18th December 2017

hardman&co

Titon Holdings Plc

Over the moon

Poetic use dates back to 1718. Spoken or scribed, though, 'over the moon' is a reference to jubilation and now commandeered by English footballers. Titon United, though, can justifiably use it to describe its result in fiscal 2017. The same applies to its largest earner, South Korea, which played a blinder. Here, though, it is 'under the Moon' as embodied by skilful new President Moon Jae-in.

- **Result:** net revenue in fiscal 2017 rose 18% to £28 million and - without a yellow card in terms of a one unit closure cost - operating margins would have been 7.9% (2016: 7.5%). Profit before Tax increased 17% £2.49 million, EPS were up 9% and the dividend was confidently raised 20% to 4.20 pence per share with cover at 3.9x (2016: 4.1x)

- **The UK** is a little like a tardy Goldilocks: not too hot; but perhaps the wrong side of lukewarm. But even pessimistic forecasts are at circa 1% or so for GDP growth per annum 2017 through 2019. Similarly, Experian is forecasting construction output to grow at an average 1.3% per annum 2017-19.

- **South Korea:** is the largest net profit contributor and had a super year despite a stadium of domestic/international issues. Positively, a new President Moon Jae-in was elected on 9 May (after his predecessor was red carded) albeit there is no change in North Korea and Kim Jong-un's continued bellicosity.

- **South Korea 2:** Q3 GDP growth was Premier League at 3.6% (after 2.7% in Q2). At the same time, FocusEconomics is forecasting GDP growth of 2.8% in 2018 (an upward in November of 0.1%) and 2.7% in 2019. President Moon has also visited the US; and Mr Trump has done the reverse. The smart money, too, assumes that there will not be a war (and there is more at stake here than just Titon profits).

- **Moon shot:** the unique Hardman UK Building Materials Sector comprises 22 companies with a market value of £8.3 billion and a valuation of 9.6x EV/EBITDA on a trailing 12 month basis. Titon is fifth cheapest at 5.8x despite a first team Total Shareholder Return of 52% over 12 months which compares with a Sector average TSR score over the past year of 26%.

Financial summary and valuation

Year-end Sept. (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	22.3	23.7	28.0	29.3	31.2	33.2
EBITDA	2.13	2.33	2.46	2.67	2.85	3.12
Underlying EBIT	1.56	1.77	1.85	2.02	2.15	2.37
Statutory PTP	1.87	2.14	2.49	2.81	3.08	3.39
Underlying EPS (p)	12.6	15.2	16.5	17.9	19.3	21.3
Statutory EPS (p)	12.6	15.2	16.5	17.9	19.3	21.3
Net (debt)/cash	2.9	2.4	3.3	3.7	4.1	4.6
Shares issued	10.8	10.9	11.0	11.0	11.0	11.0
P/E (x)	12.7	10.5	9.6	8.9	8.3	7.5
EV/EBITDA (x)	6.9	6.5	5.8	5.2	4.7	4.1
DPS (p)	3.00	3.50	4.20	4.80	5.75	6.00
Yield	1.9	2.2	2.6	3.0	3.6	3.8

Source: Hardman & Co Research

Construction & Materials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	TON
Price (p)	159.5
12m High (p)	176.5
12m Low (p)	108.0
Shares (m)	10.98
Mkt Cap (£m)	17.524
EV (£m)	14.25
Free Float	99.5%
Market	MAIN

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

01206 713 800
www.titonholdings.com

Key shareholders

Founder/NED	15.8%
Rights & Issues IT	11.5%
Chairman	8.9%
Other Directors	7.9%
MI Discretionary UF	7.3%
Family	7.0%

Next event

14 Feb. 2018	AGM
May 2018	Interims
Dec 2018	Final results

Analysts

Tony Williams 020 7194 7622
tw@hardmanandco.com

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Prologue

"Hey diddle diddle,

The Cat and the Fiddle,

The Cow jumped over the Moon,

The little dog laughed to see such Sport,

And the Dish ran away with the Spoon"

Like the majority of nursery rhymes, the first appearance of this text in print may well post-date its first use by years; centuries even. Children did not write their rhymes down and the text was subject to 'Chinese whispers'. It is clear though - spoken or scribed - that 'over the moon' is a reference to excitement and energy as evidenced by one of the earliest allusions in print i.e. Charles Molloy's The English Chevalier in 1718: "Tis he. I know him now: I shall jump over the Moon for Joy".

In more contemporary vernacular, it has been adopted by English footballers and football managers in post-victory interviews; albeit neither, generally, has a rampant interest in the finer points of English literature - or grammar. The antonym, of course, is the Pythonesque 'sick as a parrot'.

Titon United can justifiably be jubilant as it posts a wonderfully professional performance in its latest fiscal year to end September 2017. Best of all was its striker in South Korea who played a blinder in the year i.e. his contribution after tax soared 49% to £1.49 million which makes him the largest single contributor.

If there is an East Asia equivalent of 'coals to Newcastle', then this is it. We believe, too, that it is most probably unique that a non-South Korean business out-scores the locals on their home pitch. Lateral thinkers will also know that South Korea is 'under the Moon' in the form of its relatively new President Moon Jae-in who was elected on 9 May after his predecessor was impeached i.e. a politician's euphemism for being fired.

Mr Moon (64) is a former student activist, human rights lawyer and Chief Presidential Secretary to the-then-President Roh Moo-hyun. He is also the first son among five children and was actually born in what is now North Korea. His parents fled their native city during the Hungnam evacuation.

