TANDEM GROUP PLC
PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

Chairman's statement

Introduction
I am pleased to present the results for the year ended 31 December 2018.

Results
Revenue reduced by just under 12% from £36,837,000 in the year ended 31 December 2017 to £32,511,000 in the year end 31 December 2018. The first half of 2018 was characterised by exceedingly poor weather in February and March, large overstocks with a certain national retailer, other customers actively trying to de-stock and the ongoing impact of the demise of Toys R Us. However, in the second half of the year the Group experienced revenue growth of nearly 6% as it recovered from the poor start to the year.

Despite the reduction in turnover, operating profit before finance costs and taxation was £2,247,000 for the year ended 31 December 2018 compared to £2,401,000 for the year ended 31 December 2017, a 6% reduction.

During the year exceptional costs of £218,000 were incurred mostly in relation to property and redundancy costs as we relocated our bicycle storage and distribution facility.

There was a reduction in finance costs from £511,000 in 2017 to £157,000 in 2018 with a significant difference in the fair value adjustment in respect of foreign currency derivatives. This was a credit of £109,000 in the year ended 31 December 2018 compared to a charge of £172,000 in the prior year. This adjustment will vary year on year based on the foreign exchange contracts in place at the year end and their maturity date.

It was another year of cash generation with cash and cash equivalents increasing to £4,847,000 at 31 December 2018 compared to £3,856,000 at 31 December 2017. I am also very pleased to report that for the first time in a number of years we finished the year with a net cash position. The net debt of £1,016,000 at the end of last year reduced to a net cash position of £107,000 at the end of 2018.

Net assets increased during the year from £11,068,000 at 31 December 2017 to £12,408,000 at 31 December 2018.

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

Dividend
We are proposing to pay a final dividend of 2.89 pence per share (year ended 31 December 2017 – 2.75 pence per share) which, when combined with the interim dividend of 1.42 pence per share (year ended 31 December 2017 – 1.35 pence per share), gives a total dividend of 4.31 pence for the year (year ended 31 December 2017 – 4.10 pence per share). This represents an increase of 5% and is in line with our progressive dividend policy.

Subject to shareholder approval at the Annual General Meeting to be held on 27 June 2019, the final dividend will be paid on or around 3 July 2019 to shareholders on the share register as at 17 May 2019. The ex-dividend date will be 16 May 2019.

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.

Although there was a net reduction in the deficit of the schemes to £2,827,000 at 31 December 2018 compared to £2,928,000 at the end of the previous year, the pension schemes continue to utilise the Group's cash resources.

A recent judgement handed down by the High Court in the case Lloyds Banking Group Pensions Trustees Limited v Lloyds Bank Plc and others created a precedent regarding the equalisation of male and female guaranteed minimum pensions (GMPs). Due to the uncertainty surrounding this issue, no allowance was made for GMP equalisation in previous disclosures. However, given the additional clarity provided by the judgement, we were required to account for the additional liability associated with GMP equalisation. This has been offset by improvements in gilt yields which increased the discount rate used to calculate scheme liabilities.

During the year the Group made payments in respect of these schemes of £487,000 (year ended 31 December 2017 - £345,000) comprising deficit contributions of £423,000 (year ended 31 December 2017 - £265,000) and government levies and administration costs of £64,000 (year ended 31 December 2017 - £80,000).

Employees
On behalf of the Board of Directors, I would like to take this opportunity to thank all employees for their dedication and continued hard work during the year.

Simon Morris is retiring from his role as a Non-Executive Director and will not offer himself for re-election at the forthcoming AGM. On behalf of the board, I would like to thank Simon for his contribution to the Group and wise counsel during his tenure and wish him well for the future. We have commenced the search for a new Non-Executive Director with appropriate skills.

Outlook
The year has started very strongly for the Group, principally driven by the MV Sports & Leisure business where the forward order book is considerably ahead of the same time last year.

We have secured additional business with several national retailers and expect to increase revenue, based on current listings, with a number of others.

We have signed an agreement with The Walt Disney Company to extend our portfolio of licences for 2019 and beyond. This will significantly expand our range to incorporate their major properties, including Disney and Marvel and will encompass highly successful entertainment and consumer product franchises such as Frozen, Toy Story, Spider-Man, Lion King, Disney Princess and Avengers.

Our lightweight children's bicycles range, Squish, saw strong double digit revenue growth in the early part of 2019. We expect this to continue as we implement our marketing plans to develop brand recognition further.

The number of new products developed for 2019 in our "direct to consumer" business is substantial. Not only have we fully redesigned and extended our gazebo range with higher specification components and fabrics, we have developed new products in outdoor, leisure, home, mobility and Christmas categories.

We are optimistic about the outlook for 2019. Whilst we are mindful of macro-economic uncertainties, we expect to achieve significant turnover growth and we continue to be extremely confident in our ability to deliver profitability to our shareholders.

Mervyn Keene
Chairman
10 April 2019

Strategic report

Operating and Financial Review

Revenue
Group revenue for the year ended 31 December 2018 reduced to £32,511,000 compared to £36,837,000 in the prior year.

As we reported there were a number of factors which contributed to this decline.

Revenue from the toys business was behind the prior year but much less so than the reported overall market decline. The recovery in revenue gathered greater momentum as the year progressed.

In licensed wheeled toy categories, our L.O.L Surprise! licence was the standout product range during the year. In other licences, Paw Patrol, Batman, Peppa Pig and Disney Princess made solid contributions.

In our own brands, Hedstrom continued to be ahead of the prior year and our new brand, U-Move performed strongly. Following a challenging year in 2017 for Ben Sayers, revenue recovered in 2018 and was 15% ahead of the previous year.

For the first time in many years, MV Sports & Leisure exhibited at the Nuremberg Toy Fair at the end of January 2019 with positive feedback following the show. This was in addition to the excellent response from our recent exhibition at the London Toy Fair.

We were delighted with the progress and growth in turnover in Independent Bicycle Dealers (IBD) of our Squish bicycle brand. Sales continued to be more challenging for the Dawes and Claud Butler brands. Falcon, Townsend and Elswick brands made a healthy contribution to revenue from our national account customers.

Total revenue from the bicycle businesses saw a further reduction for the year, although the second half of the year was only slightly behind 2017. Our bicycle operations maintained profitability during the year.

Revenue in our Expressco business reduced during the year, principally due to a changing buying pattern from one customer in the early part of the year. However, sales in the second half were strong with a double digit increase in revenue. Overall profitability for this business for the year increased. Growth was enhanced from newly introduced outdoor products combined with our new 'At Home Comforts' indoor ranges.

Whilst we continue to strive for sales from our own websites, we cannot ignore the potential from third party sites and therefore continued to take advantage of these sales platforms also.

Gross profit
Although gross profit declined from £10,887,000 in the previous year to £10,249,000 in 2018, the gross profit percentage increased from 29.6% to 31.5% in the year ended 31 December 2018.

We continued our drive to improve our gross margin by improving supplier buying prices in the businesses for a number of our products.

Over 600 new products were introduced across the Group during the year which also helped to improve gross margin. These included products for all the new licensed properties, an entirely new range of IBD bicycles, and nearly 200 products launched in our direct to consumer business.

Following a programme of discounting older models of bicycles in 2017, we were able to improve gross margin in 2018 with the launch of our new range.

As in previous years there were ongoing pressures from major customers who continued to exert significant pricing pressure on the Group.

Operating expenses
Operating expenses reduced by nearly 6% from £8,486,000 in the year ended 31 December 2017 to £8,002,000 in the year ended 31 December 2018. To reflect the reduction in turnover, we made savings in a number of areas.

Operating profit
Operating profit before exceptional costs was £2,247,000 for the year ended 31 December 2018 compared to £2,401,000 in the prior year.

Exceptional costs and Non-underlying items
Non-underlying items are material items which have arisen from unusual non-recurring or non-trading events. Exceptional costs of £218,000 were incurred in the year to 31 December 2018 (year ended 31 December 2017 – £nil). During the year we exited a warehouse in Scunthorpe and settled a dilapidations claim which, coupled with a number of associated redundancy costs at the site, accounted for most of the cost.
Other non-underlying items comprised:

- a fair value credit adjustment for foreign currency derivative contracts under IFRS9 of £109,000 (year ended 31 December 2017 – £172,000 charge);
- pension finance costs under IAS19 of £100,000 (year ended 31 December 2017 - £107,000), and
- a deferred tax charge of £55,000 (year ended 31 December 2017 - £114,000) in respect of pension schemes and share options.

Finance costs
Total net finance costs reduced from £511,000 in the year ended 31 December 2017 to £157,000 in the year ended 31 December 2018.

Interest payable on bank loans, overdrafts, hire purchase and invoice finance facilities was £157,000 compared to £221,000 in the prior year.

Finance costs in respect of the pension schemes provided in line with IAS19 were £100,000 compared to £107,000 for year ended 31 December 2017.

In accordance with IFRS9, there was a fair value credit of £109,000 in respect of derivative foreign exchange contracts which compared to a charge of £172,000 in the prior year.

As in previous years and explained above, the net of pension schemes' financing and foreign currency derivatives, which totalled a credit of £9,000 (year ended 31 December 2017 – £279,000 charge), is included in non-underlying items.

