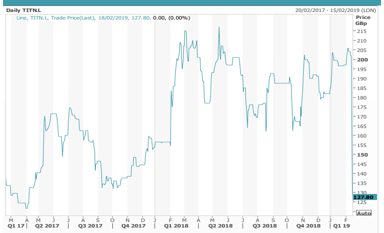
19 February 2019

HARDMAN&CO.

Construction & Materials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**TON**
Price (p)	125.0
12m High (p)	217.0
12m Low (p)	121.5
Shares (m)	11.1
Mkt Cap (£m)	13.9
EV (£m)	12.7
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

+44 1206 713 800

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	6.8%

Diary

20 February	AGM

Analysts

Tony Williams 020 7194 7622

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TITON HOLDINGS PLC

'Even a monkey sometimes falls from a tree'

South Korea has been a winning primate for Titon since 2008 and last year contributed more than two-thirds of its PBT. International and domestic events have conspired to impact the Nation, generally, and Titon specifically. In December, these were nascent but have since matured. The Company alerted the market on 14 February and we have reduced our current-year PBT forecast by £1m and rebased the rest. We have also borrowed a South Korean proverb to sum it up, believing this event to be a one-off i.e. it is a genuine 'monkey' and 'tree' moment; and Titon will soon be aloft once more.

- **History 1:** In calendar 2016, Titon swung a Total Shareholder Return (TSR) of 23%, followed by 52% in 2017 and 18% in 2018, which was a difficult year in the jungle for the industry i.e. the Hardman UK Building Materials Sector generated a TSR of minus 12% last year.
- **History 2:** Titon entered the South Korean market in 2008 and its business grew rapidly to adulthood – and in fiscal 2018, South Korea generated more than two- thirds of Group PBT. Here, too, it is market leader in natural ventilation products. The domestic economy is 12th in the World and growing at around 2.5% p.a.
- **Future 1:** As an export-orientated anthropoid, though, South Korea has been impacted by fluctuations in global trade – actual and politically manufactured. GDP forecasts have been reduced and there is domestic belt-tightening. Titon's core market in housing has been impacted and there has been a spike in ventilation product substitution – mechanical for natural – much more quickly than expected.
- **Future 2:** The Company is working hard to realign its business, which will bear fruit in fiscal 2020 and 2021, but not 2019. The changes in Titon's product offering in South Korea are evolutionary but the products per se are very familiar to the Company; and so, after a fallow year in fiscal 2019, in which our estimate of core profitability in South Korea drops 500bps, revenue, profits and margins will rise.
- **Proverbial:** The Hardman UK Building Materials Sector comprises 23 companies with a market value of £7.7bn and a valuation of 8.4x EV/EBITDA on a trailing 12-month basis. Titon is on just 4.5x (and, okay, rising to 5.9x a year out). At the same time, the Sector's TSR is minus 8% over the past 12 months (with only nine stocks positive). Titon, post Trading Update, is three times that negative number. This is totally uncharacteristic and the Company will remedy the situation succinctly.

Financial summary and valuation

Year-end Sept (£m)	2016	2017	2018	2019E	2020E	2021E
Net revenue	23.7	28.0	29.9	28.1	29.9	30.9
EBITDA	2.33	2.46	2.85	2.11	2.52	2.86
Underlying EBIT	1.77	1.85	2.19	1.40	1.74	1.99
Statutory PBT	2.14	2.49	2.98	2.21	2.61	2.91
Underlying EPS (p)	15.2	16.5	19.2	16.0	18.8	21.1
Statutory EPS (p)	15.2	16.5	19.2	16.0	18.8	21.1
Net (debt)/cash	2.4	3.3	3.4	3.7	4.2	4.8
Shares issued (m)	10.9	11.0	11.1	11.1	11.1	11.1
P/E (x)	8.2	7.6	6.5	7.8	6.6	5.9
EV/EBITDA (x)	5.6	5.1	4.5	5.9	4.7	4.0
DPS (p)	3.50	4.20	4.75	4.85	5.25	5.50
Dividend yield	2.8%	3.4%	3.8%	3.9%	4.2%	4.4%

Source: Hardman & Co Research

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Prologue

In South Korea, there is an enormous pressure to succeed in career, life and love. It is a serious culture. Beneath a ruminative exterior, however, beats a heart of great generosity and a comforting presence; accompanied by dozens of supporting proverbs.