The new President is also an author and his memoir 'Moon Jae-in: The Destiny' was a best seller.

Amid a rash of domestic corruption scandals too (which sealed the fate of Moon's predecessor), he managed to capitalise on the decline in popularity of South Korea's conservatives. As one pundit put it: "Moon had managed to portray himself as a moderate and rational leader who has the backing of the younger generation".

When President Park Geun-hye began to wobble and the need for a new incumbent became reality, Moon was an early frontrunner to become the Nation's 19th President; and inauguration duly followed on 10 May 2017 - for an initial five year term.

A liberal by nature, Moon is in favour of repealing South Korea's national security laws and has targeted job creation, start-ups and help for small to middle sized companies. Specifically, too, he has announced a goal is to create 810,000 public sector jobs through raising taxes on the wealthy. Moon is also staunchly anti-corruption and favours a peaceful reunification between the two Koreas (the war has never officially ended).

President Moon also visited his US counterpart President Donald J Trump in June and returned the courtesy last month.

More compassionately, Moon adopted a dog from an animal sanctuary during his Presidential campaign: Tory, a four year old black mongrel who was saved from a dog meat farm. The move was considered to send a strong message against the canine flesh trade.

Moon is also nicknamed the 'Dark King', after the character Silvers Rayleigh from the Japanese Manga series 'One Piece'.

In terms of economic management, too, his is so far very good with South Korean GDP growth in Q3 at 3.6% (after 2.7% in Q2). At the same time, FocusEconomics is forecasting economic growth of 2.8% in 2018 (an upward revision last month of 0.1%) and 2.7% in 2019. No, there is no change in North Korea where Kim Jong-un continues with his bellicosity. However, the smart money assumes that there won't be a war (and there's more at stake here than just Titon profits).

Turning to the rest of Team Titon, net revenue in fiscal 2017 rose by almost a fifth to £28 million and - without a yellow card in terms of a one unit closure cost - operating margins would have been 7.9% (2016: 7.5%).

Leaving this one on the bench and, after net interest and associates, stated Profit before Tax (PBT) increased 17% from £2.14 to 2.49 million (or +11% to £2.36 million on constant currency basis). The dividend for the year was increased confidently, too, by 20% to 4.20 pence per share with cover at 3.9x (2016: 4.1x).

The UK accounts for 48% of Titon's revenue (£28 million net) with South Korea at 36%. Profitability in the UK was struck at 20.5% (or 23.3% cum closure costs) with South Korea at 17.2% net, net, net. Titon's subsidiary company, Titon Korea (51% owned), manufactures natural window ventilation products and is the national market leader with an estimated market share in this core sub-sector in excess of 75%. It is joined by Browntech Sales Co. Ltd (BTS), which is 49% owned, and which can be tracked through the Associate line (where it is the sole contributor). BTS distributes ventilation products in South Korea and invests in and develops schemes in the domestic residential real estate market.

Elsewhere, the pioneering North America business increased revenue by 4% but had a disappointing year in terms of profits. However, the Group's other regions (largely continental Europe) scored a hat trick with revenue ahead 37%, profit +62% and profitability up from 9.8 to 11.6%. Together, these regions accounted for 17% of Group revenue last year.

Finally, Titon remains the envy of its manager peers with a continuing fat wallet (very useful in the transfer market) and £3.3 million of net cash - up from £2.4 million. Liquidity also remains excellent with a Quick Ratio of 2.1. Similarly, RONA or Return on Net Assets increased from 18.2 to 20.2% on an adjusted basis.

We are forecasting revenue growth of 6% per annum over the three years 2018, 2019 and 2020. On the same basis, EBITDA will grow by just over 8% per annum and earnings per share by an average 9% each year. All this and a prospective yield of 3%.

Yes, the shares have returned a cup winning 52% Total Shareholder Return (TSR) but they remain fifth cheapest (EV/EBITDA of 5.8x) in the Hardman UK Building Materials Sector which comprises 22 companies.

'Over the moon: the sequel' is coming and rest assured that the Group's largest profit centre remains 'Under the Moon' in the best possible way.

Segmental Revenue and Profit

Revenue	2016A	2017A	2018A	2019E	2020E
UK	12.9	13.1	13.4	13.6	13.9
South Korea	7.1	9.7	11.2	12.4	13.6
Other	3.7	4.5	4.7	5.2	5.7
Total	**23.7**	**27.3**	**29.3**	**31.2**	**33.2**
Segment Profit					
UK	2.8	2.7	2.9	3.0	3.1
South Korea	1.2	1.7	2.0	2.4	2.6
Other	0.5	0.5	0.5	0.6	0.8
Total	**4.5**	**4.8**	**5.5**	**6.0**	**6.4**

Source: Hardman & Co Research

Full year to 30 September 2017

Profit & loss

In the 12 months ending 30 September 2017, Titon's gross and net revenue both rose 18% to £28.9 and 28.0 million respectively (and the £858,000 difference is derived from Inter-segment trading exclusively in the UK). For the record, too, the net top line gain on a constant currency basis was 13%.

At the same time, the Gross Margin dipped from 29.7 to 25.9%. However, the Group took a single unit closure debit of £370,000 in the year. Titon had experimentally entered the fabrication of commercial ducting on a 'suck it and see' basis. However, the business simply did not establish an economic niche in its target market place; and it was closed. In quantum, however, Gross Profit rose from £7.1 to 7.3 million.

