Tandem Group plc

(the 'Company' or 'Group')

Interim results for the six months ended 30 June 2023

The Board of Tandem Group plc (AIM: TND), designers, developers, distributors and retailers of sports, leisure and mobility equipment, announces its unaudited interim results for the six months to 30 June 2023.

Summary

- Successful completion of the Group's purpose built, solar powered warehouse
- Continued focus on efficient inventory management
- Group revenue in the six months to 30 June 2023 of £9.8 million (H1 2022: £12.9 million)
- Gross profit of £2.5 million (H1 2022: £4.0 million), with a decrease in gross margin, to 25.9%, primarily as a result of foreign exchange movements
- Loss before taxation of £0.9 million (H1 2022: profit of £0.3 million)
- Postponement of the interim dividend taking into account performance in H1
- Cash and cash equivalents of £2.0 million as at 30 June 2023
- Net assets at 30 June 2023 increased to £25.9 million (H1 2022: £23.0 million)
- Net debt as at 30 June 2023 of £3.1 million (30 June 2022: £1.5 million)
- Amidst a difficult economic environment, there have been encouraging signs, with the Group's resilient performance driven by the continued success of our initiatives within eMobility, a strategic focus of the Group.
- Turnover in the Group's eMobility segment was 53% higher than in the comparative period.

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CHAIRMAN'S STATEMENT

The Group has continued to experience a challenging trading environment resulting from macroeconomic factors and a transition of buying behaviour from a Freight On Board (FOB) to Direct Delivery (DD) basis within the Toy side of the business, altering the pattern of our sales, aligning it closer to the end customer buying behaviour. We continue to be well placed to service the movement to DD in Toys following the completion of our brand new, fully operational warehouse.

Notwithstanding the current trading environment, we are extremely pleased by both the Group's resilient trading performance when compared to industry peers and to see strong growth in our eMobility category resulting from our strategic focus on our product range in this sector.

Results

The Group revenue in the six months to 30 June 2023 decreased by approximately 24% to £9.8 million compared to £12.9 million in the six months to 30 June 2022.

There was a 37% decrease in gross profit from £4.0 million to £2.5 million. Gross profit margin decreased to 25.9% compared to 31.0% in the prior period primarily as a result of favourable foreign exchange variances in the prior period.

Despite inflationary pressures, operating expenses maintained their level at £3.4 million in the six months to 30 June 2023, with inflationary pressures offset by the ongoing careful management of costs.

As a result of the above, operating profit before exceptional expenses in the prior period of £0.6 million became an operating loss of £0.9 million in the current period.

We have substantially mitigated the increasing interest rate effect on our borrowing costs with the interest rate hedge instrument we put in place in June 2022, which is effective until May 2029. Finance costs were £0.15 million in the six months to 30 June 2023. This compared to a cost of £0.12 million in the prior year period and is the result of drawdowns on agreed loan facilities to fund the completion of the new warehouse from June 2022.

Exceptional costs were £0.1 million, primarily in relation to employment related expenses and costs relating to the consolidation of operations of the Group.

Cash and cash equivalents were £2.0 million at 30 June 2023 which compared to £3.2 million at 30 June 2022. The reduction is a combination of warehouse completion costs, offset in part by the diligent management of inventory, which over the 12 month period has decreased to £5.9 million compared to £8.6 million at 30 June 2022.

Net debt after borrowings was £3.1 million compared to £1.5 million at 30 June 2022. The movement was the result of loan facility drawdowns to fund the completion of the new warehouse.

Net assets at 30 June 2023 increased to £25.9 million against £23.0 million at 30 June 2022, supported by an uplift in our property values.

Trading update and outlook

Stubbornly high inflation coupled with persistent increases in interest rates have had a direct impact on consumers' disposable income, leading to reduced spending across certain categories. This has been further impacted by persistent unfavourable weather conditions. As a result, group revenue to 15 September 2023 was approximately £15.1 million compared to £19.1 million for the same period in the prior year.

