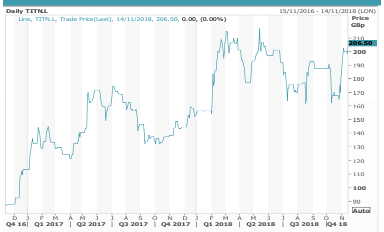
15 November 2018

TITON HOLDINGS PLC

My Aim is True

Construction & Materials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**TON**
Price (p)	198.5
12m High (p)	217.0
12m Low (p)	143.5
Shares (m)	11.1
Mkt Cap (£m)	22.0
EV (£m)	20.7
Free Float*	97%
Market	MAIN

**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	6.9%

Diary

10 Dec	Move to AIM
Dec'18	Final results
Feb'19	AGM

Analyst

Tony Williams +44 20 7194 7622
tw@hardmanandco.com

The Platinum-certified album of the same name by Elvis Costello is widely held to be the most impressive debut in popular music history; and it ranks 80 in the greatest records of all time. It was released in 1976, four years after Titon was founded. Both have been constants since then too – as many about them have lost their heads. Titon was listed on the USM in 1988 and the full list of the London Stock Exchange (LSE) in 1992. Now, in 2018, it has come full circle with the decision that its true path is admission to AIM.

- **Track 1:** The LSE says that AIM is "the most successful growth market in the World" and, since 1995, more than 3,600 companies have been admitted and over £100bn raised. It is, effectively, a sub-market of the LSE, and helps smaller and growing companies to float and raise the capital within a more flexible regulatory system than is applicable to the Main Market.

- **Track 2:** On 11 October, Titon announced that it was proposing to shift from the LSE's Main Market (and premium segment) to AIM. A General Meeting was duly held on 9 November and the switch overwhelmingly agreed to by shareholders. It will take place on 10 December.

- **Track 3:** AIM provides a more suitable regulatory environment for a business of Titon's size plus it affords greater flexibility in relation to corporate transactions and equity fundraising. Certain shareholders in Titon may also benefit from new tax exemptions. The Board says it is in the best interests of the Company and shareholders. Its Aim is True.

- **Track 4:** But then, Titon has always known where it was going. No musical or creative differences here, the Company has a bona-fide direction of travel by product and geography. Which other UK artiste, for example, is big in South Korea? The latter is the World's 11th largest economy and growing at 2.7% and 2.6% p.a. in 2019 and 2020, respectively, according to FocusEconomics. In 1H of fiscal 2018, too, this Nation accounted for 74% of the Company's net profit.

- **Encore:** The unique Hardman UK Building Materials Sector comprises 23 companies with a market value of £7.6bn and a valuation of 8.5x EV/EBITDA on a trailing 12-month basis. But Titon is still a touch below the average valuation at 8.4x – despite having by far the best Total Return to Shareholders (TSR) of 41.5% over 12 months; note, too, that the average 12-month TSR for this Sector is at minus 8.4%.

Financial summary and valuation

Year-end Sept (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	22.3	23.7	28.0	28.6	30.2	31.9
EBITDA	2.13	2.33	2.46	2.81	3.04	3.26
Underlying EBIT	1.56	1.77	1.85	2.13	2.29	2.43
Statutory PTP	1.87	2.14	2.49	2.91	3.20	3.50
Underlying EPS (p)	12.6	15.2	16.3	18.1	19.5	21.1
Statutory EPS (p)	12.6	15.2	16.3	18.1	19.5	21.1
Net (debt)/cash	2.9	2.4	3.3	3.7	4.1	4.6
Shares issued	10.8	10.9	11.1	11.1	11.1	11.1
P/E (x)	15.8	13.1	12.1	11.0	10.2	9.5
EV/EBITDA (x)	9.5	9.1	8.4	7.3	6.7	6.2
DPS (p)	3.00	3.50	4.20	4.90	5.75	6.00
Yield	1.5%	1.8%	2.1%	2.5%	2.9%	3.0%

Source: Hardman & Co Research

Prologue

'My Aim is True' is the Platinum-certified album by English singer-songwriter Declan MacManus *aka* Elvis Costello which is widely held to be the most impressive debut in popular music history. It was released in 1976 (when Elvis was just 22) but even in 2003, VH1 cited 'My Aim is True' as the 80th greatest album of all time; and in 2007, it was inducted into the Grammy Hall of Fame. Elvis himself was inducted into the Rock and Roll Hall of Fame three years earlier.

