

Alternative Performance Measures

The Group uses a number of Alternative Performance Measures. APMs provide additional useful information to shareholders on the underlying performance of the business. These APMs are consistent with how business performance is measured internally by the Group, align with the Group's strategy, and remuneration policies. These measures are not recognised under IFRS and may not be comparable with similar measures used by other companies. APMs are not intended to be superior to or a substitute for GAAP measures.

The following table summarises the APMs used, why they are used by the Group, and how they are calculated. Where appropriate, a reconciliation to the nearest GAAP number is presented.

APMs used in key performance indicators

Like for like or LFL revenue and Underlying operating profit

Definition

The comparison of Revenue or Operating Profit, as appropriate, excluding the impact of IFRS 15, any acquisitions made during the current year and, for acquisitions made in the comparative year, excluding from the current year result the impact of the equivalent current year pre-acquisition period. For disposals, results are excluded for the whole of the current and prior period.

Change in current year

This measure has been amended in the current period to exclude the impact of recognising freight income within Revenue on a gross basis in 2018, following the adoption of IFRS 15. The Group considers this amendment provides shareholders with a comparable basis from which to understand the organic trading performance in the year.

Purpose

This measure is used by management to evaluate the Group's organic growth in revenue and Underlying operating profit, excluding the distortions caused by M&A and currency movements year on year.

Reconciliation/calculation

	2018 £000	2017 ¹ £000
Reported revenue	591,542	522,700
Revenue from entities acquired in current year	(62,996)	—
Revenue for equivalent period from entities acquired in prior year	(863)	—
Impact of IFRS 15	(5,593)	—
Like for like revenue	522,090	522,700
Effect of movement in exchange rates	—	(14,288)
Constant currency like for like Revenue	522,090	508,412
Underlying operating profit	83,584	76,817
Underlying operating profit from entities acquired in current year	(12,510)	—
Underlying operating profit for equivalent period from entities acquired in prior year	(314)	—
Like for like Underlying operating profit	70,760	76,817
Effect of movement in exchange rates	—	(2,464)
Constant currency like for like Underlying Operating Profit	70,760	74,353

¹ 2017 reflects reported figures used as the base for calculating like for like growth.

Underlying Operating Profit and Underlying Operating Margin

Definition

Operating Profit before Amortisation of acquired intangible assets, Impairment of acquired intangible assets, Impairment of goodwill, and Exceptional items.

Underlying operating margin is calculated as Underlying Operating Profit divided by revenue, expressed as a percentage.

Purpose

This measure is used to evaluate the trading operating performance of the Group.

Exceptional items are excluded from this measure as they are largely one off and non-trading in nature and therefore create volatility in reported earnings.

Amortisation of acquired intangible assets is excluded from this measure as this is a significant non-cash fixed charge that is not affected by the trading performance of the business.

Impairment of acquired intangible assets and goodwill is excluded, as this is a significant non-cash charge.

Reconciliation/calculation

Underlying operating profit is reconciled on the face of the income statement in the annual report and accounts 2018.

	2018 £000	2017 £000
Underlying Operating Profit	83,584	76,817
Revenue	591,542	522,700
Underlying Operating Margin	14.1%	14.7%

Leverage

Definition

Underlying Net Debt translated at the average exchange rate for the year divided by Adjusted EBITDA, calculated using the prevailing GAAP at February 2018. This calculation is the covenant calculation defined in the Group's banking facility and private placement debt documents.

Purpose

This measure is used to evaluate the ability of the Group to generate sufficient cash flows to cover its contractual debt servicing obligations and to provide users of the accounts with details of whether the Group remains in compliance with its lending covenants.

Reconciliation/calculation

	2018 £000	2017 £000
Underlying Net Debt (at average exchange rate)	202,181	166,947
Adjusted EBITDA	103,250	91,178
Leverage	1.96x	1.83x

Return on Capital Employed (ROCE)

Definition

Underlying Operating Profit as a percentage of the LTM average capital employed (expressed as a 13 point average).

Purpose

This measure is used to evaluate how efficiently the Group's capital is being employed to improve profitability.