Toy sales, typically considered recession-proof, have slumped in Britain this year, according to a market analyst, particularly the outdoor toy market due to the poor weather. This decline has impacted our revenue in Toys, Sports and Leisure which has reduced 44% in H1 against H1 in the prior year.

The declining trend in FOB sales within our Toys, Sports and Leisure segment has continued to impact our overall turnover and the timing of realising sales, however we continue to see an uptake in DD business as more customers transition away from FOB.

We are perfectly placed to handle this shift in the anticipated sales pattern following the successful completion of our purpose built, solar powered warehouse, removing our reliance and cost of 3rd party warehouse facilities, helping us realise operational efficiencies through consolidating our operations across a single site, allowing us to easily cross sell product on single shipments, and importantly providing capacity for future growth.

The Board maintain a high level of optimism regarding the performance of both new and existing licenses. Notably, Barbie continues to contribute to our positive outlook. We are also pleased to report that we have reached agreement to renew existing licences including Marvel, CoComelon, LOL, Bluey, Disney, and Peppa Pig, where will continue our strategy to innovate new products.

In our bicycle division, we are delighted that we continue to outperform the market, and our turnover, including electric bikes, is ahead of our prior year turnover level for H1 by 19%, despite published market data showing that the total bicycle market value is down compared with the first six months of 2022, mechanical bicycles in particular have fallen further having already hit a 20 year low last year.

Our lightweight children bike brand, Squish, continues to see success and is also ahead of the prior year. We are also pleased to have partnered this year with children's cycle training organisation, Bikeability. The fourth quarter of 2023 will see the release of new product additions across our core bike brands, Dawes, Claud Butler, Falcon and Squish.

One of our key strategic focuses continues to be electric bikes, and we are pleased that this is yielding substantial returns. Our electric bike sales have surged to more than 2.5 times the figures of the previous year during H1, and continues to grow at that level to date, a testament to the effectiveness of our strategy. The development of our new ranges of electric bikes has been met with resounding success, garnering strong popularity among our bike dealers. Turnover in our eMobility segment is 53% higher in H1 for 2023 against H1 for 2022.

Our continued focus on eMobility aligns with the UK Government who continue to promote their commitment to encouraging sustainable travel methods. This resolute effort towards reduced carbon emissions has culminated in the expansion of the Ultra Low Emission Zone (ULEZ) program. As the ULEZ boundaries extend, the expectation is that this initiative will serve as a powerful catalyst in encouraging greater adoption of electric methods of travel, which the Group is well placed to benefit from.

Both our physical retail shop and the ElectricLife website are exceeding expectations with the introduction of market leading eBike brands Orbea, Whyte, Quella, Pure and we are continuing to talk to a number of other leading brands. These channels remain integral to our operational success and our commitment to meeting the evolving needs of our customers. Our social media Instagram followers have grown 38% year to date, with our Return on Advertising spend increasing 267% underpinned by an improved conversation rate of 178% year to date compared to the same period last year.

Our Home and Garden division has been particularly impacted by the poor weather experienced in 2023 compared to 2022, having recorded some of the wettest months on record this summer. Turnover has declined 27% in H1 against the same period in the prior year. We are seeing continued growth in our visitor numbers, conversion rates to improve this position, our website conversion rate has increased +36% compared to the same period last year (January-August), aligning with our strategic integration of our standalone garden and leisure websites onto Jack Stonehouse. We have further optimised and managed our marketing activity, reducing our Pay Per Click investment by 24% compared to the same period last year, which in turn has delivered +17% improvement in our Return on Advertising Spend. Our social media followers across our Instagram channel has increased by over 25% year to date.

We remain focussed in ensuring that we offer the latest innovative products in this category, and will be introducing an exciting range of new products, due for launch in the coming months and in time for the Christmas and Winter period where we anticipate high demand for these products.

Our management team have been actively engaged in several key strategies around the management of our inventory which has been pivotal in ensuring healthy cash balances and being able to offer fresh exciting ranges to customers. Consequently, we have refined our demand forecasting models to adapt to the changing market conditions as we have seen the transition from FOB to DD buying.