Titon is slightly older than this seminal piece of music, having been founded in 1972 by John Anderson, who remains the Company's Deputy Chairman. What is more, his first patented pressing, the 'Trimvent', is still in production (it is a passive trickle air vent). If there were a Building Materials Hall of Fame, John would be in it.

For the record, Titon debuted in the public markets in 1988 when it was floated on the musical USM (Unlisted Securities Market) and joined the full list of the LSE four years later, in 1992. Now, in 2018 – and coming full circle – it has decided that its true path is admission to AIM.

In 1992, however, it joined what was a big band of listed UK building materials players which has since been broken up by largely continental European managers/acquirers. In fact, over the past 25 years or so, an allegro of household names has lost their independence, including BPB, Blue Circle, Hanson, Hepworth, Marley, Meyer, Pilkington, RMC, Redland, Rugby and Tarmac (more than once). Okay, there have been a number of IPOs over the past five years with the likes of Polypipe, Ibstock and Forterra (which is Hanson's old brick and block business) returning to the fray. Within this cacophony, though, Titon is a constant.

But then, Titon has always known where it was going. No musical or creative differences here, the Company has a bona-fide direction of travel. By product, for example, it conducts two distinct business overtures: traditional trickle ventilation, harmonised with window and door hardware (and this since formation in 1972); and, since 2007, mechanical ventilation.

Geographically, it has been similarly focused. Which other UK artiste is big in South Korea? In building materials or whatever? South Korea is also the World's 11th largest economy. Okay, it is not issue-free but FocusEconomics is forecasting 2.8% GDP growth this year followed by 2.7% in 2019 and 2.6% in 2020. In 1H of fiscal 2018, this Nation accounted for 74% of the Company's net profit.

Meantime, its domestic market, the UK, is not top-of-the-pops. This is driven by the extreme Brexit caution and lower levels of investment i.e. a wait and see basis. Yes, growth has been 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 1.5% p.a. in both 2019 and 2020. At the same time, while UK construction activity is not a hit – i.e. in the first nine months of 2018, output was ahead by just 0.3% in real terms – it is comprised of lively subsectors. A melodic Private Housing Sector, for example, showed growth in output of 7.5% (on the same basis) in the first three-quarters of this year; and housebuilding is Titon's favourite genre. What is more, Experian expects 3% p.a. volume growth in the Private Housing sub-sector in both 2018 and 2019 with 4% set-listed for 2020. For my sins, too, I sit in with Experian when it is composing these numbers (which means I know the notes and lyrics).

We have historically dubbed Titon diminutive, clean and perfectly formed. All three facets make it highly qualified for the move from the Main Market to AIM, especially with a market capitalisation of £22m.

AIM (formerly 'the Alternative Investments Market') is the UK's leading stock market for smaller companies and, according to the LSE, it is "the most successful growth market in the World". For example, since it was established in 1995, more than 3,600 companies have been admitted (many of them international) and over £100bn has been raised. Effectively, it is a sub-market of the LSE and, in particular, helps smaller and growing companies to float and to raise the capital within a more flexible regulatory system than is applicable to the Main Market.

On 11 October, Titon announced that it was proposing to shift from the LSE's Main Market (and premium segment) to AIM. A General Meeting was duly held on 9 November and the transfer overwhelmingly agreed to by shareholders. The move will take place on 10 December.

The Board believes that admission to AIM will provide a more suitable regulatory environment for a business of Titon's size and structure. It also allows for more flexibility in relation to corporate transactions and equity fundraising. Certain shareholders may also benefit from particular inheritance tax and stamp duty exemptions in respect of their interests. In sum, the Board considers the move to AIM to be in the best interests of the Company and its shareholders. Its Aim is True.

Main-to-Aim

On 11 October, Titon announced that it was proposing to shift from the LSE's Main Market (and premium segment) to AIM. A General Meeting was duly convened on 9 November and the change overwhelmingly agreed to by shareholders. The move will take place on 10 December. The Board believes that admission to AIM will provide a more suitable regulatory environment for a business of Titon's size and structure. It also provides more flexibility in relation to corporate transactions and equity fundraising. A range of shareholders may also be able to benefit from inheritance tax and stamp duty exemptions in respect of their interests. The Board considers the move to AIM is in the best interests of the Company and its shareholders.

