

TCM Group Management's review

Interim report Q4 2019 (October 1 - December 31)

(All figures in brackets refer to the corresponding period in 2018)

Fourth quarter growth takes TCM Group above the DKK 1 billion revenue milestone

CEO Ole Lund Andersen:

“With a revenue growth of 4% in the fourth quarter, and an organic growth in Q4 of around 6%, TCM Group achieved the DKK 1 billion revenue milestone for the full year, corresponding to a full-year organic growth of 11.9%. Growth was driven by branded stores primarily within the B2B market, and we continued to gain market share in Denmark with a growth of 13.4%, but I am also pleased that sales through our branded stores in Norway rose. For 2020 we expect revenue to grow by 3-7% to be in the range of DKK 1,040-1,080 million. EBIT is expected to be in the range DKK 158-170 million corresponding to a growth of 3-11%.”

Financial highlights Q4

- Revenue DKK 261.6 million (DKK 251.8 million) corresponding to a revenue growth of 3.9%, and an organic growth of around 6%.
- Adjusted EBITA down DKK 0.9 million to DKK 45.3 million (DKK 46.2 million), corresponding to a decrease of 1.9%. Adjusted EBITA margin was 17.3% (18.3%), reflecting a sales mix with a higher growth rate within the B2B market and a higher share of revenue from 3rd party products.
- Non-recurring items had a negative impact of DKK 4.0 million due to a production setback following a lightning strike at one of our 3 factories.
- EBIT down DKK 4.9 million to DKK 39.4 million (DKK 44.3 million), corresponding to an EBIT margin of 15.0% (17.6%).
- Net profit down 10.9% to DKK 29.8 million (DKK 33.5 million).
- Free cash flow excl. acquisitions of operations was DKK 44.7 million (DKK 53.6 million).
- Cash conversion ratio was 99.9% (102.6%) driven by a Net Working Capital ratio of -10.8% (-10.5%).

Financial highlights 2019

- Revenue DKK 1,006.9 million (DKK 899.9 million) corresponding to an organic growth of 11.9%.
- Adjusted EBITA up DKK 13.5 million to DKK 161.1 million (DKK 147.7 million), corresponding to an increase of 9.1%. Adjusted EBITA margin was 16.0% (16.4%).
- Non-recurring items had a negative impact of DKK 7.0 million in 2019 due to a production setback following a lightning strike at one of our 3 factories.
- EBIT up DKK 8.4 million to DKK 146.6 million (DKK 138.1 million), corresponding to an increase of 6.1%. EBIT margin was 14.6% (15.3%).
- Net profit up 7.3% to DKK 111.3 million (DKK 103.7 million).
- Free cash flow excl. acquisitions of operations was DKK 132.2 million (DKK 141.5 million). The underlying free cash flow improved compared to 2018, as 2018 included a positive effect from the sale of a production site of DKK 16.6 million.
- Full-year guidance for the financial year 2020 is expected to be in the range DKK 1,040-1,080 million in revenue corresponding to a growth of 3-7%. EBIT is expected to be in the range DKK 158-170 million. Due to an exceptional strong first quarter last year, we expect the growth in 2020 to materialize in the last part of the year.

