financial liabilities, and financial assets if they meet the same definition, arising from an entity's financing activities. Entities will be required to disclose the cash-flow and non-cash charges arising from these financing activities.

The information in this preliminary announcement does not constitute the statutory accounts of the Group within the meaning of Section 435 of the Companies Act 2006 for the year ended 30 September 2018 or 2017.

The financial information for the year ended 30 September 2017 is derived from the statutory accounts for that year, which have been delivered to the Registrar of Companies. The auditors have reported on those accounts; their report was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

The financial information for the year ended 30 September 2018 is unaudited. The statutory accounts for that year will be delivered to the Registrar of Companies following the Company's Annual General Meeting, which will be held on 20 February 2019.

Notes:

[1] The Quick Ratio measures liquidity and is calculated as follows Current Assets-less-Stocks divided by Current Liabilities

[2] ROCE is calculated by dividing EBIT by capital employed (capital employed being the sum of shareholders' funds, non-controlling interests and all debt less intangible assets and cash); with Capital Turn calculated by dividing revenue by capital employed

[3] International Monetary Fund data at May 2018

Profit & Loss account

Year-end Sept (£m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	**15.740**	**19.256**	**22.258**	**23.271**	**28.011**	**29.946**	**31.000**	**32.940**	**34.065**
COGS	-12.059	-13.926	-15.745	-16.117	-20.133	-21.263	-22.011	-23.301	-23.924
Gross profit	3.681	5.330	6.513	7.604	7.878	8.683	8.989	9.639	10.141
SG&A	-3.034	-3.638	-3.861	-4.754	-4.966	-5.411	-5.580	-5.896	-6.098
R&D	0.000	0.000	-0.535	-0.539	-0.467	-0.446	-0.465	-0.494	-0.511
Depreciation & amortisation	-0.654	-0.564	-0.566	-0.556	-0.613	-0.657	-0.712	-0.781	-0.865
Licensing/Royalties	0	0	0	0	0	0	0	0	0
Other income	0.237	0.012	0.011	0.017	0.018	0.019	0.020	0.021	0.023
Underlying EBIT	**0.230**	**0.140**	**1.562**	**1.772**	**1.850**	**2.188**	**2.252**	**2.489**	**2.690**
Share-based costs	0	0	0	0	0	0	0	0	0
Exceptional items	0	0	0	0	0	0	0	0	0
Statutory operating profit	0.230	1.140	1.562	1.772	1.850	2.188	2.252	2.489	2.690
Finance income	0	0	0	0	0	0	0	0	0
Finance cost	0	0	0	0	0	0	0	0	0
Associates	0.262	0.188	0.298	0.356	0.633	0.778	0.934	1.074	1.181
Net financial income	0.013	0.005	0.009	0.008	0.010	0.013	0.014	0.015	0.017
Pre-tax profit	0.505	1.333	1.869	2.136	2.493	2.979	3.200	3.578	3.888
Exceptional items	0	0	0	0	0	0	0	0	0
Reported pre-tax profit	**0.505**	**1.333**	**1.869**	**2.136**	**2.493**	**2.979**	**3.200**	**3.578**	**3.888**
Reported taxation	-0.029	-0.056	-0.160	-0.184	-0.269	-0.352	-0.448	-0.501	-0.544
Minorities	-0.173	-0.378	-0.376	-0.317	-0.420	-0.514	-0.596	-0.692	-0.803
Underlying net income	0.303	0.899	1.333	1.635	1.804	2.113	2.155	2.385	2.540
Statutory net income	0.303	0.899	1.333	1.635	1.804	2.113	2.155	2.385	2.540
Period-end shares (m)	10.6	10.6	10.6	10.9	11.0	11.1	11.1	11.1	11.1
Weighted average shares (m)	10.6	10.5	10.6	10.8	10.9	11.0	11.1	11.1	11.1
Fully diluted shares (m)	10.6	10.8	10.9	10.9	11.1	11.2	11.5	11.5	11.5
Underlying basic EPS (p)	2.9	8.5	12.6	15.2	16.5	19.2	19.4	21.5	22.9
Underlying fully-diluted EPS (p)	2.9	8.4	12.2	14.9	16.2	18.9	18.7	20.7	22.0
Statutory basic EPS (p)	2.9	8.5	12.6	15.2	16.5	19.2	19.4	21.5	22.9
Statutory fully-diluted EPS (p)	2.9	8.4	12.2	14.9	16.2	18.9	18.7	20.7	22.0
DPS (p)	**2.00**	**2.50**	**3.00**	**3.50**	**4.20**	**4.75**	**4.85**	**5.25**	**5.50**