Outlook and current trading

In May this year, Chairman Keith Ritchie reported that Titon had enjoyed a very good first-half result with a 13% increase in profit before tax. He also said that the outlook for the second half was positive and that he expected to see further progress in line with expectations. On 11 October, Keith added: "I am pleased to report now that trading in the second half of the year has continued to be positive, with another strong performance from South Korea and also from UK Hardware. I am confident that the full-year results will be in line with our expectations".

Furthermore, it is Titon's intention to appoint an additional independent Non-Executive Director to the Board within six months of admission to AIM "in order to increase the level of independent oversight and challenge on the Board".

AIM: "where ideas take-off"

As noted earlier, AIM (formerly 'the Alternative Investments Market') is the UK's leading stock market for smaller companies and, according to the LSE, it is "the most successful growth market in the World". For example, since it was established on 19 June 1995, more than 3,600 companies have been admitted (many of them international) and over £100bn has been raised collectively. Effectively, it is a sub-market of the LSE and, in particular, helps smaller and growing companies to float and to raise the capital within a more flexible regulatory system than is applicable in the Main Market.

At its launch, AIM comprised only 10 companies, valued collectively at £82.2m. By 2017, over one thousand companies were listed with an average market capitalisation of £80m.

Note, too, that the FTSE Group maintains three indices for measuring the AIM: the FTSE AIM UK 50 Index, the FTSE AIM 100 Index and the FTSE AIM All-Share Index.

Detail of move

Under the Listing Rules, cancellation of a listing requires a General Meeting and prior approval of a resolution by 75% of shareholders who vote in person or by proxy.

The General Meeting was duly held on 9 November at Titon's headquarters. Here, the Board also proposed a resolution (conditional on the passing of the Cancellation and Admission Resolution) to give the Directors the authority to allot new equity securities for cash up to a nominal value of £165,000 (representing approximately 14.9% of the issued ordinary share capital of the Company, excluding shares held in treasury) on a non-pre-emptive basis. "The Directors consider that this authority, which is wider than that which shareholders approved at the last AGM, is more appropriate for an AIM quoted company and will allow the Board to issue a larger number of shares for cash on a non-pre-emptive basis, should the Board consider it beneficial in the context of the Company's growth strategy outlined below".

On 9 November, Titon was pleased to announce that the Resolutions to approve the move to AIM and to provide the Directors with the authority to disapply pre-emption rights had been duly passed. The move to AIM was voted 'in favour of' by holders of 7.25 million shares and 'against' by 125,000. Similarly, the disapplication of pre-emption rights was voted in favour of by holders of 7.26 million shares and against by 124,000 with 1,000 votes withheld.

Following the passing of the Resolutions, Titon has made an application to cancel the Company's admission to the Official List and to trading on the Main Market – and to seek admission to trading on AIM. Cancellation is expected to become effective at 08.00 hours on 10 December with simultaneous AIM admission.

Background and reasons for cancellation and admission

As set out in further detail in the Company's 2017 Annual Report, its stated strategic objectives are as follows.

- **Markets:** Grow market share of natural and mechanical ventilation products, and window and door hardware, in the residential housing markets of the UK, Europe, the US and South Korea.
- **Employees:** Provide a challenging but rewarding and supportive environment for our employees which offers them long-term careers.
- **Products:** Offer products which are of high quality and that the "as built" performance is as expected.
- **Shareholders:** Interact with shareholders and generate rising returns through a rising share price and a progressive dividend policy on a consistent basis.
- **Management:** Set and maintain a high standard of management and business behaviour, which will ensure employees, customers and suppliers are treated fairly.

In light of these strategic objectives, in particular with respect to the desire to grow market share and deliver long-term shareholder returns, the Board believes that it is in the best interests of the Company and its shareholders to make this move.

- AIM, which is operated and regulated by the LSE, has an established reputation with investors and analysts, and is an internationally recognised market. It was launched as the LSE's market specifically designed for smaller companies, with a more flexible regulatory regime. For smaller companies, AIM provides a more suitable market and environment which should simplify ongoing administrative and regulatory requirements for Titon. The latter could also reduce continuing annual costs.
- AIM will offer greater flexibility with regard to corporate transactions, and should therefore enable the Company to agree and execute certain transactions more quickly and cost-effectively than a company on the Official List. AIM will also provide the Company with continuing access to the public equity capital market, should it be appropriate to obtain equity funding in the future. The latter would also be less complex and cheaper than if Titon were to remain on the Official List.

