

TCM Group Management's review

Interim report Q3 2018 (July 1 - September 30)

(All figures in brackets refer to the corresponding period in 2017)

A strong Q3 for TCM Group with 10% revenue growth and increased earnings

Financial highlights Q3

- Revenue DKK 202.4 million (DKK 184.8 million) corresponding to an organic growth of 9.5%
- Adjusted EBITA up DKK 4.1 million to DKK 32.5 million (DKK 28.4 million), corresponding to an increase of 14.6%. Adjusted EBITA margin was 16.1% (15.3%)
- EBIT up DKK 22.4 million to DKK 30.6 million (DKK 8.2 million), corresponding to an EBIT margin of 15.1% (4.5%). Non-recurring items had a negative impact of DKK 18.2 million in Q3 2017
- Net profit up 603.4% to DKK 23.0 million (DKK 3.3 million)
- Free cash flow excl. acquisitions of operations was DKK 35.1 million (DKK 27.7 million)
- Cash conversion ratio was 98.4% (108.9%)

Financial highlights 9 months 2018

- Revenue DKK 648.1 million (DKK 602.3 million) corresponding to an organic growth of 7.6%
- Adjusted EBITA up DKK 18.1 million to DKK 101.5 million (DKK 83.4 million), corresponding to an increase of 21.6%. Adjusted EBITA margin was 15.7% (13.9%)
- Non-recurring items had a negative impact of DKK 2.0 million in the first 9 months of 2018 due to costs related to the integration of Nettoline. This compares to non-recurring costs in the first 9 months of 2017 of DKK 21.7 million related to the acquisition of Nettoline and the Initial Public Offering
- EBIT up DKK 37.8 million to DKK 93.8 million (DKK 56.0 million), corresponding to an increase of 67.5%. EBIT margin was 14.5% (9.3%)
- Net profit up 96.8% to DKK 70.2 million (DKK 35.7 million)
- Free cash flow excl. acquisitions of operations was DKK 87.8 million (DKK 68.5 million)
- Outlook for the financial year 2018 is unchanged. Revenue is expected to be in the range DKK 890-910 million, adjusted EBITA in the range DKK 140-150 million and EBIT in the range of DKK 130-140 million

CEO Ole Lund Andersen:

“We continued our strong growth and gained market share in the third quarter with an organic revenue growth of 10%. At the same time earnings developed positively growing 15% driven by revenue growth, production efficiencies and synergies. All in all we are satisfied with the results and maintain our full-year outlook, which we raised after the second quarter.”

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Key figures and ratios

DKK million	Q3 2018	Q3 2017	9mth 2018	9mth 2017	FY 2017 *
Income statement					
Revenue	202.4	184.8	648.1	602.3	817.3
Gross profit	59.8	52.6	184.9	163.8	231.1
Earnings before interest, tax, depreciation and amortisation (EBITDA)	34.5	12.1	105.6	68.4	97.1
Adjusted EBITDA	34.5	30.3	107.6	90.1	131.4
Earnings before interest, tax and amortisation (EBITA)	32.5	10.1	99.5	61.7	88.5
Adjusted EBITA	32.5	28.4	101.5	83.4	122.8
Operating profit (EBIT)	30.6	8.2	93.8	56.0	80.9
Profit before tax	29.4	6.2	89.4	49.0	66.7
Net profit for the period	23.0	3.3	70.2	35.7	48.0
Balance sheet					
Total assets	821.8	840.5	821.8	840.5	805.5
Net working capital (NWC)	(55.2)	(48.5)	(55.2)	(48.5)	(80.8)
Net interest-bearing debt (NIBD)	161.9	185.0	161.9	185.0	225.8
Equity	375.3	378.3	375.3	378.3	304.8
Cash Flow					
Free cash flow excl. acquisitions of operations	35.1	27.7	87.8	68.5	99.8
Cash conversion, %	99.4%	108.9%	99.4%	108.9%	110.0%
Growth ratios					
Revenue growth, %	9.5%		7.6%		36.3%
Gross profit growth, %	13.7%		12.9%		29.1%
Adjusted EBITA growth, %	14.6%		21.6%		42.4%
EBIT growth, %	271.8%		67.5%		34.9%
Net profit growth, %	603.4%		96.8%		51.3%
Margins					
Gross margin, %	29.6%	28.5%	28.5%	27.2%	28.3%
EBITDA margin, %	17.1%	6.6%	16.3%	11.4%	11.9%
Adjusted EBITA margin, %	16.1%	15.3%	15.7%	13.9%	15.0%
EBIT margin, %	15.1%	4.5%	14.5%	9.3%	9.9%
Other ratios					
Solvency ratio, %	45.7%	45.0%	45.7%	45.0%	37.8%
Leverage ratio	0.96	1.36	0.96	1.36	1.72
NWC ratio, %	(6.4%)	(6.3%)	(6.4%)	(6.3%)	(9.9%)
Capex ratio excl. acquisitions, %	1.3%	1.3%	0.7%	0.9%	1.0%
Share information					
Earnings per share before dilution, DKK	2.30	0.33	7.02	3.57	4.80
Earnings per share after dilution, DKK	2.30	0.31	7.02	3.41	4.51

