Tandem Group plc

Half Yearly Report

for the six months ended

30 June 2018

CHAIRMAN'S STATEMENT

Results

Group revenue in the six months to 30 June 2018 reduced to £12,670,000 compared to £17,651,000 in the six months to 30 June 2017. As we reported in June it was a difficult trading period for the Group.

The retail environment was particularly challenging with a number of national retailers overstocked from the prior year. We have also been aware that some national retailers have introduced de-stocking strategies during the first half of 2018 which reduced order intake. In addition, as a result of poor weather in the early part of the year, industry toy data reported a significant decline over the first six months when compared to the previous year.

The well documented Toys 'R' Us demise had an adverse impact on trading. Toys 'R' Us was a significant customer for the Group and although, through careful account management, we did not incur any bad debt following their demise, it was necessary to make efforts to replace the business elsewhere.

Gross profit was £3,779,000 compared with £4,938,000 in 2017. Despite the reduction in gross profit, gross profit margin increased to 29.8% compared to 28.0% in the prior year period and 29.6% in the year ended 31 December 2017.

There was a reduction in operating expenses to £3,997,000, against £4,182,000, in the six months to 30 June 2018. Careful control of costs continued to be of paramount importance in all businesses.

The operating loss before exceptional costs was £218,000 compared to a profit of £756,000 in the six months to 30 June 2017. There were exceptional redundancy costs incurred during the period of £45,000 (six months to 30 June 2017 - £nil).

Finance costs were £85,000 in the six months to 30 June 2018 against £337,000 in 2017. Included in the figure was a fair value credit for foreign currency derivative contracts of £55,000 shown in non-underlying items. This compared to a charge last year of £145,000, a swing of £200,000. Also included in non-underlying items were finance costs of £60,000 in respect of the pension schemes (six months to 30 June 2017 – £70,000).

The loss before taxation and after non-underlying items for the period was £348,000 compared to a profit of £419,000 in the six month period to 30 June 2017. There was a tax charge of £8,000 compared to £46,000 in the prior period which related to overseas taxation.

The net loss for the period was £356,000 (six months to 30 June 2017 – profit £373,000).

Basic loss per share in the six months to 30 June 2018 was 7.1p compared to earnings per share of 7.6p in the prior period.

Net assets increased from £8,400,000 at 30 June 2017 to £10,625,000 at 30 June 2018. A significant contributor to this increase was a reduction in the pension schemes' deficits of £1,355,000 from £4,154,000 to £2,799,000.

There was a cash and cash equivalents balance of £957,000 at 30 June 2018 compared to £1,506,000 at 30 June 2017. Net debt reduced by 18% to £3,508,000 at 30 June 2018 against £4,292,000 at 30 June 2017.

Trading update and outlook

There has been an improvement in performance since we made our AGM statement in June. Revenue for the 13 week period from 25 June to 23 September was approximately 10% ahead of the prior year period taking the 38 week period to 23 September to 16% behind the prior year period.

Despite the difficult retail environment and the continued poor toys sales data being reported, a combination of the flexibility of our business model and most importantly the proven abilities of our management team means that we are confident that we can deliver profitability to our shareholders moving forward.

In our licensed toy business, a number of properties have shown an improvement, most notably LOL Surprise! which has continued to be a very strong performer. This is despite the challenging market conditions in the outdoor market sector which have continued to be reported by the toy press.

Own brands have also been challenging with the contribution from Kickmaster below expectation following the 2018 World Cup. However, we have seen year to date growth in our Hedstrom range of outdoor play and our Ben Sayers golf business also remains ahead of the prior year.

We reported in June that we have reached agreement with The Walt Disney Company, subject to final contract, to extend our portfolio of licenses for 2019 and beyond. Discussions remain ongoing at this stage.

Our bicycles business also showed an improvement since the half year with growth in both national retailer and independent dealer revenues. This was despite the continued pressure on the sector.

There has been strong double digit growth during the year to date of our Squish range of lightweight children's' bicycles which continues to gain momentum in the market. We continue to focus on maintaining an acceptable level of profitability in the bicycle business despite a demanding cycling retail environment whilst delivering ranges of high performance and value for money bicycles.

