

# Tandem Group plc

(the "Group")

## TRADING UPDATE

Tandem Group plc (AIM: TND), designers, developers and distributors of sports, leisure and mobility equipment, announces a trading update ahead of its annual results for the year ended 31 December 2016 which are due to be announced in April 2017.

### Trading and operations

Revenue for the year ended 31 December 2016, at £38.4 million, was approximately 12% ahead of the prior year.

Margins were under pressure during the second half of the year as a result of sterling weakness and increased import duty on some of our products as we previously reported. To compensate for this we implemented a price increase in the latter part of the year, negotiated better buying prices with suppliers and where this could not be achieved, re-sourced to new factories. As a result of these actions we expect to see an improvement in margin in 2017.

Group operating profit after exceptional items is expected to be ahead of the prior year.

A one off contribution of £552,000 was received from the vendors of the acquired businesses to compensate for the additional import duty costs on product imported prior to acquisition. We continue to subscribe to the view that the rate of import duty levied on the importation of mobility scooters is incorrect. A recent First Tier Tribunal hearing in respect of this matter brought by a class action of competitors supported this view and we continue to closely monitor the case.

Exceptional costs of £191,000 in respect of redundancies and restructuring of the bicycles division were incurred during the year. These costs were offset by exceptional income of £334,000 being a release in over provided deferred consideration in respect of the Pro Rider and ESC acquisitions.

There was a fair value charge of £127,000 in respect of foreign exchange derivatives which compared to a fair value credit of £104,000 in the previous year. This had a material impact on the finance cost for the year.

The investment undertaken in Northampton to relocate the Pro Rider and ESC businesses has been completed along with the implementation of a new sales order processing and despatch system. We now have an excellent senior management team in place to take these businesses forward. The majority of new websites have been launched and are live. We are now in a position to deliver the potential that this part of the operation has for the Group.

### *Sports, Leisure and Toys*

There was an increase in revenue for the year ended 31 December 2016 in the sports, leisure and toys businesses of approximately 43%. This included a full year's contribution from the ESC business.

A number of licences performed very strongly including Batman, Disney Princess, My Little Pony, Paw Patrol, Shopkins and Trolls. Our 'evergreen' licences such as Peppa Pig, Star Wars and Thomas & Friends also made substantial contributions.

Our own brands, particularly Kickmaster and Hedstrom, also performed well and were ahead of the previous year. We have been very pleased with the contribution from our portfolio of 'Airwave' gazebos and party tents and also by our 'Jack Stonehouse' radiator cover range. Revenue exceeded the prior year and we continued to expand our product offering.

We also experienced growth in our Ben Sayers golf business with both package sets and electric golf trolleys showing good growth.

Profitability for the year ended 31 December 2016 for sports, leisure and toys is expected to be significantly ahead of the prior year.

### *Bicycles and Mobility*

Revenue was approximately 26% behind the prior year. Both corporate and independent bicycle businesses encountered difficult trading conditions.

Unlike the prior year, there was no significant promotional contract in our corporate bicycles division and revenue reduced as a result. We continue to seek opportunities for future promotional business where it is possible to make an acceptable margin.

In our independent cycles businesses there was a continued downturn reflecting the overall trend in the UK leisure cycling market. Having been aware of and having reported challenging market conditions previously we made some significant changes during the second half of the year.

The Claud Butler and Dawes sales teams were merged together with one team selling both brands. We have rationalised the product development department and improved efficiencies within our Scunthorpe premises where all Claud Butler and Dawes products are warehoused together. As a result of these changes we expect to save approximately £1.0 million of overhead costs in the bicycles businesses in 2017.

Our Pro Rider mobility business continued to make a valuable contribution. During the period we extended our product offering and signed distribution agreements with three well known mobility brands to supplement our own range.

However, as a result of the decline in revenue and the challenging market environment there was a loss in the bicycles and mobility division.

## **Outlook**

In our sports, leisure and toys division, we have agreed several new licences, most notably Cars 3, PJ Masks and Transformers. All three licences have the potential to do well during the year.

The London Toy Fair exhibition was a great success and enabled us to showcase the largest range of product that we have had for many years. The feedback on certain categories was extremely positive and we expect to reap the rewards of this throughout 2017.

We have once again secured the majority of the 2017 gazebo business with a significant national retailer and continue to identify new national customers and online marketplaces to sell our ranges.

The newly launched direct to consumer retail websites continue to show growth in traffic with more visitors and page views and we expect this to continue as we increase our digital marketing campaigns.

Although revenue for the first two months of 2017 was in line with the same period in the prior year the sales order book is currently well ahead of last year.

In our bicycles and mobility division we have launched a new range of lightweight children's cycles under the 'Squish' brand. This was exceptionally well received at our January trade show and we are encouraged by the potential of these products.

In addition, we have launched an entry level range of value cycles under our 'British Eagle' brand. This is targeted at the new cyclist and provides opportunities for our dealer base to offer the consumer a quality bicycle at an affordable price.

We anticipate that we will be able to manage our stock holding better with all product stored in one location. An ongoing program of rationalisation of the number of different models available will help to reduce the overall quantity of stock held and working capital which in turn will generate cash.

Following the expansion of the mobility range we believe we have a very credible range of mobility products to satisfy a wide range of budgets and we expect sales to increase in 2017.

We remain confident, despite a degree of macro-economic uncertainty, that the Group will show increased profitability in 2017.

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