- The Company should continue to appeal to institutional investors following the move to AIM and, in light of the possible tax benefits, the Directors hope that being admitted to AIM will make the Company's shares more attractive to retail investors. In particular, since 5 August 2013, shares traded on AIM can be held in ISAs.

- Companies whose shares trade on AIM are deemed to be unlisted for the purposes of certain areas of UK taxation. Following the move to AIM, then, ordinary shareholders – after two years – may be eligible for certain inheritance tax benefits. Given the make-up of the Company's register of members, the Board believes that this taxation environment may be attractive for individuals who are shareholders.

- The UK Government abolished stamp duty on shares traded on AIM from 28 April 2014, and this should increase liquidity in the trading of the Company's shares.

- Liquidity on AIM is, in part, provided by market makers, who are member firms of the LSE and are obliged to quote a share price for each company in which they make a market between 08.00 and 16.30 hours on business days.

Once the move to AIM is complete, the Board intends to operate the Company's business, including its reporting and governance, in substantially the same manner and with the same objectives as at present. Thus, the Board sees the Company as being attractive to specialist institutional investors, while the AIM tax regime will also make the Company potentially attractive to AIM-specific funds, as well as to retail investors.

Importantly, AIM will provide current shareholders with a continuing market quotation and a market on which to trade their shares. AIM will also provide the Company with continuing access to the public equity capital market, should it be appropriate to obtain funding in the future.

However, after the cancellation becomes effective, shareholders should note the following:

- The regulatory regime which applies solely to companies listed on the LSE's Main Market will no longer apply. This includes the requirement for shareholder approval of transactions above a certain size and which are not in the ordinary course of business or with related parties; and

- The cancellation may have implications for shareholders holding ordinary shares in a Self-Invested Personal Pension (SIPP) i.e. shares in unlisted companies may not qualify for certain SIPPs i.e. the Company will be categorised for these purposes as unlisted.

It should also be noted that AIM Rules do not require an admission document to be published by the Company in connection with admission. However, the Company will publish an announcement which complies with the requirements of Schedule One to the AIM Rules for Companies, comprising information required to be disclosed by companies transferring their securities from the Official List, as an AIM Designated Market, to AIM. It is not necessary, however, to issue new ordinary share certificates.

Following admission, the Company will be subject to the regulatory and disciplinary controls of the AIM Rules. AIM is a market designed primarily for emerging or smaller companies, to which a higher investment risk tends to be attached than to larger or more established companies. Similarly, protections afforded to investors in AIM companies are also less rigorous than those afforded to investors in companies on the Main Market.

Under the AIM Rules, too, a Nominated Adviser (or Nomad) and broker are required to be engaged by the Company at all times, and a Nominated Adviser has ongoing responsibilities to both the Company and to the LSE. Conditional on admission, the Company has appointed Shore Capital and Corporate Ltd (SCC) as its Nominated Adviser and its broker.

Finally, it should be noted that the transfer to AIM will have no impact on the assets and liabilities of Titon, and it will continue to have the same business and operations following admission. In addition, as a public limited company incorporated and registered in England and Wales, the Company will remain subject to the applicable provisions of the Financial Services and Markets Act 2000 (FSMA), the Prospectus Rules, the City Code on Takeovers and Mergers and the European Union Market Abuse Regulation (EU No 596/2014).

Other differences

The obligations of a company whose shares are traded on AIM are broadly similar to those of companies whose shares are listed on the premium segment of the Official List. However, there are a number of exceptions, particularly with corporate transactions. For example, a company on the Official List is required to appoint a 'sponsor' when undertaking a large transaction or capital raising; but not so on AIM. Official List companies may also have to issue a prospectus for certain sizeable transactions, which adds to the complexity, costs and timescale.

Under AIM Rules, prior shareholder approval is required only for transactions with a much larger size threshold – for example, a reverse takeover or acquisition in a 12-month period which exceeds 100% on various comparative size tests, such as the ratio of the transaction consideration to the market capitalisation of the AIM company. Similarly, Official List companies require shareholder approval for a broader range of transactions, including related party transactions.