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Key figures and ratios

DKK million	Q4 2019*	Q4 2018	FY 2019*	FY 2018
Income statement				
Revenue	261.6	251.8	1,006.9	899.9
Gross profit	75.7	77.9	279.6	262.8
Earnings before interest, tax, depreciation and amortisation (EBITDA)	44.5	48.0	167.4	153.6
Adjusted EBITDA	48.5	48.0	174.4	155.6
Earnings before interest, tax and amortisation (EBITA)	41.3	46.2	154.1	145.7
Adjusted EBITA	45.3	46.2	161.1	147.7
Operating profit (EBIT)	39.4	44.3	146.6	138.1
Profit before tax	38.3	42.9	142.4	132.3
Net profit for the period	29.8	33.5	111.3	103.7
Balance sheet				
Total assets	911.1	844.0	911.1	844.0
Net working capital (NWC)	(108.9)	(94.1)	(108.9)	(94.1)
Net interest-bearing debt (NIBD)	51.7	90.7	51.7	90.7
Equity	472.7	408.8	472.7	408.8
Cash Flow				
Free cash flow excl. acquisitions of operations	44.7	53.6	132.2	141.5
Cash conversion, %	99.9%	102.6%	99.9%	102.6%
Growth ratios				
Revenue growth, %	3.9%	17.1%	11.9%	10.1%
Gross profit growth, %	(2.9%)	15.7%	6.4%	13.7%
Adjusted EBITA growth, %	(1.9%)	17.4%	9.1%	20.3%
EBIT growth, %	(11.1%)	78.1%	6.1%	70.7%
Net profit growth, %	(10.9%)	172.1%	7.3%	116.1%
Margins				
Gross margin, %	28.9%	30.9%	27.8%	29.2%
EBITDA margin, %	17.0%	19.0%	16.6%	17.1%
Adjusted EBITA margin, %	17.3%	18.3%	16.0%	16.4%
EBIT margin, %	15.0%	17.6%	14.6%	15.3%
Other ratios				
Solvency ratio, %	51.9%	48.4%	51.9%	48.4%
Leverage ratio	0.31	0.58	0.31	0.58
NWC ratio, %	(10.8%)	(10.5%)	(10.8%)	(10.5%)
Capex ratio excl. acquisitions, %	2.0%	1.9%	1.5%	1.0%
Share information				
Earnings per share before dilution, DKK	2.98	3.35	11.13	10.37
Earnings per share after dilution, DKK	2.98	3.35	11.13	10.37

Reference is made to the consolidated financial statements for 2019 prepared in accordance with IFRS for definitions of key figures and ratios.

* As of 1 January 2019 IFRS 16 Leases is implemented without restating comparative figures, why 2019 is not directly comparable to previous periods. Reference is made to the description in note 1 Accounting policies.

Business review

Revenue in Q4 2019 increased by 3.9% to DKK 261.6 million (DKK 251.8 million). The revenue growth was entirely organic.

TCM Group's primary market is Denmark which contributed with 91% of Group revenue in Q4 2019. Revenue in Denmark was DKK 238.9 million (DKK 229.5 million), an increase of 4.1%. Q4 2018 included revenue from Svane Køkkenet Aabenraa, which was divested as of 1 February 2019. Adjusted for this, the organic growth in Q4 2019 was c. 6%. In Q4 2019, growth in Denmark was driven by the branded stores primarily within the B2B market. The total market for kitchens and related products in Denmark developed positively during Q4 2019 compared to same period 2018 with an estimated market growth of 1-2%. TCM Group thus continues to gain market shares through our strong brands and product innovation.

Revenue in other countries was up 2.0% to DKK 22.7 million (DKK 22.3 million). The increase was primarily due to an increase in sales to the Norwegian market through branded stores.

At the end of Q4 2019, the total number of Svane and Tvis branded stores was 68 (65). In November 2019, a new Tvis Køkkener store opened in Holbæk. Furthermore, we have signed an agreement with a new dealer to open a Svane Køkkenet store in Ålesund, Norway, and the store is expected to open during Q1 2020. With the new store, the number of branded stores will increase to 69.

We continue our focus on product innovation and within the Svane Køkkenet brand we launched S19 as our 2019 introduction. In Q4 the S19 assortment was expanded a.o. including the launch of an innovative design feature and pioneering multi-functional concept called "Drains".

In Q4 we invested significantly in our lacquering department which will increase capacity, improve quality and reduce our CO2 emission by c. 5%.

Furthermore, we are safe guarding the production setup that will enable us to support the future growth and demand. First step in this plan has been to sign an option to buy additional land in connection to our main factories in Tvis, which can enable us to build an additional highly automated factory.

Total number of employees at the end of Q4 2019 was 493 (469). The increase in number of employees was primarily due to an increase in the production labor force to support revenue growth.