The continuous focus has led us to a reduced inventory level of £5.9 million compared to the end of the comparable prior year period level of £8.6 million. At the end of August 2023, this had reduced further to £4.8 million.

We are continuously improving our sourcing strategy, driving down costs and reducing lead times by working closely with our suppliers and logistics partners, and have consolidated the overall number of suppliers we use leading to greater efficiencies going forward.

As part of our strategy on driving new independent and national accounts across all sectors, we are pleased that this year we have opened 3 new large national accounts, 54 new golf accounts, 81 independent bike dealer accounts and a leisure experience account.

In recent months we have faced escalating carriage costs, particularly on bicycles following the collapse of Tuffnells who were our primary partner. However, logistical costs have now returned to historical levels following re-establishment of trade with a new logistics partner.

Despite inflationary pressures on many areas in the business, particularly energy, management have committed to ensuring reductions in operating expenses, as a result, they have remained in line with the prior year.

Given the challenges mentioned, the Board anticipate that the Group's sales for the FY23 full year will reduce between 11 and 13% against market expectations and that the Group will be approximately break-even at an underlying Profit Before Tax (PBT) level for FY23.

We are pleased that we continue to build for the future in challenging times. We are grateful to all of our colleagues who are continuing to work hard and helping to build for the future.

Tandem Group maintains a robust balance sheet, fortified by substantial property values. Our cash balances remain healthy, reflecting our commitment to financial stability. We remain steadfast in our commitment to our strategic objectives, and the challenging market conditions have not deterred us from pursuing avenues for growth and exciting innovation.

Borrowings

As at 30 June 2023, the Group had net debt of £3.1 million, with gross cash balances of £2.0 million and borrowings including fully drawn mortgage secured loan facilities of £5.1 million of which £4.0, are loans (the "Loans"). These Loans mature at various dates between April 2024 and January 2025 and, given the near-term maturities, the Company has been in early discussions with its lender to secure the refinancing of these historical Loans in the form of a single term loan on terms attractive to the Group. During the period ended 30 June 2023, the Company and its lender have become aware of technical breaches of the existing Loans which first came into being on the draw down of the majority of the balance of the Loans in 2022.

Notwithstanding this technical breach and the Company's currently anticipated level of profitability for the full year ended 31 December 2023, the Group continues to have the ongoing support from its banking partner – with whom the Company remains in discussion for the refinancing of the Loans in the ordinary course. On this basis, the directors are confident that the Group remains a going concern.

Further details of the Group's borrowings are provided at note 3 to the interim financial statements.

Dividend

Due to the performance in the first half of the year and the expected position for the full year, we are not proposing to pay an interim dividend (2022 – 3.43p per share). We will continue to review our dividend strategy and will pay a dividend where profits permit.

Investor presentation

The interim results presentation for investors will be posted on the Company's website in due course. Investors are encouraged to contact the Company with any questions about the business by emailing our dedicated shareholder email address investorrelations@tandemgroup.co.uk or contacting our Nominated Advisors.

Change of Name of Nominated Adviser and Broker

The Company also announces that its Nominated Adviser and Broker has changed its name to Cavendish Securities plc following completion of its own corporate merger.

Steve Grant
Chairman
20 September 2023

CONDENSED CONSOLIDATED INCOME STATEMENT
For the 6 months ended 30 June 2023

		6 months ended 30 June 2023 ***Unaudited*** **£'000**	6 months ended 30 June 2022 (restated) *Unaudited* £'000	Year ended 31 December 2022 *Audited* £'000
Revenue		**9,752**	12,913	26,683
Cost of sales		**(7,228)**	(8,912)	(18,887)
Gross profit		**2,524**	4,001	7,796
Operating expenses		**(3,381)**	(3,407)	(6,484)
Operating (loss)/profit before exceptional costs		**(857)**	594	1,312
Exceptional costs		**(98)**	(172)	(223)
Operating (loss)/profit after exceptional costs		**(955)**	422	1,089
Finance costs		**(150)**	(115)	(237)
(Loss)/profit before taxation		**(1,105)**	307	852
Tax credit/(expense)		**147**	-	(178)
Net (loss)/profit for the period		**(958)**	307	674
		Pence	Pence	Pence
Earnings per share				
Basic	2	**(17.5)**	5.8	12.5
Diluted	2	**(17.5)**	5.6	12.3

All figures relate to continuing operations.