Our South Korean aphorism of choice, at its most literal, is: "there is a time when even a monkey falls from a tree". It even comes with instruction, in the Big Book of Korean Apothegms: "use this expression to suggest that even experts sometimes make mistakes. Monkeys are great climbers, but sometimes fall. If a friend is really beating himself up over a mistake, use this to suggest that mistakes happen".

Titon's TSR averaged 31% p.a. in the three years 2016, 2017 and 2018

In calendar 2016, Titon swung a TSR of 23%, followed by 52% in 2017 and 18% in 2018, which was a difficult year in the jungle for the industry i.e. the Hardman UK Building Materials Sector generated a TSR of minus 12% last year.

Titon entered the South Korean market in 2008 and its business grew rapidly to adulthood – to the extent that, in fiscal 2018, South Korea generated more than two- thirds of Group PBT. Note, too, that this came from two/three business trees in manufacturing (natural ventilation products), distribution of the same plus real estate investment and development. This represented a useful diversification of the gene pool. And, who wouldn't be part of this troop?

The South Korean economy is also the 12th largest in the World and growing at around 2.5% p.a. (other primates dream of such ripeness). It is not without risk, of course; what is? And, as an export-orientated anthropoid, South Korea is prone to the eviscerations of global trade (front and centre right now) and the prosperity or otherwise of its international customers and neighbours. Subsequently, GDP forecasts have been trimmed by a number of brachiators – with the last revision in mid-January.

Domestic economic management has been something of a push/pull, too, with generally accommodative monetary policy on the one hand but stricter financing rules for household lending on the other; and the latter's growth slowed for a second consecutive year in 2018.

South Korean house prices are forecast to rise in 1Q and over the next 12 months

Inevitably, construction activity has been impacted, as have housing permits (and zoo visits); and, in December 2018, the latter tally was off 17.5% at an estimated 539,000 units compared with December 2017. At the same time, the Bank of Korea's House Price Index dipped in January, month-on-month, from 105.6 to 100. However, Trading Economics says its macroeconomic models project 104.6 at the end of 1Q and 105.3 in 12 months' time. Nonetheless, it spells a lower swing in residential activity and pricing pro tem and, thus, reduced demand for natural ventilation products – which have proved enormously popular and in which Titon is market leader. Simultaneously, the relative popularity of mechanical rather than natural ventilation units has increased – driven entirely by higher levels of air pollution (not good for wildlife either). The mechanical units work harder and faster but are very significantly more expensive i.e. the natural product has no moving parts.

Both trends were incipient when Titon reported its final figures for fiscal 2018 (the year to 30 September) on 12 December: "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 increasing 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".

The *Company* has taken steps to re-design its existing natural ventilation products

Fair enough, but come early February, a nascent hominoid had matured and "the trading performance in Titon Korea for the year ended 30 September 2019 is expected to be substantially below existing market forecasts". Yes, the Company has taken steps to re-design its existing natural ventilation products and to introduce new products for this market (bread and butter for Titon) – but these will not be available until later in the current financial year.

Prior to the Trading Update, we had forecast very modest top-line growth (i.e. 5%) in South Korea for fiscal 2019; and a flat pre-tax profit contribution. Now, however, we have reduced our revenue forecast for South Korea from £12.2m to £9.3m with pre-tax profit coming in almost £1m lower than our previous number at £1.1m in the current fiscal year. Estimated core profitability is also forecast to drop 500bps to 12%.

Changes in product offering are evolutionary

In fiscal 2020, our forecast is for 5% growth in South Korea's revenue to £9.8m and 10% higher pre-tax profit at £1.2m. Our definition of core profitability is also forecast to rise 50bps. A similar pattern is projected in fiscal 2021 with revenue at £10.2m and pre-tax profit at £1.3m. Changes in Titon's product offering in South Korea are evolutionary but the products per se are very familiar to the Company; and we believe that our numbers here are conservative (given a firm grip on the bough).