Events after the reporting period

TCM Group CEO Ole Lund Andersen has decided to step down as CEO to focus on board assignments. Torben Paulin has been appointed as new CEO, and will take over on 1 March, 2020. Torben Paulin comes from a position as CEO/chairman of lighting company Frandsen Group. Previously, Torben Paulin was CEO of tyre and wheel firm Nordisk Dæk Import and CEO of furniture group BoConcept.

Financial outlook

TCM Group estimates revenue for the financial year 2020 to be in the range DKK 1,040-1,080 million corresponding to a growth of 3-7%. EBIT (adjusted for non-recurring items) is expected to be in the range DKK 158-170 million.

Due to an exceptional strong first quarter last year, we expect the growth in 2020 to materialize in the last part of the year. The Danish market is characterized by a higher level of macroeconomic uncertainty, and the guidance is based on a flat or marginally growing market in 2020.

Forward looking statements

This interim report contains statements relating to the future, including statements regarding TCM Group's future operating results, financial position, cash flows, business strategy and plans for the future. The statements are based on management's reasonable expectations and forecasts at the time of the disclosure of the report. Any such statements are subject to risks and uncertainties, and a number of different factors, many of which are beyond TCM Group's control, could mean that actual performance and actual results will differ significantly from the expectations expressed in this interim report. Without being exhaustive, such factors include general economic and commercial factors, including market and competitive matters, supplier issues and financial issues.

Significant risks in the Group

TCM Group is exposed to strategic, operating and financial risks, which are described in the management review and note 2 of the 2019 Annual Report prepared in accordance with IFRS.

Financial review

Revenue

In Q4 2019 revenue grew by 3.9% to DKK 261.6 million (DKK 251.8 million).

Revenue in Denmark in Q4 2019 was up 4.1% to DKK 238.9 million (DKK 229.5 million) driven by growth in the branded stores primarily within the B2B market. Revenue in other countries in Q4 2019 was up 2.0% to DKK 22.7 million (DKK 22.3 million). Sales to the Norwegian market through branded stores grew by 2.7% and sales through non-branded DIY stores grew by 1.3%.

Revenue for the financial year 2019 was up 11.9% to DKK 1,006.9 million (DKK 899.9 million). Revenue in Denmark for the financial year 2019 was up 13.4% to DKK 918.6 million (DKK 809.9 million) and revenue in other countries for the financial year 2019 was down 1.8% to DKK 88.4 million (DKK 90.0 million).

Gross profit

Gross profit in Q4 2019 was DKK 75.7 million (DKK 77.9 million), corresponding to a gross margin of 28.9% (30.9%). The lower gross margin reflects a sales mix with a higher growth rate within the B2B market and a higher share of revenue from 3rd party products e.g. white goods and table tops.

Gross profit for the financial year 2019 was DKK 279.6 million (DKK 262.8 million), corresponding to a gross margin of 27.8% (29.2%).

Operating expenses

Operating expenses in Q4 2019 were DKK 32.4 million (DKK 33.4 million). Operating expenses represented 12.4% of revenue in Q4 2019, which was a decrease of 1.0%-point compared to Q4 2018 as a result of increased leverage from growing revenue.

Operating expenses for the financial year 2019 were DKK 126.2 million (DKK 122.8 million). Operating expenses represented 12.5% of revenue for the financial year 2019 (13.6%).

Non-recurring items

TCM Group presents non-recurring items separately to ensure comparability. Non-recurring items consist of income and expenses that are special and of a non-recurring nature. In Q4 2019, non-recurring items consisted of a production setback following a lightning strike in August 2019 at one of our 3 factories, causing additional expenses of DKK 4 million in the quarter. Production was back to normal at the end of October 2019. Non-recurring items in Q4 and the financial year 2019 and 2018 are specified below:

Non-recurring items, DKK m	Q4		12 months	
	2019	2018	2019	2018
Costs related to integration of Nettoline	0.0	0.0	0.0	2.0
Costs related to production setback following a lightning strike	4.0	0.0	7.0	0.0
Total	4.0	0.0	7.0	2.0

EBITDA

EBITDA in Q4 2019 was DKK 44.5 million (DKK 48.0 million), corresponding to an EBITDA margin of 17.0% (19.0%). The decrease in EBITDA was primarily due to non-recurring items in Q4 2019 of DKK 4.0 million. EBITDA was positively affected by the implementation of IFRS 16 as of 1 January 2019 by DKK 1.3 million, corresponding to an impact on EBITDA margin of 0.5%-point.