Thereafter, Administration expense as a percentage of net revenue eased from 16.9 to 15.2% of revenue as did Distribution Costs from 3.2 to 2.6%. Meantime, R&D took 1.7% of revenue which was down from 2.3%.

Operating Profit or Earnings before Interest and Tax (EBIT) increased 4.4% to £1.84 million (remember the closure costs). This also means that margins slipped from 7.5 to 6.6%.

Net interest contributed £10,000 (2016: £8,000) whilst the Group's South Korean Associate increased its contribution 78% to £633,000. It was clearly a very good six months in the lower half of the Korean Peninsula and there is more to come in an economy growing at close to 3% per annum.

In turn, Profit before Tax (PBT) increased 17% from £2.14 to 2.49 million (+11% to £2.36 million on constant currency basis).

Taxation took 10.8% of PBT which was up from 8.6% in 2016 and driven by a higher deferred tax charge. The Minority/ 'Non-controlling Interest' charge was also higher at £420,000 (2016: £317,000) which reflected the very good performance of 51% Titon Korea. This meant that Net Profit rose 10% with Basic Earnings per Share (EPS) ahead 9% at 16.55 pence (i.e. there were a small number of extra shares in issue during the half year).

The Dividend for the year was increased, very confidently, by 20% to 4.20 pence per share with cover at 3.94x (2016: 4.06x).

Profit and loss			
Full years to 30 September	**2016**	**2017**	**% chge**
GBP million:			
Gross revenue	24.471	28.869	18
Inter-segment	-0.750	-0.858	
Net revenue	**23.721**	**28.011**	18
Cost of sales	-16.673	-20.746	
Gross profit*	**7.048**	**7.265**	3
Administration	-3.998	-4.429	
Distribution	-0.756	-0.717	
R&D	-0.539	-0.467	
Other income	0.017	0.018	
EBIT*	**1.772**	**1.850**	4
Net interest	0.008	0.010	
Associate	0.356	0.633	77
Profit before tax*	**2.136**	**2.493**	17
Tax	-0.184	-0.269	
Post-tax profit*	1.952	2.224	
Minorities	-0.317	-0.420	
Net profit*	**1.635**	**1.804**	
Dividends	-0.324	-0.410	
Other	0.094	0.014	
Retained profit*	1.405	1.408	
Basic EPS (p)*	15.21	16.55	9
DPS (p)	3.50	4.20	20
No. of shares	10.753	10.903	

Source: Company data; Hardman & Co
**after UK unit closure costs of £370,000 in 2017 (2016: nil)*

Ratios		
Margins (%)	**2016**	**2017**
Gross*	29.7	25.9
EBITDA*	9.8	8.8
EBIT*	7.5	6.6
PBT*	9.0	8.9
Net*	8.2	7.9
Retained*	5.9	5.0
Tax (% rate)	*-8.6*	*-10.8*
Cover (x)	4.34	3.94
EBITDA (£m):		
EBIT*	1.772	1.850
Depreciation	0.400	0.438
Amortisation	0.156	0.175
Total*	**2.328**	**2.463**

Source: Company data; Hardman & Co
**after UK unit closure costs of £370,000 in 2017 (2016: nil)*

Operations analysis

The UK, with £13.1 million of Revenue, accounted for 48% of the Group total in fiscal 2017 (2016: 54%) with South Korea at 36% (2016: 30%). In turn this meant that domestic UK Revenue rose a touch i.e. +2% (2016: 4%) whilst South Korea jumped 36% against a flat year (minus 1%) in 2016. Elsewhere, the US and had a steady year with Revenue ahead 4% (after +44% in 2016) while 'Other' nations (largely in continental Europe) surged 37% (2016: 38%). These regions now account for 7 and 10% respectively of Group Revenue (2016: 7 and 8%).

The UK contributed £2.7 million of Segment Profit in 2017 which was 6% lower year-on-year. However, this should be read with the knowledge that one-off closure costs of £370,000 fell exclusively in the UK. This also impacted profitability with a net 20.5% recorded in 2017 against 22.0% in 2016.

In South Korea, Segment Profits were 44% higher at £913,000 (H1 2016: minus 8%) and this comprises two businesses: Titon Korea, is a 51% owned subsidiary; and an associate company, Browntech Sales Co. Ltd (BTS), which is 49% owned. This means that in the formal Profit and Loss, South Korea is included in both the EBIT and the Associate profit lines (where it is the sole contributor); and the Nation also accounts for 100% of the Minorities charge. It is important to note, here too that Segment Profit for the UK is pre-unallocated expenses while for South Korea it is 'post'. In combination then - subsidiary and associate - South Korea is the largest single contributor to Group Profit after Tax and in fiscal 2017 this soared 49% £1.49 million (2016: £1.0 million).

Titon's subsidiary company, Titon Korea (51% owned), manufactures natural window ventilation products and is the national market leader with an estimated market share in this core sub-sector in excess of 75%. In fiscal 2017, it also had a very good year with Revenue increasing 34% to £9.5 million, due to higher private sector demand, and its contribution to Group Profit after Tax rose 34% to £821,000 in the year.

At BTS, its contribution can be tracked through the Associate line which swelled 78% to £633,000 in H1. It distributes ventilation products in South Korea and invests in and develops schemes in the domestic residential real estate market. Three are active at this time, one in Seoul which is currently being marketed and another, in the form of a secured interest-bearing loan, has taken longer than anticipated to realise, but for which repayment is expected to commence in calendar year 2018. The third scheme is the development of a residential property in Seoul for which construction has only very recently commenced - with completion expected in calendar 2018. Note, too, that all of these activities is budgeted to generate post tax profits for Titon as the 49% shareholder in BTS.