Reference is made to the consolidated financial statements for 2017 prepared in accordance with IFRS for definitions of key figures and ratios.

* The income statement FY 2016 covers the financial year 2016 (9 December 2015 – 31 December 2016), but only include 10 months of business activity following the acquisition of TCM Group A/S as at 1 March 2016. Proforma figures includes business activity from 1 January 2016 to cover the full period. Growth ratios for 2017 are measured against proforma figures.

Business review

Revenue in Q3 2018 increased by 9.5% to DKK 202.4 million (DKK 184.8 million). The revenue growth was entirely organic based on the same number of production days as Q3 2017.

TCM Group's primary market is Denmark with 91% of Group revenue in Q3 2018. Revenue in Denmark was DKK 184.8 million (DKK 164.8 million), with an organic growth of 12.1%. The total market for kitchen and related products in Denmark developed positively during Q3 2018 compared to same period 2017. We estimate that the Danish market in 2018 will grow by 2-3%. In Q3 2018 the growth was driven by the Svane and Tvis branded stores primarily within the B2B segment. We continue to gain market shares through our strong brands and continued product innovation.

Revenue in other countries constitutes 9% of Group revenue and was DKK 17.6 million (DKK 20.0 million), down DKK 2.4 million. This was solely due to a decline in sale of non-branded DIY kitchens. Besides the impact from a hot summer, sale of non-branded DIY kitchens was impacted by timing differences due to the planned merger of two production sites as of 1 October 2017, which pushed deliveries of orders forward from Q4 to Q3 2017. We saw a strong development in our branded stores in Norway with double-digit growth in Q3 2018.

At the end of Q3 2018, the total number of Svane and Tvis branded stores was 62 (60). In March 2018, two new Tvis stores opened in Esbjerg and Aabenraa and in October 2018, a new Tvis store opened in Aalborg. We have signed an agreement with a new dealer to open a Tvis store in Næstved, and the store is expected to open during Q4 2018. Upcoming new Svane stores include one store in Køge, expected to open around year-end 2018. In addition, we have signed an agreement with a new dealer to open a Svane store in Trondheim, Norway, and the store is expected to open during Q4 2018. Furthermore, we have signed an agreement with a dealer to open a Svane store in Drammen, Norway, and the store is expected to open during Q1 2019. The two new stores will increase the number of Svane stores in Norway to 8 and are a part of TCM Group's strategy of opening 8-12 branded stores in Norway in the short to medium term. With the new stores, the number of branded stores will increase to 67.

Total number of employees at the end of Q3 2018 was 471 (435). The increase in number of employees was primarily due to manning up in production to increase capacity to support the revenue growth in the last 12 months.

Other events in Q3 2018

Kristian Kemppinen, Partner in IK Investment Partners, resigned from the Board of Directors of TCM Group as of 5 July 2018 as a natural consequence of the fact that IK Investment Partners no longer owns shares in TCM Group. At the same time, board member Anders Skole-Sørensen replaced Kristian Kemppinen as deputy chairman of the Board of Directors, which consists of five members elected by the annual general meeting.