EBITDA for the financial year 2019 was DKK 167.4 million (DKK 153.6 million), corresponding to an EBITDA margin of 16.6% (17.1%). The increase in EBITDA was primarily driven by revenue growth. The implementation of IFRS 16 as of 1 January 2019 affected EBITDA positively by DKK 5.0 million, corresponding to an impact on EBITDA margin of 0.5%-point.

Adjusted EBITA

Adjusted EBITA in Q4 2019 was DKK 45.3 million (DKK 46.2 million), corresponding to an adjusted EBITA margin of 17.3% (18.3%). The decrease in adjusted EBITA was primarily due to the decrease in gross profit. Depreciations were DKK 3.2 million (DKK 1.8 million). The increase in depreciations was primarily due to the implementation of IFRS 16, which increased depreciations by DKK 1.3 million.

Adjusted EBITA for the financial year 2019 was DKK 161.1 million (DKK 147.7 million), corresponding to an adjusted EBITA margin of 16.0% (16.4%). Depreciations for the financial year 2019 were DKK 13.3 million (DKK 7.9 million). The implementation of IFRS 16 increased depreciations by DKK 5.0 million.

EBIT

EBIT in Q4 2019 increased to DKK 39.4 million (DKK 44.3 million). The decrease was primarily due to the decrease in gross profit and the impact from non-recurring items of DKK 4.0 million. Amortizations were on par with Q4 2018. The implementation of IFRS 16 had no significant impact on EBIT.

EBIT for the financial year 2019 increased to DKK 146.6 million (DKK 138.1 million). The increase was primarily due to the profit impact from the revenue growth off-set by the impact from non-recurring items of DKK 7.0 million (DKK 2.0 million). Amortizations were on par with same period last year.

Net profit

Net profit in Q4 2019 decreased to DKK 29.8 million (DKK 33.5 million). The decrease was primarily due to a decrease in EBIT. Change in financial income and expenses had a positive impact on net profit of DKK 0.3 million, primarily due to improved interest rate terms and lower debt. The implementation of IFRS 16 affected financial expenses negatively by less than DKK 0.1 million.

Net profit for the financial year 2019 increased to DKK 111.3 million (DKK 103.7 million). The increase was primarily due to an increase in EBIT. Change in financial income and expenses had a positive impact on net profit of DKK 1.6 million due to improved interest rate terms and lower debt. The implementation of IFRS 16 affected financial expenses negatively by DKK 0.2 million.

Free cash flow excl. acquisitions of operation and cash conversion

Free cash flow excl. acquisitions of operation in Q4 2019 was DKK 44.7 million (DKK 53.6 million). The decrease in cash flow in Q4 2019 compared to Q4 2018 was primarily due to the decrease in operating profit and higher tax payments of DKK 30.5 million (DKK 28.7 million). Cash conversion in Q4 2019 was 99.9% (102.6%).

Free cash flow excl. acquisitions for the financial year 2019 was DKK 132.2 million (DKK 141.5 million). The financial year 2018 was positively impacted by the sale of the production site in Horsens of DKK 16.6 million. In addition investments in the financial year 2019 were DKK 15.3 million compared to DKK 9.2 million in the financial year 2018. This was off-set by cash flow from operating activities.

Net working capital

Net working capital at the end of Q4 2019 was DKK -108.9 million (DKK -94.1 million). NWC ratio at the end of Q4 2019 was -10.8% (-10.5%).

DKK million	End of Q4	
	2019	2018
Inventory	40.2	36.5
Trade and other receivables	42.2	58.1
Trade and other payables	(191.3)	(188.7)
Net working capital	(108.9)	(94.1)
NWC ratio	(10.8%)	(10.5%)

The increase in inventory of DKK 3.7 million was primarily due to the higher activity level. Trade and other receivables decreased by DKK 15.9 million primarily due to a lower number of outstanding debtor days at the end of Q4 compared to last year. Other receivables as of 31 December 2019 presented above is excluding the value of DKK 5.7 million, which relates to subleases due to the implementation of IFRS 16. This is not included in the net working capital. The increase in trade and other payables of DKK 2.6 million was primarily due to the higher activity level.