North America saw profits dip in the year from £281,000 to £166,000 amid stiffer competition for this pioneering business. And, finally, the Group's other regions (largely continental Europe) did very well indeed a 62% leap in profit to £381,000; okay, this was from a low base. Profitability here also improved from 9.8 to 11.6%.

Segment Revenue and Profit		
Full years to 30 September	**2016**	**2017**
GBP million:		
Revenue		
UK (net)	12.901	13.107
South Korea	7.110	9.684
Nth America	1.715	1.781
Other	1.995	2.735
Total	**23.721**	**27.307**
Segment Profit		
UK*	2.843	2.684
South Korea^	1.158	1.662
Nth America	0.281	0.166
Other	0.196	0.318
Total	**4.478**	**4.830**
% changes in Revenue		
UK	4	2
South Korea	-1	36
Nth America	44	4
Other	38	37
Total	**7**	**15**
% changes in Profit		
UK*	9	-6
S. Korea^	-8	44
Nth America	168	-41
Other	8	62
Total	**8**	**8**
Margins (%)		
UK*	22.0	20.5
S. Korea^	16.3	17.2
Nth America	16.4	9.3
Other	9.8	11.6
Total	**18.9**	**17.7**

Source: Company data; Hardman & Co

Notes:

** after UK unit closure costs of £370,000 in 2017 (2016: nil)*

^South Korea profit includes Group share of profit from Associate BTS

Balance sheet

Net Assets including Minorities (*aka* Non-controlling Interest) rose 10% in the year to 30 September 2017 from £14.8 to £16.2 million; and this included a rise in Net Cash from £2.44 to £3.27 million i.e. 20% of NAV versus 17% last time.

RONA or Return on Net Assets increased from 18.2 to 20.2%; and these data are adjusted for Intangibles (just over £600,000 in each period) and Net Cash as above.

ROCE or Return on Capital Employed - on the same basis - was steady at 15.1% (2016: 15.1%) with Capital Turn (Revenue-divided-by-Capital-Employed) at 2.3x (2.0x). We like, the relatively neglected, Capital Turn ratio because it measures how efficiently capital is utilised i.e. there are two ways to make a profit: maximise revenue and constrain costs on the one hand; and use your capital efficiently on the other (preferably a combination of both). Capital Turn can also be used to focus management and employees on using capital efficiently, avoiding waste etc.

Turning to liquidity, we highlight the Current and Quick Ratios which are calculated by dividing current assets by current liabilities (‘Current’) and current-assets-less-stocks divided by current liabilities (‘Quick’; and where above 1.0 is good). The former was 3.13 in 2017 (2016: 2.93) while the latest Quick Ratio was 2.13 (2016: 1.95). These are truly excellent metrics.

Capital Employed		
Half years to 31 March	**2016**	**2017**
GBP million:		
Ordinary Shares	1.091	1.098
Share Premium Account	0.950	0.985
Revaluation Reserve etc.	0.056	0.056
Profit & Loss Account	10.479	11.887
Other	0.484	0.189
Shareholders' funds	13.060	14.215
Minorities	1.714	1.986
Provisions for Liabilities	0.000	0.000
Preference Shares	0.000	0.000
Other loans/leases	0.000	0.000
Bank loans & ODs	0.000	0.000
CAPITAL EMPLOYED	**14.774**	**16.201**
Fixed Assets	3.511	3.548
Investments	1.464	1.966
Stocks/WIP	4.586	4.670
Corporation Tax	-0.161	0.016
Trade Debtors	3.111	3.249
Other Debtors	3.259	3.074
Deferred Tax	0.133	0.077
Trade Creditors	-2.718	-2.686
Other Creditors	-1.808	-1.941
Intangibles/Other	0.949	0.959
Cash	2.438	3.269
CAPITAL EMPLOYED	**14.774**	**16.201**
METRICS:		
ROCE (%)~	15.1	15.1
Capital (x)~	2.0	2.3
RONA annualised (%)~	18.2	20.2
Current Ratio	2.93	3.13
Quick Ratio	1.95	2.13
Stocks as % of Revenue	19.3	16.7
Creditors as % of Revenue	-19.1	-16.5
(Net debt)/cash (£,000)	2.438	3.269
Net assets (£,000)	14.774	16.201
Gearing % (-ve)/+ve	17	20

Source: Company data; Hardman & Co
Notes: ~adjusted for Intangibles and Net Cash

Cash flow

There was a £831,000 cash inflow in the year ending 30 September 2017 (2016: outflow of £412,000). This was driven by higher profits, less Working Capital and lower capex; and despite higher both higher Taxation and Dividends.