Events after the reporting period

As of 29 October 2018, Erik Theill Christensen joined TCM Group as Managing Director for Nettoline. Erik Theill Christensen has a strong background within the Nordic kitchen industry.

As of 1 November 2018, Lis Hammelsvang joined TCM Group as Supply Chain Manager. Lis Hammelsvang brings solid production management experience from both the wind turbine industry and kitchen manufacturing to the Group.

Financial outlook

The financial outlook is unchanged. TCM Group estimates revenue for the financial year 2018 to be in the range DKK 890-910 million with an adjusted EBITA in the range of DKK 140-150 million, translating into an EBIT in the range of DKK 130-140 million.

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 2017 Annual Report prepared in accordance with IFRS.

Financial review

Revenue

Revenue in Q3 2018 grew organically by 9.5% to DKK 202.4 million (DKK 184.8 million).

Revenue in Denmark in Q3 2018 was up 12.1% to DKK 184.8 million (DKK 164.8 million) driven by growth in the Svane and Tvis branded stores primarily within the B2B segment. Revenue in other countries in Q3 2018 was down DKK 2.4 million to DKK 17.6 million (DKK 20.0 million).

Revenue for the first nine months of 2018 was up 7.6% to DKK 648.1 million (DKK 602.3 million). Revenue in Denmark for the first nine months of 2018 was up 9.3% to DKK 580.4 million (DKK 531.1 million) and revenue in other countries for the first nine months of 2018 was down 4.9% to DKK 67.7 million (DKK 71.2 million).

Gross profit

Gross profit in Q3 2018 was DKK 59.8 million (DKK 52.6 million), corresponding to a gross margin of 29.6% (28.5%). The gross margin was positively affected by a favorable impact from a more favorable sales mix compared to Q3 2017 with a lower share of revenue from 3rd party products, other efficiency improvements and the inclusion of Svane Aabenraa.

Gross profit for the first nine months of 2018 was DKK 184.9 million (DKK 163.8 million), corresponding to a gross margin of 28.5% (27.2%). The gross margin was positively affected by a favorable impact from synergies related to the integration of Nettoline, a more favorable sales mix and other efficiency improvements.

Operating expenses

Operating expenses in Q3 2018 were DKK 29.2 million (DKK 26.2 million). The increase in operating expenses of DKK 3.1 million was due to an increase in both selling and administrative expenses. Selling expenses increased with DKK 1.9 million, which was due to an increased marketing spend. The increase in administrative expenses of DKK 1.1 million was primarily due to costs related to being a listed company and costs related to the Svane store in Aabenraa. Operating expenses represented 14.4% of revenue in Q3 2018 (14.2%).

Operating expenses for the first nine months of 2018 were DKK 89.2 million (DKK 86.0 million). Operating expenses represented 13.8% of revenue for the first nine months of 2018 (14.3%).

Adjusted EBITA

Adjusted EBITA in Q3 2018 was DKK 32.5 million (DKK 28.4 million), corresponding to an adjusted EBITA margin of 16.1% (15.3%). The increase in adjusted EBITA was driven by revenue growth and a higher gross margin primarily due to a more favorable sales mix and other efficiency improvements. Depreciations were DKK 2.0 million (DKK 2.0 million).

Adjusted EBITA for the first nine months of 2018 was DKK 101.5 million (DKK 83.4 million), corresponding to an adjusted EBITA margin of 15.7% (13.9%). Depreciations for the first nine months of 2018 were DKK 6.1 million (DKK 6.7 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 non-recurring nature. In 2017 and 2018, non-recurring items included amortization of order backlog and transaction costs related to business combinations, costs related to the Initial Public Offering (IPO) of the company, costs related to the integration of Nettoline (including the merger of two production sites) and impairment of assets held for sale related to the shutdown of a production site, and are specified below:

Non-recurring items, DKK m	Q3		9 months	
	2018	2017	2018	2017
Amortization of order backlog from business combinations	0.0	0.0	0.0	0.4
Transaction costs related to business combinations	0.0	0.0	0.0	0.9
Costs related to the Initial Public Offering of the company	0.0	5.7	0.0	7.9
Costs related to integration of Nettoline	0.0	5.4	2.0	5.4
Impairment of assets held for sale related to site shutdown	0.0	7.2	0.0	7.2
Total	0.0	18.2	2.0	21.7

EBIT

EBIT in Q3 2018 increased to DKK 30.6 million (DKK 8.2 million). The increase was primarily due to the profit impact from the revenue growth, a higher gross margin and a high level of non-recurring items in Q3 2017. Amortizations were on par with Q3 2017.

EBIT for the first nine months of 2018 increased to DKK 93.8 million (DKK 56.0 million). The increase was primarily due to the profit impact from the revenue growth, a higher gross margin and a decrease in non-recurring items to DKK 2.0 million in the first nine months of 2018 (DKK 21.7 million). Amortizations were on par with same period last year.

Net profit

Net profit in Q3 2018 increased to DKK 23.0 million (DKK 3.3 million). The increase was primarily due to an increase in EBIT. Financial expenses had a positive impact on net profit of DKK 0.8 million due to improved interest rate terms and lower debt.

Net profit for the first nine months of 2018 increased to DKK 70.2 million (DKK 35.7 million). The increase was primarily due to an increase in EBIT. Financial expenses had a positive impact on net profit of DKK 2.6 million due to improved interest rate terms and lower debt.

Free cash flow excl. acquisitions of operation and cash conversion

Free cash flow excl. acquisitions in Q3 2018 was DKK 35.1 million (DKK 27.7 million). The increase in cash flow in Q3 2018 was primarily due to the higher operating profit off-set by a change in net working capital of DKK 3.1 million (DKK 9.9 million). Investments were on par with Q3 2017. Cash conversion in Q3 2018 was 98.4% (108.9%).

Free cash flow excl. acquisitions for the first nine months of 2018 was DKK 87.8 million (DKK 68.5 million). The cash flow for the first nine months of 2018 was favourably impacted by the sale of the site in Horsens in Q1 2018 with DKK 16.6 million. The higher operating profit was off-set by higher tax payments of DKK 4.0 million (DKK 0.0 million) and a change in net working capital of DKK -26.1 million (DKK -5.7 million).

Net working capital

Net working capital at the end of Q3 2018 was DKK -55.2 million (DKK -48.5 million). NWC ratio at the end of Q3 2018 was -6.4% (-6.3%).

DKK million	End of Q3	
	2018	2017
Inventory	41.5	36.0
Trade and other receivables	72.8	75.0
Trade and other payables	(169.4)	(159.5)
Net working capital	(55.2)	(48.5)
NWC ratio	(6.4%)	(6.3%)

The increase in inventory of DKK 5.5 million was primarily due to the higher activity level and timing differences.

Trade and other receivables decreased by DKK 2.2 million despite a higher activity level. The development was driven by a changed sales mix.

The increase in trade and other payables of DKK 9.9 million was primarily due to the higher activity level.

Net interest-bearing debt

Net interest-bearing debt amounted to DKK 161.9 million at the end of Q3 2018 (DKK 185.0 million). Net interest-bearing debt decreased by DKK 27.0 million in Q3 2018 primarily due to the positive cash flow from operating activities. The leverage ratio measured as net interest bearing debt excluding tax liabilities divided by adjusted EBITDA LTM end of Q3 2018 was 0.96 (1.36).

Equity

Equity at the end of Q3 2018 amounted to DKK 375.3 million (DKK 378.3 million). The equity increased by DKK 23.1 million in Q3 2018, which was due to net profit for the period. No dividend has been distributed during the period. The solvency ratio was 45.7% at the end of Q3 2018 (45.0%).

Additional information

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, sliding doors, accessories and white goods.