The results for the 6 months to 30 June 2022 have been restated. Carriage outward costs have been included in cost of sales, having previously been disclosed in operating expenses of £385,000.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the 6 months ended 30 June 2023

	6 months ended 30 June 2023 *Unaudited* **£'000**	6 months ended 30 June 2022 *Unaudited* £'000	Year ended 31 December 2022 *Audited* £'000
(Loss)/profit for the period	**(958)**	307	674
Other comprehensive income:			
Items that will be reclassified subsequently to profit and loss:			
Foreign exchange differences on translation of overseas subsidiaries	**(25)**	23	96
Cashflow hedging contracts	**44**	261	540
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of property, plant and equipment	**—**	—	2,189
Actuarial gain on pension schemes	**—**	—	1,472
Movement in pension schemes' deferred tax provision	**—**	—	(214)
Other comprehensive income for the period	**19**	284	4,083
Total comprehensive income attributable to equity shareholders of Tandem Group plc	**(939)**	591	4,757

All figures relate to continuing operations.

CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 June 2023

	Note	**At 30 June 2023** *Unaudited* **£'000**	At 30 June 2022 *Unaudited* £'000	At 31 December 2022 *Audited* £'000
Non current assets				
Intangible fixed assets		**5,598**	5,454	5,525
Property, plant and equipment		**14,884**	10,003	14,700
Deferred taxation		**854**	1,323	854
Pension schemes' surplus		**98**	-	-
		21,434	16,780	21,079
Current assets				
Inventories		**5,881**	8,577	4,757
Trade and other receivables		**6,038**	6,065	6,633
Derivative financial asset held at fair value		**323**	319	279
Cash and cash equivalents		**1,993**	3,229	3,288
		14,235	18,190	14,957
Total assets		**35,669**	34,970	36,036
Current liabilities				
Trade and other payables		**(4,711)**	(5,050)	(4,200)
Borrowings	3	**(5,083)**	(897)	(1,085)
Current tax liabilities		**-**	(201)	(149)
		(9,794)	(6,148)	(5,434)
Non current liabilities				
Borrowings	3	**-**	(3,867)	(3,754)
Pension schemes' deficits		**-**	(1,920)	(60)
		-	(5,787)	(3,814)
Total liabilities		**(9,794)**	(11,935)	(9,248)
Net assets		**25,875**	23,035	26,788
Equity				
Share capital		**1,503**	1,503	1,503
Shares held in treasury		**(135)**	(151)	(137)
Share premium		**729**	647	716
Other reserves		**7,322**	5,080	7,303
Profit and loss account		**16,456**	15,956	17,403
Total equity		**25,875**	23,035	26,788

