TCM Group Management's review

Interim report Q2 2019 (April 1 - June 30)

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

TCM Group continued to gain market share with 11% organic growth – outlook raised

CEO Ole Lund Andersen:

"Our strong performance continued in Q2 with an organic revenue growth of 11%, while EBIT grew 9%. We continued to gain market share in a Danish market that we estimate is growing 1-2%. We have delivered strong growth especially within B2B through the branded stores in Denmark. Based on the strong performance in Q2 and a solid order pipeline, we have raised our full-year outlook both with regards to revenue and earnings."

Financial highlights Q2

- Revenue DKK 258.2 million (DKK 232.1 million) corresponding to an organic growth of 11.3%.
- Adjusted EBITA up DKK 3.4 million to DKK 44.0 million (DKK 40.6 million), corresponding to an increase of 8.4%. Adjusted EBITA margin was 17.1% (17.5%), negatively affected by the sales mix with a higher growth rate within the B2B market and a higher share of revenue from 3rd party products.
- EBIT up DKK 3.4 million to DKK 42.1 million (DKK 38.7 million), corresponding to an EBIT margin of 16.3% (16.7%).
- Net profit up 10.1% to DKK 32.1 million (DKK 29.2 million).
- Free cash flow excl. acquisitions of operations was DKK 45.9 million (DKK 28.2 million).
- Cash conversion ratio was 102.6% (103.6%).

Financial highlights H1 2019

- Revenue DKK 507.8 million (DKK 445.7 million) corresponding to an organic growth of 13.9%
- Adjusted EBITA up DKK 7.9 million to DKK 76.9 million (DKK 69.0 million), corresponding to an increase of 11.4%. Adjusted EBITA margin was 15.1% (15.5%)
- EBIT up DKK 9.9 million to DKK 73.1 million (DKK 63.2 million), corresponding to an increase of 15.6%. EBIT margin was 14.4% (14.2%). In H1 2018 EBIT was affected by non-recurring costs of DKK 2 million. H1 2019 was unaffected by non-recurring costs.
- Net profit up 17.6% to DKK 55.5 million (DKK 47.2 million)
- Free cash flow excl. acquisitions of operations was DKK 48.1 million (DKK 52.9 million). In 2018 free cash flow included a positive effect from the sale of a production site of DKK 16.6 million.
- Outlook for the financial year 2019 is upgraded to revenue in the range DKK 1,000-1,030 million (previously DKK 960-1,000 million). Adjusted EBITA is expected in the range DKK 160-170 million (previously DKK 155-165 million) translating into EBIT in the range DKK 150-160 million (previously DKK 145-155 million).

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Key figures and ratios

DKK million	Q2 2019*	Q2 2018	H1 2019*	H1 2018	FY 2018
Income statement					
Revenue	**258.2**	**232.1**	**507.8**	**445.7**	**899.9**
Gross profit	73.8	69.1	137.2	125.1	262.8
Earnings before interest, tax, depreciation and amortisation (EBITDA)	47.3	42.7	83.3	71.1	153.6
Adjusted EBITDA	47.3	42.7	83.3	73.1	155.6
Earnings before interest, tax and amortisation (EBITA)	44.0	40.6	76.9	67.0	145.7
Adjusted EBITA	**44.0**	**40.6**	**76.9**	**69.0**	**147.7**
Operating profit (EBIT)	**42.1**	**38.7**	**73.1**	**63.2**	**138.1**
Profit before tax	41.1	37.3	70.9	60.0	132.3
Net profit for the period	32.1	29.2	55.5	47.2	103.7
Balance sheet					
Total assets	896.8	791.5	896.8	791.5	844.0
Net working capital (NWC)	(68.5)	(51.3)	(68.5)	(51.3)	(94.1)
Net interest-bearing debt (NIBD)	150.5	188.9	150.5	188.9	90.7
Equity	416.9	352.2	416.9	352.2	408.8
Cash Flow					
Free cash flow excl. acquisitions of operations	45.9	28.2	48.1	52.9	141.5
Cash conversion, %	102.6%	103.6%	102.6%	103.6%	102.6%
Growth ratios					
Revenue growth, %	11.3%		13.9%		10.1%
Gross profit growth, %	6.7%		9.7%		13.7%
Adjusted EBITA growth, %	8.4%		11.4%		20.3%
EBIT growth, %	8.8%		15.6%		70.7%
Net profit growth, %	10.1%		17.6%		116.1%
Margins					
Gross margin, %	28.6%	29.8%	27.0%	28.1%	29.2%
EBITDA margin, %	18.3%	18.4%	16.4%	16.0%	17.1%
Adjusted EBITA margin, %	17.1%	17.5%	15.1%	15.5%	16.4%
EBIT margin, %	16.3%	16.7%	14.4%	14.2%	15.3%
Other ratios					
Solvency ratio, %	46.5%	44.5%	46.5%	44.5%	48.4%
Leverage ratio	0.84	1.22	0.84	1.22	0.58
NWC ratio, %	(7.1%)	(6.1%)	(7.1%)	(6.1%)	(10.5%)
Capex ratio excl. acquisitions, %	0.8%	0.4%	1.1%	0.4%	1.0%
Share information					
Earnings per share before dilution, DKK	3.21	2.92	5.55	4.72	10.37
Earnings per share after dilution, DKK	3.21	2.92	5.55	4.72	10.37