We discuss our revised forecasts in detail later in this note and, at Company level, these show that, after a difficult fiscal 2019, earnings growth is calculated to bounce back in double digits in both 2020 (+18%) and 2021 (+12%). Titon also remains cash-generative, by our mark, over the piece and it sports a dividend yield of around 4%.

It is a veracious company and a good operator

Nobody wanted this metamorphosis, management or investment scribe; and both feel they have let investors down. But it is a one-off i.e. a 'monkey' and 'tree' moment which Titon will deal with succinctly. It is a veracious company and a good operator which has been around for a long time (i.e. since 1972).

As they say in South Korea: "at the end of hardship comes happiness".

Trading Update, 14 February 2019

Below we have printed the Trading Update verbatim.

Titon, a leading manufacturer and supplier of ventilation systems and window and door hardware, today provides an update on trading for its current financial year.

Titon Korea

South Korea will be substantially below existing market forecasts

The Company noted in its preliminary results announcement on 13 December 2018 that it expected a more testing year in South Korea in 2019. The Company's Korean subsidiary and its Korean associate have experienced a more difficult housing market in the current financial period than anticipated and have also seen the South Korean market moving towards the adoption of mechanical rather than natural ventilation units in order to deal with higher levels of air pollution. Whilst the Company has continued to take steps to re-design its existing natural ventilation products and to introduce new products for this market, it is not expected that these will be available until later in the current financial year. As a result, the trading performance in Titon Korea for the year ended 30 September 2019 is expected to be substantially below existing market forecasts.

UK and the Rest of the World

Trading in the UK and the Rest of the World is in line with expectations.

"We reiterate our confidence in the medium-term outlook for South Korea"

Executive Chairman Keith Ritchie said: "We are obviously disappointed to announce that the expected results from our Korean business for the year ended 30 September 2019 will be substantially lower than we anticipated in our preliminary results announcement in December 2018. However, we have already commenced the design of new products and both in the UK and South Korea we will be committing substantial research and development resources to these new products, which we expect to introduce to the market in late 2019. We remain optimistic that the South Korean business will return to growth in the future and re-iterate our confidence in the medium-term outlook in South Korea".

Macroeconomic outlook

UK

In the UK, the economy continues to hack its way through the veritable Brexit jungle and, as a consequence, it is 2.3% smaller (as at 3Q 2018) than it would have been if the Country had voted in 2016 to remain in the EU, according to the Centre for European Reform (CER). Yes, this is a pro-EU think tank but it is an interesting figure, just as the CER's revision is i.e. down from 2.5% at the end of 2Q, after the UK outperformed the hypothetical model economy. The new estimate also means a weekly hit of £320m to public finances or £17bn p.a.

Growth is growth

In turn, this means that growth has been – and still is – below trend. That said, the major economic forecast variables have remained remarkably stable 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). This was confirmed, too, with the official UK GDP statistics for 2018 (11 February) i.e. annual GDP growth of 1.4% – and, yes, this was the lowest since 2012. But growth is growth. For 2019, 2020 and 2021, too, Experian (ex-a-no-deal-Brexit) is forecasting uncontroversial GDP rises of 1.6% p.a. over three years.

Private housebuilding is forecast to grow at 3.3% p.a. over three years

At the same time, UK construction activity had a difficult 2018 with real growth of just 0.7%. Private housebuilding activity, however, was up 6.1% and this is Titon's single largest domestic catchment. Turning to Experian's industry forecasts (which I work on with the Group), these show average growth of 2% p.a. this year, next and in 2021 (and with momentum gathering over the piece). Within this tally, too, private housebuilding is forecast to grow at 3.3% p.a. over the same three years.

South Korea

This is the world's 12th largest economy and 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 and an apparent economic slowdown in China are sources of concern. Domestically, this is also true of elevated levels of domestic household debt. However, on the back stricter government financing rules, household lending growth slowed for a second consecutive year in 2018 (although it remains higher than the central target).

GDP forecasts clipped on 22 January

This meant that FocusEconomics (on 13 December 2018) prudently shaded its GDP forecast by 10bps in both 2019 and 2020 – to 2.6% and 2.5%, respectively (2018 came in at 2.7%). This was followed by a further 10bps' shaving off 2019 to 2.5% on 22 January. To be fair, consumer and business confidence was diffident at the turn of the year and South Korea "remains far from reaching full potential" according to FocusEconomics; albeit this is a double-edged sword.