Net interest-bearing debt

Net interest-bearing debt amounted to DKK 51.7 million at the end of Q4 2019 (DKK 90.7 million). Net interest-bearing debt decreased by DKK 66.8 million in Q4 2019 primarily due to operating profit for the period and change in net working capital. The implementation of IFRS 16 resulted in an increase in net interest-bearing debt of DKK 39.6 million as per end of Q4 2019. Leverage ratio measured as net interest bearing debt excluding tax liabilities divided by adjusted EBITDA LTM end of Q4 2019 was 0.31 (0.58).

Equity

Equity at the end of Q4 2019 amounted to DKK 472.7 million (DKK 408.8 million). The equity increased by DKK 29.9 million in Q4 2019, which was due to the net profit for the period.

The solvency ratio was 51.9% at the end of Q4 2019 (48.4%). The solvency ratio is negatively affected by the implementation of IFRS 16 by 2.4%-points.

Additional information

Financial calendar

The financial year covers the period 1 January – 31 December, and the following dates have been fixed for releases etc. in the financial year 2020 and 2021:

31 March 2020	Annual General Meeting
6 May 2020	Interim report Q1 2020
18 August 2020	Interim report Q2 2020
11 November 2020	Interim report Q3 2020
24 February 2021	Interim report Q4 2020 and Annual report 2020
13 April 2021	Annual General Meeting

About TCM Group A/S

TCM Group is Scandinavia's third largest kitchen manufacturer, with the major part of its business concentrated in Denmark. The product offering includes cabinets, table tops and storage.

Manufacturing is generally carried out in-house and more than 90% is manufactures to a specific customer order. Production sites are located in Denmark, with three factories in Tvis and Aulum (outskirts of Holstebro).

The Group pursues a multi-brand strategy, under which the main brand is Svane Køkkenet and the secondary brands are Tvis Køkkener, Nettoline, kitchn and private label. Combined, the brands cater for the entire price spectrum. Products are mainly marketed through a network of franchise stores and independent kitchen retailers.

Company information

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Consolidated interim financial statements

Consolidated income statement

DKK m	Note	Q4		12 months	
		2019	2018	2019	2018
Revenue	2	261.6	251.8	1,006.9	899.9
Cost of goods sold		<u>(185.9)</u>	<u>(173.9)</u>	<u>(727.3)</u>	<u>(637.1)</u>
Gross profit		75.7	77.9	279.6	262.8
Selling expenses		(19.2)	(19.7)	(73.5)	(70.7)
Administrative expenses		(13.2)	(13.9)	(52.6)	(52.1)
Other operating income		<u>0.1</u>	<u>0.0</u>	<u>0.1</u>	<u>0.1</u>
Operating profit before non-recurring items		43.4	44.3	153.6	140.1
Non-recurring items	3	<u>(4.0)</u>	<u>0.0</u>	<u>(7.0)</u>	<u>(2.0)</u>
Operating profit		39.4	44.3	146.6	138.1
Financial income		0.4	0.0	0.5	0.1
Financial expenses		<u>(1.5)</u>	<u>(1.4)</u>	<u>(4.7)</u>	<u>(5.9)</u>
Profit before tax		38.3	42.9	142.4	132.3
Tax for the period		<u>(8.4)</u>	<u>(9.4)</u>	<u>(31.0)</u>	<u>(28.6)</u>
Net profit for the period		29.8	33.5	111.3	103.7
Earnings per share before dilution, DKK		2.98	3.35	11.13	10.37
Earnings per share after dilution, DKK		2.98	3.35	11.13	10.37

