

# TANDEM GROUP PLC

## PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

### Chairman's statement

---

#### Introduction

I am pleased to present the results for the year ended 31 December 2019.

#### Results

It was a strong year for the Group. Group revenue for the year ended 31 December 2019 increased by nearly 20% to £38,837,000 compared to £32,511,000 in the year ended 31 December 2018.

Revenue in the first half of the year increased by approximately 27% as a result of solid performances from both licensed and own brand properties. Growth in the second half of 2019 was close to 15% ahead of the same period in the prior year despite the sustained periods of wet weather across many parts of the country in the late Autumn period and macro uncertainties which hindered the excellent progress made earlier in the year.

We were pleased with the performance from our Disney licence which included new properties including Frozen II, Lion King, Spider-Man and Toy Story. Coupled with our existing Disney Princess licence, Disney made a significant contribution to revenue.

The stand out performing licence however continued to be LOL Surprise! which delivered further growth over the prior year with the folding inline scooter the Group's best selling product.

Our Batman, Paw Patrol and Peppa Pig licensed ranges and own brands Ben Sayers, Hedstrom, Kickmaster, Stunted, U-Move and Wired continued to perform strongly.

Bicycles remained more challenging overall. Notwithstanding the significant growth from Squish, other brands were similar or behind the prior year reflecting the ongoing competitive environment for bicycles.

In our direct to consumer business it was a year of mixed success. Certain product categories including our Pro Rider mobility and Jack Stonehouse cooling and small domestic appliances ranges performed strongly. Margin in other categories was under greater pressure. We are mindful that online selling can be a "race to the bottom" and therefore we believe that it is crucial to keep identifying differentiated products.

Operating profit before exceptionals, finance costs and taxation was £3,033,000 for the year ended 31 December 2019 compared to £2,247,000 for the year ended 31 December 2018, an increase of 35%.

During the year exceptional costs of £29,000 were incurred in relation to redundancy costs as we streamlined our bicycle business.

Total finance costs increased to £497,000 compared to £157,000 in the prior year principally as a result of the fair value adjustment on foreign exchange contracts which was a charge of £160,000 compared to a credit of £109,000 in 2018. This adjustment will vary year on year based on the foreign exchange contracts in place at the year end and their maturity date. Pension finance costs increased to £155,000 compared to £100,000 in the prior year. Interest payable on bank loans, overdrafts and invoice finance facilities reduced from £157,000 in 2018 to £149,000 in 2019.

Our cash position improved again with cash and cash equivalents increasing to £5,037,000 at 31 December 2019 compared to £4,847,000 at 31 December 2018. Most notable however was the overall net cash position which improved from £107,000 at the end of 2018 to £1,846,000 at the end of 2019.

Net assets increased during the year from £12,408,000 at 31 December 2018 to £14,311,000 at 31 December 2019.

Further details of operational activities can be found in the Strategic Report.

## **Dividend**

As the Group moves into an ongoing net cash position and after a strong year in 2019, the Board believes that there is additional capacity to increase the dividend.

In accordance with our ongoing progressive policy, we are proposing to pay a final dividend of 3.04 pence per share (year ended 31 December 2018 – 2.89 pence per share).

In addition, we are proposing a special dividend of 2.00 pence per share (year ended 31 December 2018 – nil).

When combined with the interim dividend of 1.56 pence per share (year ended 31 December 2018 – 1.42 pence per share), this is a total dividend of 6.60 pence for the year (year ended 31 December 2018 – 4.31 pence per share) which represents an increase of over 53%.

Our dividend policy remains progressive, paying an increasing dividend as trading results and funds permit. Moreover, we will review the capacity each year to pay a special dividend where profits are materially ahead of the prior year.

Subject to shareholder approval at the Annual General Meeting to be held on 25 June 2020, the final and special dividends will be paid on or around 2 July 2020 to shareholders on the share register as at 15 May 2020. The ex-dividend date will be 14 May 2020.