Reconciliation/calculation

	2018 £000	2017 £000
Underlying Operating Profit	83,584	76,817
LTM average controllable capital employed	621,771	563,616
ROCE	13.44%	13.63%

Alternative Performance Measures continued

Return on Controllable Capital Employed (ROCCE)

Definition

Underlying Operating Profit as a percentage of the LTM average controllable capital employed (expressed as a 13 point average).

Purpose

This measure is used to evaluate how efficiently the Group's trading capital (tangible fixed assets and working capital) is being employed to improve profitability.

Reconciliation/calculation

	2018 £000	2017 £000
Underlying Operating Profit	83,584	76,817
LTM average controllable capital employed	186,870	154,821
ROCCE	44.73%	49.62%

Return on Acquisition Investment (ROAI)

Definition

Annualised ROAI

Annualised Underlying Operating Profit attributable to the acquired business divided by the Acquisition Enterprise Value less the fair value of controllable capital employed as at the date of acquisition plus the value of controllable capital employed at the date of measurement. The denominator is adjusted for seasonality where appropriate.

Run rate ROAI

For acquisitions made in the current year, this reflects ROAI calculated on the basis of Underlying Operating Profit generated in the period since the acquisition date. For acquisitions made in previous years, this reflects ROAI calculated on the basis of Underlying Operating Profit generated in the year or the last 12 months to the end of the two year period since acquisition.

Purpose

These measures are used to evaluate the efficiency and returns achieved by the Group from its investments in recent material business acquisitions and allows users of the accounts to compare the relative performance of each acquisition made by the Group. ROAI is measured over a two year period following acquisition.

Reconciliation/calculation

	Giesse €000	Bilco \$000	Howe Green £000	Ashland \$000	Zoo £000
Annualised underlying operating profit	13,560	8,635	1,292	15,238	4,138
Acquisition enterprise value	62,661	65,904	6,398	103,391	18,975
Fair value of controllable capital employed at acquisition	(35,860)	(10,958)	(65)	(22,869)	(8,475)
Controllable capital employed at reporting date	38,310	12,743	217	20,843	9,110
Annualised ROAI	20.8%	12.8%	19.7%	15.0%	21.1%
Run rate underlying operating profit	17,379	11,519	1,200	12,190	2,675
Acquisition enterprise value	62,661	65,904	6,398	103,391	18,975
Fair value of controllable capital employed at acquisition	(35,860)	(10,958)	(10,958)	(22,869)	(8,475)
Controllable capital employed at reporting date	38,310	12,743	12,743	20,843	9,110
Run rate ROAI	26.7%	17.0%	18.3%	12.0%	13.6%

Underlying Earnings per Share

Definition

Underlying profit after tax divided by the basic weighted average number of ordinary shares in issue during the year, excluding those held as treasury shares.

Purpose

This measure is used to assess the trading operating performance per share in issue. This is used as the basis of the Group's long term incentive plan targets and is the measure used in determining the level of dividend to be paid under the Group's dividend policy.

Reconciliation/calculation

A reconciliation is provided in the annual report and accounts 2018.

Dividend Cover

Definition

Underlying Earnings Per Share divided by the total Dividend Per Share declared for the financial year.

Purpose

The Group's dividend policy is set with reference to the Dividend Cover APM. This metric provides users of the accounts with information regarding the dividend declared relative to the target range under the policy.

Reconciliation/calculation

	2018	2017
Underlying Earnings Per Share (p)	27.68	26.91
Total Dividend Per Share declared (p)	12.00	11.25
Dividend Cover	2.31x	2.39x

Operating Cash Conversion and Operational Cash Flow

Definition

Operational Cash Flow

Net cash generated from operations before Income tax paid, Exceptional costs cash settled in the year and Pension contributions, and after Proceeds on disposal of property, plant and equipment, Payments to acquire property, plant and equipment and Payments to acquire intangible assets.

Operating Cash Conversion

Operational Cash Flow divided by Underlying Operating Profit.