In addition, AIM Rules do not specify any required structures or discount limits in relation to further issues of securities. Nor is there a requirement to publish a prospectus or an admission document for further issues of securities, except when: this is deemed to be a public offer; it seeks admission for a new class of securities; or otherwise required by law.

A company's appropriateness for AIM is, in part, dependent on it having sufficient free float. However, there is no specific requirement for a minimum number of shares to be held in public hands. A company listed on the Official List, however, must maintain a minimum of 25% of its issued ordinary share capital in public hands.

The Company is currently required to comply with the UK Corporate Governance Code, or to explain any area of non-compliance. AIM companies are not required to comply with this code, but can choose to adopt an alternative recognised corporate governance code. That said, it is Titon's intention to appoint an additional independent Non-Executive Director to the Board within six months of admission "in order to increase the level of independent oversight and challenge on the Board".

Forecasts

Titon will promulgate its full-year figures to 30 September 2018 in early December, around the same time as it moves to AIM.

The first half was reported in May and it was a very tidy six months for the Company with revenue rising 5% on a constant currency basis to £14.5m and profit before tax up by 16%, on the same basis, to £1.34m. The dividend was also hiked 17% yet cover remains very healthy at 4.1x. RONA or return on net assets was also in the upper teens (i.e. 18.9% on an adjusted basis) and, one of our favourite metrics, capital turn was north of 2.0 on the same basis. Liquidity was similarly excellent with a Quick Ratio of 1.93 and net cash equivalent running at 16% of Titon's net assets.

We expect more of the same in the second half of the current fiscal year and into 2019 and 2020. In South Korea (and perhaps, in time, the North too?), the expected revenue gains are in double digits with gently appreciating profitability from 2017's 17.4%. This spells an annual contribution rising in the high teens. Note, too, the Associate contribution which we have at seven figures in fiscal 2010.

In the UK, revenue will rise by single digits p.a. with steady segmental margins (2018 forecast at 22%). Both economic and construction industry growth are overall ambulatory. That said, private housebuilding, Titon's core market, is doing significantly better and Experian is forecasting 3%-4% real p.a. volume growth in 2020.

After a disappointing half year in the US, and consolidation in other locals, the overall result will be breakeven this year. The latter are largely in continental Europe and, like the US, are very much seed corn for the future.

In sum, this produces profit before tax growth at an average 12% p.a. in the period 2018 through 2020, which is very good to be getting on with. Expected annual p.a. dividend growth is slightly in advance of profit, at 13%, with an admittedly conservative view of 2020's pay-out.

Similarly, net cash generation is forecast to be positive to the tune of £0.4m to £0.5m each year which would mean closing net cash in 2020 of between £4.5m and £5.0m. Should it choose to, also, Titon could make an acquisition or two.

Segmental revenue and profit

Revenue	2016	2017	2018E	2019E	2020E
UK	12.9	14.0	14.2	14.5	14.8
South Korea	7.1	9.5	11.1	12.2	13.4
Other	3.7	4.5	3.3	3.5	3.7
Total	**23.7**	**28.0**	**28.6**	**30.2**	**31.9**
Profit					
UK	2.8	2.7	3.1	3.2	3.3
South Korea	1.2	1.7	2.0	2.3	2.7
Other	0.5	0.4	0.0	0.1	0.2
Total	**4.5**	**4.8**	**5.1**	**5.6**	**6.2**