## **Pension schemes**

The Group operates two defined benefit pension schemes with both schemes closed to new members. There are no active members in either scheme.

The deficit of the schemes at 31 December 2019 reduced to £2,480,000 compared to £2,827,000 at 31 December 2018.

The pension schemes continue to significantly utilise the Group's cash resources with payments in respect of the schemes totalling £506,000 (year ended 31 December 2018 - £487,000). The total comprised deficit contributions of £336,000 and £101,000 in respect of Tandem and Casket schemes respectively (year ended 31 December 2018 - £423,000) and government levies and administration costs of £69,000 (year ended 31 December 2018 - £64,000).

We have previously reported on the current views of the Pensions Regulator (tPR). In their Annual Funding Statement tPR stated *"As the pension scheme is a key financial stakeholder, we expect to see it treated equitably with other stakeholders. In last year's annual funding statement we highlighted our concerns about inequitable treatment of schemes relative to that of shareholders. We remain concerned about the disparity between dividend growth and stable deficit repair contributions (DRCs). Recent corporate failures have highlighted the risk of long recovery plans while payments to shareholders are excessive relative to DRCs."*

The 2019 triennial valuations for both schemes have been undertaken with negotiations between Company and Trustees ongoing to agree a suitable recovery plan and deficit repair contributions.

The Board are mindful that the recovery plans for both schemes exceed tPR's reported median length of 7 years. However, this is justifiable on the basis that the employer covenant is stronger and that there is in place an agreed provision that in any calendar year dividend payments will not exceed deficit contributions paid to the Tandem scheme.

Without these factors it is likely that both Trustees and tPR would demand significantly greater contributions from the Company.

## **Employees**

On behalf of the Board of Directors, once again I would like to take this opportunity to thank our teams of loyal, highly dedicated and hard working employees who are committed to the ongoing success of the Group. The Board thanks them all for their efforts and continuing contribution to the profitability of the businesses during the year.

## **Board changes**

We previously reported that I have notified the Board of my intention to retire as Non-Executive Chairman and step down as a Director with effect from 31 July 2020.

After 30 years with the business, Steve Grant also informed the Board of his intention to step down from his role as CEO. Steve has indicated his desire to remain with the Group and accordingly will take up the position of Non-Executive Chairman from 1 August 2020.

Jim Shears, currently Group Finance Director, will take up the position of Chief Executive Officer at the same time. We have recruited a Group Financial Controller to whom Jim will hand over his day to day financial responsibilities.

Jim and Phil Ratcliffe, Group Commercial Director, will become Joint Managing Directors of the Company's trading subsidiary MV Sports & Leisure Limited. Phil will also retain his sales and marketing responsibilities for the business.

I believe that these changes will maintain both continuity and retain the wealth of industry specific knowledge and experience within the Group.

## **Outlook**

As we reported in February, this year has started more slowly for the Group.

COVID-19 has, as anticipated, had a material impact with none of our scheduled shipments leaving the Far East in the whole of February and into early March. Fortunately, as a result of Chinese New Year and the usual factory closures, it is normally a quieter time for the Group and there is still time to recover some of the lost production.

Unfortunately, the situation in the UK and Europe is worsening by the day and on 23 March the Prime Minister announced an effective lockdown in the UK. There will undoubtedly be implications for the whole economy with an inevitable impact on our business and we currently cannot predict the extent of this or when it will end.

In addition, although we sold to national retailers strongly in 2019, we are aware that some of our major customers have carried stock forward into this year which will impact on their ability to re-buy.

We remain confident that we have secured all of the major wheeled toy licences for 2020 and have also identified a number of new product opportunities with own brands which we continue to develop.

We are also more actively exploring new geographical markets.

In our online business we continue to focus on existing ranges whilst not losing the ability to be opportunistic and take advantage of new products that we identify. We remain very aware of the ongoing channel shift to online sales but remain focussed on profitable, differentiated product.