Purpose

These measures are used to evaluate the cash flow generated by the business operations in order to pay down debt, return cash to shareholders and invest in acquisitions. Cash conversion provides users of the accounts with a measure of the extent that the Group's profitability converts into cash.

Reconciliation/calculation

	2018 £000	2017 £000
Net cash generated from operations	72,619	51,888
Income tax paid	12,344	15,078
Exceptional costs	3,224	10,245
Pension contributions	1,110	1,171
Proceeds on disposal of PPE	5,302	3,803
Payments to acquire PPE and intangible assets	(17,334)	(16,429)
Operational Cash Flow	77,265	65,756
Underlying Operating Profit	83,584	76,817
Operating Cash Conversion	92.4%	85.6%

Other APMs

Acquisition enterprise value

Definition

The gross consideration paid to the seller less cash acquired with the acquired business plus debt acquired with the acquired business plus the expenses of the acquisition, excluding financing expenses, plus any integration costs recorded as exceptional items.

Purpose

This measure is used by management to assess the total cost of an acquisition to Tyman, as it includes expenses of completing the acquisition, together with the net indebtedness acquired and the costs of integration.

Reconciliation/calculation

	Ashland £000	Zoo £000	Reguitti £000	Profab £000
IFRS 3 consideration	73,274	17,159	14,174	6,487
Add back net indebtedness/(cash) acquired	105	1,512	593	(1,195)
Acquisition and integration related costs	978	304	186	89
Acquisition enterprise value	74,357	18,975	14,953	5,381

Alternative Performance Measures continued

EBITDA and Adjusted EBITDA

Definition

EBITDA

Underlying Operating Profit with Depreciation, Amortisation of computer software and Share-based payments expenses added back.

Adjusted EBITDA

EBITDA plus the pre-acquisition EBITDA of businesses acquired during the year covering the relevant pre-acquisition period less the EBITDA of businesses disposed of during the year.

Purpose

EBITDA is commonly used by the user of accounts as a proxy for the cash flow of a business before capital investment. EBITDA is used as the numerator in calculating the interest cover covenant and Adjusted EBITDA is used as the numerator in calculating the leverage covenant under the terms of the Group's revolving credit facility.

Reconciliation/calculation

	2018 £000	2017 £000
Underlying Operating Profit	83,584	76,817
Depreciation	12,457	11,599
Amortisation of computer software	1,415	1,315
Share-based payments	1,068	1,093
EBITDA	98,524	90,824
Pre-acquisition EBITDA of acquired entities	4,726	354
Adjusted EBITDA	103,250	91,178

Adjustments to net cash generated from operations

Definition

The add back of net finance costs, depreciation, amortisation of intangible assets, impairment of PPE, profit on disposal of PPE, write-off of inventory fair value adjustments, pension service costs and expected administrative costs, non-cash provision movements, profit on disposal of business and share-based payments.

Purpose

These are non-cash items which are added back to profit to derive cash generated from operations in the cash flow statement.

Reconciliation/calculation

See reconciliation in note 26 in the annual report and accounts 2018.

Constant Currency or CC

Definition

Comparison with the comparative period translated at the current year's average or closing exchange rate as applicable.

Purpose

This measure is used by management to measure performance of the business removing the effect of changes in foreign exchange rates which are outside of the control of management and which can distort, positively or negatively, the published performance of the Group.

Reconciliation/calculation

It is not practicable to present a reconciliation of all CC measures used. A table showing the current and comparative period average and closing exchange rates is presented in the annual report and accounts 2018. A sensitivity analysis showing the impact of fluctuations in exchange rates is also presented in the annual report and accounts 2018.

Free Cash Flow

Definition

Operational Cash Flow after deducting Pension contributions, Income tax paid, Net interest paid and Exceptional cash costs settled in the year.

Purpose

This measure is used to evaluate the cash flow generated by the business operations after expenditure incurred on maintaining capital assets and to provide an indication of the cashflow generated by the Group during the year that is available to support the payment of dividends, the Group's M&A programme and paydown of indebtedness.

Reconciliation/calculation

See the annual report and accounts 2018 for reconciliation between Operational Cash Flow and Free Cash Flow.

Interest Cover

Definition

EBITDA divided by the net Interest payable on bank loans, private placement notes and overdrafts and Interest income from short term bank deposits. This calculation is the covenant calculation defined in the Group's banking facility and private placement debt documentation.

Purpose

This measure is used to evaluate the profit available to service the Group's interest costs and to provide users of the accounts with details of whether the Group remains in compliance with its lending covenants.

Reconciliation/calculation

	2018 £000	2017 £000
EBITDA	98,524	90,824
Net interest	10,633	7,980
Interest cover	9.27x	11.38x

Underlying Administrative Expenses

Definition

Administrative Expenses before Exceptional items, Amortisation of acquired intangible assets, Impairment of acquired intangible assets and Impairment of acquired goodwill.

Purpose

This measure is used to evaluate the Underlying Administrative Expenses of the that have been incurred in support of the trading activities of the business.

Reconciliation/calculation

	2018 £000	2017 £000
Administrative expenses	(157,828)	(146,962)
Exceptional items	7,285	9,976
Amortisation of acquired intangible assets	25,849	22,934
Underlying Administrative Expenses	(124,694)	(114,052)

Underlying Gross Indebtedness and Underlying Net Debt

Definition

Underlying Gross Indebtedness

Interest-bearing loans and borrowings, with unamortised borrowing costs added back.

Underlying Net Debt

Underlying Gross Indebtedness, net of cash.

Purpose

These give measures of the gross amount owed to lenders, without the deducting unamortised borrowing costs for which cash outflow has already occurred. This gives a more accurate measure of the Group's gross/net indebtedness at a point in time.

Reconciliation/calculation

	2018 £000	2017 £000
Borrowings	(260,705)	(205,417)
Unamortised borrowing costs	(1,839)	(796)
Underlying Gross Indebtedness	(262,544)	(206,213)
Cash	51,871	42,563
Underlying Net Debt	(210,673)	(163,650)

Alternative Performance Measures continued

Underlying Profit Before and After Tax

Definition

Profit before Amortisation of acquired intangible assets, deferred tax on Amortisation of acquired intangible assets, Impairment of acquired intangible assets, Impairment of goodwill, Exceptional items, Unwinding of discount on provisions, Gains and Losses on the fair value of derivative financial instruments, Amortisation of borrowing costs, Accelerated amortisation of borrowing costs and the associated tax effect.

Purpose

This measure is used to evaluate the profit generated by the Group through trading activities. In addition to the items excluded from operating profit above, the Gains and Losses on the fair value of derivative financial instruments, Amortisation of borrowing costs, Accelerated amortisation of borrowing costs and the associated tax effect are excluded. These items are excluded as they are of a non-trading nature.

Reconciliation/calculation

	2018 £000	2017 £000
Profit before tax	38,861	34,534
Exceptional items	7,285	9,976
(Gain)/loss on revaluation of fair value hedge	(308)	440
Amortisation of borrowing costs	971	400
Amortisation of acquired intangible assets	25,849	22,934
Underlying profit before taxation	72,658	68,284
Underlying tax charge	(19,681)	(20,586)
Underlying profit after taxation	52,977	47,698

Underlying Tax Charge and Underlying Effective Tax Rate

Definition

Tax charge adjusted for the tax effect of exceptional items, amortisation of borrowings costs, amortisation of acquired intangible assets, gain or loss on revaluation of fair value hedge and unwinding of discount on provisions. The Underlying Effective Tax Rate is the Underlying Tax Charge divided by Underlying Profit before Tax, expressed as a percentage.

Purpose

These measures are used to evaluate the tax charge arising on the underlying trading activity of the Group.

Reconciliation/calculation

	2018 £000	2017 £000
Tax charge	(12,514)	(3,334)
US Federal tax rate change adjustment	—	(6,907)
Tax effect of underlying profit adjustments	(7,167)	(10,345)
Underlying tax charge	(19,681)	(20,586)
Underlying profit before tax	72,658	68,284
Underlying effective tax rate	27.1%	30.1%