In our online business, turnover and profitability has shown strong double digit growth since the half year. We have been very pleased by the contribution from a number of categories, most notably outdoor where there has been growth from inflatable spas, playsets, parasols and outdoor storage, and also our range of cooling products which were helped significantly by the exceptional Summer weather.

We have successfully recruited further in our product development and marketing departments with a view to launching new product categories in 2019 and beyond. These will include lighting and furniture and feature on a new website, "Athomecomforts.co.uk", complementing our existing range of products for the home.

AIM Rule 26

We have updated our website to comply with the modifications to AIM Rule 26.

Your Board recognises the importance of strong corporate governance and the website and our future annual reports will set out the principles and provisions in the Quoted Companies Alliance (QCA) Corporate Governance Code (the Code) which have been applied.

The Code sets out how a company should be directed and controlled to achieve standards of good corporate governance and it provides a guide to a number of key components of effective board practice.

We are committed to the principles of corporate governance and corporate social responsibility, specifically including those contained in the Code.

The Board is aware that good governance helps the business to deliver the strategy, generate shareholder value and safeguard shareholders' long-term interests, and is committed to high standards of corporate governance.

Dividend

We are declaring an interim dividend of 1.42p per share (2017 – 1.35p per share) payable on or about 12 November 2018 in line with our progressive dividend policy. The ex-dividend date will be 11 October 2018 and the record date 12 October 2018.

Mervyn Keene
Chairman
28 September 2018

CONDENSED CONSOLIDATED INCOME STATEMENT
For the 6 months ended 30 June 2018

		6 months ended 30 June 2018 *Unaudited*			6 months ended 30 June 2017 *Unaudited*			Year ended 31 December 2017 *Audited*		
	Note	**Before non-underlying items £'000**	**Non-underlying items £'000**	**After non-underlying items £'000**	Before non-underlying items £'000	Non-underlying items £'000	After non-underlying items £'000	Before non-underlying items £'000	Non-underlying items £'000	After non-underlying items £'000
Revenue		**12,670**	**—**	**12,670**	17,651	—	17,651	36,837	—	36,837
Cost of sales		**(8,891)**	**—**	**(8,891)**	(12,713)	—	(12,713)	(25,950)	—	(25,950)
Gross profit		**3,779**	**—**	**3,779**	4,938	—	4,938	10,887	—	10,887
Operating expenses		**(3,997)**	**—**	**(3,997)**	(4,182)	—	(4,182)	(8,486)	—	(8,486)
Operating (loss)/profit before exceptional items		**(218)**	**—**	**(218)**	756	—	756	2,401	—	2,401
Exceptional items		**—**	**(45)**	**(45)**	—	—	—	—	—	—
Operating (loss)/profit after exceptional items		**(218)**	**(45)**	**(263)**	756	—	756	2,401	—	2,401
Finance costs		**(80)**	**(5)**	**(85)**	(122)	(215)	(337)	(232)	(279)	(511)
(Loss)/profit before taxation		**(298)**	**(50)**	**(348)**	634	(215)	419	2,169	(279)	1,890
Tax expense		**(8)**	**—**	**(8)**	(46)	—	(46)	(32)	(114)	(146)
Net (loss)/profit for the period		**(306)**	**(50)**	**(356)**	588	(215)	373	2,137	(393)	1,744
				Pence			Pence			Pence
(Loss)/earnings per share										
Basic	2			**(7.1)**			7.6			35.0
Diluted	2			**(7.0)**			7.5			34.8

All figures relate to continuing operations.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the 6 months ended 30 June 2018

	6 months ended 30 June 2018 ***Unaudited*** **£'000**	6 months ended 30 June 2017 *Unaudited* £'000	Year ended 31 December 2017 *Audited* £'000
(Loss)/profit for the period	**(356)**	373	1,744
Other comprehensive income:			
Items that will be reclassified subsequently to profit and loss:			
Foreign exchange differences on translation of overseas subsidiaries	**45**	(144)	(254)
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of property, plant and equipment	**—**	—	530
Actuarial gain on pension schemes	**—**	—	1,129
Movement in pension schemes' deferred tax provision	**—**	—	(191)
Other comprehensive income for the period	**45**	(144)	1,214
Total comprehensive income attributable to equity shareholders of Tandem Group plc	**(311)**	229	2,958

All figures relate to continuing operations.

CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 June 2018

	At 30 June 2018	At 30 June 2017	At 31 December 2017
	Unaudited	*Unaudited*	*Audited*
	£'000	£'000	£'000
Non current assets			
Intangible fixed assets	**5,588**	5,617	5,597
Property, plant and equipment	**3,532**	3,071	3,550
Deferred taxation	**1,800**	1,921	1,800
	10,920	10,609	10,947
Current assets			
Inventories	**6,164**	7,267	4,001
Trade and other receivables	**5,572**	6,713	4,539
Cash and cash equivalents	**957**	1,506	3,856
	12,693	15,486	12,396
Total assets	**23,613**	26,095	23,343
Current liabilities			
Trade and other payables	**(5,655)**	(7,574)	(4,312)
Other liabilities	**(3,048)**	(3,946)	(3,237)
Derivative financial liability held at fair value	**—**	(28)	(55)
Current tax liabilities	**(68)**	(139)	(107)
	(8,771)	(11,687)	(7,711)
Non current liabilities			
Other payables	**(1)**	(2)	(1)
Other liabilities	**(1,417)**	(1,852)	(1,635)
Pension schemes' deficits	**(2,799)**	(4,154)	(2,928)
	(4,217)	(6,008)	(4,564)
Total liabilities	**(12,988)**	(17,695)	(12,275)
Net assets	**10,625**	8,400	11,068
Equity			
Share capital	**1,503**	1,503	1,503
Shares held in treasury	**(247)**	(247)	(247)
Share premium	**286**	286	286
Other reserves	**3,587**	3,122	3,542
Profit and loss account	**5,496**	3,736	5,984
Total equity	**10,625**	8,400	11,068

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
As at 30 June 2018

	Share capital £'000	Shares held in treasury £'000	Share premium £'000	Merger reserve £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Translation reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2017	1,503	(272)	232	1,036	1,427	—	803	3,485	8,214
Net profit for the period	—	—	—	—	—	—	—	373	373
Retranslation of overseas subsidiaries	—	—	—	—	—	—	(144)	—	(144)
Total comprehensive income for period attributable to equity shareholders	—	—	—	—	—	—	*(144)*	*373*	*229*
Share based payments	—	—	—	—	—	—	—	6	6
Exercise of share options	—	25	54	—	—	—	—	—	79
Dividends paid	—	—	—	—	—	—	—	(128)	(128)
Total transactions with owners	—	25	54	—	—	—	*(144)*	*251*	*186*
At 30 June 2017	1,503	(247)	286	1,036	1,427	—	659	3,736	8,400
Net profit for the period	—	—	—	—	—	—	—	1,371	1,371
Retranslation of overseas subsidiaries	—	—	—	—	—	—	(110)	—	(110)
Revaluation of property plant and equipment	—	—	—	—	—	530	—	—	530
Net actuarial loss on pension schemes	—	—	—	—	—	—	—	938	938
Total comprehensive income for period attributable to equity shareholders	—	—	—	—	—	530	(110)	2,309	2,729
Share based payments	—	—	—	—	—	—	—	7	7
Dividends paid	—	—	—	—	—	—	—	(68)	(68)
Total transactions with owners	—	—	—	—	—	*530*	*(110)*	*2,248*	*2,668*
At 1 January 2018	1,503	(247)	286	1,036	1,427	530	549	5,984	11,068
Net loss for the period	—	—	—	—	—	—	—	(356)	(356)
Retranslation of overseas subsidiaries	—	—	—	—	—	—	45	—	45
Total comprehensive income for period attributable to equity shareholders	—	—	—	—	—	—	*45*	*(356)*	*(311)*
Share based payments	—	—	—	—	—	—	—	6	6
Dividends paid	—	—	—	—	—	—	—	(138)	(138)
Total transactions with owners	—	—	—	—	—	—	*45*	*(488)*	*(443)*
At 30 June 2018	**1,503**	**(247)**	**286**	**1,036**	**1,427**	**530**	**594**	**5,496**	**10,625**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the 6 months ended 30 June 2018

