Tyman plc

Results for the year ended 31 December 2019

Highlights

Highlights

- Reported revenue up 4% and adjusted operating profit up 2%
- LFL revenue down 2% reflects customer losses in North America and challenging end markets as previously reported
- LFL adjusted operating profit down 5%, with slight margin deterioration to 13.9%
- Strong cash generation with cash conversion of 132% and reduction in leverage to 1.72x
- Good progress in addressing North America footprint consolidation issues: no further material customer losses in H2 and improvements at Statesville facility
- Self-help measures implemented and continue into 2020; streamlining International market operations
- Final dividend increased by 2% in line with progressive policy

Update on near-term priorities

Actions taken to lay foundation for growth

Initial priorities outlined at H1	Progress in 2019
Focus on organic performance:	
Resolve North American operational issues & customer losses	• Robust progress – see next slide
Further integrate recent M&A	• Ashland integration progressing well; on track to deliver \$5m annual synergies • Zoo performing well; Reguitti / Profab gaining momentum
Gain traction with new product launches	• New product launches well-received • Launch of second-generation smartware range underway
Create cohesion across the portfolio	• Group safety excellence programme successfully launched, creating beachhead for more cohesive culture • Increased cross-portfolio collaboration generating new opportunities
Drive cash generation and reduce debt	• Strong cash conversion of 132% • Leverage reduced to 1.72x

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North America footprint-related issues update

Good progress to date, with operational improvements ongoing

Original issue

Cost inefficiencies

- Process waste; low yields / stock availability
- Interim compensatory measures added cost

Customer losses

- Customer frustration with service levels
- Hard transition to new door seal product

Status

- Phase 1 facilities now stabilised
- Operational improvement of Phase 2 Statesville facility remains in progress

Progress made

- New leadership in place
- Customer satisfaction improved:
    - No further material customer losses in H2
    - Evidence regaining customer confidence / building wins
- Phase 1 facilities continue to operate well
- Phase 2 site (Statesville) making progress:
    - Quality control processes and service improved
    - Labour costs reduced
- Modest expansion of capacity of legacy door seal product

Ongoing actions

- Kaizen events underway to further improve yield and processing costs
- Continue to execute plans to strengthen customer relationships
- Further expand capacity of legacy door seal product

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Financial review

2019 Financials

Revenue	Operating Profit (adj)[2]	EPS (adj)[2]
£613.7m *+4% (Reported)* *-2% (LFL[1])* 2018: £591.5m	**£85.4m (13.9%)** *+2% (Reported)* *-5% (LFL[1])* 2018: £83.6m (14.1%)	**27.46p** *-1%* *+2% (Adj[4])* 2018: 27.68p

ROCE[3]	Cash conversion	Leverage[5]
12.0 % *-140 bps* *-80 bps (Adj[4])* 2018: 13.4%	**132% (Reported)** *124% (Adj[4])* 2018: 92%	**1.72x** *-0.24x* 2018: 1.96x

Notes – for Definitions and reconciliation of APMs see the Results Announcement published on 5 March 2020

(1) Constant currency, excluding the impact of acquisitions, disposals, and IFRS 16

(2) Adjusted

(3) Adjusted Operating Profit divided by average capital employed

(4) Excluding the impact of IFRS 16

(5) Calculated in accordance with banking covenants on a frozen GAAP basis (excluding the impact of IFRS 16)

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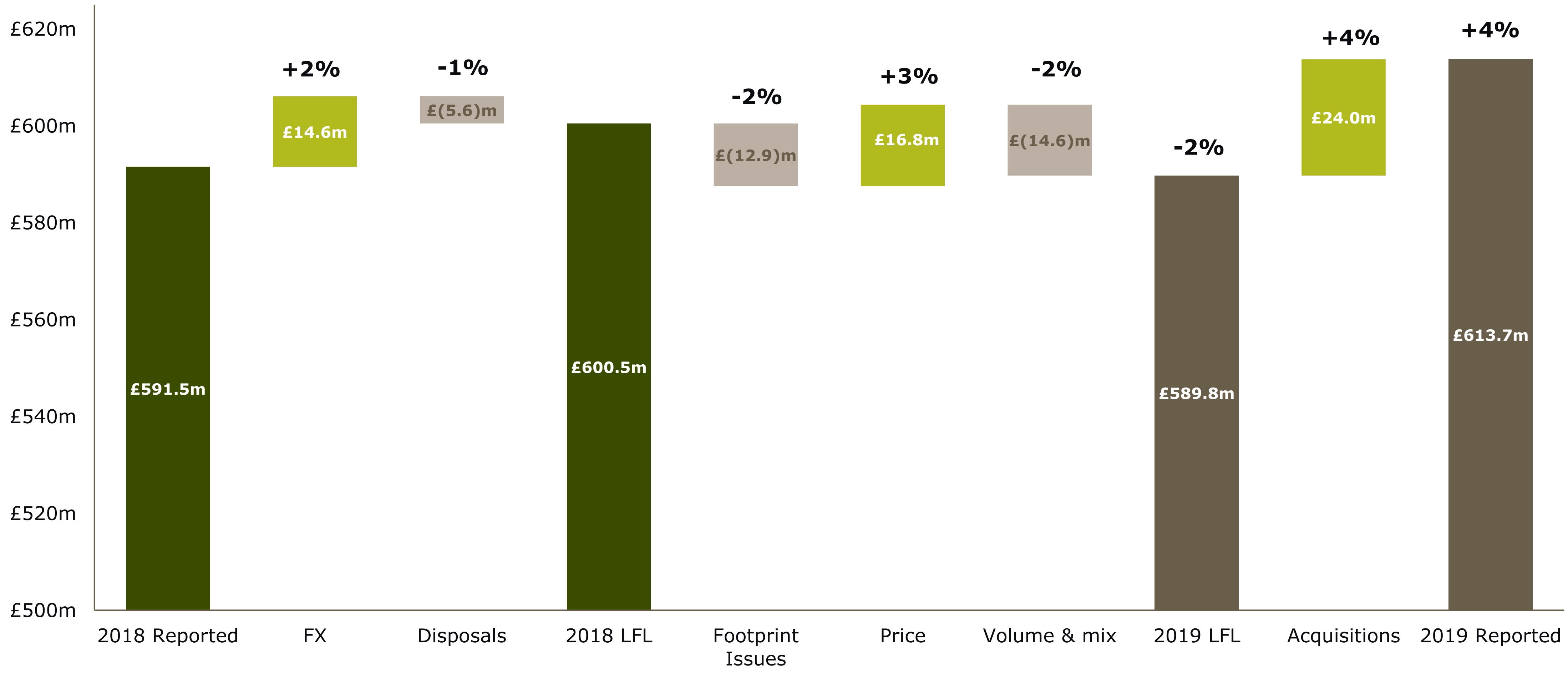
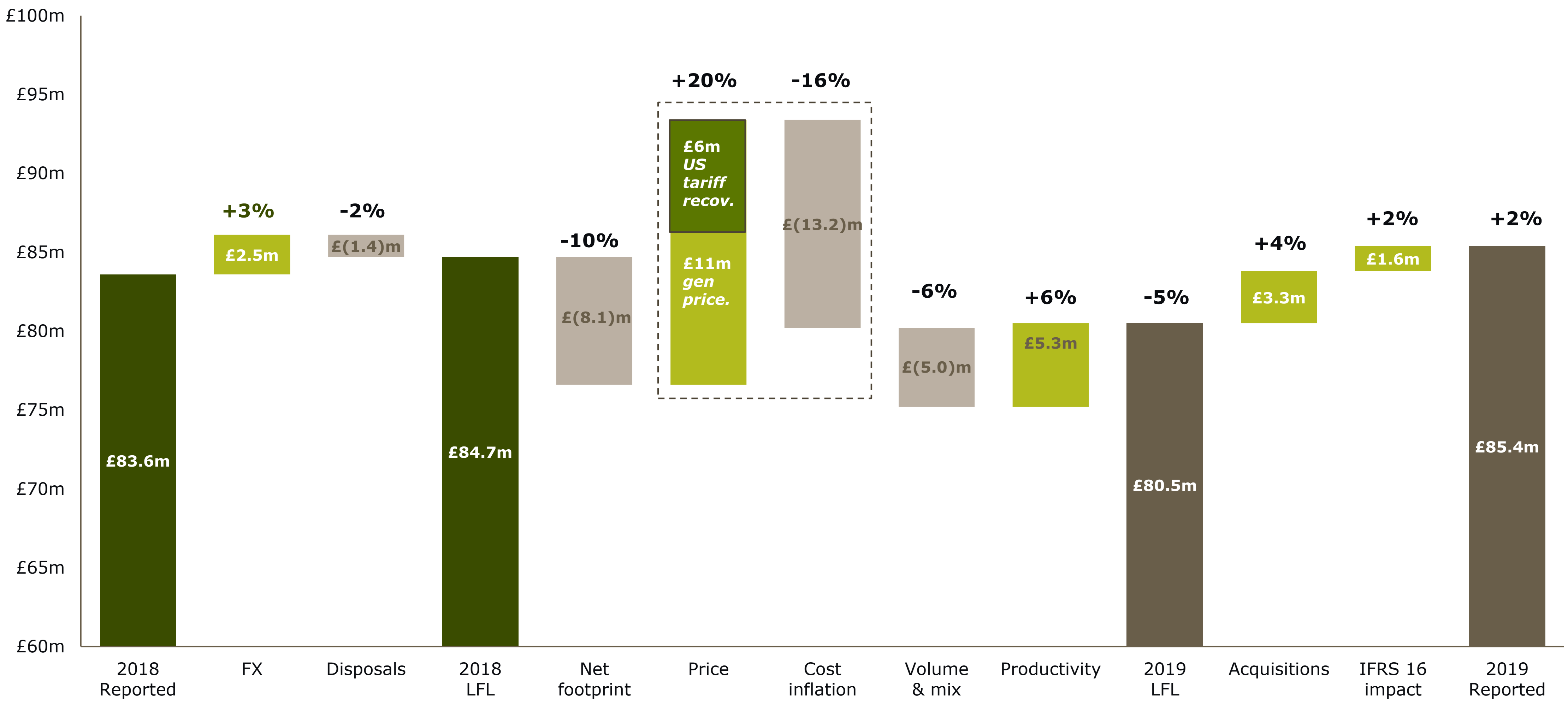
2019 revenue bridge