Cash Flow

Full years to 30 September	2016	2017
GBP million:		
Profit before tax	2.136	2.493
Interest etc.	0.000	0.000
Depreciation	0.556	0.613
Provisions	0.000	0.000
Asset sales	-0.019	0.000
Share issued/sold	0.136	0.056
Other	-0.356	-0.633
SOURCES	**2.453**	**2.529**
Capex	0.721	0.520
Disposals	-0.050	-0.045
Acquisitions	0.000	0.000
Stocks	0.370	0.133
Debtors	1.061	0.161
Creditors	0.079	-0.057
Tax	0.217	0.390
Dividends	0.324	0.410
Other	0.163	0.186
USES	**2.885**	**1.698**
Surplus/(deficit)	-0.432	0.831
Adjustment	0.000	0.000
Movement (debt)/cash	**-0.432**	**0.831**

Reconciliation & Analysis of Balance Sheet Debt:	Full Year 2015-16	Full Year 2016-17
(Net debt)/cash	2.458	3.269
Net assets	14.774	16.201
Gearing % (-ve)/+ve	17	20
Year-on-year movement	*-0.432*	*0.831*

Source: Company data; Hardman & Co

Financial tables and forecasts

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**	**29.344**	**31.208**	**33.237**
COGS	-11.668	-12.059	-13.926	-15.745	-16.117	-20.133	-21.035	-22.368	-23.778
Gross Profit	2.880	3.681	5.330	6.513	7.604	7.878	8.309	8.840	9.459
SG&A	-3.238	-3.034	-3.638	-3.861	-4.754	-4.966	-5.165	-5.492	-5.816
R&D	0.000	0.000	0.000	-0.535	-0.539	-0.467	-0.499	-0.531	-0.565
Depreciation & Amort.	-0.613	-0.654	-0.564	-0.566	-0.556	-0.613	-0.650	-0.695	-0.751
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	0.020	0.030	0.040
Underlying EBIT	**-0.971**	**0.230**	**1.140**	**1.562**	**1.772**	**1.850**	**2.015**	**2.152**	**2.367**
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	2.015	2.152	2.367
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	0.779	0.903	0.993
Net financial income	0.026	0.013	0.005	0.009	0.008	0.010	0.015	0.020	0.030
Pre-tax profit	-0.984	0.505	1.333	1.869	2.136	2.493	2.809	3.076	3.391
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**	**2.809**	**3.076**	**3.391**
Reported taxation	0.247	-0.029	-0.056	-0.160	-0.184	-0.269	-0.337	-0.369	-0.407
Minorities	0.016	-0.173	-0.378	-0.376	-0.317	-0.420	-0.517	-0.599	-0.659
Underlying net income	-0.721	0.303	0.899	1.333	1.635	1.804	1.955	2.107	2.325
Statutory net income	-0.721	0.303	0.899	1.333	1.635	1.804	1.955	2.107	2.325
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	10.9	10.9	10.9	10.9
Fully diluted shares (m)	10.6	10.6	10.8	10.9	10.9	11.1	11.3	11.3	11.3
Underlying Basic EPS (p)	-6.8	2.9	8.5	12.6	15.2	16.5	17.9	19.3	21.3
U/l Fully-diluted EPS (p)	-6.8	2.9	8.4	12.2	14.9	16.2	17.3	18.7	20.6
Statutory Basic EPS (p)	-6.8	2.9	8.5	12.6	15.2	16.5	17.9	19.3	21.3
Stat. Fully-diluted EPS (p)	-6.8	2.9	8.4	12.2	14.9	16.2	17.3	18.7	20.6
DPS (p)	**1.50**	**2.00**	**2.50**	**3.00**	**3.50**	**4.20**	**4.80**	**5.75**	**6.00**

Source: Hardman & Co Research

Balance Sheet									
Year-end 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	17.849	19.697	21.676
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**	**17.849**	**19.697**	**21.676**
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	14.509	16.137	17.955
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	2.237	2.452	2.608
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	-0.120	-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	-4.136	-4.601
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**	**15.441**	**16.954**
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	0.513	0.531	0.578
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*	*-0.337*	*-0.369*	*-0.407*
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	1.781	2.331	2.993
Invested capital	**7.594**	**7.506**	**8.502**	**9.159**	**12.203**	**12.855**	**14.083**	**15.441**	**16.954**
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%	13.9%	13.6%	13.7%
Interest cover (x)	-	-	-	-	-	-	-	-	-
Dividend cover (x)	-4.6	1.4	3.3	4.1	4.3	3.9	3.6	3.2	3.4
Cap-ex/depreciation (x)	0.5	0.4	0.5	0.9	1.3	1.4	1.3	1.6	1.6
Cap-ex/sales (%)	2.2%	1.8%	1.5%	2.2%	3.0%	2.9%	3.1%	3.2%	3.0%
Net asset value/share (p)	87.1	90.2	101.2	113.8	135.4	147.5	162.5	179.3	197.3
Stock days	65	66	66	62	71	61	75	76	77
Debtor days	58	47	48	41	48	42	42	41	44
Creditor days	35	46	43	36	42	35	35	33	31

Source: Hardman & Co Research

Cashflow

Year-end Sept (£m)	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Trading profit	-0.984	0.505	1.333	1.869	2.136	2.493	2.809	3.075	3.390
Depreciation	0.496	0.462	0.419	0.403	0.400	0.438	0.464	0.497	0.537
Amortisation	0.117	0.192	0.145	0.163	0.156	0.175	0.186	0.198	0.214
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	0.551	1.616	0.187
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	-0.779	-0.903	-0.993
Company op cashflow	**-0.316**	**0.842**	**0.657**	**1.733**	**0.807**	**2.236**	**1.902**	**3.983**	**2.835**
Net interest	0	0	0	0	0	0	0	0	0
Tax	0.074	-0.037	-0.068	-0.234	-0.217	-0.390	-0.337	-0.369	-0.407
Operational cashflow	-0.242	0.805	0.589	1.499	0.590	1.846	1.565	3.614	2.428
Capital Expenditure	-0.327	-0.280	-0.290	-0.498	-0.721	-0.520	-0.600	-1.000	-1.000
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**	**0.965**	**2.614**	**1.428**
Dividends	-0.211	-0.158	-0.211	-0.289	-0.324	-0.410	-0.525	-0.629	-0.656
Acquisitions etc.	-0.305	-0.128	-0.096	-0.128	-0.163	-0.186	-0.025	-1.534	-0.307
Disposals	0.040	0.023	0.015	0.052	0.050	0.045	0.000	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**	**0.415**	**0.451**	**0.465**
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	0.000	0.000	0.000
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	0.451	0.465
Opening net cash	2.847	1.813	2.116	2.149	2.870	2.438	3.269	3.684	4.135
Closing net cash	**1.813**	**2.116**	**2.149**	**2.870**	**2.438**	**3.269**	**3.684**	**4.135**	**4.600**