On 1 February, the HIS Markit manufacturing Purchasing Managers' Index (PMI) showed a dip from 49.8 in December to 48.3 in January i.e. more than a two-year low. This was due primarily to reduced new orders, as weakness in the domestic economy was compounded by fewer exports, particularly to China, Japan and Germany. Unsurprisingly, production also decreased in January. In terms of prices, however, purchasing prices fell for the first time in 18 months in January due to lower oil, metal and chemical costs. Labour costs, however, are rising following minimum wage hikes this year and last year. Piecing the latest PMI into the bigger picture, Joe Hayes, an economist at IHS Markit, said: "in the current climate, President Moon's economic reforms and ambitious stimulus policies will be acting to offset business cycle effects as opposed to complementing them".

FocusEconomics expects fixed investment to expand 0.7% in 2019. However, this is a reduction of 0.8ppts from December's forecast. Thereafter, in 2020, the firm expects fixed investment to grow 2.1%.

On 1 January, a revised trade deal between the US and South Korea came into force which is very good news. However, it may be impacted if the US chooses to go down the road of additional global tariffs on automobile imports.

In 2020, exports and imports are expected to increase 5.6% and 5.5%, respectively

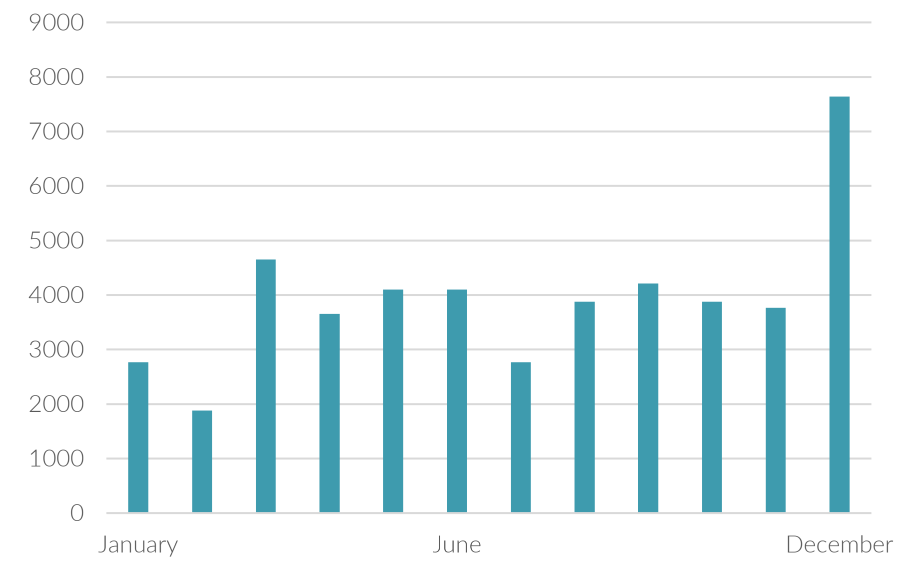
In 2019, FocusEconomics expects merchandise exports and imports to expand 5.4% and 2.6%, respectively, bringing the trade surplus to $88.8bn. In 2020, exports and imports are expected to increase 5.6% and 5.5%, respectively, resulting in a trade surplus totalling $94.6bn.

Turning to Construction Output in South Korea, this averaged almost 2% p.a. from 1998 until 2018, albeit with inevitable peaks (all-time-high growth of 26% in September 2001) and troughs (a record low of minus 31% in August 1998). Month-on-month, though, Construction Output had a bumpy 2018 with consecutive falls in 11 of the 12 months and in December, for example, it was off 9.5%, following a downwardly revised 10.4% in the previous month.

South Korean Construction Orders more than doubled in December 2018

On a brighter note, South Korean Construction Orders more than doubled in December 2018 to $7.64bn. Prior to that, the 11-month run rate was $3.6bn. Domestic Construction Orders in December 2018 were 65% higher than November with 4Q being 31% higher than 3Q, albeit just 2% up on 4Q 2017; and year-on-year, 2018 was marginally off (i.e. 4.5%) 2017.