Bridge from reported 2018 to reported 2019



2019 adjusted operating profit bridge

Bridge from reported 2018 to reported 2019



Divisional summary

Revenue (£m)	2019	2018	Change	LFL
North America	386.0	377.9	+2%	-3%
UK and Ireland	107.2	97.4	+10%	-1%
International	120.5	116.2	+4%	+1%

Adjusted operating profit (£m)	2019	2018	Change	LFL
North America	64.5	62.5	+3%	-3%
UK and Ireland	13.8	12.7	+8%	-2%
International	14.8	15.2	-3%	-8%

Adjusted operating margin (£m)	2019	2018
North America	16.7%	16.5%
UK and Ireland	12.9%	13.1%
International	12.3%	13.1%

Cash flow

Free cash flow and operating cash conversion

Free cash flow

£m	2019	2019 (excl IFRS 16)	2018
Adjusted EBITDA[(1)]	**108.3**	99.2	95.4
Working capital[(2)]	**15.3**	15.7	(6.1)
Capex	**(10.7)**	(10.7)	(16.9)
Operational cash flow	**112.9**	104.3	77.3
Pension contributions	**(1.0)**	(1.0)	(1.1)
Income tax paid	**(14.2)**	(14.2)	(12.3)
Net interest paid (excl IFRS 16)	**(15.0)**	(12.0)	(9.2)
Net exceptional cash costs	**(11.3)**	(11.3)	(3.2)
Free cash flow	**71.4**	65.8	51.5

Operating cash conversion

	2019	2019 (excl IFRS16)	2018
Operating cash conversion[(3)]	132.2%	124.4%	92.4%

(1) Adjusted EBITDA before non-cash items

(2) Excluding the effect of exceptional items in working capital

(3) Operating cash conversion is operational cash flow (which excludes lease payments) divided by adjusted operating profit

(4) Adjusted operating cash conversion is adjusted operating cash flow divided by adjusted operating profit

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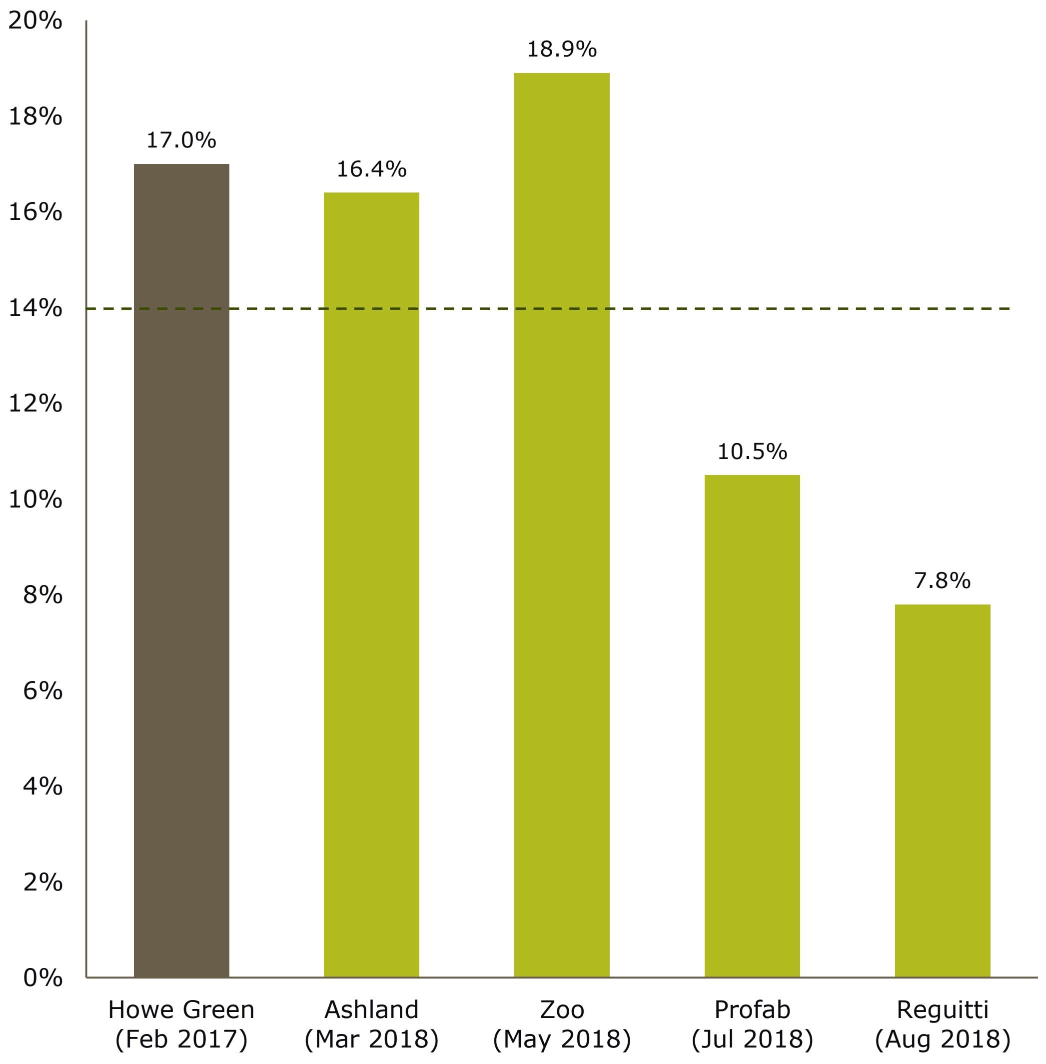
Return on acquisition investment