	At 30 June 2018 *Unaudited* **£'000**	At 30 June 2017 *Unaudited* £'000	At 31 December 2017 *Audited* £'000
Cash flows from operating activities			
(Loss)/profit for the period	**(356)**	373	1,744
Adjustments:			
Depreciation of property, plant and equipment	**73**	78	148
Amortisation of intangible fixed assets	**10**	8	39
Loss/(profit) on sale of property, plant and equipment	**—**	1	(6)
Contributions to defined benefit pension schemes	**(189)**	(132)	(265)
Finance costs	**85**	337	511
Tax expense	**8**	46	146
Share based payments	**6**	6	13
Net cash flow from operating activities before movements in working capital	**(363)**	717	2,330
Change in inventories	**(2,163)**	356	3,623
Change in trade and other receivables	**(1,033)**	(2,803)	(629)
Change in trade and other payables	**1,343**	1,996	(1,263)
Cash flows from operations	**(2,216)**	266	(4,061)
Interest paid	**(80)**	(122)	(232)
Tax paid	**(47)**	(40)	(245)
Net cash flow from operating activities	**(2,343)**	104	3,584
Cash flows from investing activities			
Purchase of intangible fixed assets	**(1)**	—	(11)
Purchase of property, plant and equipment	**(56)**	(8)	(27)
Sale of property, plant and equipment	**1**	—	6
Net cash flow from investing activities	**(56)**	(8)	(32)
Cash flows from financing activities			
Loan repayments	**(204)**	(204)	(407)
Finance lease repayments	**(13)**	(13)	(27)
Movement in invoice financing	**(190)**	718	8
Exercise of share options	**—**	78	79
Dividends paid	**(138)**	(128)	(196)
Net cash flow from financing activities	**(545)**	451	(543)
Net change in cash and cash equivalents	**(2,944)**	547	3,009
Cash and cash equivalents at beginning of period	**3,856**	1,101	1,101
Effect of foreign exchange rate changes	**45**	(142)	(254)
Cash and cash equivalents at end of period	**957**	1,506	3,856

NOTES TO THE HALF YEARLY REPORT

1 GENERAL INFORMATION

Tandem Group plc is a public limited company incorporated and domiciled in the United Kingdom with its shares listed on AIM, the market of that name operated by the London Stock Exchange.

The principal activity of the Group is the design, development, distribution and retail of sports, leisure and mobility equipment.

The ultimate parent company of the Group is Tandem Group plc whose principal place of business and registered office address is 35 Tameside Drive, Castle Bromwich, Birmingham, B35 7AG.

The interim financial statements for the period ended 30 June 2018 (including the comparatives for the period ended 30 June 2017 and the year ended 31 December 2017) were approved by the Board of Directors on 28 September 2018. Under the Security Regulations Act of the European Union ("EU"), amendments to the financial statements are not permitted after they have been approved.

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 31 December 2017, prepared under International Financial Reporting Standards ("IFRS"), have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain statements under Sections 498(2) and 498(3) of the Companies Act 2006.

This interim financial information has been prepared using the accounting policies set out in the Group's 2017 statutory accounts. Copies of the annual statutory accounts and the interim report may be obtained by writing to the Company Secretary of Tandem Group plc, 35 Tameside Drive, Castle Bromwich, Birmingham, B35 7AG and can be found on the Company's website at www.tandemgroup.co.uk.

The net retirement benefit obligation recognised at 30 June 2018 is based on the actuarial valuation under IAS19 at 31 December 2017 updated for movements in net defined benefit pension income and contributions paid during the half year period. A full valuation for IAS19 financial reporting purposes will be carried out for incorporation in the audited financial statements for the year ending 31 December 2018.

2 EARNINGS PER SHARE

The calculation of earnings per share is based on the net result and ordinary shares in issue during the period as follows:

	6 months ended 30 June 2018	6 months ended 30 June 2017	Year ended 31 December 2017
	£'000	£'000	£'000
(Loss)/profit for the period	**(356)**	373	1,744
	Number	Number	Number
Weighted average shares in issue used for basic earnings per share	**5,026,091**	4,930,187	4,981,003
Weighted average dilutive shares under option	**126,305**	72,775	24,163
Average number of shares used for diluted earnings per share	**5,054,059**	5,002,962	5,005,166
	Pence	Pence	Pence
Basic (loss)/earnings per share	**(7.1)**	7.6	35.0
Diluted (loss)/earnings per share	**(7.0)**	7.5	34.8

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014 (MAR).

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