In conclusion, we have an excellent portfolio of both licensed and own brands. We offer different routes to market and benefit from highly skilled and experienced teams to continue to deliver future profitability. Our balance sheet is well capitalised. In 2019 we delivered a strong result and we believe that this can be the case again in 2021. We are prepared, however, for the fact that 2020 could be seriously impacted by COVID-19.

**M P J Keene**  
**Chairman**

**26 March 2020**

# Strategic report

---

## Operating and Financial Review

### Revenue

Group revenue for the year ended 31 December 2019 was £38,837,000 compared to £32,511,000 in the prior year, an increase of almost 20%.

Despite a third year in a row of decline in the toy industry as a whole with reported outdoor toy sales declining by almost 10%, revenue from the toys business was considerably ahead of the prior year. In licensed wheeled toy categories, L.O.L Surprise! delivered another excellent result.

The impact of the new Disney contract was significant with Frozen II, Spider-Man, Disney Princess and Toy Story all making important contributions. In other licences, Peppa Pig, Paw Patrol and Batman remained strong.

In own brand portfolios, we continued to develop our U-Move scooter range which delivered revenue growth of 85%. Ben Sayers finished the year over 20% ahead of the prior year which was encouraging. Most other brands including Hedstrom, Wired, Kickmaster and Stunted were in line or slightly ahead of the prior year.

Feedback from this year's London Toy Fair to the new MV Sports & Leisure ranges, where we showcased all of our products for 2020 and a new range of lithium electric scooters under the Li-Fe brand, was excellent.

Overall total revenue from the bicycle businesses was down in 2019 compared to 2018. However, revenue from our Squish bicycle range sold to independent bicycle dealers grew by 33% in the year.

Claud Butler revenue was similar to the prior year although Dawes was behind. There was partly a substitution effect of consumers switching from traditional Dawes kids' bikes to lightweight Squish but this was at a higher average selling price.

It was a more challenging year for our corporate bicycles range which, although positively contributing to profitability, was behind the prior year.

Despite a strong first quarter, revenue in our direct to consumer business, Expressco Direct, was slightly behind the previous year. A combination of garden and outdoor leisure products performing behind expectation and the increasingly competitive online retail environment impacted on margins and slowed down the previous progress that had been made.

Notwithstanding these items, there was significant growth in mobility and home electrical products and the successful introduction of a Christmas range.

### Gross profit

Gross profit increased to £11,788,000 for the year ended 31 December 2019 compared to £10,249,000 in the previous year.

The gross profit percentage, which reduced from 31.5% to 30.4%, was under greater pressure during the year partly due to an appreciating dollar which was approximately 4% stronger than in the previous year and partly due to ongoing pricing pressures in our online business.

We have a continuing focus on maintaining and improving our gross margin by improving supplier buying prices, re-sourcing product where this is not possible, discontinuing low margin product and introducing new, more profitable products.

### **Operating expenses**

Group operating expenses increased to £8,755,000 in the year (year ended 31 December 2018 - £8,002,000) as a result of the growth in revenue and increased marketing costs in relation to new licences.

### **Operating profit**

Operating profit before exceptional costs was £3,033,000 for the year ended 31 December 2019 compared to £2,247,000 in the prior year.

### **Exceptional costs and Non-underlying items**

Exceptional costs and non-underlying items are material items which have arisen from unusual non-recurring or non-trading events.

Exceptional costs of £29,000 were incurred in the year to 31 December 2019 (year ended 31 December 2018 – £218,000) in respect of redundancy costs.

Other non-underlying items comprised:

- a fair value charge adjustment for foreign currency derivative contracts under IFRS9 of £160,000 (year ended 31 December 2018 – £109,000 credit);
- pension finance costs under IAS19 of £155,000 (year ended 31 December 2018 - £100,000); and
- a deferred tax charge of £48,000 (year ended 31 December 2018 - £55,000) in respect of pension schemes.