Acquisitions largely on track to meet minimum target return threshold



- Howe Green exceeds target ROAI after two years of ownership
- Ashland trading ahead of 2018. Synergies on track to deliver targeted $5m pa from 2020
- Zoo performance strong. On track to outperform return threshold
- Profab performance impacted by weak opening pipeline, recovery from which resulted in operational bottlenecks in H2
- Reguitti synergies coming through, but impacted by specific low-cost competition. Actions taken, including introduction of a suite of value-engineered products
- Y-cam technology platform (currently loss-making) to support strategic smartware investment

ROAI is measured over a two year period post-acquisition.

Howe Green ROAI reflects run rate ROAI calculated over the twelve month period to 28 February 2019, the two year acquisition anniversary. Ashland, Zoo, Profab and Reguitti ROAI reflects run rate ROAI calculated over the 12 month period to 31 December 2019.

Guidance

Summary 2020 guidance:

- Market outlook mixed and ongoing drag from North American footprint-related customer losses of c.$10m
- Operational improvement to drive margin expansion in H2
- Operating cash conversion c. 90%
- Further progression towards medium term leverage target
- Capex £15m - £20m
- Exceptional cash costs £5m - £10m

Medium term:

- Leverage target of 1.0x to 1.5x adjusted EBITDA
- ROCE target of 14% (post IFRS 16)

Divisional reviews

North America (AmesburyTruth)

Performance impacted by issues arising from footprint consolidation project

Highlights

- Flat markets overall, with improvement in second half
- Impacted by operational disruption and customer losses in H1, but progress in addressing issues in H2
- Strong growth in Ashland; synergies on track for $5m p.a. by 2020
- Good growth in Bilco commercial access sales
- Closure of small Fremont facility commenced
- Options to reinstate legacy door seal product progressing

2020

- Modest growth in residential market; continued weakness in commercial
- Priorities:
  - Continued operational improvement of Statesville facility
  - Realise further synergies from Ashland acquisition
  - Strengthen product offer (rationalisation, repositioning, new products)

	2019	2018	Change	LFL
Revenue (£m)	**386.0**	377.9	+2%	*-3%*
Adj. Operating Profit (£m)	**64.5**	62.5	+3%	*-3%*
Adj. Operating Margin	***16.7%***	*16.5%*	*+20bps*	

New product launches

Euro Contour™ Hardware System designed in conjunction with SchlegelGiesse

SafeGard™ 2C child safety device

UK and Ireland (ERA)

Solid performance in a challenging market

Highlights

- Market contracted further
- Strong share gain in hardware (including Zoo) via distribution
- Launched Access 360 to integrate access brands and drive cross-selling
- Ventrolla inefficiencies resolved; lead generation improved
- Acquired Y-cam; second generation smartware range launching

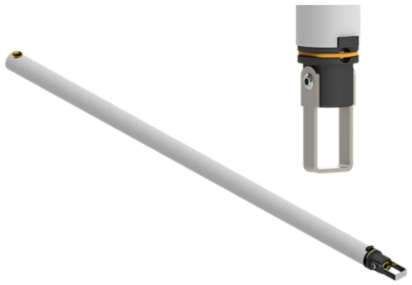
2020

- UK RMI market expected to improve
- Priorities:
  - Drive new product introductions, including smartware offer
  - Further optimise cost base through integration of acquisitions
  - Strengthen continuous improvement capabilities

	2019	2018	Change	LFL
Revenue (£m)	**107.2**	97.4	+10%	*-1%*
Adj. Operating Profit (£m)	**13.8**	12.7	+8%	*-2%*
Adj. Operating Margin	***12.9%***	*13.1%*	*-20bps*	

New product launches

Second-generation smartware range



Hydrogen balance

International (SchlegelGiesse)

Share gain in deteriorating end markets

Highlights

- Share gain despite deterioration in markets in H2
  - Further share-gain in declining Italian market
  - Growth in Spain despite difficult market
  - Maintained share in China where market slowed in H2
- Higher margin markets weakened more than lower margin ones
- Restructuring commenced to streamline operations: ceasing manufacturing in Australia & China; closing Singapore facility

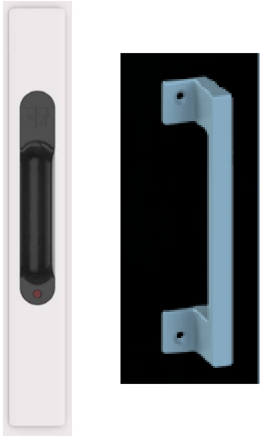
2020

- Markets expected to remain challenging in 2020
- Priorities:
  - Drive share gain in core markets (new products and channel expansion)
  - Successfully execute restructuring plan

	2019	2018	Change	LFL
Revenue (£m)	**120.5**	116.2	+4%	+1%
Adj. Operating Profit (£m)	**14.8**	15.2	-3%	-8%
Adj. Operating Margin	**12.3%**	13.1%	-80bps	

New product launches

Minimalist design and concealed hardware range, to cover all opening types



Brio Evo flat handles for aluminium sliding windows and doors

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Strategy update

Our value proposition

Enhancing comfort, sustainability, security, safety & aesthetics of living and working spaces

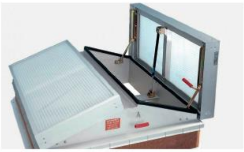
Comfort
- Ventilation
- Weatherproofing
- Soundproofing
- Ease of use