Reference is made to the consolidated financial statements for 2018 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 descripten in note 1. Accounting policies.

Business review

Revenue in Q2 2019 increased organically by 11.3% to DKK 258.2 million (DKK 232.1 million). Revenue was negatively affected by a decrease in number of production days compared to Q2 2018 due to the timing of Easter. For H1 2019 the number of production days is comparable to H1 2018.

TCM Group's primary market is Denmark which contributed with 91% of Group revenue in Q2 2019. Revenue in Denmark was DKK 234.2 million (DKK 205.3 million), with an organic growth of 14.1%. In Q2 2019, growth in Denmark was driven by the branded stores primarily within the B2B market. The total market for kitchen and related products in Denmark developed positively during Q2 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 ongoing product innovation.

Revenue in other countries was down 10.7% to DKK 23.9 million (DKK 26.8 million). The decline was due to lower sales to the Norwegian market both through branded and non-branded stores. We are focused on getting back on track and deliver growth in Norway while simultaneously adding new branded stores. At the same time we focus on expanding our business in Sweden and in Q2 we entered into agreement with a partner to introduce the Nettoline brand in up to 12 stores in Sweden during 2019.

At the end of Q2 2019, the total number of Svane and Tvis branded stores was 67 (62). During Q2 2019, a new Svane Køkkenet store opened in Drammen, Norway. We have a further pipeline of potential new branded stores in Denmark and Norway.

Total number of employees at the end of Q2 2019 was 507 (467). The increase in number of employees was primarily due to an increase in the production labor force to support revenue growth.

Other events in Q2 2019

The Annual General Meeting was held on 11 April 2019 and Danny Feltmann Espersen was appointed as new board member. Danny is CEO of Scandinavian design group MENU and has an extensive management career at KappAhl, Bang & Olufsen and Hennes & Mauritz. He brings to the Board of Directors experience within Nordic retail, digital execution and interior design. The Board of Directiors herafter consists of five independent board members, all elected by the annual general meeting.

Events after the reporting period

No events of importance to the consolidated interim financial statements have occurred after the reporting period.

Financial outlook

Outlook for the financial year 2019 is upgraded to revenue in the range DKK 1,000-1,030 million (previously DKK 960-1,000 million). Adjusted EBITA is expected in the range DKK 160-170 million (previously DKK 155-165 million) translating into EBIT in the range DKK 150-160 million (previously DKK 145-155 million).

The guidance is based on the estimate that the Danish market is expected to grow by 1-2% in 2019.

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 2018 Annual Report prepared in accordance with IFRS.

Financial review

Revenue

In Q2 2019 revenue grew organically by 11.3% to DKK 258.2 million (DKK 232.1 million).

Revenue in Denmark in Q2 2019 was up 14.1% to DKK 234.2 million (DKK 205.3 million) driven by growth in the branded stores primarily within the B2B market. Revenue in other countries in Q2 2019 was down 10.7% to DKK 23.9 million (DKK 26.8 million). The decline was due to lower sales to the Norwegian market both through branded and non-branded stores.

Revenue for the first six months of 2019 was up 13.9% to DKK 507.8 million (DKK 445.7 million). Revenue in Denmark for the first six months of 2019 was up 16.3% to DKK 459.8 million (DKK 395.5 million) and revenue in other countries for the first six months of 2019 was down 4.3% to DKK 48.0 million (DKK 50.2 million).

Gross profit

Gross profit in Q2 2019 was DKK 73.8 million (DKK 69.1 million), corresponding to a gross margin of 28.6% (29.1%). The gross margin was negatively impacted by the 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 first six months of 2019 was DKK 137.2 million (DKK 125.1 million), corresponding to a gross margin of 27.0% (28.1%).

Operating expenses

Operating expenses in Q2 2019 were DKK 31.6 million (DKK 30.5 million). Operating expenses represented 12.3% of revenue in Q2 2019, which was a decrease of 0.9%-point compared to Q2 2018.

Operating expenses for the first six months of 2019 were DKK 64.1 million (DKK 60.0 million). Operating expenses represented 12.6% of revenue for the first six months of 2019 (13.5%).

EBITDA

EBITDA in Q2 2019 was DKK 47.3 million (DKK 42.7 million), corresponding to an EBITDA margin of 18.3% (18.4%). The increase in EBITDA was primarily driven by revenue growth. EBITDA was positively affected by the implementation of IFRS 16 as of 1 January 2019 by DKK 1.2 million, corresponding to an impact on EBITDA margin of 0.5%-point.

EBITDA for the first six months of 2019 was DKK 83.3 million (DKK 73.1 million), corresponding to an EBITDA margin of 16.4% (16.0%). 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 2,5 million, corresponding to an impact on EBITDA margin of 0.5%-point.

Adjusted EBITA

Adjusted EBITA in Q2 2019 was DKK 44.0 million (DKK 40.6 million), corresponding to an adjusted EBITA margin of 17.1% (17.5%). The increase in adjusted EBITA was primarily driven by revenue growth. Depreciations were DKK 3.3 million (DKK 2.0 million). The increase in depreciations was due to the implementation of IFRS 16, which increased depreciations by DKK 1.2 million.

Adjusted EBITA for the first six months of 2019 was DKK 76.9 million (DKK 69.0 million), corresponding to an adjusted EBITA margin of 15.1% (15.5%). Depreciations for the first six months of 2019 were DKK 6.5 million (DKK 4.1 million). The increase in depreciations was due to the implementation of IFRS 16, which increased depreciations by DKK 2.5 million.

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 nonrecurring nature. In Q2 and H1 2019 no non-recurring items were incurred as can be seen in the table below:

	Q2		H1	
Non-recurring items, DKK m	**2019**	**2018**	**2019**	**2018**
Costs related to integration of Nettoline	0.0	0.0	0.0	2.0
Total	**0.0**	**0.0**	**0.0**	**2.0**

EBIT

EBIT in Q2 2019 increased to DKK 42.1 million (DKK 38.7 million). The increase was primarily due to the profit impact from the revenue growth. Amortizations were on par with Q2 2018. The implementation of IFRS 16 had no significant impact on EBIT.

EBIT for the first six months of 2019 increased to DKK 73.1 million (DKK 63.2 million). The increase was primarily due to the profit impact from the revenue growth and that H1 2018 was negatively impacted by non-recurring costs of DKK 2.0 million. Amortizations were on par with same period last year.

Net profit

Net profit in Q2 2019 increased to DKK 32.1 million (DKK 29.2 million). The increase was primarily due to an increase in EBIT. Financial expenses had a positive impact on net profit of DKK 0.4 million, primarily due to improved interest rate terms and lower debt. The implementation of IFRS 16 affected financial expenses negatively by DKK 0.1 million.

Net profit for the first six months of 2019 increased to DKK 55.5 million (DKK 47.2 million). The increase was primarily due to an increase in EBIT. Change in financial expenses had a positive impact on net profit of DKK 1.1 million due to improved interest rate terms and lower debt. The implementation of IFRS 16 affected financial expenses negatively by DKK 0.1 million.

Free cash flow excl. acquisitions of operation and cash conversion

Free cash flow excl. acquisitions of operation in Q2 2019 was DKK 45.9 million (DKK 28.2 million). The increase in cash flow in Q2 2019 compared to Q2 2018 was primarily due to change in net working capital of DKK 0.7 million (DKK (13.6) million) and the higher operating profit. This was partly off-set by higher investments in Q2 2019 of DKK 2.1 million (DKK 0.9 million). Cash conversion in Q2 2019 was 102.6% (103.6%).

Free cash flow excl. acquisitions for the first six months of 2019 was DKK 48.1 million (DKK 52.9 million). H1 2018 was positively impacted by the sale of the production site in Horsens of DKK 16.6 million. In addition investments in the first six months of 2019 were DKK 5.6 million compared to DKK 1.8 million in H1 2018. This was partly off-set by the higher operating profit.

Net working capital

Net working capital at the end of Q2 2019 was DKK -68.5 million (DKK -51.3 million). NWC ratio at the end of Q2 2019 was -7.1% (-6.1%).

	End of Q2	
DKK million	**2019**	**2018**
Inventory	42.0	41.1
Trade and other receivables	81.0	75.5
Trade and other payables	(191.5)	(167.9)
Net working capital	**(68.5)**	**(51.3)**
NWC ratio	**(7.1%)**	**(6.1%)**

The increase in inventory of DKK 0.9 million was primarily due to the higher activity level. Trade and other receivables increased by DKK 5.4 million primarily due to the revenue growth. Other receivables as of 30 June 2019 presented above is excluding the value of DKK 26.9 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 23.6 million was primarily due to the higher activity level.

Net interest-bearing debt

Net interest-bearing debt amounted to DKK 150.5 million at the end of Q2 2019 (DKK 188.9 million). Net interest-bearing debt increased by DKK 11.2 million in Q2 2019 primarily due to the dividend distribution of DKK 47.5 million following the annual general meeting on 11 April 2019. The implementation of IFRS 16 resulted in an increase in net interest-bearing debt of DKK 44.5 million as per end of Q2 2019. Leverage ratio measured as net interest bearing debt excluding tax liabilities divided by adjusted EBITDA LTM end of Q2 2019 was 0.84 (1.22).

Equity

Equity at the end of Q2 2019 amounted to DKK 416.9 million (DKK 352.2 million). The equity decreased by DKK 15.4 million in Q2 2019, negatively impacted by dividend distribution of DKK 4.75 per share, totalling DKK 47.5 million, following the annual general meeting on 11 April 2019. This was partly off-set by net profit for the period of DKK 32.1 million.

The solvency ratio was 46.5% at the end of Q2 2019 (44.5%). The solvency ratio is negatively affected by the implementation of IFRS 16 by 2.4%-points.

TCM Group

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 2019 and 2020:

6 November 2019	Interim report Q3 2019
26 February 2020	Interim report Q4 2019 and Annual report 2019
31 March 2020	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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TCM Group

Consolidated interim financial statements

Consolidated income statement

DKK m	Note	Q2 2019	Q2 2018	H2 2019	H2 2018
Revenue	2	258.2	232.1	507.8	445.7
Cost of goods sold		(184.4)	(162.9)	(370.7)	(320.6)
Gross profit		**73.8**	**69.1**	**137.2**	**125.1**
Selling expenses		(18.3)	(16.6)	(37.6)	(34.2)
Administrative expenses		(13.3)	(13.9)	(26.5)	(25.8)
Other operating income		0.0	0.1	0.0	0.1
Operating profit before non-recurring items		**42.1**	**38.7**	**73.1**	**65.2**
Non-recurring items	3	0.0	0.0	0.0	(2.0)
Operating profit		**42.1**	**38.7**	**73.1**	**63.2**
Financial income		0.0	0.0	0.0	0.1
Financial expenses		(1.1)	(1.4)	(2.2)	(3.3)
Profit before tax		**41.1**	**37.3**	**70.9**	**60.0**
Tax for the period		(8.9)	(8.1)	(15.4)	(12.8)
Net profit for the period		**32.1**	**29.2**	**55.5**	**47.2**
Earnings per share before dilution, DKK		3.21	2.92	5.55	4.72
Earnings per share after dilution, DKK		3.21	2.92	5.55	4.72