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
As at 30 June 2023

	Share capital £'000	Shares held in treasury £'000	Share premium £'000	Cash flow hedge reserve £'000	Merger reserve £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Translation reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2022	1,503	(192)	474	225	1,036	1,427	1,671	605	15,990	**22,739**
Net profit for the period	—	—	—	—	—	—	—	—	307	**307**
Retranslation of overseas subsidiaries	—	—	—	—	—	—	—	23	—	**23**
Forward contracts	—	—	—	261	—	—	—	—	—	**261**
Total comprehensive income for period attributable to equity shareholders	—	—	—	*261*	—	—	—	*23*	*307*	**591**
Share based payments	—	—	—	—	—	—	—	—	13	**13**
Exercise of share options	—	41	173	—	—	—	—	—	—	**214**
Reclassified to cost of inventory	—	—	—	(168)	—	—	—	—	—	**(168)**
Dividends paid	—	—	—	—	—	—	—	—	(354)	**(354)**
Total transactions with owners	—	41	*173*	*(168)*	—	—	—	—	*(341)*	**(295)**
At 30 June 2022	1,503	(151)	647	318	1,036	1,427	1,671	628	15,956	**23,035**
Net profit for the period	—	—	—	—	—	—	—	—	367	**367**
Retranslation of overseas subsidiaries	—	—	—	—	—	—	—	73	—	**73**
Revaluation of property, plant and equipment	—	—	—	—	—	—	2,189	—	—	**2,189**
Forward contracts	—	—	—	279	—	—	—	—	—	**279**
Net actuarial gain on pension schemes	—	—	—	—	—	—	—	—	1,258	**1,258**
Total comprehensive income for period attributable to equity shareholders	—	—	—	279	—	—	2,189	73	1,625	**4,166**
Share based payments	—	—	—	—	—	—	—	—	8	**8**
Exercise of share options	—	14	69	—	—	—	—	—	—	**83**
Reclassified to cost of inventory	—	—	—	(318)	—	—	—	—	—	**(318)**
Dividends paid	—	—	—	—	—	—	—	—	(186)	**(186)**
Total transactions with owners	—	*14*	69	*(318)*	—	—	—	—	*(178)*	**(413)**
At 1 January 2023	1,503	(137)	716	279	1,036	1,427	3,860	701	17,403	**26,788**
Net loss for the period	—	—	—	—	—	—	—	—	(958)	**(958)**
Retranslation of overseas subsidiaries	—	—	—	—	—	—	—	(25)	—	**(25)**
Forward contracts	—	—	—	44	—	—	—	—	—	**44**
Total comprehensive income for period attributable to equity shareholders	—	—	—	*44*	—	—	—	*(25)*	*(958)*	**(939)**
Share based payments	—	—	—	—	—	—	—	—	*11*	**11**
Exercise of share options	—	2	*13*	—	—	—	—	—	—	**15**
Total transactions with owners	—	2	*13*	—	—	—	—	—	*11*	**26**
At 30 June 2023	**1,503**	**(135)**	**729**	**323**	**1,036**	**1,427**	**3,860**	**676**	**16,456**	**25,875**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the 6 months ended 30 June 2023

	At 30 June 2023 *Unaudited* **£'000**	At 30 June 2022 *Unaudited* £'000	At 31 December 2022 *Audited* £'000
Cash flows from operating activities			
(Loss)/profit for the period	**(958)**	307	674
Adjustments:			
Depreciation of property, plant and equipment	**135**	78	141
Amortisation of intangible fixed assets	**5**	—	22
(Loss)/profit on sale of property, plant and equipment	**9**	—	(11)
Contributions to defined benefit pension schemes	**(210)**	(225)	(651)
Finance costs	**150**	115	237
Tax (credit)/expense	**(147)**	-	178
Share based payments	**11**	13	21
Net cash flow from operating activities before movements in working capital	**(1,005)**	288	611
Change in inventories	**(1,124)**	(513)	3,307
Change in trade and other receivables	**595**	4,178	3,610
Change in trade and other payables	**511**	(5,283)	(6,133)
Cash flows from operations	**(1,023)**	(1,330)	1,395
Interest paid	**(100)**	(57)	(139)
Tax paid	—	(51)	(26)
Net cash flow from operating activities	**(1,123)**	(1,438)	1,230
Cash flows from investing activities			
Purchase of intangible fixed assets	**(78)**	-	(93)
Purchase of property, plant and equipment	**(328)**	(2,307)	(4,880)
Sale of property, plant and equipment	—	—	13
Net cash flow from investing activities	**(406)**	(2,307)	(4,960)
Cash flows from financing activities			
(Loan repayments)/new loans	**(254)**	2,005	2,013
Finance lease repayments	**-**	(37)	(54)
Movement in invoice financing	**498**	(1,244)	(1,161)
Exercise of share options	**15**	214	297
Dividends paid	**-**	(354)	(540)
Net cash flow from financing activities	**259**	584	555
Net change in cash and cash equivalents	**(1,270)**	(3,161)	(3,175)
Cash and cash equivalents at beginning of period	**3,288**	6,367	6,367
Effect of foreign exchange rate changes	**(25)**	23	96
Cash and cash equivalents at end of period	**1,993**	3,229	3,288

NOTES TO THE HALF YEARLY REPORT

1 GENERAL INFORMATION

Tandem Group plc is a public limited company incorporated and domiciled in the United Kingdom with its shares listed on AIM, the market of that name operated by the London Stock Exchange.