Sustainability
- Energy efficiency of buildings
- Longevity of buildings

Security
- Locking / Deterrent
- Monitoring
- Remote & timebound access

Safety
- Fall prevention
- Hurricane solutions
- Lockdown
- Safe access

Aesthetics
- Look
- Feel
- Suiting

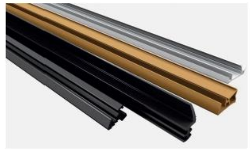

Commercial access solutions


Residential window hardware


Commercial window hardware


Residential door hardware


Commercial door hardware


Seals and extrusions


Smartware and automations

Our divisions

North America

AmesburyTruth is our division operating in North America

AmesburyTruth, Bilco, Ashland Hardware Systems, Giesse

UK and Ireland

ERA is our division operating in the UK and Ireland

ERA, Zoo, Giesse, Schlegel, Fab&Fix, Access 360, Ventrolla

International

SchlegelGiesse is our division operating in continental Europe and the rest of the world

Schlegel, Bilco, Giesse, Zoo, AmesburyTruth, Reguitti, Access 360

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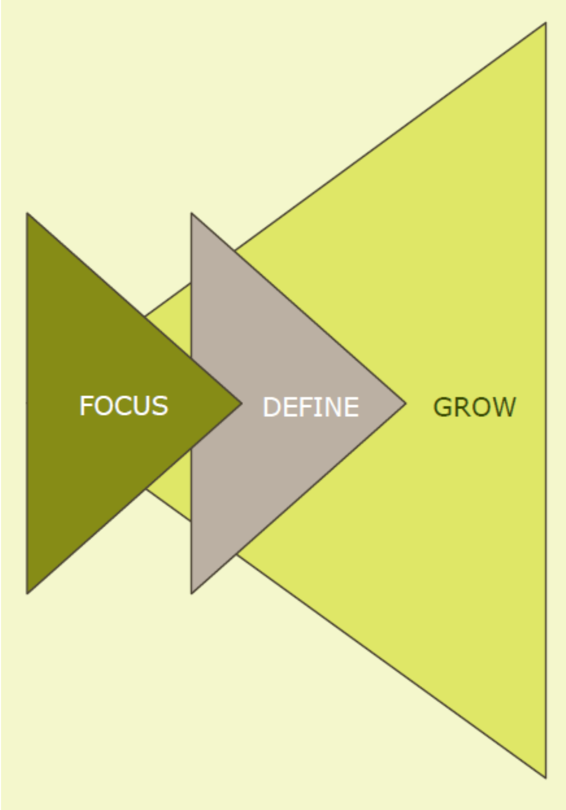
Strategy

An evolutionary strategy aimed at strengthening the base for future growth

- **Focus**
  - Rationalise: streamline footprint; harmonise product portfolio
  - Optimise: improve Statesville operations; integrate recent M&A; tune systems and processes
- **Define**
  - Build cultural cohesion to facilitate synergy extraction
  - Establish a clearly-defined business system for best practice development and propagation
    - Extend 'Safety Excellence' beachhead to Lean and other value-add areas
- **Grow**
  - Near-term growth through building cohesion around existing assets
    - Strengthen share in core markets through excellent customer service, new product introductions and channel expansion initiatives
  - Mid-term growth through blend of divisional initiatives, cross-portfolio leverage and M&A
    - Tyman remains natural consolidator in fragmented market
    - M&A to better balance geographic mix while strengthening portfolio capabilities



"**Focus** our activities, **define** who we are, and **grow** in existing & adjacent markets"

Summary and outlook

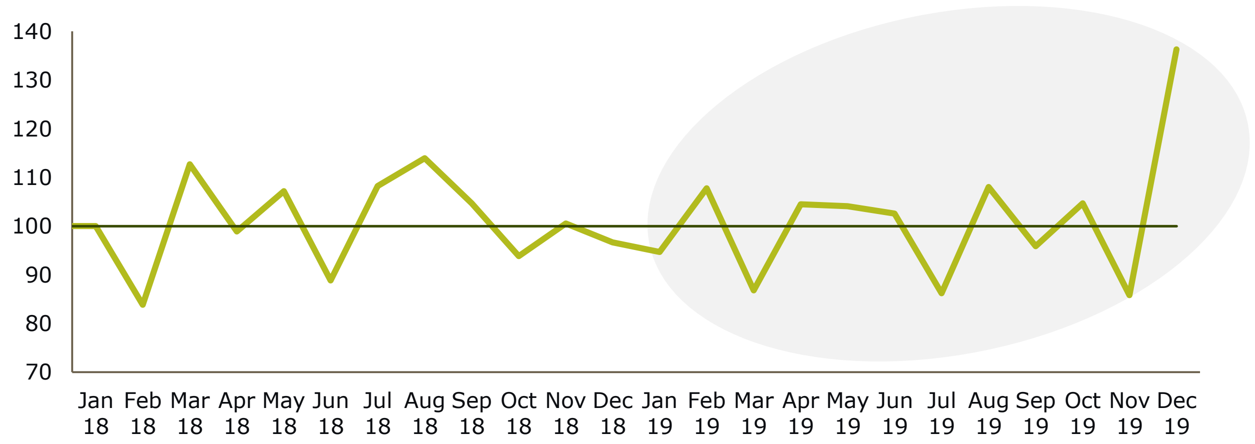
- Solid platform for growth derived from market-leading brands, extensive portfolio, deep customer relationships, domain expertise and geographic reach
- Encouraging progress towards resolving North American issues, with more to do in 2020
- Continued focus on self-help measures and excellent execution with customers given challenging markets
- Limited top-line growth expected in 2020, but aim to deliver margin expansion
  - Coronavirus developments being monitored closely; may create headwinds
- Continued focus on cash generation to enable meaningful progression on ROCE and leverage
- Progress strategic initiatives that strengthen the platform for the next phase of Tyman's evolution