Source: Hardman & Co Research

Balance sheet

30 September 2018 (£m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Shareholders' funds	9.517	10.678	12.093	14.774	16.201	18.468	20.038	22.313	24.265
Cumulated goodwill	0	0	0	0	0	0	0	0	0
Total equity	**9.517**	**10.678**	**12.093**	**14.774**	**16.201**	**18.468**	**20.038**	**22.313**	**24.265**
Share capital	1.056	1.056	1.063	1.091	1.098	1.113	1.118	1.123	1.128
Reserves	8.157	8.940	9.987	11.969	13.117	15.134	16.427	18.380	20.461
Capitalised R&D	0	0	0	0	0	0	0	0	0
Minorities	0.304	0.682	1.043	1.714	1.986	2.221	2.493	2.810	3.176
Provisions	0	0	0	0	0	0	0	0	0
Deferred tax	0.105	-0.027	-0.064	-0.133	-0.077	-0.015	-0.020	-0.030	-0.040
Long-term loans	0	0	0	0	0	0	0	0	0
Bank overdrafts	0.035	0	0	0	0	0	0	0	0
less: cash & securities	-2.151	-2.149	-2.870	-2.438	-3.269	-3.415	-3.951	-4.503	-5.038
less: marketable securities	0	0	0	0	0	0	0	0	0
less: non-core investments	0	0	0	0	0	0	0	0	0
Invested capital	**7.506**	**8.502**	**9.159**	**12.203**	**12.855**	**15.038**	**16.067**	**17.780**	**19.687**
Fixed assets	3.608	3.667	4.014	4.975	5.514	6.531	7.038	8.030	9.231
Intangible assets	0.825	0.661	0.623	0.627	0.638	0.737	1.378	1.651	1.300
Capitalised R&D	0	0	0	0	0	0	0	0	0
Goodwill	0	0	0	0	0	0	0	0	0
Stocks	2.855	3.479	3.786	4.586	4.670	5.667	5.500	5.000	4.500
Trade debtors	*2.019*	*2.510*	*2.530*	*3.111*	*3.249*	*2.990*	*2.800*	*3.000*	*3.000*
Other debtors	*1.175*	*2.079*	*2.462*	*3.591*	*3.395*	*4.809*	*4.700*	*5.200*	*4.700*
Trade creditors	*-1.987*	*-2.250*	*-2.221*	*-2.718*	*-2.686*	*-3.438*	*-3.000*	*-2.800*	*-2.500*
Tax liability	*-0.042*	*-0.162*	*-0.125*	*-0.161*	*0.016*	*-0.142*	*-0.448*	*-0.501*	*-0.544*
Other creditors	*-0.947*	*-1.482*	*-1.910*	*-1.808*	*-1.941*	*-2.116*	*-1.900*	*-1.800*	*0.000*
Debtors less creditors	0.218	0.695	0.736	2.015	2.033	2.103	2.152	3.099	4.656
Invested capital	**7.506**	**8.502**	**9.159**	**12.203**	**12.855**	**15.038**	**16.067**	**17.780**	**19.687**
Net cash/(debt)	2.2	2.1	2.9	2.4	3.3	3.4	4.0	4.5	5.0
Net debt/equity	22.6%	20.1%	23.7%	16.5%	20.2%	18.5%	19.7%	20.2%	20.3%
After-tax ROIC	4.0%	10.6%	14.6%	13.4%	14.0%	14.1%	13.4%	13.4%	12.9%
Interest cover (x)	-	-	-	-	-	-	-	-	-
Dividend cover (x)	1.4	3.3	4.1	4.3	3.9	4.0	3.9	3.9	4.0
Capex/depreciation (x)	0.4	0.5	0.9	1.3	1.4	1.3	1.6	1.6	1.6
Capex/sales (%)	1.8%	1.5%	2.2%	3.0%	2.9%	3.0%	3.2%	3.0%	2.9%
Net asset value/share (p)	90.2	101.2	113.8	135.4	147.5	166.6	180.8	201.3	223.4
Stock days	66	66	62	71	61	69	65	55	48
Debtor days	47	48	41	48	42	36	33	33	32
Creditor days	46	43	36	42	35	42	35	31	27

Source: Hardman & Co Research

Cashflow

Year-end Sept (£m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit before tax	0.505	1.333	1.869	2.136	2.493	2.979	3.200	3.578	3.887
Depreciation	0.462	0.419	0.403	0.400	0.438	0.448	0.461	0.480	0.504
Amortisation	0.192	0.145	0.163	0.156	0.175	0.209	0.251	0.301	0.361
Stocks	-0.323	-0.564	-0.363	-0.370	-0.133	-0.836	0.167	0.500	0.500
Working capital	0.287	-0.473	-0.037	-1.140	-0.104	-0.098	-0.323	-0.400	-2.000
Exceptionals/provisions	0	0	0	0	0	0	0	0	0
Disposals	-0.019	-0.015	-0.004	-0.019	0	-0.016	0	0	0
Other	-0.262	-0.188	-0.298	-0.356	-0.633	-0.778	-0.934	-1.074	-1.181
Company operating cashflow	**0.842**	**0.657**	**1.733**	**0.807**	**2.236**	**1.908**	**2.822**	**3.385**	**2.071**
Net interest	0	0	0	0	0	0	0	0	0
Tax	-0.037	-0.068	-0.234	-0.217	-0.390	-0.132	-0.448	-0.501	-0.544
Operational cashflow	0.805	0.589	1.499	0.590	1.846	1.776	2.374	2.884	1.527
Capital expenditure	-0.280	-0.290	-0.498	-0.721	-0.520	-0.578	-1.000	-1.500	-0.700
Capitalised R&D	0	0	0	0	0	0	0	0	0
Sale of fixed assets	0	0	0	0	0	0	0	0	0
Free cashflow	**0.525**	**0.299**	**1.001**	**-0.131**	**1.326**	**1.198**	**1.374**	**1.384**	**0.827**
Dividends	-0.158	-0.211	-0.289	-0.324	-0.410	-0.489	-0.538	-0.582	-0.610
Acquisitions etc.	-0.128	-0.096	-0.128	-0.163	-0.186	-0.315	-0.500	-0.550	-0.081
Disposals	0.023	0.015	0.052	0.050	0.045	0.046	0	0	0
Other investments	0	0	0	0	0	0	0	0	0
Cashflow after investments	**0.262**	**0.007**	**0.636**	**-0.568**	**0.775**	**0.440**	**0.336**	**0.252**	**0.135**
Share repurchases	0	0	0	0	0	0	0	0	0
Share issues	0.041	0.026	0.085	0.136	0.056	0.122	0.200	0.300	0.400
Currency effect	0	0	0	0	0	0	0	0	0
Borrowings acquired	0	0	0	0	0	-0.416	0	0	0
Change in net debt	0.303	0.033	0.721	-0.432	0.831	0.146	0.536	0.552	0.535
Opening net cash	1.813	2.116	2.149	2.870	2.438	3.269	3.415	3.951	4.503
Closing net cash	**2.116**	**2.149**	**2.870**	**2.438**	**3.269**	**3.415**	**3.951**	**4.503**	**5.039**

Source: Hardman & Co Research

Notes

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(Disclaimer Version 8 – Effective from August 2018)

Status of Hardman & Co's research under MiFID II

Some professional investors, who are subject to the new MiFID II rules from 3rd January, may be unclear about the status of Hardman & Co research and, specifically, whether it can be accepted without a commercial arrangement. Hardman & Co's research is paid for by the companies, legal entities and issuers about which we write and, as such, falls within the scope of 'minor non-monetary benefits', as defined in the Markets in Financial Instruments Directive II.

In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are: (b) 'written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public…'

The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf

In addition, it should be noted that MiFID II's main aim is to ensure transparency in the relationship between fund managers and brokers/suppliers, and eliminate what is termed 'inducement', whereby free research is provided to fund managers to encourage them to deal with the broker. Hardman & Co is not inducing the reader of our research to trade through us, since we do not deal in any security or legal entity.

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