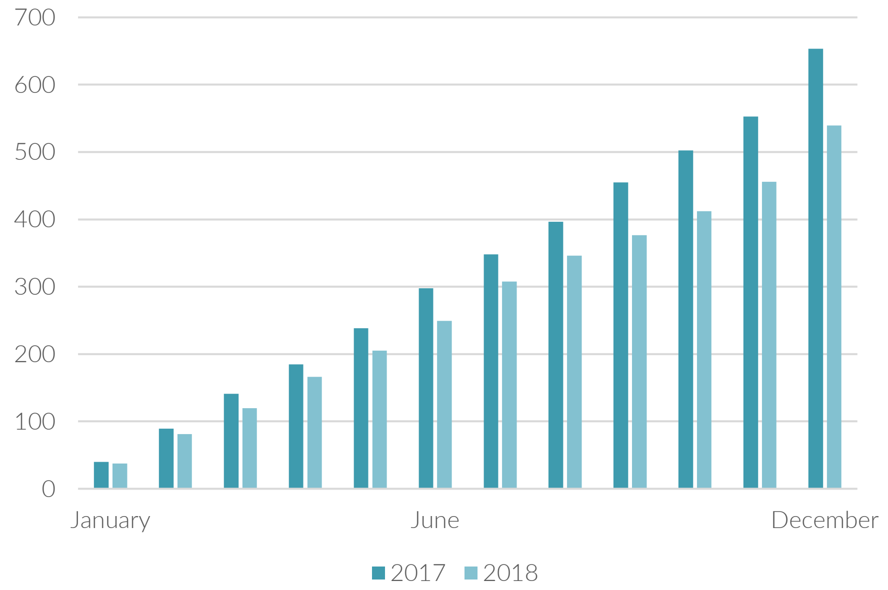
South Korea Construction Orders ($bn) in 2018



Source: Bank of Korea

Turning to Titon's core market in the residential sector, it did not have a banner year in 2018 either. Month-on-month, Housing Permits declined 13.7% during the year with December's tally being off 17.5% at an estimated 539,000 (prior to this, December 2017 was 10.1% lower than December 2016's 726,000).

South Korea Housing Permits: month-on-month in 2017 and 2018 (thousands)