The principal activity of the Group is the design, development, distribution and retail of sports, leisure and mobility equipment.

The ultimate parent company of the Group is Tandem Group plc whose principal place of business and registered office address is 35 Tameside Drive, Castle Bromwich, Birmingham, B35 7AG.

The interim financial statements for the period ended 30 June 2023 (including the comparatives for the period ended 30 June 2022 and the year ended 31 December 2022) were approved by the Board of Directors on 19 September 2023.

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 31 December 2022, prepared under International Financial Reporting Standards ("IFRS"), have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain statements under Sections 498(2) and 498(3) of the Companies Act 2006.

This interim financial information has been prepared using the accounting policies set out in the Group's 2022 statutory accounts. Copies of the annual statutory accounts and the interim report may be obtained by writing to the Company Secretary of Tandem Group plc, 35 Tameside Drive, Castle Bromwich, Birmingham, B35 7AG and can be found on the Company's website at **www.tandemgroup.co.uk**.

The net retirement benefit obligation recognised at 30 June 2023 is based on the actuarial valuation under IAS19 at 31 December 2022 updated for movements in net defined benefit pension income and contributions paid during the half year period. A full valuation for IAS19 financial reporting purposes will be carried out for incorporation in the audited financial statements for the year ending 31 December 2023.

Exceptional costs include redundancy, termination and professional costs relating to the consolidation of operations of the Group.

2 EARNINGS PER SHARE

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

	6 months ended 30 June 2023	6 months ended 30 June 2022	Year ended 31 December 2022
	£'000	£'000	£'000
(Loss)/profit for the period	**(958)**	307	674
	Number	Number	Number
Weighted average shares in issue used for basic earnings per share	**5,469,721**	5,323,089	5,375,128
Weighted average dilutive shares under option	**119,933**	160,461	100,733
Average number of shares used for diluted earnings per share	**5,589,654**	5,483,550	5,475,861
	Pence	Pence	Pence
Basic earnings per share	**(17.5)**	5.8	12.5
Diluted earnings per share	**(17.5)**	5.6	12.3

Loss per share is calculated based on the share capital of Tandem Group plc and the earnings of the Group for all periods. There are options in place at 30 June 2023. These options were anti-dilutive at the period end but may dilute future earnings per share.

3 Borrowings

	At 30 June 2023 ***Unaudited*** **£'000**	At 30 June 2022 *Unaudited* £'000	At 31 December 2022 *Audited* £'000
Invoice finance liability	**(1,074)**	(493)	(576)
Current borrowings maturing in less than one year			
-other borrowings	**(4,009)**	(387)	(509)
-assets held under leasing arrangements	**-**	(17)	-
Total current borrowings	**(5,083)**	(897)	(1,085)
Non current borrowings with contractual maturities between one and two years			
-other borrowings	**-**	(1,625)	(3,141)
Non current borrowings with contractual maturities between two and five years			
-other borrowings	**-**	(2,242)	(613)
Total non current borrowings	**-**	(3,867)	(3,754)
Total borrowings	**(5,083)**	(4,764)	(4,839)

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014 (as amended), which forms part of domestic UK law pursuant to the European Union (Withdrawal) Act 2018. Upon publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

Forward Looking Statements

This announcement contains forward-looking statements relating to expected or anticipated future events and anticipated results that are forward-looking in nature and, as a result, are subject to certain risks and uncertainties, such as general economic, market and business conditions, competition for qualified staff, the regulatory process and actions, technical issues, new legislation, uncertainties resulting from potential delays or changes in plans, uncertainties resulting from working in a new political jurisdiction, uncertainties regarding the results of exploration, uncertainties regarding the timing and granting of prospecting rights, uncertainties regarding the Company's or any third party's ability to execute and implement future plans, and the occurrence of unexpected events. Actual results achieved may vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors.