

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 2018 which are due to be announced in April 2019.

Trading and operations

As previously reported, 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. As a result, revenue was nearly 30% behind the same period in 2017.

However, in the second half of 2018 the Group experienced revenue growth of nearly 6% as it recovered from the poor start to the year. This was despite a difficult economic backdrop and a number of negative indicators both in the macro economy and indicators specific to our sectors. As an example, the UK outdoor toy market was reported to have declined by 17% in 2018.

Although there was a reduction in revenue of approximately 12% to £32.5 million for the year ended 31 December 2018, the Group's profit before tax for the year is expected to be only marginally behind the prior year.

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 performer during the year. In other licences, Paw Patrol, Batman, Peppa Pig and Disney Princess made a solid contribution.

In our own brands, Hedstrom continued to perform 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, the second half performed strongly 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.

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 licenced 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.

Group operating expenses reduced by nearly 6% in the year. We were acutely aware of the need to control costs during a period of reduced revenue.

We continued to manage our working capital position carefully whilst generating cash and paying down debt. Following on from the exceptionally low levels at the end of the year in 2017, stock also remained well under control in 2018.

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 are pleased to announce that we have now signed the agreement with The Walt Disney Company to extend our portfolio of licenses for 2019 and beyond. This will significantly expand our range to incorporate their major properties, including Disney and Marvel. This will now 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 significant. 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.

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

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