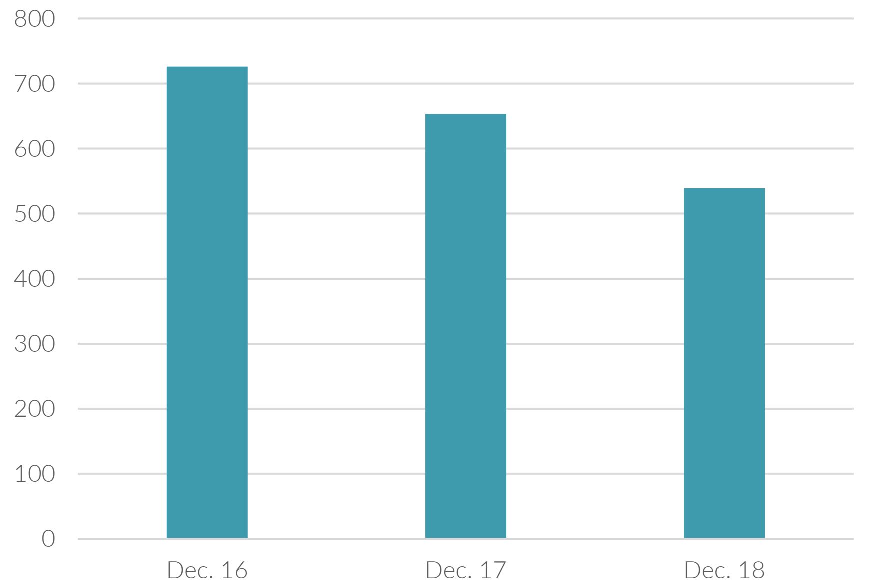


Source: Bank of Korea

House prices are forecast to rise over the next 12 months

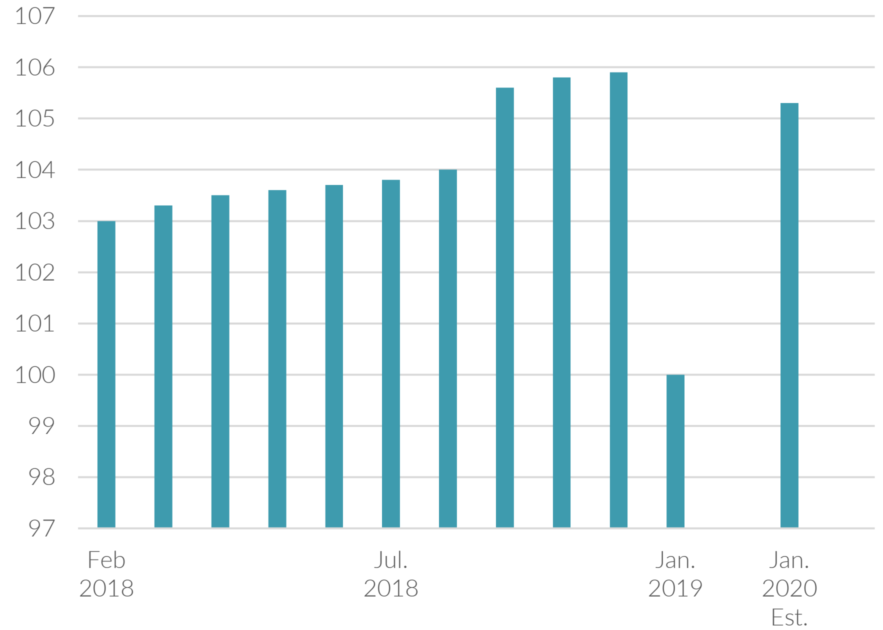
Finally, looking at house prices, the South Korea House Price Index hit 105.9 in December 2018 (February 2018: 103.0), which was followed by 100 in January 2019. Trading Economics says, however, that its macroeconomic models project 104.6 at the end of 1Q and 105.3 in 12 months' time.

South Korea Housing Permits: annually 2016; 2017; and 2018 (thousands)



Source: Bank of Korea

South Korea House Price Index: February 2018 through January 2020 Est.



Source: Bank of Korea; Trading Economics

Forecasts

Active in manufacturing, distribution plus real estate investment and development

The Company operates two business units in South Korea: Titon Korea, which is 51%- owned; and an associate company Browntech Sales (BTS), which is 49%-owned. The former is the domestic market leader in natural or passive ventilation products, while BTS distributes ventilation products and invests in/develops schemes in the domestic residential real estate market. Note, too, that revenue generated by associate BTS does not qualify for inclusion in the Titon Holdings income statement. However, it accounts for the entire Associate profit contribution; and this is relatively unaffected by the news contained in the Trading Update.

As noted in the Trading Update, too, South Korea has experienced a more difficult residential market than anticipated. At the same time, market preference has begun to shift towards the adoption of mechanical rather than natural ventilation units – due to higher levels of air pollution. This is a product with which Titon is very familiar in other geographical climes. It has also taken significant steps towards re-designing its existing natural ventilation products and to introducing new products to this market. However, these will not be available until later in the current financial year and "as a result, the trading performance in Titon Korea for the year ended 30 September 2019 is expected to be substantially below existing market forecasts".

Pre-tax profit coming in almost £1m lower

To be fair, the Group did flag these issues at the time of its final results (to 30 September 2018) on 12 December last year. Subsequently, we forecast modest top-line growth (i.e. 5%) in South Korea and a flat pre-tax profit contribution. Now, however, that we have reduced our revenue forecast for South Korea from £12.2m to £9.3m with pre-tax profit coming in almost £1m lower than our previous number at £1.1m in the current fiscal year. Core profitability is also forecast to drop 500bps to 12%.

In fiscal 2020, our forecast is for 5% growth in South Korea's revenue to £9.8m and 10% higher pre-tax profit at £1.2m. Core profitability is also forecast to rise 50bps. A similar pattern is projected in fiscal 2021 with revenue at £10.2m and pre-tax profit at £1.3m. Changes in Titon's core product offering in South Korea are evolutionary but the products per se are very familiar to the Group; and we believe that our numbers will prove to be conservative.