Taxation
The tax expense for the year ended 31 December 2018 was £250,000 compared to £146,000 in the prior year.

The current tax charge, which comprised corporation tax from the overseas Hong Kong operation, was £189,000 (year ended 31 December 2017 - £219,000).

There was a deferred tax charge of £61,000 compared to a credit of £73,000 in the prior year.

Net profit
Net profit for the year ended 31 December 2018 after non-underlying items, finance costs and taxation was £1,622,000 compared to £1,744,000 for the year ended 31 December 2017.

Capital expenditure
Total capital expenditure incurred during the year was £70,000 (year ended 31 December 2017 - £27,000).

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 value was used to revalue the property 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 2018.

Cash flows, working capital and net cash
Net cash inflow from operating activities before movements in working capital for the year ended 31 December 2018 was £1,792,000 compared to £2,330,000 in the year ended 31 December 2017. This was impacted by the additional contributions required to be made to the pensions' schemes.

Cash generated from operations was £1,638,000 compared to £4,061,000 last year.

Net cash outflows from investing activities were £88,000 in the year ended 31 December 2018 against £32,000 in the previous year.

There was a net cash outflow from financing activities of £342,000 in the year ended 31 December 2018 which compared to £543,000 in the year ended 31 December 2017.

As a result of these movements the closing cash position at 31 December 2018 was £4,847,000 compared to £3,856,000 at 31 December 2017.

Net cash, comprising cash and cash equivalents, invoice financing liabilities and borrowings, was £107,000 at 31 December 2018 compared to net debt of £1,016,000 at the end of the previous year.

Dividends
We have increased total dividends paid and proposed for the year ended 31 December 2018 by over 5% again this year. A total dividend of 4.31 pence per share will be paid, subject to shareholder approval, compared to 4.10 pence per share for the year ended 31 December 2017.

The dividend cover ratio was 7.5 (year ended 31 December 2017 – 8.5).

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 32.3 pence per share for the year ended 31 December 2018 compared to 35.0 pence per share in the year ended 31 December 2017. Diluted earnings per share was 32.1 pence per share compared to 34.8 pence per share in the prior year.

Steve Grant	**Jim Shears**
Chief Executive Officer	**Group Finance Director**

10 April 2019

Consolidated income statement

	Note	31 December 2018 Before non-underlying items	 Non-underlying items	 After non-underlying items	31 December 2017 Before non-underlying items	 Non-underlying items	 After non-underlying items
		£'000	£'000	£'000	£'000	£'000	£'000
Revenue		**32,511**	__	**32,511**	36,837	__	36,837
Cost of sales		**(22,262)**	__	**(22,262)**	(25,950)	__	(25,950)
Gross profit		**10,249**	__	**10,249**	10,887	__	10,887
Operating expenses		**(8,002)**	__	**(8,002)**	(8,486)	__	(8,486)
Operating profit before exceptional costs		**2,247**	__	**2,247**	2,401	__	2,401
Exceptional costs		__	**(218)**	**(218)**	__	__	__
Operating profit after exceptional costs		**2,247**	**(218)**	**2,029**	2,401	__	2,401
Finance costs		**(166)**	**9**	**(157)**	(232)	(279)	(511)
Profit before taxation		**2,081**	**(209)**	**1,872**	2,169	(279)	1,890
Tax expense		**(195)**	**(55)**	**(250)**	(32)	(114)	(146)
Net profit for the year		**1,886**	**(264)**	**1,622**	2,137	(393)	1,744
Earnings per share	3			**Pence**			Pence
Basic				**32.3**			35.0
Diluted				**32.1**			34.8

Consolidated statement of comprehensive income

	31 December 2018	31 December 2017
	£'000	£'000
Net profit for the year	**1,622**	1,744
Other comprehensive income:		
Items that will be reclassified subsequently to profit and loss: Foreign exchange differences on translation of foreign operations	**102**	(254)
Items that will not be reclassified subsequently to profit or loss:		
Revaluation of property, plant and equipment	__	530
Actuarial (loss)/gain on pension schemes	**(222)**	1,129
Movement in pension schemes' deferred tax provision	**37**	(191)
Other comprehensive income for the year, net of tax	**(83)**	1,214
Total comprehensive income for the year attributable to equity shareholders	**1,539**	2,958

All figures relate to continuing operations.