Manufacturing is generally carried out in-house and more than 90% is manufactured 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, kitchen 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	Q3		9 months	
		2018	2017	2018	2017
Revenue	2	202.4	184.8	648.1	602.3
Cost of goods sold		(142.6)	(132.1)	(463.2)	(438.5)
Gross profit		59.8	52.6	184.9	163.8
Selling expenses		(16.8)	(14.9)	(51.0)	(50.6)
Administrative expenses		(12.4)	(11.3)	(38.2)	(35.4)
Other operating income		0.0	0.0	0.1	0.0
Operating profit before non-recurring items		30.6	26.5	95.8	77.8
Non-recurring items	3	0.0	(18.2)	(2.0)	(21.7)
Operating profit		30.6	8.2	93.8	56.0
Financial income		0.0	0.0	0.1	0.0
Financial expenses		(1.3)	(2.1)	(4.6)	(7.1)
Profit before tax		29.4	6.2	89.4	49.0
Tax for the period		(6.3)	(2.9)	(19.2)	(13.3)
Net profit for the period		23.0	3.3	70.2	35.7
Earnings per share before dilution, DKK		2.30	0.33	7.02	3.57
Earnings per share after dilution, DKK		2.30	0.31	7.02	3.41

Consolidated statement of comprehensive income

DKK m	Q3		9 months	
	2018	2017	2018	2017
Net profit for the period	23.0	3.3	70.2	35.7
Other comprehensive income				
Items that are or may be reclassified subsequent to profit or loss				
Value adjustments of cash-flow hedges before tax	0.1	(0.1)	0.3	(0.0)
Tax on value adjustments of cash-flow hedges	(0.0)	0.0	(0.1)	0.0
Other comprehensive income for the period	0.1	(0.1)	0.3	(0.0)
Total comprehensive income for the period	23.1	3.2	70.5	35.7

Consolidated balance sheet

DKK m	Note	End of Q3 2018	2017	End of 2017
ASSETS				
Intangible assets				
Goodwill		369.8	369.8	369.8
Brand		172.0	172.0	172.0
Other intangible assets		20.1	29.1	26.8
		561.9	570.9	568.6
Tangible assets				
Land and buildings		70.4	70.3	70.0
Tangible assets under construction and prepayments		0.0	0.0	0.2
Machinery and other technical equipment		11.4	11.0	12.1
Equipment, tools, fixtures and fittings		2.4	1.9	2.6
		84.2	83.3	84.9
Financial assets		0.7	0.8	0.7
Total non-current assets		646.9	654.9	654.3
Inventories		41.5	36.0	34.5
Current receivables				
Trade receivables		62.0	68.0	35.1
Other receivables		6.7	4.5	12.3
Prepaid expenses and accrued income		4.1	2.5	3.6
		72.8	75.0	51.0
Cash and cash equivalents		59.7	58.1	49.2
Assets held for sale		0.9	16.6	16.6
Total current assets		174.9	185.7	151.3
Total assets		821.8	840.5	805.5

Consolidated balance sheet

DKK m	Note	End of Q3 2018	2017	End of 2017
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital		1.0	1.0	1.0
Value adjustments of cash flow hedges		(0.2)	(0.5)	(0.4)
Retained earnings		374.5	377.8	304.2
Total shareholders' equity		375.3	378.3	304.8
Deferred tax		55.2	59.0	58.9
Mortgage loans		36.9	52.6	39.0
Bank loans		139.6	150.3	196.1
Total long-term liabilities		231.7	262.0	294.1
Mortgage loans		2.7	3.7	16.4
Bank loans		23.0	14.7	23.1
Prepayments from customers		4.0	3.1	2.2
Trade payables		103.6	91.0	117.2
Current tax liabilities		19.4	21.8	0.4
Derivative instruments		0.2	0.6	0.6
Other liabilities		61.8	65.2	46.3
Deferred income		0.0	0.2	0.6
Total short-term liabilities		214.7	200.2	206.7
Total shareholders' equity and liabilities		821.8	840.5	805.5