Source: Hardman & Co Research

Chairman's statement

Financial performance

Preliminary Announcement for the year ended 30 September 2017

Titon Holdings Plc, a leading international manufacturer and supplier of ventilation systems and window and door hardware, today announces its Final Results for the year ended 30 September 2017.

Financial Highlights:

- Group net revenue rose 18% to a record £28.0 million (2016: £23.7 million) which is an increase of 13% on a constant currency basis;
- Profit before tax of £2.49 million increased 17% (2016: £2.14 million);
- Proposed final dividend of 2.70 pence per share, up 20% (2016: 2.25 pence) making 4.20 pence for the full year, up 20% (2016: 3.50 pence);
- Net cash of £3.27 million (2016: £2.44 million); and a Quick Ratio1 of 2.13 (2016: 1.95);
- Return on capital employed (ROCE) 2 was 15.1% (2016: 15.1%) with Capital Turn2 at 2.3x (2016: 2.0x).

Operational highlights

- South Korea's net profit after tax contribution rose by 49% and remains the Group's largest income generator after tax; and in Q3, South Korean GDP grew at 3.6%
- The UK-based businesses saw revenue rise 12% in fiscal 2017; and it was a particularly good year for mechanical ventilation products with exports doing well in both existing and new markets
- The UK hardware business also improved on last year with Titon branded door and window products recording 33% growth in revenue; other sub-sectors, however, grew at modest rates particularly in the latter fiscal months
- The Group has also continued to promote the benefits of good indoor air quality in the UK
- As noted at the half year, the strategic decision had been taken to withdraw from a new venture in fabricating commercial ducting and this is now complete at a net cost of £370,000

Executive Chairman Keith Ritchie said: "it was another record year for Titon with revenue of £28 million and a 17% increase in profit before tax to £2.5 million. The dividend for the year was also increased by 20% for the second year in a row.

"The UK economy continues to grow at a modest rate in both historic and relative terms. However, even the most pessimistic forecasts are at an average 1% or better for GDP growth per annum in calendar 2017 through 2019. These forecasts, too, are made cognisant of the protracted Brexit negotiations and the uncertainty associated with this process. For our part, at Titon we urge the Government to enter into a transitional agreement with the EU as soon as possible so as to ensure trade flows are not disrupted from April 2019.

"In the first two months of the new fiscal year, we are satisfied with UK and continental European trading, which is in line with the same period in 2016. October and November last year were exceptionally strong, and we are pleased to have a similar performance this year.

"In South Korea3, the World's 12th largest economy and the Group's largest net profit contributor, it is a dramatically different outlook with robust economic growth continuing; and doing so despite a swirl of domestic and international issues. For example, GDP grew at 3.6% in Q3 (after 2.7% in Q2). At the same time, FocusEconomics is forecasting GDP growth of 2.8% in 2018 (an upward revision in November of 0.1%) and 2.7% in 2019.

"Titon makes innovative and popular products, has a unique international spread, very good people and a consistently strong balance sheet. We will also continue to look for new opportunities within our target product and geographical markets. I look forward to another year of progress and one in line with market expectations".

Chairman's statement

It was another record year for Titon with revenue of £28 million and a 17% increase in profit before tax to £2.5 million. The dividend for the year was also increased by 20% for the second year in a row.

Profit and loss

In the year ended 30 September 2017, Titon's net revenue (which excludes inter-segment activity) rose 18% to £28.1 million (2016: £23.7 million). On a constant currency basis, however, the increase is 13%.

The gross margin dipped from 29.7% to 25.9% due to lower margins in South Korea and a closure debit while EBITDA was 6% higher at £2.46 million (2016: £2.33 million). Earnings before interest and tax (EBIT) or operating profit rose 4.4% to £1.85 million (2016: £1.77 million) with the operating margin slightly lower at 6.6% (2016: 7.5%) which was also impacted by the same closure costs which amounted to £370,000 and relate to a commercial ducting fabrication venture (which is explained below).

Net interest contributed £10,000 (2016: £8,000) while the share of profits from the Group's associate rose 78% to £633,000 (2016: £356,000) resulting in profit before tax of £2.49 million, which was an increase of 17% (2016: £2.14 million) or +11% to £2.36 million on constant currency basis.

Earnings per share for the year increased 9% to 16.6 pence (2016: 15.2 pence). Taxation was higher at 11% (2016: 9%) due to a higher deferred tax charge and the non-controlling interests' deduction increased from £317,000 to £420,000 which reflects the higher contribution from Titon Korea.

The Directors are proposing a final dividend of 2.7 pence per share (2016: 2.25 pence). When added to the interim dividend of 1.5 pence, paid on 23 June 2017 (2016: 1.25 pence), this would make a total for the year of 4.2 pence (2016: 3.5 pence) i.e. a 20% rise. If approved by shareholders at the forthcoming Annual General Meeting on 21 February 2018, the dividend is payable on 27 February 2018 to shareholders on the register at 19 January 2018. The ex-dividend date is 18 January 2018.