UK margins rising

Turning to the UK, revenue rose 6% to £14.8m in 2018 and, while fiscal 2019 will be quieter, up 2%, our number for 2020 is +7%, followed by +3% in 2021. Profitability, based on the segment split, was up 6.8% in 2018 (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.

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 set to be restored in the current year and management is positive about export prospects to continental Europe in 2019 (which benefits both the UK result and 'Other' regions). 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.

Segmental revenue and profit (£m)					
Revenue	**2017**	**2018**	**2019E**	**2020E**	**2021E**
UK	14.0	14.8	15.1	16.1	16.6
South Korea	9.5	11.6	9.3	9.8	10.2
Other	4.5	3.5	3.7	4.0	4.1
Total	**28.0**	**29.9**	**28.1**	**29.9**	**30.9**
Pre-tax profit					
UK	0.706	1.005	1.056	1.221	1.413
South Korea	1.638	2.084	1.108	1.212	1.291
Other	0.149	-0.110	0.037	0.176	0.205
Total	**2.493**	**2.979**	**2.201**	**2.609**	**2.909**

Source: Company data, Hardman & Co Research

The impact on the Group is outlined below:

Changes to forecasts (revisions shown in red)					
	2017	**2018**	**2019E**	**2020E**	**2021E**
Net revenue (£m)	28.0	29.9	31.0	32.9	34.1
			28.1	29.9	30.9
PBT (£m)	2.49	2.98	3.20	3.58	3.89
			2.21	2.61	2.91
EPS (p)	16.5	19.2	19.4	21.5	22.9
			16.0	18.8	21.1

Source: Company data, Hardman & Co Research

A zealous housekeeper

Titon is recognised as a zealous financial housekeeper too. For example, in fiscal 2018, its Quick Ratio was around 2.0 and it had net cash of £3.4m at the last balance sheet date. Based on our revised numbers, we continue to forecast Titon being a cash-positive business with net cash rising to £3.7m in the current fiscal year and ultimately to £4.8m at the end fiscal 2021. This would allow the Group to be discretionary on any significant capex plans or acquisitions.

Finally, looking at RONA (adjusted for net cash), Titon generated a return of around 23% in fiscal 2017 and 2018, which is first-class. However, based on our revised forecasts, we expect this to average 17.4% over the next three years with 18.4% to be recorded in the final one, 2021.