Change in consolidated shareholders' equity

	Share capital DKK m	Value ad- justments of Cash flow hedges after tax DKK m	Retained earnings DKK m	Total DKK m
Opening balance 01.01.2017	0.1	(0.5)	340.3	339.9
Net profit for the period	0.0	0.0	35.7	35.7
Other comprehensive income for the period	0.0	0.0	0.0	0.0
Total comprehensive income for the period	0.0	0.0	35.7	35.7
Share-based payments	0.0	0.0	2.7	2.7
Bonus issue	0.9	0.0	(0.9)	0.0
Closing balance 30.09.2017	1.0	(0.5)	377.8	378.3
Opening balance 01.01.2018	1.0	(0.4)	304.2	304.8
Net profit for the period	0.0	0.0	70.2	70.2
Other comprehensive income for the period	0.0	0.3	0.0	0.3
Total comprehensive income for the period	0.0	0.3	70.2	70.5
Share-based payments	0.0	0.0	0.0	0.0
Closing balance 30.09.2018	1.0	(0.2)	374.5	375.3

Consolidated cash flow statement

DKK m	Note	Q3		9 months	
		2018	2017	2018	2017
Operating activities					
Operating profit		30.6	8.3	93.8	56.0
Depreciation and amortization		3.9	11.1	11.8	20.0
Share-based payments		0.0	0.9	0.0	2.7
Income tax paid		0.0	0.0	(4.0)	0.0
Change in net working capital		3.1	9.9	(26.1)	(5.7)
Cash flow from operating activities		37.7	30.1	75.6	73.0
Investing activities					
Investments in fixed assets		(2.6)	(2.4)	(4.4)	(5.3)
Sale of fixed assets		0.0	0.0	16.6	0.8
Acquisition of operations		0.0	0.0	(0.5)	(52.8)
Cash flow from investing activities		(2.6)	(2.4)	11.7	(57.3)
Financing activities					
Interest paid		(1.2)	(1.8)	(4.1)	(6.3)
Repayments of loans		(0.7)	(8.7)	(72.7)	(48.0)
Cash flow from financing activities		(1.9)	(10.5)	(76.8)	(54.2)
Cash flow for the period		33.1	17.2	10.5	(38.5)
Cash and cash equivalents at the beginning of the period					
		26.6	40.9	49.2	96.6
Cash flow for the period		33.1	17.2	10.5	(38.5)
Cash and cash equivalents at the end of the period		59.7	58.1	59.7	58.1

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 2017 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 39-46 and 69.

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 2018 as adopted by the European Union.

Implementation of the standards and amendments have not had any material impact on the Group’s Financial Statements and are likewise not expected to have any significant future impact.

Of the new standards and amendments implemented the most significant are IFRS 9 and IFRS 15, which are described below.

With effect from 1 January 2018, IFRS 9 Financial Instruments has replaced IAS 39 Financial Instruments: Recognition and Measurement. Through IFRS 9, the IASB has made a number of changes to the recognition of financial instruments. The amendments contain new requirements for recognition and measurement of financial instruments, an expected loss impairment model and simplified requirements for hedge accounting.

The amendments of recognition and measurement has not impacted the condensed consolidated interim financial statements. Since bad debt losses have been and are expected to be very limited, the effect is immaterial. The new rules for hedge accounting has no material effect on the recognition in the condensed consolidated interim financial statements.

With effect from 1 January 2018, IFRS 15 Revenue from Contracts with Customers entails that IFRS will contain a single, principles based model for all industries, which has replaced existing standards and statements on revenue.

Under IFRS 15, revenue is recognized at the point in time control over the goods passed to the customer. Revenue recognition for certain project sales, including the installation of kitchens, is affected. Such sales comprise only a small percentage of the Group’s sales. On this basis, the impact regarding the recognition of variable income and other changes in policies in IFRS 15 is immaterial.

Notes to the interim consolidated financial statements

1. Accounting policies (continued)

New IFRS standards that have not yet been applied

IFRS 16 Leases will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease and related rules with application from 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. Agreements for primarily the lease of premises, which currently comprise operating leases, are not recognized in the balance sheet as an asset and liability except for the accrued amounts arising in connection with the financial statements.