Consolidated statement of comprehensive income

DKK m	Q4		12 months	
	2019	2018	2019	2018
Net profit for the period	29.8	33.5	111.3	103.7
Other comprehensive income				
Items that are or may be reclassified subsequent to profit or loss				
Value adjustments of cash-flow hedges before tax	0.0	0.1	0.1	0.5
Tax on value adjustments of cash-flow hedges	0.0	(0.0)	(0.0)	(0.1)
Other comprehensive income for the period	0.0	0.1	0.1	0.4
Total comprehensive income for the period	29.8	33.6	111.4	104.1

Consolidated balance sheet

DKK m	Note	End of	
ASSETS		2019	2018
Intangible assets			
Goodwill		369.8	369.8
Brand		172.0	172.0
Other intangible assets		9.2	17.8
		<u>551.0</u>	<u>559.6</u>
Tangible assets			
Land and buildings		86.5	70.8
Tangible assets under construction and prepayments		0.0	1.1
Machinery and other technical equipment		19.4	12.5
Equipment, tools, fixtures and fittings		5.1	3.1
		<u>111.0</u>	<u>87.5</u>
Financial assets		19.1	0.7
Total non-current assets		<u>681.1</u>	<u>647.9</u>
Inventories		<u>40.2</u>	<u>36.5</u>
Current receivables			
Trade receivables		22.3	41.2
Other receivables		2.5	0.0
Tax receivables		23.2	13.9
Prepaid expenses and accrued income		2.5	3.0
		<u>50.4</u>	<u>58.1</u>
Cash and cash equivalents		139.4	100.9
Assets held for sale		0.0	0.7
Total current assets		<u>230.0</u>	<u>196.1</u>
Total assets		<u>911.1</u>	<u>844.0</u>

Consolidated balance sheet

DKK m	Note	End of 2019	2018
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital		1.0	1.0
Value adjustments of cash flow hedges		0.0	(0.1)
Retained earnings		419.2	360.4
Proposed dividend for the financial year		52.5	47.5
Total shareholders' equity		472.7	408.8
Deferred tax		53.5	54.8
Mortgage loans		33.4	36.2
Bank loans		97.6	129.0
Lease liabilities		30.3	0.0
Other liabilities		12.3	2.3
Total long-term liabilities		227.2	222.4
Mortgage loans		2.8	2.8
Bank loans		18.8	23.1
Lease liabilities		10.6	0.0
Prepayments from customers		4.6	2.3
Trade payables		128.6	133.2
Current tax liabilities		0.0	0.5
Derivative instruments		0.0	0.1
Other liabilities		45.7	51.0
Total short-term liabilities		211.1	212.8
Total shareholders' equity and liabilities		911.1	844.0

Change in consolidated shareholders' equity

	Share capital DKK m	Value ad- just- ments of Cash flow hedges after tax DKK m	Retained earnings DKK m	Propo- sed divi- dend DKK m	Total DKK m
Opening balance 01.01.2018	1.0	(0.4)	304.2	0.0	304.8
Net profit for the period	0.0	0.0	56.2	47.5	103.7
Other comprehensive income for the period	0.0	0.4	0.0	0.0	0.4
Total comprehensive income for the period	0.0	0.4	56.2	47.5	104.1
Closing balance 31.12.2018	1.0	(0.1)	360.4	47.5	408.8
Opening balance 01.01.2019	1.0	(0.1)	360.4	47.5	408.8
Net profit for the period	0.0	0.0	58.8	52.5	111.3
Other comprehensive income for the period	0.0	0.1	0.0	0.0	0.1
Total comprehensive income for the period	0.0	0.1	58.8	52.5	111.4
Dividend paid	0.0	0.0	0.0	(47.5)	(47.5)
Closing balance 31.12.2019	1.0	0.0	419.2	52.5	472.7

Consolidated cash flow statement

DKK m	Note	Q3		9 months	
		2019	2018	2019	2018
Operating activities					
Operating profit		39.4	44.2	146.6	138.0
Depreciation and amortization		5.1	3.6	20.8	15.4
Income tax paid		(30.5)	(28.7)	(35.4)	(32.6)
Change in net working capital		36.1	39.2	14.5	13.1
Cash flow from operating activities		50.2	58.3	146.5	133.9
Investing activities					
Investments in fixed assets		(5.5)	(4.8)	(15.3)	(9.2)
Sale of fixed assets		0.0	0.1	0.1	16.7
Acquisition of operations		0.0	0.0	0.0	(0.5)
Divestments of operations		0.0	0.0	1.0	0.0
Cash flow from investing activities		(5.5)	(4.7)	(14.2)	7.1
Financing activities					
Interest paid		(1.0)	(1.2)	(3.8)	(5.3)
Repayments of loans		(23.7)	(12.3)	(37.3)	(85.0)
Repayments of lease liabilities		(1.3)	0.0	(5.2)	0.0
Dividend paid		0.0	0.0	(47.5)	0.0
Cash flow from financing activities		(26.0)	(12.5)	(93.8)	(89.3)
Cash flow for the period		18.7	41.1	38.5	51.7
Cash and cash equivalents at the beginning of the period					
		120.7	59.7	100.9	49.2
Cash flow for the period		18.7	41.1	38.5	51.7
Cash and cash equivalents at the end of the period		139.4	100.9	139.4	100.9

Notes to the consolidated interim financial statements

1. Accounting policies

This interim report has been prepared in accordance with IAS 34 “Interim Financial Reporting” as adopted by the EU and Danish disclosure requirements for listed companies. TCM Group has applied the same accounting policies in this interim report as were applied in the consolidated financial statements for 2019 prepared in accordance with IFRS, why reference is made to note 1 of these financial statements for accounting policies and for definitions of key figures and ratios on pages 43-52 and 70.

Impact from new IFRS standards

TCM Group A/S has implemented the latest International Financial Reporting Standards (IFRS) and amendments effective as of 1 January 2019 as adopted by the European Union.

Of the new standards and amendments implemented the most significant is IFRS 16, which is described below.

IFRS 16 Leases replaced IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease and related rules with application from 1 January 2019. The new standard entails for lessees that all leases that meet the definition in the standard of a lease are to be recognized as an asset and liability in the balance sheet, with depreciation and interest expense recognized in profit or loss.

As of 1 January 2019, TCM Group has recognized additional lease liabilities of DKK 49.1 million, right-of-use assets of DKK 19.4 million and other receivables regarding subleases of DKK 29.7 million. In the first nine months of 2019 the implementation of IFRS 16 has affected EBITDA positively with 3.7 million and profit before tax negatively by DKK 0.2 million. There is no significant impact on EBITA margin with a negative impact of less than 0.1%-points. Solvency ratio is negatively affected with 2.4%-points.

Transition and exemption rules

TCM Group has applied the modified retrospective approach. This means that the accumulated effect of IFRS 16 is recognized in profit brought forward in the opening balance for 1 January 2019 without restating comparative figures. TCM Group has measured the right-of-use (the asset) at the amount corresponding to the lease liability (before adjustment for advance payments), which entails that the accumulated effect in profit brought forward in the opening balance does not arise.

TCM Group has applied the exemption rule of “grandfathering” the former definition of leases existing at transition. This means that the Group has applied IFRS 16 on all leases signed before 1 January 2019 and that were identified as leases according to IAS 17 and IFRIC 4. TCM Group has also applied the exemption rule of using the same discount rate for a portfolio of leases with dimilar characteristics.

TCM Group has also applied the exemption rule of not including long-term leases whose remaining lease term is less than 12 months from the date of initial application. The Group has no short-term leases (leases with a term of maximum 12 months) or any leases of a low value (assets valued at about DKK 33.000 in new condition). If such leases occurs, they will not be included in the lease liability.

Notes to the interim consolidated financial statements

2. Revenue and segment information

The Group's business activities are managed within a single operating segment that is producing and selling kitchens, bathrooms and storage. Kitchens and related products cover products for kitchen. The result of the operating segment is monitored by the Group's management to evaluate it and to allocate resources.

Revenue by region, DKK m	Q4		12 months	
	2019	2018	2019	2018
Denmark	238.9	229.5	918.6	809.9
Other countries	22.7	22.3	88.4	90.0
	261.6	251.8	1,006.9	899.9

Revenue consists of sale of goods and services.