Statements of Financial Position and cash flows

Net assets including non-controlling interests rose £1.4 million to £16.2 million with net cash at £3.27 million (2016: £2.44 million) which is equivalent to 20.2% of net assets (2016: 16.5%). A lower working capital requirement during the year has resulted in a significant improvement in the cash generated from operations this year when compared to last year from £848,000 to £2.24 million. At the same time, lower capital expenditure in the year of £520,000 (2016: £721,000) has also helped cash generation. Whilst some of this improvement has been offset by higher tax and dividend payments, the subsequent cash inflow for the year was £831,000 (2016: outflow of £432,000).

Net current assets were £9.9 million (2016: £9.0 million) with a Quick Ratio[1] of 2.13 (2016: 1.95).

ROCE[2] was 15.1% (2016: 15.1%) with Capital Turn at 2.3 (2016: 2.0).

Segment Analysis

Revenue derived from UK-based businesses saw an increase of 12% in fiscal 2017. This included the Ventilation Systems business for mechanical ventilation products which generated a 12% rise in revenue, with exports doing particularly well. The latter reflects a continued targeting of and investment in new geographical markets. Other sub-sector UK sales were up marginally on 2016 across a wide and widening range of mechanical products. However, sales did slow down as the year progressed as a result of lower business demand outside London and the South East.

Titon continues to invest in research and development which, in turn, yields a continuing number of new products for both the Ventilation Systems and Hardware businesses; and this will also be true in calendar 2018.

Titon has continued to promote the benefits of good indoor air quality in the UK through one of our trade associations, BEAMA (British Electrotechnical and Allied Manufacturers' Association); and the aim here is to promote the use of ventilation products in the home to improve air quality. Given the increasing number of reports about poor levels of both outdoor and indoor air quality in the UK, we firmly believe that this is an area of our business which will continue to grow. Similarly, a number of public meetings of the All Party Parliamentary Group for Healthy Homes and Buildings were convened during the year which we have attended. In turn, a draft green paper has now been published, which sets out a number of recommendations for the Government. It will also ask for further input and comments from all interested parties.

Results for our UK Hardware business also improved on last year including a further increase in sales to the aluminium sector and a rise in door and window products to the Timber/PVCu segment of the market. I am also pleased to report that sales of Titon branded door and window hardware products have increased 33% in fiscal 2017 when compared with 2016.

In the UK, the value of both private and public housebuilding activity increased in Titon's fiscal year by 8% and 13% respectively in real terms according to Office of National Statistics Office (ONS) data. At the same time, repair, maintenance and improvement (RMI) in the private residential sector housing rose by 9% in the year and 4% in the latest quarter. RMI in public residential, however, has declined in both periods.

As noted in the 2017 Interim Statement, we took the decision to withdraw from a new venture fabricating commercial ducting, which simply did not establish an economic niche in its target market place. This exit is now complete, and during the second half of the year, we have disposed of all of the stock, assets and debts from this venture which has resulted in a net loss for the full year of £370,000.

In South Korea, Titon's subsidiary company, Titon Korea (51% owned), manufactures natural window ventilation products and is the national market leader with an estimated market share in this core sub-sector in excess of 75%. In fiscal 2017, it also had a very good year with revenue increasing by 34% to £9.5 million, due to higher private sector demand, and its contribution to Group profit after tax was up by 34% to £821,000.

The Group's associate company, Browntech Sales Co. Limited ('BTS') also operates exclusively in South Korea and it generated a significantly higher contribution in the year i.e. +78% to £633,000 (2016: £356,000), which is the entire Associate contribution to the Group Income Statement. In terms of activity, BTS distributes ventilation products in South Korea and both invests in and develops schemes in the domestic residential real estate market. Three are active at this time, one in Seoul which is currently being marketed and another, in the form of a secured interest-bearing loan, has taken longer than anticipated to realise, but for which repayment is expected to commence in calendar year 2018. The third scheme is the development of a residential property in Seoul for which construction has only very recently commenced with completion expected in calendar 2018. All of these activities are budgeted to generate post tax profits for Titon as the 49% shareholder in BTS.

In combination, at the subsidiary and associate level, South Korea is the largest single contributor to the Group's profit after tax; and in 2017 this number was markedly higher at £1,491,000 (2016: £1,003,000).

Finally, sales in the United States continued to grow. However, the contribution from Titon Inc. was lower in the year at £166,000 (2016: £281,000) as margins dipped due to increased competition locally. The market for natural ventilation products in the US continues to grow year on year. In scale it remains relatively modest at this time and it is geographically focused on the North East and the North West regions.

Board

As promulgated by way of a London Stock Exchange announcement in September, Nick Howlett has moved from Executive to Non-executive Director and retired from his role as Managing Director of Ventilation Systems. I would like to take this opportunity to thank Nick publicly for his contribution to the Group since 1991 and I am also very pleased that he has agreed to continue working for Titon as a Non-executive director.

Employees

My annual statement would not be complete without offering a heart-felt vote of thanks to the Group's employees. Nor is this lip service, because without our team, Titon would not be able to grow and prosper as it has done over time; and once again in fiscal 2017. The number of people employed in the Group dipped last year from 237 at the end of September 2016 to 229 at the end of September 2017 due to redundancies associated with the decision to close the commercial ducting fabrication business noted above. Whilst we regret this action the strategic decision was not taken lightly, and it was made in the best interests of the Group and, ultimately, its continuing work force. At the same time, we have continued to make increases in the wages of our weekly paid employees in line with the National Minimum Wage.