Source: Company data, Hardman & Co Research

Profit & Loss account

Year-end Sept (£m)	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Sales	**14.548**	**15.740**	**19.256**	**22.258**	**23.721**	**28.011**	**28.626**	**30.183**	**31.865**
COGS	-11.668	-12.059	-13.926	-15.745	-16.117	-20.133	-20.535	-21.588	-22.690
Gross profit	2.880	3.681	5.330	6.513	7.604	7.878	8.091	8.595	9.175
SG&A	-3.238	-3.034	-3.638	-3.861	-4.754	-4.966	-4.815	-5.071	-5.417
R&D	0.000	0.000	0.000	-0.535	-0.539	-0.467	-0.487	-0.513	-0.542
Depreciation & Amortisation	-0.613	-0.654	-0.564	-0.566	-0.556	-0.613	-0.677	-0.748	-0.826
Licensing/Royalties	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other income	0.000	0.237	0.012	0.011	0.017	0.018	0.021	0.031	0.040
Underlying EBIT	**-0.971**	**0.230**	**1.140**	**1.562**	**1.772**	**1.850**	**2.133**	**2.294**	**2.430**
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	-0.971	0.230	1.140	1.562	1.772	1.850	2.133	2.294	2.420
Finance income	0	0	0	0	0	0	0	0	0
Finance cost	0	0	0	0	0	0	0	0	0
Associates	-0.039	0.262	0.188	0.298	0.356	0.633	0.760	0.889	1.040
Net financial income	0.026	0.013	0.005	0.009	0.008	0.010	0.014	0.019	0.030
Pre-tax profit	-0.984	0.505	1.333	1.869	2.136	2.493	2.907	3.202	3.500
Exceptional items	0	0	0	0	0	0	0	0	0
Reported pre-tax	**-0.984**	**0.505**	**1.333**	**1.869**	**2.136**	**2.493**	**2.907**	**3.202**	**3.500**
Reported taxation	0.247	-0.029	-0.056	-0.160	-0.184	-0.269	-0.407	-0.448	-0.490
Minorities	0.016	-0.173	-0.378	-0.376	-0.317	-0.420	-0.508	-0.589	-0.684
Underlying net income	-0.721	0.303	0.899	1.333	1.635	1.804	1.992	2.165	2.326
Statutory net income	-0.721	0.303	0.899	1.333	1.635	1.804	1.992	2.165	2.326
Period-end shares (m)	10.6	10.6	10.6	10.6	10.9	11.0	11.0	11.0	11.0
Weighted average shares (m)	10.6	10.6	10.5	10.6	10.8	11.0	11.0	11.0	11.0
Fully-diluted shares (m)	10.6	10.6	10.8	10.9	10.9	11.5	11.5	11.5	11.5
Underlying basic EPS (p)	-6.8	2.9	8.5	12.6	15.2	16.3	18.1	19.6	21.1
Underlying fully-diluted EPS (p)	-6.8	2.9	8.4	12.2	14.9	15.7	17.3	18.8	20.2
Statutory basic EPS (p)	-6.8	2.9	8.5	12.6	15.2	16.3	18.1	19.6	21.1
Statutory fully-diluted EPS (p)	-6.8	2.9	8.4	12.2	14.9	15.7	17.3	18.8	20.2
DPS (p)	**1.50**	**2.00**	**2.50**	**3.00**	**3.50**	**4.20**	**4.90**	**5.75**	**6.00**

Source: Hardman & Co Research

Balance sheet

Year-end 30 Sept (£m)	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Shareholders' funds	9.197	9.517	10.678	12.093	14.774	16.201	17.848	19.744	21.808
Cumulated goodwill	0	0	0	0	0	0	0	0	0
Total equity	**9.197**	**9.517**	**10.678**	**12.093**	**14.774**	**16.201**	**17.848**	**19.744**	**21.808**
Share capital	1.056	1.056	1.056	1.063	1.091	1.098	1.103	1.108	1.113
Reserves	8.010	8.157	8.940	9.987	11.969	13.117	14.530	16.210	18.023
Capitalised R&D	0.000	0.000	0.000	0.000	0.000	0	0	0	0
Minorities	0.131	0.304	0.682	1.043	1.714	1.986	2.215	2.427	2.672
Provisions	0	0	0	0	0	0	0	0	0
Deferred tax	0.210	0.105	-0.027	-0.064	-0.133	-0.077	-0.081	-0.121	-0.120
Long-term loans	0	0	0	0	0	0	0	0	0
Bank overdrafts	0.027	0.035	0	0	0	0	0	0	0
less: cash & securities	-1.840	-2.151	-2.149	-2.870	-2.438	-3.269	-3.684	-4.142	-4.619
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	**7.594**	**7.506**	**8.502**	**9.159**	**12.203**	**12.855**	**14.083**	**15.482**	**17.069**
Fixed assets	3.532	3.608	3.667	4.014	4.975	5.514	5.790	6.079	6.383
Intangible assets	0.886	0.825	0.661	0.623	0.627	0.638	0.582	0.631	0.776
Capitalised R&D	0	0	0	0	0	0	0	0	0
Goodwill	0	0	0	0	0	0	0	0	0
Stocks	2.578	2.855	3.479	3.786	4.586	4.670	6.000	6.500	7.000
Trade debtors	*2.314*	*2.019*	*2.510*	*2.530*	*3.111*	*3.249*	*3.411*	*3.500*	*4.000*
Other debtors	*0.707*	*1.175*	*2.079*	*2.462*	*3.591*	*3.395*	*3.565*	*3.700*	*3.900*
Trade creditors	*-1.394*	*-1.987*	*-2.250*	*-2.221*	*-2.718*	*-2.686*	*-2.820*	*-2.800*	*-2.800*
Tax liability	*0.055*	*-0.042*	*-0.162*	*-0.125*	*-0.161*	*0.016*	*-0.407*	*-0.448*	*-0.490*
Other creditors	*-1.084*	*-0.947*	*-1.482*	*-1.910*	*-1.808*	*-1.941*	*-2.038*	*-1.700*	*-1.700*
Debtors less creditors	0.598	0.218	0.695	0.736	2.015	2.033	1.711	2.252	2.910
Invested capital	**7.594**	**7.506**	**8.502**	**9.159**	**12.203**	**12.855**	**14.083**	**15.482**	**17.069**
Net cash/(debt)	1.8	2.2	2.1	2.9	2.4	3.3	3.7	4.1	4.6
Net debt/equity	20.0%	22.6%	20.1%	23.7%	16.5%	20.2%	20.6%	21.0%	21.2%
After-tax ROIC	-9.5%	4.0%	10.6%	14.6%	13.4%	14.0%	14.1%	14.0%	13.6%
Interest cover (x)	-	-	-	-	-	-	-	-	-
Dividend cover (x)	-4.6	1.4	3.3	4.1	4.3	3.7	3.5	3.3	3.4
Capex/depreciation (x)	0.5	0.4	0.5	0.9	1.3	1.4	1.3	1.6	1.6
Capex/sales	2.2%	1.8%	1.5%	2.2%	3.0%	2.9%	3.1%	3.3%	3.1%
Net asset value/share (p)	87.1	90.2	101.2	113.8	135.4	146.2	161.6	178.8	197.5
Stock days	65	66	66	62	71	61	77	79	80
Debtor days	58	47	48	41	48	42	43	42	46
Creditor days	35	46	43	36	42	35	36	34	32

Source: Hardman & Co Research

Cashflow									
Year-end Sept (£m)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Profit before tax	-0.984	0.505	1.333	1.869	2.136	2.493	2.907	3.202	3.500
Depreciation	0.496	0.462	0.419	0.403	0.400	0.438	0.477	0.520	0.567
Amortisation	0.117	0.192	0.145	0.163	0.156	0.175	0.200	0.227	0.259
Stocks	0.021	-0.323	-0.564	-0.363	-0.370	-0.133	-1.330	-0.500	-0.500
Working capital	0.006	0.287	-0.473	-0.037	-1.140	-0.104	-0.085	-0.518	-0.700
Exceptionals/provisions	0	0	0	0	0	0	0	0	0
Disposals	-0.011	-0.019	-0.015	-0.004	-0.019	0.000	0.000	0.000	0.000
Other	0.039	-0.262	-0.188	-0.298	-0.356	-0.633	-0.657	-0.89	-0.897
Company operating cashflow	**-0.316**	**0.842**	**0.657**	**1.733**	**0.807**	**2.236**	**1.512**	**2.041**	**2.229**
Net interest	0	0	0	0	0	0	0	0	0
Tax	0.074	-0.037	-0.068	-0.234	-0.217	-0.390	-0.407	-0.448	-0.490
Operational cashflow	-0.242	0.805	0.589	1.499	0.590	1.846	1.105	1.593	1.739
Capital expenditure	-0.327	-0.280	-0.290	-0.498	-0.721	-0.520	-0.300	-0.300	-0.400
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	**-0.569**	**0.525**	**0.299**	**1.001**	**-0.131**	**1.326**	**0.805**	**1.293**	**1.339**
Dividends	-0.211	-0.158	-0.211	-0.289	-0.324	-0.410	-0.540	-0.635	-0.663
Acquisitions etc.	-0.305	-0.128	-0.096	-0.128	-0.163	-0.186	-0.100	-0.300	-0.399
Disposals	0.040	0.023	0.015	0.052	0.050	0.045	0.150	0.000	0.000
Other investments	0	0	0	0	0	0	0	0	0
Cashflow after investments	**-1.045**	**0.262**	**0.007**	**0.636**	**-0.568**	**0.775**	**0.315**	**0.358**	**0.377**
Share repurchases	0	0	0	0	0	0	0	0	0
Share issues	0.011	0.041	0.026	0.085	0.136	0.056	0.100	0.100	0.100
Currency effect	0	0	0	0	0	0	0	0	0
Borrowings acquired	0	0	0	0	0	0	0	0	0
Change in net debt	-1.034	0.303	0.033	0.721	-0.432	0.831	0.415	0.458	0.477
Opening net cash	2.847	1.813	2.116	2.149	2.870	2.438	3.269	3.684	4.142
Closing net cash	**1.813**	**2.116**	**2.149**	**2.870**	**2.438**	**3.269**	**3.684**	**4.142**	**4.619**