Consolidated statement of comprehensive income

	Q2		H1	
DKK m	**2019**	**2018**	**2019**	**2018**
Net profit for the period	32.1	29.2	55.5	47.2
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	0.2
Tax on value adjustments of cash-flow hedges	0.0	(0.0)	(0.0)	(0.0)
Other comprehensive income for the period	**0.0**	**0.1**	**0.1**	**0.2**
Total comprehensive income for the period	**32.1**	**29.3**	**55.6**	**47.4**

Consolidated balance sheet

DKK m	Note	End of Q2 2019	End of Q2 2018	End of 2018
ASSETS				
Intangible assets				
Goodwill		369.8	369.8	369.8
Brand		172.0	172.0	172.0
Other intangible assets		13.5	22.4	17.8
		555.3	**564.2**	**559.6**
Tangible assets				
Land and buildings		89.2	69.2	70.8
Tangible assets under construction and prepayments		0.0	0.0	1.1
Machinery and other technical equipment		13.4	11.5	12.5
Equipment, tools, fixtures and fittings		4.3	2.6	3.1
		106.9	**83.3**	**87.5**
Financial assets		0.7	0.7	0.7
Total non-curent assets		**663.0**	**648.3**	**647.9**
Inventories		**42.0**	**41.1**	**36.5**
Current receivables				
Trade receivables		72.5	67.6	41.2
Other receivables		33.4	5.5	13.9
Prepaid expenses and accrued income		2.0	2.5	3.0
		107.9	**75.5**	**58.1**
Cash and cash equivalents		84.0	26.6	100.9
Assets held for sale		0.0	0.0	0.7
Total current assets		**233.9**	**143.2**	**196.1**
Total assets		**896.8**	**791.5**	**844.0**

TCM Group

Consolidated balance sheet

DKK m	Note	End of Q2 2019	End of Q2 2018	End of 2018
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital		1.0	1.0	1.0
Value adjustments of cash flow hedges		0.0	(0.3)	(0.1)
Retained earnings		415.9	351.5	360.4
Proposed dividend for the financial year		0.0	0.0	47.5
Total shareholders' equity		**416.9**	**352.2**	**408.8**
Deferred tax		53.9	55.6	54.8
Mortgage loans		34.9	37.6	36.2
Bank loans		116.6	139.5	129.0
Lease liabilites		35.0	0.0	0.0
Other liabilities		3.5	0.0	2.3
Total long-term liabilities		**243.9**	**232.8**	**222.4**
Mortgage loans		2.7	2.7	2.8
Bank loans		22.6	23.0	23.1
Lease liabilites		10.7	0.0	0.0
Prepayments from customers		4.4	5.3	2.3
Trade payables		129.7	104.9	133.2
Current tax liabilities		11.9	12.6	0.5
Derivative instruments		0.0	0.3	0.1
Other liabilities		53.9	57.4	51.0
Deferred income		0.0	0.4	0.0
Total short-term liabilities		**236.0**	**206.6**	**212.8**
Total shareholders' equity and liabilities		**896.8**	**791.5**	**844.0**

Change in consolidated shareholders' equity

	Share capital DKK m	Value adjust-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	47.2	0.0	47.2
Other comprehensive income for the period	0.0	0.2	0.0	0.0	0.2
Total comprehensive income for the period	**0.0**	**0.2**	**47.2**	**0.0**	**47.4**
Closing balance 30.06.2018	**1.0**	**(0.3)**	**351.5**	**0.0**	**352.2**
Opening balance 01.01.2019	**1.0**	**(0.1)**	**360.4**	**47.5**	**408.8**
Net profit for the period	0.0	0.0	55.5	0.0	55.5
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**	**55.5**	**0.0**	**55.6**
Dividend paid	0.0	0.0	0.0	(47.5)	(47.5)
Closing balance 30.06.2019	**1.0**	**0.0**	**415.9**	**0.0**	**416.9**

Consolidated cash flow statement

DKK m	Note	Q2 2019	Q2 2018	H2 2019	H2 2018
Operating activities					
Operating profit		42.1	38.7	73.1	63.2
Depreciation and amortization		5.2	3.9	10.2	7.9
Income tax paid		0.0	0.0	(4.9)	(4.0)
Change in net working capital		0.7	(13.6)	(25.8)	(29.2)
Cash flow from operating activities		**48.0**	**29.1**	**52.6**	**37.9**
Investing activities					
Investments in fixed assets		(2.1)	(0.9)	(5.6)	(1.8)
Sale of fixed assets		0.0	0.0	0.1	16.6
Acquisition of operations		0.0	(0.5)	0.0	(0.5)
Divestments of operations		0.0	0.0	1.0	0.0
Cash flow from investing activities		**(2.1)**	**(1.4)**	**(4.5)**	**14.4**
Financing activities					
Interest paid		(1.0)	(1.3)	(2.0)	(2.9)
Repayments of loans		(12.2)	(57.3)	(12.9)	(72.0)
Repayments of lease liabilities		(1.4)	0.0	(2.7)	0.0
Dividend paid		(47.5)	0.0	(47.5)	0.0
Cash flow from financing activities		**(62.0)**	**(58.7)**	**(65.0)**	**(74.9)**
Cash flow for the period		**(16.1)**	**(30.9)**	**(16.9)**	**(22.6)**
Cash and cash equivalents at the beginning of the period		**100.1**	**57.5**	**100.9**	**49.2**
Cash flow for the period		(16.1)	(30.9)	(16.9)	(22.6)
Cash and cash equivalents at the end of the period		**84.0**	**26.6**	**84.0**	**26.6**

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 2018 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 43-50 and 72.

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 six months of 2019 the implementation of IFRS 16 has affected EBITDA positively with 2.5 million and profit before tax negatively by DKK 0.1 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.

	Q2		H1	
Revenue by region, DKK m	**2019**	**2018**	**2019**	**2018**
Denmark	234.2	205.3	459.8	395.5
Other countries	23.9	26.8	48.0	50.2
	258.2	**232.1**	**507.8**	**445.7**

Revenue consists of sale of goods and services.

3. Non-recurring items

	Q2		H1	
Non-recurring items, DKK m	**2019**	**2018**	**2019**	**2018**
Costs related to integration of Nettoline	0.0	0.0	0.0	2.0
Total	**0.0**	**0.0**	**0.0**	**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 (0.3) 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.

TCM Group

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 – 30 June 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 30 June 2019 and of the results of the Group's operations and cash flows for the period 1 January to 30 June 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, 14 August, 2019

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	**Q2 2018**	**Q3 2018**	**Q4 2018**	**Q1 2019**	**Q2 2019**
Income statement					
Revenue	**232.1**	**202.4**	**251.8**	**249.7**	**258.2**
Gross profit	69.1	59.8	77.9	63.4	73.8
Earnings before interest, tax, depreciation and amortisation (EBITDA)	42.7	34.5	48.0	36.0	47.3
Adjusted EBITDA	42.7	34.5	48.0	36.0	47.3
Earnings before interest, tax and amortisation (EBITA)	40.6	32.5	46.2	32.9	44.0
Adjusted EBITA	**40.6**	**32.5**	**46.2**	**32.9**	**44.0**
Operating profit (EBIT)	**38.7**	**30.6**	**44.3**	**31.0**	**42.1**
Profit before tax	37.3	29.4	42.9	29.9	41.1
Net profit for the period	29.2	23.0	33.5	23.4	32.1
Balance sheet					
Total assets	791.5	821.8	844.0	917.0	896.8
Net working capital	(51.3)	(55.2)	(94.1)	(67.9)	(68.5)
Net interest-bearing debt (NIBD)	188.9	161.9	90.7	139.3	150.5
Equity	352.2	375.3	408.8	432.3	416.9
Cash Flow					
Free cash flow excl. acquisitions of operations	28.2	35.1	53.6	2.3	45.9
Margins					
Gross margin, %	29.8%	29.6%	30.9%	25.4%	28.6%
EBITDA margin, %	18.4%	17.1%	19.0%	14.4%	18.3%
Adjusted EBITA margin, %	17.5%	16.1%	18.3%	13.2%	17.1%
EBIT margin, %	16.7%	15.1%	17.6%	12.4%	16.3%
Other ratios					
Solvency ratio, %	44.5%	45.7%	48.4%	47.1%	46.5%