Investors

We have continued to engage the corporate research house Hardman & Co. which regularly writes and distributes investment research on Titon, which we believe has both widened interest in the Group and had a very positive impact in its share price over the past two years. On 3 January next year the UK and European investment research landscape will change dramatically with the implementation of MiFID II (Markets in Financial Instruments Directive) across 17 EU countries including the UK. Essentially, it means that investment banks will be legally bound to charge fund managers for investment research. In turn, this will most likely result in less notes being written on many companies particularly small and middle sized ones such as Titon. Happily, the corporate research sector, including Hardman, is not impacted by MiFID II.

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

Outlook

The UK economy continues to grow at a modest rate in both historic and relative terms. However, even the most pessimistic forecasts are at an average 1% or better for GDP growth per annum in 2018 and 2019. Similarly, Experian is forecasting construction output to grow at an average 1.3% per annum over the same three years. These forecasts, too, are made cognisant of the protracted Brexit negotiations and the uncertainty associated with this process. For our part, at Titon we urge the Government to enter into a transitional agreement with the EU as soon as possible so as to ensure trade flows are not disrupted from April 2019.

In the first two months of the new fiscal year, we are satisfied with UK and continental European trading, which is in line with the same period in 2016. October and November last year were exceptionally strong, and we are pleased to have a similar performance this year.

In South Korea, the World's 12th largest economy[3] and the Group's largest net profit contributor, it is a dramatically different outlook with robust economic growth continuing; and doing so despite a swirl of domestic and international issues. For example, annualised GDP grew at 3.6% in Q3 (after 2.7% in Q2). At the same time, FocusEconomics is forecasting GDP growth of 2.8% in 2018 (an upward revision in November of 0.1%) and 2.7% in 2019. Positively, too, President Moon Jae-in, since 9 May, had made a refreshing and positive impact (after his predecessor was fired) and US President Donald Trump recently made a high profile visit to the Country. There is no change in North Korea where Kim Jong-un continues with his bellicosity but in terms of economic reality this has made very little impact. Another first class year is expected for Titon Korea and BTS.

Titon makes innovative and popular products, has a unique international spread, very good people and a consistently strong balance sheet. We will also continue to look for new opportunities within our target product and geographical markets. I look forward to another year of progress and one in line with market expectations.

Keith Ritchie, Chairman

Notes:

1. *The Quick Ratio measures liquidity and is calculated as follows Current Assets-less-Stocks divided by Current Liabilities*
2. *ROCE is calculated by dividing EBIT by the sum of shareholders' funds, non-controlling interests and all*
3. *debt less intangible assets and cash; with Capital Turn calculated by dividing revenue by capital employed*
4. *International Monetary Fund data (IMF) at April 2017*

Notes

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Hardman & Co Research Limited (trading as Hardman & Co)
35 New Broad Street
London
EC2M 1NH
T +44 (0) 207 194 7622

Follow us on Twitter @HardmanandCo

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Hardman Team

Management Team

+44 (0)20 7194 7622

John Holmes	jh@hardmanandco.com	+44 (0)207 194 7629	Chairman
Keith Hiscock	kh@hardmanandco.com	+44 (0)207 194 7630	CEO

Marketing / Investor Engagement

+44 (0)20 7194 7622

Richard Angus	ra@hardmanandco.com	+44 (0)207 194 7635
Max Davey	md@hardmanandco.com	+44 (0)207 194 7622
Antony Gifford	ag@hardmanandco.com	+44 (0)207 194 7622
Vilma Pabilionyte	vp@hardmanandco.com	+44 (0)207 194 7637
Gavin Laidlaw	gl@hardmanandco.com	+44 (0)207 194 7627
Ann Hall	ah@hardmanandco.com	+44 (0)207 194 7622

Analysts

+44 (0)20 7194 7622

Agriculture

Doug Hawkins	dh@hardmanandco.com
Yingheng Chen	yc@hardmanandco.com

Bonds

Brian Moretta	bm@hardmanandco.com
Mark Thomas	mt@hardmanandco.com

Building & Construction

Tony Williams	tw@hardmanandco.com
Mike Foster	mf@hardmanandco.com

Consumer & Leisure

Mike Foster	mf@hardmanandco.com
Steve Clapham	sc@hardmanandco.com
Jason Streets	js@hardmanandco.com

Financials

Brian Moretta	bm@hardmanandco.com
Mark Thomas	mt@hardmanandco.com

Life Sciences

Martin Hall	mh@hardmanandco.com
Gregoire Pave	gp@hardmanandco.com
Dorothea Hill	dmh@hardmanandco.com

Media

Derek Terrington	dt@hardmanandco.com

Mining

Paul Singer	if@hardmanandco.com

Oil & Gas

Angus McPhail	am@hardmanandco.com

Property

Mike Foster	mf@hardmanandco.com

Services

Mike Foster	mf@hardmanandco.com

Special Situations

Steve Clapham	sc@hardmanandco.com
Paul Singer	ps@hardmanandco.com

Tax Enhanced Services

Brian Moretta	bm@hardmanandco.com
Chris Magennis	cm@hardmanandco.com

Utilities

Nigel Hawkins	nh@hardmanandco.com

Hardman & Co

35 New Broad Street
London
EC2M 1NH

Tel: +44(0)20 7194 7622

www.hardmanandco.com