Source: Hardman & Co Research

Disclaimer

Hardman & Co provides professional independent research services and all information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. However, no guarantee, warranty or representation, express or implied, can be given by Hardman & Co as to the accuracy, adequacy or completeness of the information contained in this research and they are not responsible for any errors or omissions or results obtained from use of such information. Neither Hardman & Co, nor any affiliates, officers, directors or employees accept any liability or responsibility in respect of the information which is subject to change without notice and may only be correct at the stated date of their issue, except in the case of gross negligence, fraud or wilful misconduct. In no event will Hardman & Co, its affiliates or any such parties be liable to you for any direct, special, indirect, consequential, incidental damages or any other damages of any kind even if Hardman & Co has been advised of the possibility thereof.

This research has been prepared purely for information purposes, and nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell any security, product, service or investment. The research reflects the objective views of the analyst(s) named on the front page and does not constitute investment advice. However, the companies or legal entities covered in this research may pay us a fixed fee in order for this research to be made available. A full list of companies or legal entities that have paid us for coverage within the past 12 months can be viewed at http://www.hardmanandco.com/legals/research-disclosures. Hardman may provide other investment banking services to the companies or legal entities mentioned in this report.

Hardman & Co has a personal dealing policy which restricts staff and consultants' dealing in shares, bonds or other related instruments of companies or legal entities which pay Hardman & Co for any services, including research. No Hardman & Co staff, consultants or officers are employed or engaged by the companies or legal entities covered by this document in any capacity other than through Hardman & Co.

Hardman & Co does not buy or sell shares, either for their own account or for other parties and neither do they undertake investment business. We may provide investment banking services to corporate clients. Hardman & Co does not make recommendations. Accordingly, they do not publish records of their past recommendations. Where a Fair Value price is given in a research note, such as a DCF or peer comparison, this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities, companies and legal entities but has no scheduled commitment and may cease to follow these securities, companies and legal entities without notice.

The information provided in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hardman & Co or its affiliates to any registration requirement within such jurisdiction or country.

Some or all alternative investments may not be suitable for certain investors. Investments in small and mid-cap corporations and foreign entities are speculative and involve a high degree of risk. An investor could lose all or a substantial amount of his or her investment. Investments may be leveraged and performance may be volatile; they may have high fees and expenses that reduce returns. Securities or legal entities mentioned in this document may not be suitable or appropriate for all investors. Where this document refers to a particular tax treatment, the tax treatment will depend on each investor's particular circumstances and may be subject to future change. Each investor's particular needs, investment objectives and financial situation were not taken into account in the preparation of this document and the material contained herein. Each investor must make his or her own independent decisions and obtain their own independent advice regarding any information, projects, securities, tax treatment or financial instruments mentioned herein. The fact that Hardman & Co has made available through this document various information constitutes neither a recommendation to enter into a particular transaction nor a representation that any financial instrument is suitable or appropriate for you. Each investor should consider whether an investment strategy of the purchase or sale of any product or security is appropriate for them in the light of their investment needs, objectives and financial circumstances.

This document constitutes a 'financial promotion' for the purposes of section 21 Financial Services and Markets Act 2000 (United Kingdom) ('FSMA') and accordingly has been approved by Capital Markets Strategy Ltd which is authorised and regulated by the Financial Conduct Authority (FCA).

(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.

research@hardmanandco.com

35 New Broad Street
London
EC2M 1NH

+44(0)20 7194 7622

www.hardmanandco.com