As of the date of approval of the condensed consolidated interim financial statements there are no changes to the expectations set out in the Annual Report for 2017, in which information of the expected impact from the implementation of the standard is available.

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	Q3		9 months	
	2018	2017	2018	2017
Denmark	184.8	164.8	580.4	530.9
Other countries	17.6	20.0	67.7	71.4
	202.4	184.8	648.1	602.3

Revenue consists of sale of goods and services.

3. Non-recurring items

Non-recurring items, DKK m	Q3		9 months	
	2018	2017	2018	2017
Amortization of order backlog from business combinations	0.0	0.0	0.0	0.4
Transaction costs related to business combinations	0.0	0.0	0.0	0.9
Costs related to the Initial Public Offering of the company	0.0	5.7	0.0	7.9
Costs related to integration of Nettoline	0.0	5.4	2.0	5.4
Impairment of assets held for sale related to site shutdown	0.0	7.2	0.0	7.2
Total	0.0	18.2	2.0	21.7

Notes to the interim consolidated financial statements

4. Financial instruments – fair value

Interest rate swaps at a value of DKK (0.2) million (DKK (0.6) million) 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 reporting period

As of 29 October 2018, Erik Theill Christensen joined TCM Group as Managing Director for Nettoline. Erik Theill Christensen has a strong background within the Nordic kitchen industry.

As of 1 November 2018, Lis Hammelsvang joined TCM Group as Supply Chain Manager. Lis Hammelsvang brings solid production management experience from both the wind turbine industry and kitchen manufacturing to the Group.

Apart from the events recognized or disclosed in the consolidated interim financial statements, no other events have occurred after the reporting period of importance to the consolidated interim financial statements.

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 2018 – 30 September 2018.

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 September 2018 and of the results of the Group's operations and cash flows for the period 1 January to 30 September 2018.

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, 7 November, 2018

Executive Management

Ole Lund Andersen
CEO

Mogens Elbrønd Pedersen
CFO

Karsten Rydder Pedersen
COO

Board of Directors

Sanna Mari Suvanto-Harsaae
Chairman

Anders Tormod Skole-Sørensen
Deputy Chairman

Peter Liebert Jelkeby

Søren Mygind Eskildsen

Carsten Bjerg

Supplementary financial disclosure

Quarterly overview

DKK million	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Income statement					
Revenue	184.8	215.0	213.6	232.1	202.4
Gross profit	52.6	67.3	55.9	69.1	59.8
Earnings before interest, tax, depreciation and amortisation (EBITDA)	12.1	28.7	28.4	42.7	34.5
Adjusted EBITDA	30.3	41.3	30.4	42.7	34.5
Earnings before interest, tax and amortisation (EBITA)	10.1	26.8	26.4	40.6	32.5
Adjusted EBITA	28.4	39.3	28.4	40.6	32.5
Operating profit (EBIT)	8.2	24.9	24.5	38.7	30.6
Profit before tax	6.2	17.8	22.7	37.3	29.4
Net profit for the period	3.3	12.3	18.0	29.2	23.0
Balance sheet					
Total assets	840.5	805.5	814.1	791.5	821.8
Net working capital	(48.5)	(80.8)	(65.2)	(51.3)	(55.2)
Net interest-bearing debt (NIBD)	185.0	225.8	206.6	188.9	161.9
Equity	378.3	304.8	322.8	352.2	375.3
Cash Flow					
Free cash flow excl. acquisitions of operations	27.7	31.4	24.6	28.2	35.1
Margins					
Gross margin, %	28.5%	31.3%	26.2%	29.8%	29.6%
EBITDA margin, %	6.6%	13.3%	13.3%	18.4%	17.1%
Adjusted EBITA margin, %	15.3%	18.3%	13.3%	17.5%	16.1%
EBIT margin, %	4.5%	11.6%	11.5%	16.7%	15.1%
Other ratios					
Solvency ratio, %	45.0%	37.8%	39.7%	44.5%	45.7%