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**	**28.090**	**29.885**	**30.888**
COGS	-12.059	-13.926	-15.745	-16.117	-20.133	-21.263	-20.524	-21.587	-22.060
Gross profit	3.681	5.330	6.513	7.604	7.878	8.683	7.566	8.298	8.828
SG&A	-3.034	-3.638	-3.861	-4.754	-4.966	-5.411	-5.057	-5.349	-5.530
R&D	0.000	0.000	-0.535	-0.539	-0.467	-0.446	-0.421	-0.448	-0.463
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**	**1.396**	**1.741**	**1.993**
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	1.396	1.741	1.993
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	0.800	0.850	0.900
Net financial income	0.013	0.005	0.009	0.008	0.010	0.013	0.014	0.015	0.016
Pre-tax profit	0.505	1.333	1.869	2.136	2.493	2.979	2.210	2.606	2.909
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**	**2.210**	**2.606**	**2.909**
Reported taxation	-0.029	-0.056	-0.160	-0.184	-0.269	-0.352	-0.309	-0.365	-0.407
Minorities	-0.173	-0.378	-0.376	-0.317	-0.420	-0.514	-0.129	-0.152	-0.164
Underlying net income	0.303	0.899	1.333	1.635	1.804	2.113	1.772	2.089	2.338
Statutory net income	0.303	0.899	1.333	1.635	1.804	2.113	1.772	2.089	2.338
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	16.0	18.8	21.1
Underlying fully-diluted EPS (p)	2.9	8.4	12.2	14.9	16.2	18.9	15.4	18.2	20.3
Statutory basic EPS (p)	2.9	8.5	12.6	15.2	16.5	19.2	16.0	18.8	21.1
Statutory fully-diluted EPS (p)	2.9	8.4	12.2	14.9	16.2	18.9	15.4	18.2	20.3
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 Sept (£m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Shareholders' funds	9.517	10.678	12.093	14.774	16.201	18.468	19.442	21.173	23.131
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**	**19.422**	**21.173**	**23.131**
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	16.044	17.701	19.579
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	2.280	2.349	2.424
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	-3.700	-4.241	-4.798
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**	**15.722**	**16.902**	**18.293**
Fixed assets	3.608	3.667	4.014	4.975	5.514	6.531	6.765	7.200	8.000
Intangible assets	0.825	0.661	0.623	0.627	0.638	0.737	1.366	1.867	2.100
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	4.000
Trade debtors	*2.019*	*2.510*	*2.530*	*3.111*	*3.249*	*2.990*	*2.800*	*2.700*	*2.500*
Other debtors	*1.175*	*2.079*	*2.462*	*3.591*	*3.395*	*4.809*	*4.600*	*4.500*	*4.100*
Trade creditors	*-1.987*	*-2.250*	*-2.221*	*-2.718*	*-2.686*	*-3.438*	*-3.000*	*-2.000*	*-2.000*
Tax liability	*-0.042*	*-0.162*	*-0.125*	*-0.161*	*-0.016*	*-0.142*	*-0.309*	*-0.365*	*-0.407*
Other creditors	*-0.947*	*-1.482*	*-1.910*	*-1.808*	*-1.941*	*-2.116*	*-2.000*	*-2.000*	*0.000*
Debtors less creditors	0.218	0.695	0.736	2.015	2.033	2.103	2.091	2.835	4.193
Invested capital	**7.506**	**8.502**	**9.159**	**12.203**	**12.855**	**15.038**	**15.722**	**16.902**	**18.293**
Net cash/(debt)	2.2	2.1	2.9	2.4	3.3	3.4	3.7	4.2	4.8
Net debt/equity	22.6%	20.1%	23.7%	16.5%	20.2%	18.5%	19.0%	20.0%	20.7%
After-tax ROIC	4.0%	10.6%	14.6%	13.4%	14.0%	14.1%	11.3%	12.4%	12.8%
Interest cover (x)	–	–	–	–	–	–	–	–	–
Dividend cover (x)	1.4	3.3	4.1	4.3	3.9	4.0	3.2	3.5	3.7
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%	3.6%	3.3%	3.2%
Net asset value/share (p)	90.2	101.2	113.8	135.4	147.5	166.6	175.4	191.0	208.7
Stock days	66	66	62	71	61	69	71	61	47
Debtor days	47	48	41	48	42	36	36	33	30
Creditor days	46	43	36	42	35	42	39	24	24

Source: Hardman & Co Research

Cashflow

Year-end Sept (£m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Pre-tax profit	0.505	1.333	1.869	2.136	2.493	2.979	2.210	2.606	2.909
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	1.000
Working capital	0.287	-0.473	-0.037	-1.140	-0.104	-0.098	-0.223	-0.600	-1.300
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	-1.000	-1.100
Company operating cashflow	**0.842**	**0.657**	**1.733**	**0.807**	**2.236**	**1.908**	**1.932**	**2.287**	**2.374**
Net interest	0	0	0	0	0	0	0	0	0
Tax	-0.037	-0.068	-0.234	-0.217	-0.390	-0.132	-0.309	-0.365	-0.407
Operational cashflow	0.805	0.589	1.499	0.590	1.846	1.776	1.623	1.922	1.967
Capital expenditure	-0.280	-0.290	-0.498	-0.721	-0.520	-0.578	-0.700	-0.700	-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**	**0.923**	**1.222**	**1.267**
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	-0.300	-0.400	-0.500
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**	**0.085**	**0.240**	**0.157**
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	0.285	0.540	0.557
Opening net cash	1.813	2.116	2.149	2.870	2.438	3.269	3.415	3.700	4.241
Closing net cash	**2.116**	**2.149**	**2.870**	**2.438**	**3.269**	**3.415**	**3.700**	**4.241**	**4.798**

Source: Hardman & Co Research

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