Consolidated balance sheet

	At 31 December 2018 £'000	At 31 December 2017 £'000
Non current assets		
Intangible fixed assets	**5,580**	5,597
Property, plant and equipment	**3,480**	3,550
Deferred taxation	**1,776**	1,800
	10,836	10,947
Current assets		
Inventories	**4,250**	4,001
Trade and other receivables	**4,397**	4,539
Derivative financial asset held at fair value	**54**	—
Cash and cash equivalents	**4,847**	3,856
	13,548	12,396
Total assets	**24,384**	23,343
Current liabilities		
Trade and other payables	**(4,266)**	(4,312)
Other liabilities	**(3,542)**	(3,237)
Derivative financial liability held at fair value	—	(55)
Current tax liabilities	**(143)**	(107)
	(7,951)	(7,711)
Non current liabilities		
Other payables	—	(1)
Other liabilities	**(1,198)**	(1,635)
Pension schemes' deficits	**(2,827)**	(2,928)
	(4,025)	(4,564)
Total liabilities	**(11,976)**	(12,275)
Net assets	**12,408**	11,068
Equity		
Share capital	**1,503**	1,503
Shares held in treasury	**(247)**	(247)
Share premium	**286**	286
Other reserves	**3,644**	3,542
Profit and loss account	**7,222**	5,984
Total equity	**12,408**	11,068

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 2017	1,503	(272)	232	1,036	1,427	—	803	3,485	**8,214**
Net profit for the year	—	—	—	—	—	—	—	1,744	**1,744**
Re-translation of overseas subsidiaries	—	—	—	—	—	—	(254)	—	**(254)**
Revaluation of property, plant and equipment	—	—	—	—	—	530	—	—	**530**
Net actuarial loss on pension schemes	—	—	—	—	—	—	—	938	**938**
Total comprehensive income for the year attributable to equity shareholders	—	—	—	—	—	530	(254)	2,682	**2,958**
Share based payments	—	—	—	—	—	—	—	13	**13**
Exercise of share options	—	25	54	—	—	—	—	—	**79**
Dividends paid	—	—	—	—	—	—	—	(196)	**(196)**
Total transactions with owners	—	25	54	—	—	—	—	(183)	**(104)**
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 gain 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 31 December 2018	**1,503**	**(247)**	**286**	**1,036**	**1,427**	**530**	**651**	**7,222**	**12,408**

Consolidated cash flow statement

	31 December 2018 £'000	31 December 2017 £'000
Cash flows from operating activities		
Net profit for the year	**1,622**	1,744
Adjustments:		
Depreciation of property, plant and equipment	**139**	148
Amortisation of intangible fixed assets	**41**	39
Profit on sale of property, plant and equipment	**(5)**	(6)
Contribution to defined benefit plans	**(423)**	(265)
Finance costs	**157**	511
Tax expense	**250**	146
Share based payments	**11**	13
Net cash flow from operating activities before movements in working capital	**1,792**	2,330
Change in inventories	**(407)**	3,623
Change in trade and other receivables	**142**	(629)
Change in trade and other payables	**111**	(1,263)
Cash generated from operations	**1,638**	4,061
Interest paid	**(166)**	(232)
Tax paid	**(153)**	(245)
Net cash flows from operating activities	**1,319**	3,584
Cash flows from investing activities		
Purchases of intangible fixed assets	**(24)**	(11)
Purchases of property, plant and equipment	**(70)**	(27)
Sale of property, plant and equipment	**6**	6
Net cash flows from investing activities	**(88)**	(32)
Cash flows from financing activities		
Loan repayments	**(408)**	(407)
Finance lease repayments	**(27)**	(27)
Movement in invoice financing	**303**	8
Exercise of share options	**—**	79
Dividends paid	**(210)**	(196)
Net cash flows from financing activities	**(342)**	(543)
Net change in cash and cash equivalents	**889**	3,009
Cash and cash equivalents at beginning of year	**3,856**	1,101
Effect of foreign exchange rate changes	**102**	(254)
Cash and cash equivalents at end of year	**4,847**	3,856

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 2018, 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 2018 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 2018.

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.

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 has 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:

	31 December 2018	31 December 2017
	£'000	£'000
Net profit for the year	**1,622**	1,744
Weighted average shares in issue (excluding shares held in treasury) used for basic earnings per share	**5,026,091**	4,981,003
Weighted average dilutive shares under option	**25,005**	24,163
Average number of shares used for diluted earnings per share	**5,051,096**	5,005,166
	Pence	Pence
Basic earnings per share	**32.3**	35.0
Diluted earnings per share	**32.1**	34.8

4. Dividend

The Directors are proposing a final dividend of 2.89 pence per ordinary share (year ended 31 December 2017 – 2.75 pence) payable to shareholders on the register on 17 May 2019 and will be paid on or around 3 July 2019.

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**.

6. Annual General Meeting

The Annual General Meeting will be held at 11:00 a.m. on 27 June 2019 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
Tony Rawlinson
James Caithie
Telephone 020 7213 0880

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