Tandem Group plc

(the "Group")

TRADING UPDATE

Tandem Group plc (AIM: TND), designers, developers, distributors and retailers of sports, leisure and mobility equipment, announces a trading update ahead of its annual results for the year ended 31 December 2017 which are due to be announced in April 2018.

Trading and operations

Despite a small reduction in turnover of approximately 4% to £36.8 million in the year ended 31 December 2017, the Group's net profit for the year is expected to be significantly ahead of the prior year.

Although the cost control measures taken to streamline bicycle operations brought about an expected reduction in turnover, this enabled a positive impact on profitability.

Toy sales were broadly flat compared to the prior year. However, this was a strong result against a backdrop of a reported decline in revenues in the UK outdoor toy market of 6% in 2017.

As anticipated, our direct to consumer operations continued to show revenue growth.

There was a strong focus during the year to improve our gross margin. Despite cost pressures, we were able to achieve better supplier buying prices for a number of key products. Where this could not be successfully achieved, products were re-sourced.

Additionally, in accordance with our ongoing product development programmes, a considerable number of new products were introduced across the Group during 2017.

Finally, there was a greater concentration on more profitable product lines.

Group overheads reduced by approximately 3% for the year.

Following a review of the revised structure of the Group and the degree to which operations across the Group are now integrated it is not possible to accurately identify operating segments. However, we are able to report on various operations of the Group as follows.

In licensed categories, our Cars 3, PJ Masks and Batman wheeled toy licences performed very strongly in the year. Other licences, including Disney Princess and Trolls delivered a solid performance.

In our own brands, Stunted delivered an exceptional year and Hedstrom showed growth over the prior year.

However, it was a more challenging year for Ben Sayers with revenue behind the prior year.

We previously reported that the US parent company of one of our major customers, Toys R Us, had filed for Chapter 11 bankruptcy protection in the US and Canada. We considered this course of action concerning, and prudently decided that we would no longer trade with them until the position was rectified. Subsequent to this, the UK company entered administration on 28 February. Consequently, although we have no outstanding debtors balance, this has and will continue to have an adverse impact on revenue.

Although Claud Butler and Dawes bicycle sales to independent cycle shops reduced, sales to corporate customers under the Falcon, Townsend and Elswick brands grew. We continue to be particularly encouraged by our Squish and British Eagle brands which both saw increased turnover during the year.

As a result of the restructuring of our bicycle operations we previously reported that we expected to save approximately £1.0 million of related overhead costs in 2017. We are pleased to report that this was achieved.

Following these actions, our bicycle operations returned to profitability in 2017.

In our direct to consumer operations revenue increased during the year. Categories including gazebos, electric golf trolleys and inflatable spas all showed growth. Our new range of indoor heating products was also a success.

All direct to consumer websites were fully functional during the year and there was continued automation and integration with our larger online customers and their sales platforms.

A major achievement for the year was in stock control and working capital management across the Group. A programme to eliminate non-current product lines, particularly bicycles, before the end of the year was put into place and delivered. This has enabled us to enter 2018 with reduced stock holdings ready to introduce 2018 models to the market.

As a result of these efforts, interest bearing debt reduced by over 75% from £4.2 million at 31 December 2016 to approximately £1.0 million at 31 December 2017.

Outlook

The start of 2018 has been more challenging for the Group. However, we have secured many new licences including Hatchimals, Jo Jo Siwa, LOL Surprise, Rusty Rivets, Super Wings, Nella the Princess Knight and Jurassic World.

We expect a strong year from Kickmaster in light of the forthcoming World Cup in Russia and we anticipate a better performance from Ben Sayers following exciting new developments to the product range for 2018.

We received excellent feedback again from our recent exhibition at the London Toy Fair and our bicycle 2018 product launch show in January.

Our product ranges for 2018 are extensive and varied whilst maintaining a strong focus on our core values of quality and value.

Nevertheless, we have some concerns about the levels of stock some of our national retailer customers are carrying forward from the prior year in both toys and outdoor product categories and we expect this to have a negative impact on performance of the Group in the first quarter of the year. Consequently, revenue to date and our forward order book are currently behind the previous year.

We are pleased with the progress of our Squish lightweight bicycle brand and have won new business with a significant retail customer for 2018 and entered into an exclusive distribution arrangement with a new partner covering the Republic of Ireland and Northern Ireland.

Our own brand Pro Rider mobility scooter range has been fully redesigned and will be launched at Naidex, Europe's most comprehensive trade, professional and consumer event dedicated to the independent living sector, where we will be exhibiting in April.

During the course of the year we also expect to develop our direct to consumer websites further and recruit in the areas of product development and marketing in order to bring more new and innovative products to market.

Our use of automated technology in our operations, logistics and distribution will continue to be streamlined to enable an ever more efficient process from customer order to despatch and delivery.

We are cautious about the outlook for the year ahead, but we remain confident that we have the resources and personnel to deliver profitability to our shareholders.

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

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1 March 2018