### **Finance costs**

Total net finance costs increased to £497,000 in the year ended 31 December 2019 compared to £157,000 in the year ended 31 December 2018.

Interest payable on bank loans, overdrafts, hire purchase and invoice finance facilities was £149,000 compared to £157,000 in the prior year.

Finance costs in respect of the pension schemes provided in line with IAS19 were £155,000 compared to £100,000 for the year ended 31 December 2018.

In accordance with IFRS9, there was a fair value charge of £160,000 in respect of derivative foreign exchange contracts which compared to a credit of £109,000 in the prior year.

The net of pension schemes' financing and foreign currency derivatives, which totalled a charge of £315,000 (year ended 31 December 2018 – £9,000 credit), is included in non-underlying items.

### **Taxation**

The tax expense for the year ended 31 December 2019 was £473,000 compared to £250,000 in the prior year.

The current tax charge, which comprised corporation tax from the overseas Hong Kong operation, was £604,000 (year ended 31 December 2018 - £189,000).

There was a deferred tax credit of £131,000 compared to a charge of £61,000 in the prior year.

### **Net profit**

Net profit for the year ended 31 December 2019 after non-underlying items, finance costs and taxation was £2,034,000 compared to £1,622,000 for the year ended 31 December 2018.

### **Capital expenditure**

Total capital expenditure incurred during the year was £63,000 excluding the required adjustment of £250,000 with respect to IFRS16 (year ended 31 December 2018 - £70,000).

### **Property**

A valuation of the Castle Bromwich property was carried out by CBRE Ltd in January 2018 in accordance with the RICS Valuation – Professional Standards January 2014, published by The Royal Institution of Chartered Surveyors. This valuation was used to revalue the property as at 31 December 2017. The Directors are of the opinion that there has been no material change since this date and the valuation remains valid as at 31 December 2019.

### **Cash flows, working capital and net cash**

Net cash inflow from operating activities before movements in working capital for the year ended 31 December 2019 was £2,843,000 compared to £1,792,000 in the year ended 31 December 2018.

Cash generated from operations was £2,329,000 compared to £1,638,000 last year.

Net cash outflows from investing activities were £70,000 in the year ended 31 December 2019 against £88,000 in the previous year.

There was a net cash outflow from financing activities of £1,773,000 in the year ended 31 December 2019 which compared to £342,000 in the year ended 31 December 2018. This was principally as a result of the part repayment of the invoice finance facilities.

As a result of these movements the closing cash position at 31 December 2019 was £5,037,000 compared to £4,847,000 at 31 December 2018.

Net cash, comprising cash and cash equivalents less invoice financing liabilities and borrowings, was £1,846,000 at 31 December 2019 compared to £107,000 at the end of the previous year.

### **Dividends**

We have increased total dividends paid and proposed for the year ended 31 December 2019 by over 53% by proposing an additional special dividend of 2.00 pence per share in addition to the final dividend.

A total dividend of 6.60 pence per share will be paid, subject to shareholder approval, compared to 4.31 pence per share for the year ended 31 December 2018.

The dividend cover ratio was 6.1 (year ended 31 December 2018 – 7.5).

As we have previously stated, it continues to be the Group's policy to progressively increase the dividend payment to shareholders where trading performance permits.

### **Earnings per share**

Basic earnings per share was 40.5 pence per share for the year ended 31 December 2019 compared to 32.3 pence per share in the year ended 31 December 2018. Diluted earnings per share was 39.6 pence per share compared to 32.1 pence per share in the prior year.

**Steve Grant**  
Chief Executive Officer

**Jim Shears**  
Group Finance Director

**26 March 2020**

# Consolidated income statement

Note	31 December 2019			31 December 2018		
	Before non-underlying items	Non-underlying items	After non-underlying items	Before non-underlying items	Non-underlying items	After non-underlying items
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Revenue</b>	<b>38,837</b>	—	<b>38,837</b>	32,511	—	32,511
Cost of sales	<u>(27,049)</u>	—	<u>(27,049)</u>	<u>(22,262)</u>	—	<u>(22,262)</u>
<b>Gross profit</b>	<b>11,788</b>	—	<b>11,788</b>	10,249	—	10,249
Operating expenses	<u>(8,755)</u>	—	<u>(8,755)</u>	<u>(8,002)</u>	—	<u>(8,002)</u>
<b>Operating profit before exceptional costs</b>	<b>3,033</b>	—	<b>3,033</b>	2,247	—	2,247
Exceptional costs	—	<u>(29)</u>	<u>(29)</u>	—	<u>(218)</u>	<u>(218)</u>
<b>Operating profit after exceptional costs</b>	<b>3,033</b>	<b>(29)</b>	<b>3,004</b>	2,247	(218)	2,029
Finance costs	<u>(182)</u>	<u>(315)</u>	<u>(497)</u>	<u>(166)</u>	9	<u>(157)</u>
<b>Profit before taxation</b>	<b>2,851</b>	<b>(344)</b>	<b>2,507</b>	2,081	(209)	1,872
Tax expense	<u>(425)</u>	<u>(48)</u>	<u>(473)</u>	<u>(195)</u>	<u>(55)</u>	<u>(250)</u>
<b>Net profit for the year</b>	<b><u>2,426</u></b>	<b><u>(392)</u></b>	<b><u>2,034</u></b>	<b><u>1,886</u></b>	<b><u>(264)</u></b>	<b><u>1,622</u></b>
<b>Earnings per share</b>	3		<b>Pence</b>			<b>Pence</b>
Basic			<b><u>40.5</u></b>			<b><u>32.3</u></b>
Diluted			<b><u>39.6</u></b>			<b><u>32.1</u></b>

# Consolidated statement of comprehensive income

	31 December 2019	31 December 2018
	£'000	£'000
Net profit for the year	<b>2,034</b>	1,622
<b>Other comprehensive income:</b>		
<i>Items that will be reclassified subsequently to profit and loss:</i>		
Foreign exchange differences on translation of foreign operations	<b>(24)</b>	102
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Actuarial gain/(loss) on pension schemes	<b>65</b>	(222)
Movement in pension schemes' deferred tax provision	<b>24</b>	37
<b>Other comprehensive income for the year, net of tax</b>	<b>65</b>	(83)
<b>Total comprehensive income for the year attributable to equity shareholders</b>	<b><u>2,099</u></b>	<b><u>1,539</u></b>

All figures relate to continuing operations.

# Consolidated balance sheet

	<b>At 31 December 2019 £'000</b>	At 31 December 2018 £'000
<b>Non current assets</b>		
Intangible fixed assets	5,542	5,580
Property, plant and equipment	3,590	3,480
Deferred taxation	1,931	1,776
	<u>11,063</u>	<u>10,836</u>
<b>Current assets</b>		
Inventories	4,709	4,250
Trade and other receivables	5,443	4,397
Derivative financial asset held at fair value	—	54
Cash and cash equivalents	5,037	4,847
	<u>15,189</u>	<u>13,548</u>
<b>Total assets</b>	<u>26,252</u>	<u>24,384</u>
<b>Current liabilities</b>		
Trade and other payables	(5,507)	(4,266)
Borrowings	(2,394)	(3,542)
Derivative financial liability held at fair value	(106)	—
Current tax liabilities	(657)	(143)
	<u>(8,664)</u>	<u>(7,951)</u>
<b>Non current liabilities</b>		
Borrowings	(797)	(1,198)
Pension schemes' deficits	(2,480)	(2,827)
	<u>(3,277)</u>	<u>(4,025)</u>
<b>Total liabilities</b>	<u>(11,941)</u>	<u>(11,976)</u>
<b>Net assets</b>	<u>14,311</u>	<u>12,408</u>
<b>Equity</b>		
Share capital	1,503	1,503
Shares held in treasury	(247)	(247)
Share premium	286	286
Other reserves	3,620	3,644
Profit and loss account	9,149	7,222
<b>Total equity</b>	<u>14,311</u>	<u>12,408</u>



# Consolidated statement of changes in equity

	Share capital	Shares held in treasury	Share premium	Merger reserve	Capital redemption reserve	Revaluation reserve	Translation reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2018	1,503	(247)	286	1,036	1,427	530	549	5,984	11,068
Net profit for the year	—	—	—	—	—	—	—	1,622	1,622
Re-translation of overseas subsidiaries	—	—	—	—	—	—	102	—	102
Net actuarial loss on pension schemes	—	—	—	—	—	—	—	(185)	(185)
Total comprehensive income for the year attributable to equity shareholders	—	—	—	—	—	—	102	1,437	1,539
Share based payments	—	—	—	—	—	—	—	11	11
Dividends paid	—	—	—	—	—	—	—	(210)	(210)
Total transactions with owners	—	—	—	—	—	—	—	(199)	(199)
At 1 January 2019	1,503	(247)	286	1,036	1,427	530	651	7,222	12,408
Net profit for the year	—	—	—	—	—	—	—	2,034	2,034
Re-translation of overseas subsidiaries	—	—	—	—	—	—	(24)	—	(24)
Net actuarial gain on pension schemes	—	—	—	—	—	—	—	89	89
Total comprehensive income for the year attributable to equity shareholders	—	—	—	—	—	—	(24)	2,123	2,099
Share based payments	—	—	—	—	—	—	—	28	28
Dividends paid	—	—	—	—	—	—	—	(224)	(224)
Total transactions with owners	—	—	—	—	—	—	—	(196)	(196)
<b>At 31 December 2019</b>	<b>1,503</b>	<b>(247)</b>	<b>286</b>	<b>1,036</b>	<b>1,427</b>	<b>530</b>	<b>627</b>	<b>9,149</b>	<b>14,311</b>

# Consolidated cash flow statement

	31 December 2019 £'000	31 December 2018 £'000
<b>Cash flows from operating activities</b>		
Net profit for the year	2,034	1,622
<i>Adjustments:</i>		
Depreciation of property, plant and equipment	203	139
Amortisation of intangible fixed assets	45	41
Profit on sale of property, plant and equipment	—	(5)
Contribution to defined pension benefit plans	(437)	(423)
Finance costs	497	157
Tax expense	473	250
Share based payments	28	11
<b>Net cash flow from operating activities before movements in working capital</b>	<b>2,843</b>	1,792
Change in inventories	(459)	(407)
Change in trade and other receivables	(1,046)	142
Change in trade and other payables	991	111
<b>Cash generated from operations</b>	<b>2,329</b>	1,638
Interest paid	(182)	(166)
Tax paid	(90)	(153)
<b>Net cash flows from operating activities</b>	<b>2,057</b>	1,319
<b>Cash flows from investing activities</b>		
Purchases of intangible fixed assets	(7)	(24)
Purchases of property, plant and equipment	(63)	(70)
Sale of property, plant and equipment	—	6
<b>Net cash flows from investing activities</b>	<b>(70)</b>	(88)
<b>Cash flows from financing activities</b>		
Loan repayments	(407)	(408)
Finance lease repayments	115	(27)
Movement in invoice financing	(1,257)	303
Dividends paid	(224)	(210)
<b>Net cash flows from financing activities</b>	<b>(1,773)</b>	(342)
<b>Net change in cash and cash equivalents</b>	<b>214</b>	889
<b>Cash and cash equivalents at beginning of year</b>	<b>4,847</b>	3,856
Effect of foreign exchange rate changes	(24)	102
<b>Cash and cash equivalents at end of year</b>	<b>5,037</b>	4,847

# Notes to the preliminary results

---

## 1. General information

The financial information set out in this preliminary announcement does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet at 31 December 2019, the Consolidated statement of changes in equity, the Consolidated cash flow statement and the associated notes for the period then ended have been extracted from the Group's financial statements upon which the auditor's opinion is unqualified and does not include any statement under section 498 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2019 will be delivered to the Registrar of Companies following the Group's Annual General Meeting.

## 2. Basis of preparation

The consolidated financial statements of the Group have been prepared under the historical cost convention and in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The principal accounting policies adopted by the Group, which remain unchanged, are set out in the statutory financial statements for the year ended 31 December 2019.

### **Non-underlying items**

Non-underlying items are material items which arise from unusual non-recurring or non-trading events. They are disclosed in aggregate on the Consolidated income statement where in the opinion of the Directors such disclosure is necessary in order to fairly present the results for the period. Non-underlying items comprise exceptional costs of Group restructuring, the finance cost and deferred tax related to the Group's pension schemes calculated in accordance with IAS19 and the impact of the movement in respect of derivative foreign exchange contracts held at fair value through the profit and loss in accordance with IFRS9.

### **Key areas of estimation uncertainty**

#### ***Impairment of goodwill***

The annual impairment assessment in respect of goodwill requires estimates of the value in use of cash generating units to which goodwill has been allocated to be calculated. As a result, estimates of future cash flows are required, together with an appropriate discount factor for the purpose of determining the present value of those cash flows.

#### ***Financial instruments valuation***

Forward contracts and options are used to minimise the impact of foreign exchange fluctuations on the group. An asset or liability is recognised representing the fair value of the instruments in place at the year end. The fair value is calculated using certain estimates and valuation models by reference to significant inputs including; implied volatilities in foreign currency and historical movements in foreign currency exchange rates. Changes in the fair value of the instruments are recognised in profit or loss in the income statement.

**Pension scheme valuation**

The liabilities in respect of defined benefit pension schemes are calculated by qualified actuaries and reviewed by the Group, but are necessarily based on subjective assumptions. The principal uncertainties relate to the estimation of the discount rate, life expectancies of scheme members, future investment yields and general market conditions for factors such as inflation and interest rates. Profits and losses in relation to changes in actuarial assumptions are taken directly to reserves and therefore do not impact on the profitability of the business, but the changes do impact on net assets.

**Inventory provisioning**

The Group reviews the net realisable value of and demand for its inventory on an ongoing basis to ensure recorded inventory is stated at the lower of cost or net realisable value. Factors that could impact estimated demand and selling prices are the timing and success of future technological innovations, competitor actions, suppliers' prices and economic trends. If total inventory losses differ, the Group's consolidated net income in the year would have improved or declined, depending upon whether the actual results were better or worse than expected.

**Bad debt provision**

At each reporting period, the Directors review outstanding debts and determine appropriate provision levels. The recovery of certain debts is dependent on the individual circumstances of customers. At the year end there are a number of debts which remain outstanding past their due date, which the Directors believe to be recoverable.

**Intangible asset valuation**

In attributing value to intangible assets arising on acquisition, management has made certain assumptions in terms of cash flows attributable to intellectual property and customer relationships. The key assumptions relate to the trading performance of the acquired business, royalty rates applied in the royalty relief calculation and discount rates applied to calculate the present value of future cash flows. The Directors consider the resulting valuation to be a reasonable approximation as to the value of the intangibles acquired.

**Going Concern**

The accounts are prepared on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business. The financial uncertainty created within the economy as a result of COVID-19 is clearly difficult to forecast and predict but the Directors have produced a range of forecasts based on their best estimates of likely outcomes, and these indicate that for the 12 month period from the date of signing these financial statements the Group will be able to operate within the financial facilities available to it, with significant headroom to allow for further lost revenues.

The Group has significant cash reserves and the Board continually monitor a rolling cashflow forecast for the business as a whole. Given the Group's low fixed cost base (wage costs equate to 10% of revenues in the current year, 2018 - 11%) and the facilities available to it the Board therefore considers the Group will continue to be able to meet its liabilities as they fall due.