3. Non-recurring items

Non-recurring items, DKK m	Q4		12 months	
	2019	2018	2019	2018
Costs related to integration of Nettoline	0.0	0.0	0.0	2.0
Costs related to production setback following a lightning strike	4.0	0.0	7.0	0.0
Total	4.0	0.0	7.0	2.0

4. Financial instruments – fair value

Interest rate swaps have expired in Q1 2019 and therefore have a value of DKK 0.0 million (DKK (0.1) million). Interest rate swaps are valued using an income approach (discounted cash flow). Expected future cash flows are based on relevant observable swap rates and discounted using a discount rate that reflects the credit risk of the relevant counterparties (level 2).

The fair value of financial assets and financial liabilities measured at amortised cost is approximately equal to carrying amount, due to the short maturity of financial assets and the floating rate of the financial liabilities.

5. Related party transactions

Except for remuneration to senior executives and Board of Directors, there were no other transactions with related parties.

6. Events after the balance sheet date

TCM Group CEO Ole Lund Andersen has decided to step down as CEO to focus on board assignments. Torben Paulin has been appointed as new CEO, and will take over on 1 March, 2020. Torben Paulin comes from a position as CEO/chairman of lighting company Frandsen Group. Previously, Torben Paulin was CEO of tyre and wheel firm Nordisk Dæk Import and CEO of furniture group BoConcept.

Statement by the Board of Directors and the Executive Management

The Board of Directors and the Executive Management today considered and adopted the interim report of TCM Group A/S for the period 1 January 2019 – 31 December 2019.

The interim report, which has been neither audited nor reviewed by the company's auditors, was prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU and Danish disclosure requirements for listed companies.

In our opinion, the interim report gives a true and fair view of the Group's assets and liabilities and financial position at 31 December 2019 and of the results of the Group's operations and cash flows for the period 1 January to 31 December 2019.

Furthermore, in our opinion, the management review includes a fair review of the development and performance of the business, the results for the period and of the Group's financial position in general and describes the principal risks and uncertainties that it faces.

Tvis, 26 February, 2020

Executive Management

Ole Lund Andersen
CEO

Mogens Elbrønd Pedersen
CFO

Board of Directors

Sanna Mari Suvanto-Harsaae
Chairman

Anders Tormod Skole-Sørensen
Deputy Chairman

Søren Mygind Eskildsen

Carsten Bjerg

Danny Feltmann Espersen

Supplementary financial disclosure

Quarterly overview

DKK million	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Income statement					
Revenue	251.8	249.7	258.2	237.5	261.6
Gross profit	77.9	63.4	73.8	66.7	75.7
Earnings before interest, tax, depreciation and amortisation (EBITDA)	48.0	36.0	47.3	39.5	44.5
Adjusted EBITDA	48.0	36.0	47.3	42.5	48.5
Earnings before interest, tax and amortisation (EBITA)	46.2	32.9	44.0	36.0	41.3
Adjusted EBITA	46.2	32.9	44.0	39.0	45.3
Operating profit (EBIT)	44.3	31.0	42.1	34.1	39.4
Profit before tax	42.9	29.9	41.1	33.1	38.3
Net profit for the period	33.5	23.4	32.1	25.9	29.8
Balance sheet					
Total assets	844.0	917.0	896.8	907.4	911.1
Net working capital	(94.1)	(67.9)	(68.5)	(72.7)	(108.9)
Net interest-bearing debt (NIBD)	90.7	139.3	150.5	118.5	51.7
Equity	408.8	432.3	416.9	442.9	472.7
Cash Flow					
Free cash flow excl. acquisitions of operations	53.6	2.3	45.9	39.5	44.7
Margins					
Gross margin, %	30.9%	25.4%	28.6%	28.1%	28.9%
EBITDA margin, %	19.0%	14.4%	18.3%	16.7%	17.0%
Adjusted EBITA margin, %	18.3%	13.2%	17.1%	16.4%	17.3%
EBIT margin, %	17.6%	12.4%	16.3%	14.4%	15.0%
Other ratios					
Solvency ratio, %	48.4%	47.1%	46.5%	48.8%	51.9%