Appendices

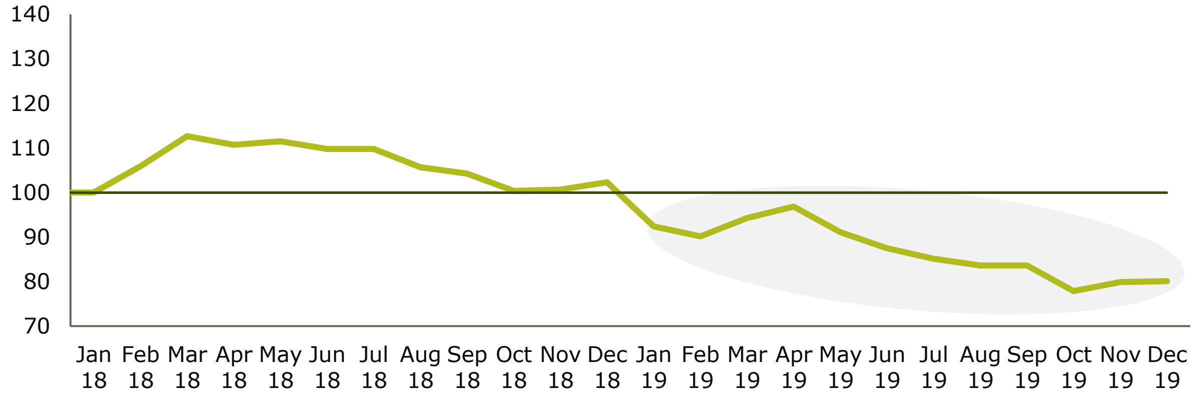
Metals input costs

Input costs continued to ease

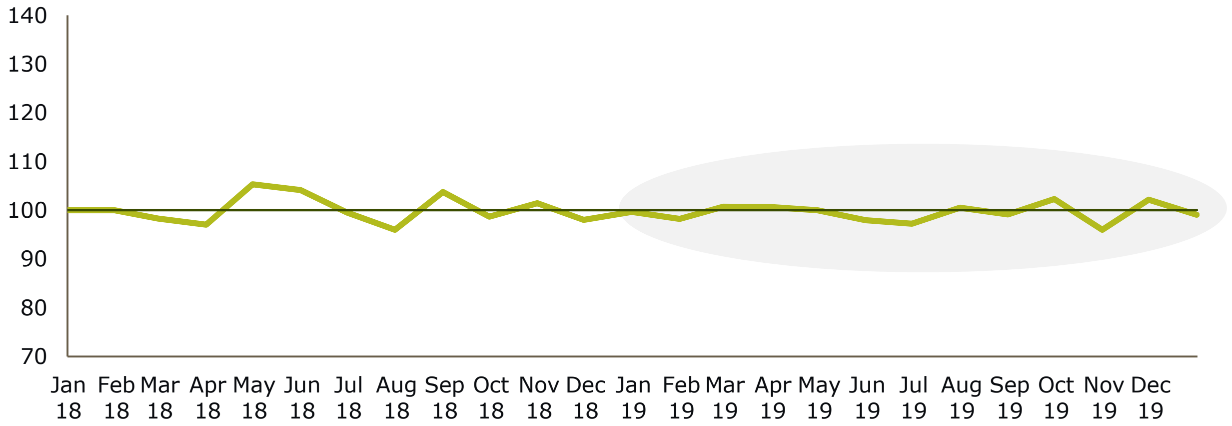
Stainless steel (US)



Zinc (US)



Aluminium (Euro)



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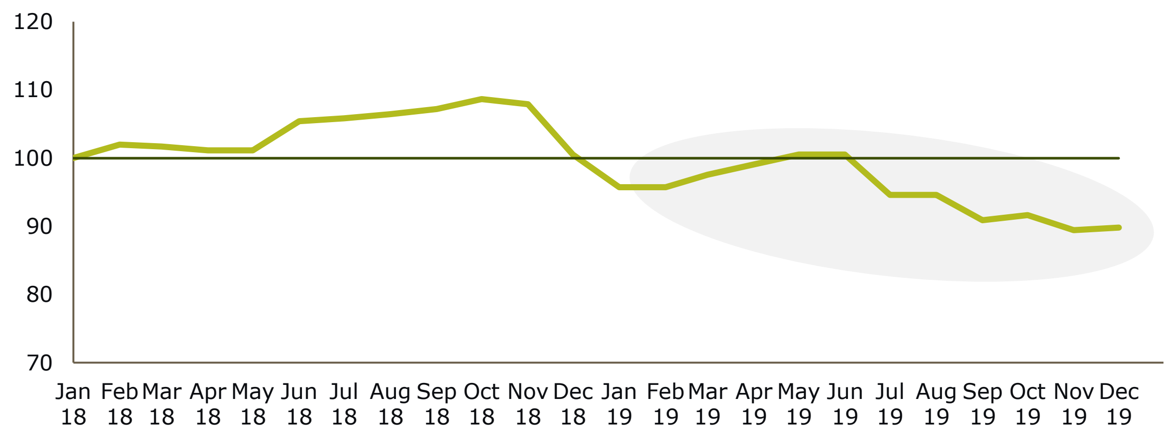
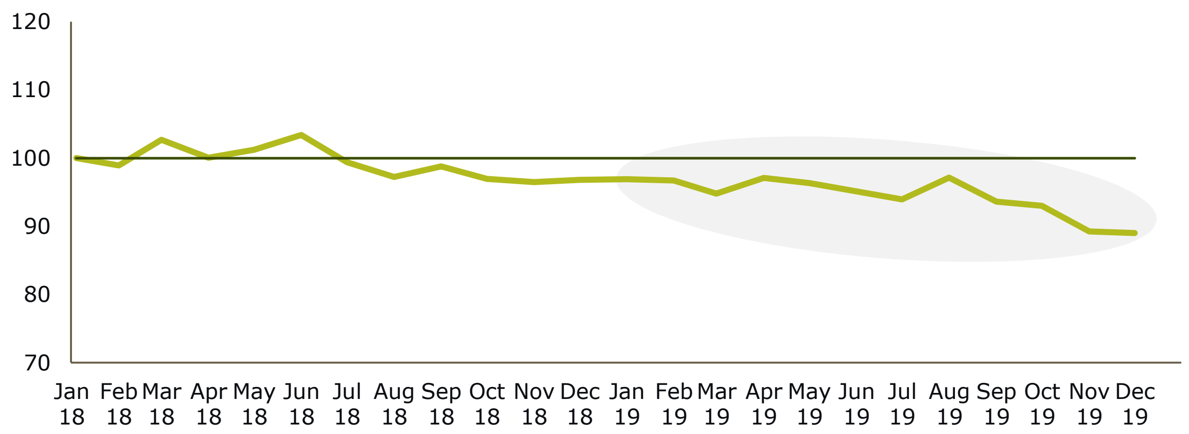
Oil derivatives and UK components input costs

Input costs continued to ease

Polypropylene (Euro)



Far East components(UK)



Pricing on a representative basket of components sourced from the Far East by ERA.

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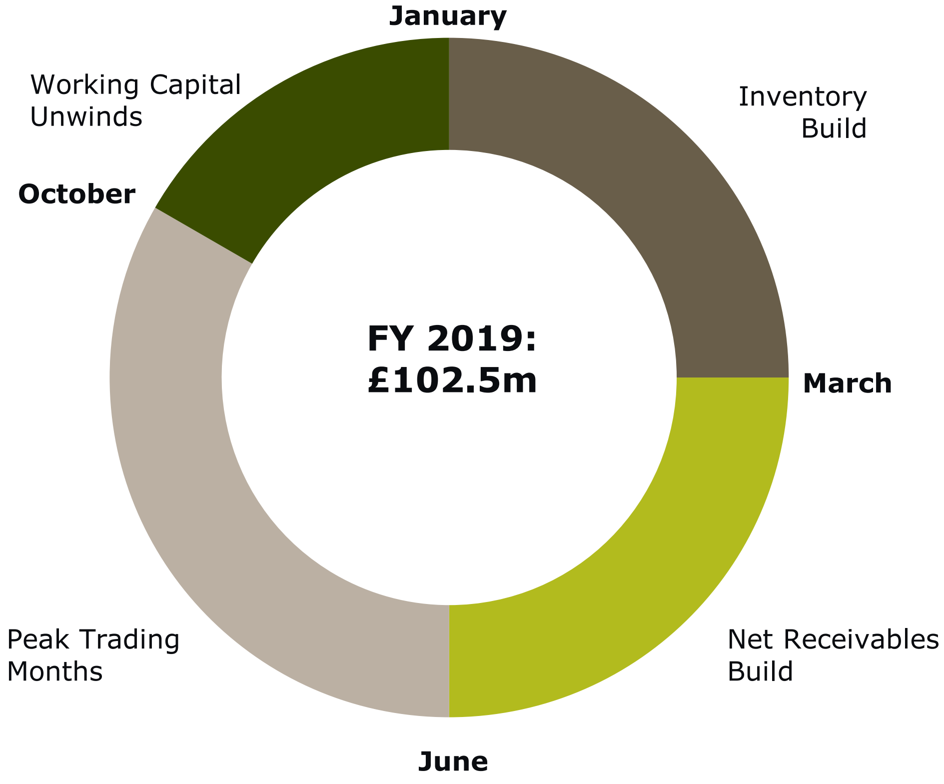
Working Capital

Strong focus on optimisation

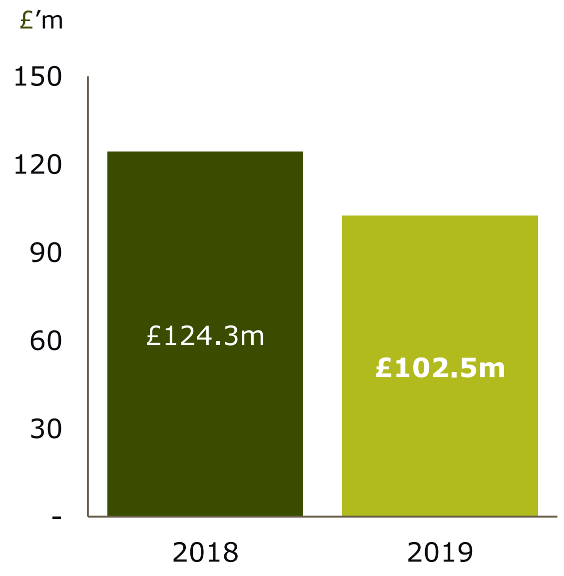
Trade working capital cycle

2018: £124.3m



H1 2019: £148.1m

2019 trade working capital



- Focus on optimisation generated strong performance
  - H2 unwind of £46m
  - £21.8m below 31 December 2018
- Exchange movement: -£3.5m

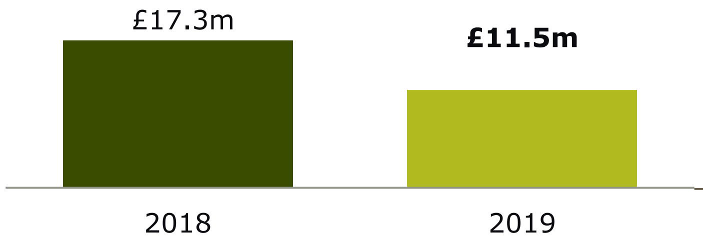
Other financial information

Capital Expenditure and Net Interest Payable

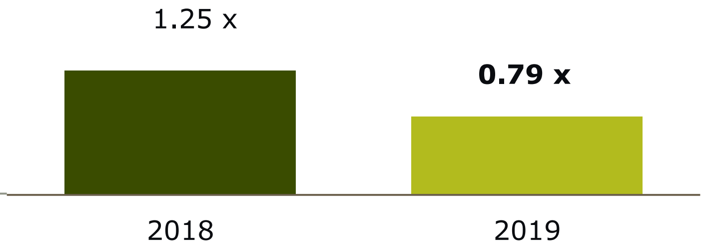
Capital expenditure

Gross Capex	(33)%
Net Capex	(11)%

Gross capex



Gross capex: depreciation[1]

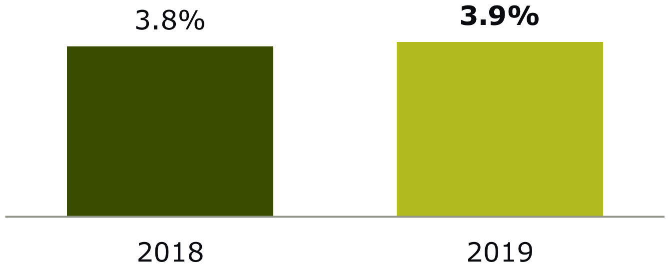


Managing capital allocation

Net interest[2]

Cost of funds	+10 bps
Int. Charge	+3.7%

Average cost of funds[2]



P&L adj net interest charge[2]

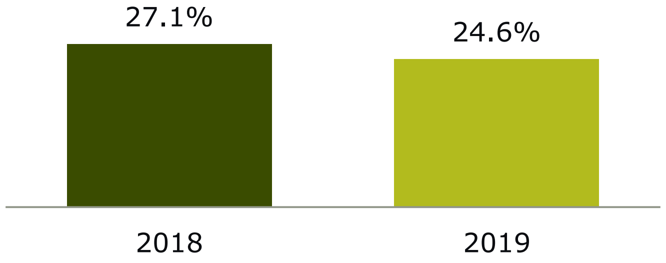
Increase due to higher borrowings

(1) Excluding depreciation of IFRS 16 RoU assets
(2) Net interest receivable on cash deposits, payable on bank loans, private placement notes and overdrafts

Other financial information

Taxation	
Adjusted	-240 bps
Cash	+370 bps

Adjusted tax rate



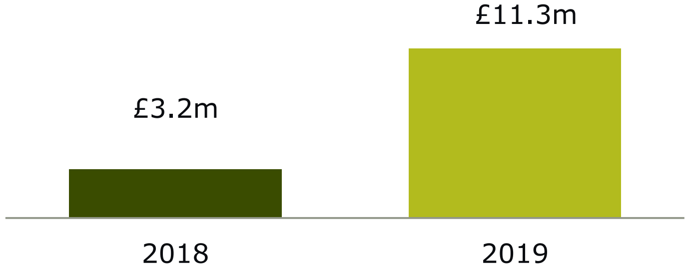
Cash tax rate

Increase in cash tax rate due to refund received in 2018 and timing of payments

Exceptional items	
Footprint	£6.5m
M&A	£5.3m
Impairment	£5.4m
Loss on business disposal	£1.7m

Exceptional items

Cash exceptionals



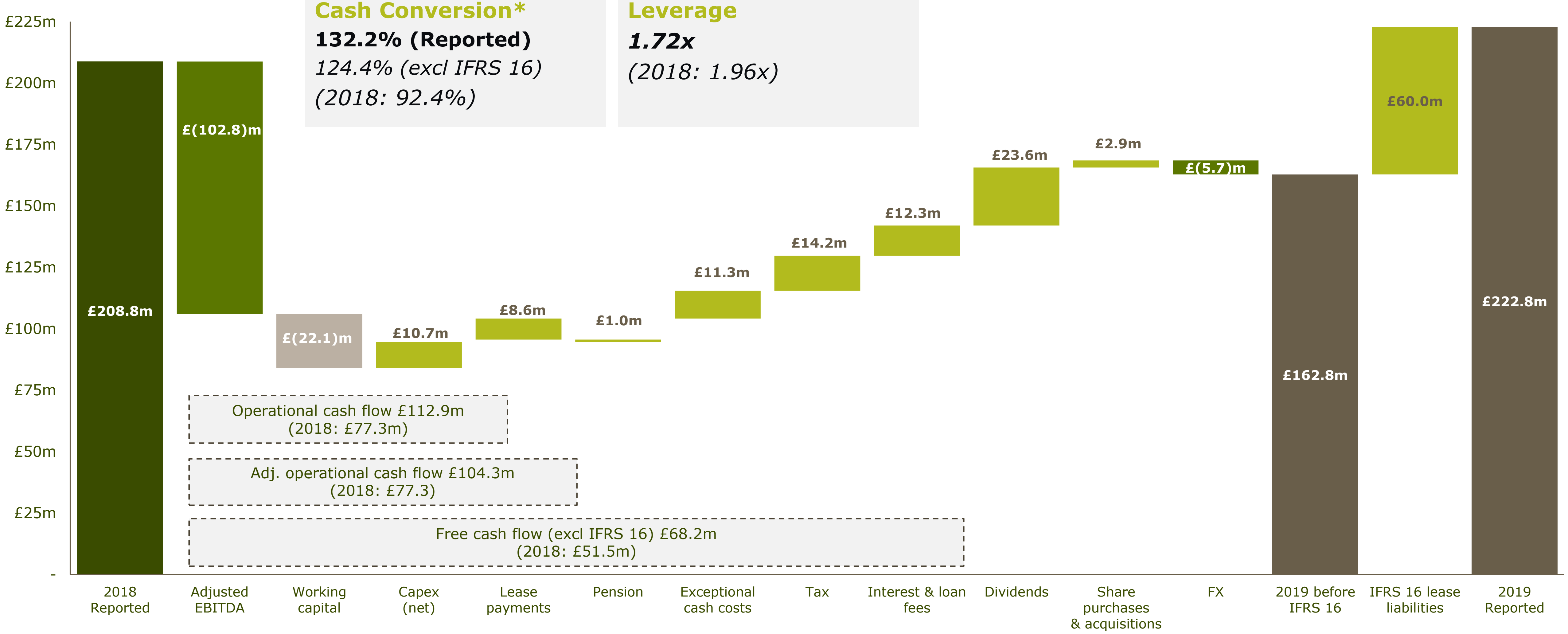
Increase in cash exceptionals due to payment of footprint site closure costs

2019 net debt bridge

Bridge from reported 2018 to reported 2019 IFRS net debt

Cash Conversion*
132.2% (Reported)
124.4% (excl IFRS 16)
(2018: 92.4%)

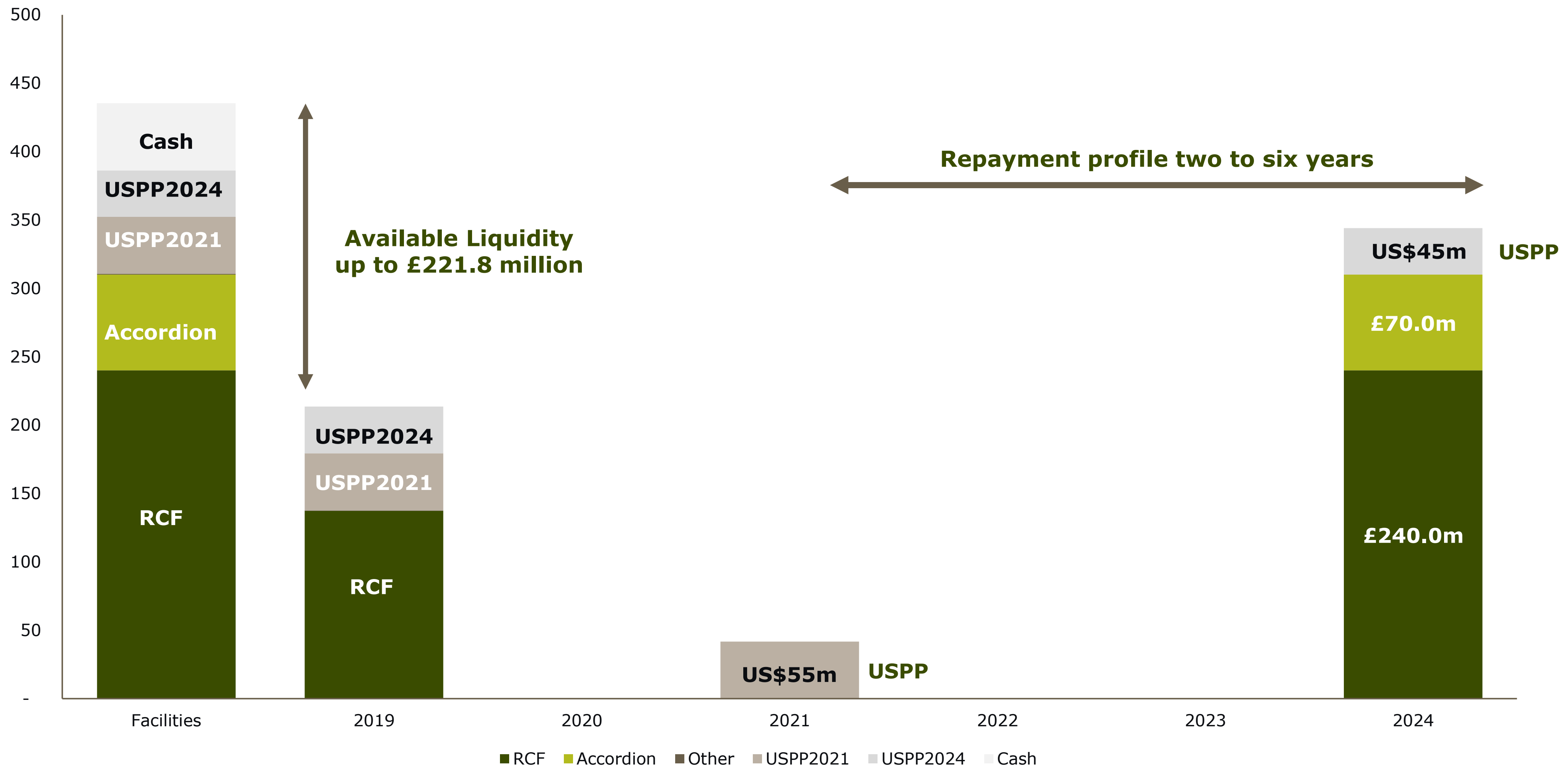
Leverage
1.72x
(2018: 1.96x)



** Operating cash conversion is Operational cash flow divided by adjusted operating profit*

Group debt facilities

Bank and private placement debt at 31 December 2019



For illustrative purposes, "other" facilities are assumed to be refinanced on the same date as the 2018 Facility matures in Feb 2024

Covenant performance

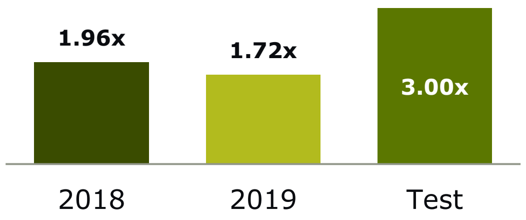
Leverage

- Total Net Debt to Adjusted[1] EBITDA must be < 3.00x
- Target year end Leverage range of 1.50x to 2.00x

(1) Includes annualised EBITDA of acquisitions and excludes 100% EBITDA of disposals

42.7%

£42.2m



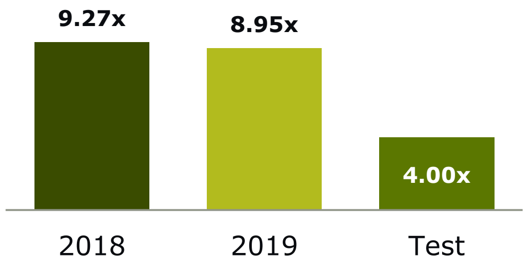
EBITDA would need to decrease by £42.2m before there would be a breach of covenants

Interest Cover

- EBITDA to Net Finance Charges must be > 4.00x

55.3%

£54.7m



EBITDA would need to decrease by £54.7m before there would be a breach of covenants

Impact of applying IFRS 16 'Leases'

Increase in reported borrowings £60.0m, increase in adj. operating profit £1.6m

£m	Previous policies (2019)	Adjustment	Post IFRS 16 (2019)	Explanation
Balance sheet				
Fixed assets	65.8	59.4	125.2	Right of use asset now on balance sheet
Borrowings	(211.8)	(60.0)	(271.8)	Lease commitments now on balance sheet
Trade and other payables	(82.4)	2.9	(85.3)	Deferred lease incentives no longer recognised
ROCE	*12.8%*	*(0.8)%*	*12.0%*	Increase in capital recognised on balance sheet
Income statement				
Adjusted Operating Profit	83.8	1.6	85.4	Rent replaced with depreciation and interest
Net interest expense	(12.7)	(3.0)	(15.7)	Interest expense higher at beginning of lease term
Profit after tax	19.1	(1.4)	17.7	
Adjusted Earnings per Share	*28.19*	*(0.73)*	*27.46*	Reduction in profit at beginning of lease term
Basic Earnings per Share	*9.81*	*(0.73)*	*9.08*	
Bank covenants				Set on frozen GAAP until 2024

AmesburyTruth	*c. £1.3m*
ERA	*c. £0.1m*
SchlegelGiesse	*c. £0.2m*

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Currency ready reckoner

Translational exposure

Currency	US$	Euro	Aus$	CA$	Other	Total[(1)]
Average rate 2019	1.2770	1.1406	1.8365	1.6943		
Average rate 2018	1.3350	1.1302	1.7862	1.7293		
% mvt in average rate	(4.3)%	0.9%	2.8%	(2.0)%		
£'m Revenue impact	16.4	(0.7)	(0.2)	0.2	(2.3)	13.3
£'m Profit impact[(2)]	2.6	(0.1)	-	-	(0.1)	2.4
1c decrease impact[(3)]	470k	87k	5k	7k		

(1) Impact of other currencies immaterial

(2) Adjusted Profit impact

(3) Defined as the approximate favourable translation impact of a 1c decrease in the Sterling exchange rate of the respective currency on the Group's Adjusted Operating Profit

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Consolidated income statement

For the year ended 31 December 2019

	2019	2018[2]
	£m	£m
Revenue	**613.7**	591.5
Cost of sales	**(408.1)**	(393.4)
Gross profit	**205.6**	198.1
Administrative expenses	**(165.1)**	(147.6)
Operating profit	**40.5**	50.5
Analysed as:		
Adjusted Operating profit[1]	**85.4**	83.6
Exceptional items	**(18.9)**	(7.3)
Amortisation of acquired intangible assets	**(23.5)**	(25.8)
Impairment of acquired intangible assets	**(2.5)**	(25.8)
Operating profit	**40.5**	50.5
Finance income	**-**	0.4
Finance costs	**(15.7)**	(12.0)
Net finance costs	**(15.7)**	(11.6)
Profit before taxation	**24.8**	38.9
Income tax charge	**(7.1)**	(12.6)
Profit for the period	**17.7**	26.3

(1) Before amortisation of acquired intangible assets, deferred taxation on amortisation of acquired intangible assets, impairment of goodwill, exceptional items, gains and losses on the fair value of derivative financial instruments, amortisation of borrowing costs and the associated tax effect. See definitions and reconciliations in preliminary announcement for non-GAAP Alternative Performance Measures.

(2) Restated to reclassify depreciation on manufacturing assets from administrative expenses to cost of sales.

Consolidated balance sheet

As at 31 December 2019

	2019 £m	2018 £m
ASSETS		
Non-current assets		
Goodwill	**371.3**	382.1
Intangible assets	**104.0**	134.8
Property, plant and equipment	**65.8**	76.9
Right of use assets	**59.4**	-
Financial assets at FVTPL	**1.1**	1.2
Deferred tax assets	**17.2**	17.4
	618.8	612.4
Current assets		
Inventories	**88.6**	105.3
Trade and other receivables	**76.3**	87.3
Cash and cash equivalents	**49.0**	51.9
Derivative financial instruments	**-**	0.3
	213.9	244.8
TOTAL ASSETS	**832.7**	857.2
LIABILITIES		
Current liabilities		
Trade and other payables	**(84.9)**	(87.0)
Derivative financial instruments	**(0.7)**	-
Borrowings	**(0.3)**	(1.5)
Lease liabilities	**(6.0)**	-
Current tax liabilities	**(6.5)**	(7.4)
Provisions	**(2.5)**	(7.0)
	(100.9)	(102.9)

	2019 £m	2018 £m
Non-current liabilities		
Borrowings	**(211.5)**	(259.2)
Lease liabilities	**(54.0)**	-
Derivative financial instruments	**-**	(0.3)
Deferred tax liabilities	**(31.3)**	(38.2)
Retirement benefit obligations	**(11.2)**	(10.8)
Provisions	**(7.1)**	(8.1)
Other payables	**(0.4)**	(3.9)
	(315.5)	(320.5)
TOTAL LIABILITIES	**(416.4)**	(423.4)
NET ASSETS	**416.3**	433.8
EQUITY		
Capital and reserves attributable to owners of the Company		
Share capital	**9.8**	9.8
Share premium	**-**	132.2
Treasury reserves	**(4.3)**	(4.9)
Hedging reserve	**(0.3)**	(0.3)
Translation reserve	**59.5**	71.4
Retained earnings	**351.6**	225.6
TOTAL EQUITY	**416.3**	433.8

Adjusted Earnings Per Share

For the year ended 31 December 2019

	2019 £m	2018 £m
Profit before taxation	**24.8**	38.9
Exceptional items	**18.9**	7.3
(Gain)/Loss on revaluation of fair value hedge	**0.8**	(0.3)
Amortisation of borrowing costs	**0.5**	1.0
Amortisation of acquired intangible assets	**23.5**	25.8
Impairment of acquired intangible assets	**2.5**	-
Adjusted profit before taxation	**71.0**	72.7
Income tax charge	**(7.1)**	(12.6)
Adjusted tax effect[1]	**(10.4)**	(7.1)
Adjusted profit after taxation	**53.5**	53.0

Adjusted earnings per share:

Basic Adjusted earnings per share	**27.46p**	27.68p
Diluted Adjusted earnings per share	**27.35p**	27.47p

(1) Tax effect of exceptional items, amortisation of borrowing costs, amortisation of acquired intangible assets, gain or loss on revaluation of fair value hedge and unwinding of discount on provisions

Disclaimer

Forward Looking Statements

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