Furthermore, the Directors are comforted by clear sentiment from the UK Government that they will support business during this difficult time, with a range of measures already outlined to protect jobs and business, with more to come. In addition, the recovery of trade in the Far East gives further comfort, as the Group has now begun to receive shipments from suppliers in the regions previously affected by COVID-19 earlier in 2020.

On that basis, the Directors are confident that they will be able to manage the business in such a way that it will continue to operate and trade for at least 12 months from the date of the signing of the accounts and have therefore prepared these financial statements on a going concern basis.

### **Key judgements**

#### **Deferred tax assets**

In determining the deferred tax asset to be recognised the Directors carefully review the recoverability of these assets on a prudent basis and reach a judgement based on the best available information. Estimates and judgements used in the financial statements are based on historical experience and other assumptions that the Directors and management consider reasonable and are consistent with the Group's latest budgeted forecasts where applicable. Judgements are based on the information available at each balance sheet date. Although these estimates are based on the best information available to the Directors, actual results may ultimately differ from those estimates.

#### **Pension deficit**

In accordance with the winding up provisions of the Trust deeds the Directors have concluded that the Group may not have a discretionary right to receive returns of contributions if the schemes were to be in surplus. Accordingly, and where material, any excess funding has not been recognised on the balance sheet.

### **3. Earnings per share**

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

	<b>31 December 2019 £'000</b>	31 December 2018 £'000
Net profit for the year	<u><b>2,034</b></u>	<u>1,622</u>
Weighted average shares in issue (excluding shares held in treasury) used for basic earnings per share	<b>5,026,091</b>	5,026,091
Weighted average dilutive shares under option	<u><b>112,889</b></u>	<u>25,005</u>
Average number of shares used for diluted earnings per share	<u><b>5,138,980</b></u>	<u>5,051,096</u>
	<b>Pence</b>	Pence
Basic earnings per share	<u><b>40.5</b></u>	<u>32.3</u>
Diluted earnings per share	<u><b>39.6</b></u>	<u>32.1</u>

#### **4. Dividend**

The Directors are proposing a final dividend of 3.04 pence per ordinary share (year ended 31 December 2018 – 2.89 pence) and a special dividend of 2.00 pence per ordinary share (year ended 31 December 2018 – nil) payable to shareholders on the register on 15 May 2020 and will be paid on or around 2 July 2020.

#### **5. Annual report and accounts**

The annual report and accounts will be posted to shareholders shortly and will be available on the Company's website, [www.tandemgroup.co.uk](http://www.tandemgroup.co.uk).

#### **6. Annual General Meeting**

The Annual General Meeting will be held at 11:00 a.m. on 25 June 2020 at 35 Tameside Drive, Castle Bromwich, Birmingham, B35 7AG.

For further information contact:

Tandem Group plc  
Steve Grant, Chief Executive  
Jim Shears, Group Finance Director and Company Secretary  
Telephone 0121 748 8075

Nominated Adviser  
Cairn Financial Advisers LLP  
James Caithie  
Tony Rawlinson  
Telephone 020 7213 0880

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

#### Forward-Looking Statements

Certain statements made in this announcement are forward-looking statements. These forward-looking statements are not historical facts but rather are based on the Company's current expectations, estimates, and projections about its industry; its beliefs; and assumptions. Words such as 'anticipates,' 'expects,' 'intends,' 'plans,' 'believes,' 'seeks,' 'estimates,' and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to known and unknown risks, uncertainties, and other factors, some of which are beyond the Company's control, are difficult to predict, and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. The Company cautions security holders and prospective security holders not to place undue reliance on these forward-looking statements, which reflect the view of the Company only as of the date of this announcement. The forward-looking statements made in this announcement relate only to events as of the date on which the statements are made. The Company will not undertake any obligation to release publicly any revisions or updates to these forward-looking statements to reflect events, circumstances, or unanticipated events occurring after the date of this announcement except as required by law or by any appropriate regulatory authority.