TCM Group Management's review

Interim report Q4 2018 (October 1 - December 30)

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

Excellent ending to strong 2018 with 17% organic growth in Q4

Financial highlights Q4

- Revenue DKK 251.8 million (DKK 215.0 million) corresponding to an organic growth of 17.1%
- Adjusted EBITA up DKK 6.9 million to DKK 46.2 million (DKK 39.3 million), corresponding to an increase of 17.4%. Adjusted EBITA margin was 18.3% (18.3%)
- EBIT up DKK 19.4 million to DKK 44.3 million (DKK 24.9 million), corresponding to an EBIT margin of 17.6% (11.6%). Non-recurring items had a negative impact of DKK 12.6 million in Q4 2017
- Net profit up 172.1% to DKK 33.5 million (DKK 12.3 million)
- Free cash flow excl. acquisitions of operations was DKK 53.6 million (DKK 31.4 million)
- Cash conversion ratio was 102.6% (110.0%)

Financial highlights 2018

- Revenue DKK 899.9 million (DKK 817.3 million) corresponding to an organic growth of 10.1%
- Adjusted EBITA up DKK 24.9 million to DKK 147.7 million (DKK 122.8 million), corresponding to an increase of 20.3%. Adjusted EBITA margin was 16.4% (15.0%)
- Non-recurring items had a negative impact of DKK 2.0 million in 2018 due to costs related to the integration of Nettoline. This compares to non-recurring costs in 2017 of DKK 34.3 million related to the Initial Public Offering and the acquisition of Nettoline
- EBIT up DKK 57.2 million to DKK 138.1 million (DKK 80.9 million), corresponding to an increase of 70.7%. EBIT margin was 15.3% (9.9%)
- Net profit up 116.1% to DKK 103.7 million (DKK 48.0 million)
- Free cash flow excl. acquisitions of operations was DKK 141.5 million (DKK 99.8 million)
- Proposed dividend distribution of DKK 4.75 per share corresponding to 46% of net profit
- Outlook for the financial year 2019 is expected to be in the range DKK 960-1,000 million in revenue, adjusted EBITA in the range DKK 155-165 million translating into an EBIT in the range of DKK 145-155 million.

CEO Ole Lund Andersen:

"Q4 2018 was very strong with an organic revenue growth of 17% and a similar strong growth in earnings. We are proud of the strong double-digit organic growth for the full year and once again we outperformed the general market. All in all we are very satisfied with the results for 2018, where we delivered in the high end of our guidance, and look forward continuing our growth journey in 2019."

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Key figures and ratios

DKK million	Q4 2018	Q4 2017	FY 2018	FY 2017 *
Income statement				
Revenue	**251.8**	**215.0**	**899.9**	**817.3**
Gross profit	77.9	67.3	262.8	231.1
Earnings before interest, tax, depreciation and amortisation (EBITDA)	48.0	28.7	153.6	97.1
Adjusted EBITDA	48.0	41.3	155.6	131.4
Earnings before interest, tax and amortisation (EBITA)	46.2	26.8	145.7	88.5
Adjusted EBITA	**46.2**	**39.3**	**147.7**	**122.8**
Operating profit (EBIT)	**44.3**	**24.9**	**138.1**	**80.9**
Profit before tax	42.9	17.8	132.3	66.7
Net profit for the period	33.5	12.3	103.7	48.0
Balance sheet				
Total assets	844.0	805.5	844.0	805.5
Net working capital (NWC)	(94.1)	(80.8)	(94.1)	(80.8)
Net interest-bearing debt (NIBD)	90.7	225.8	90.7	225.8
Equity	408.8	304.8	408.8	304.8
Cash Flow				
Free cash flow excl. acquisitions of operations	53.6	31.4	141.4	99.8
Cash conversion, %	102.6%	110.0%	102.6%	110.0%
Growth ratios				
Revenue growth, %	17.1%		10.1%	36.3%
Gross profit growth, %	15.7%		13.7%	29.1%
Adjusted EBITA growth, %	17.4%		20.3%	42.4%
EBIT growth, %	78.1%		70.7%	34.9%
Net profit growth, %	172.1%		116.1%	51.3%
Margins				
Gross margin, %	30.9%	31.3%	29.2%	28.3%
EBITDA margin, %	19.0%	13.3%	17.1%	11.9%
Adjusted EBITA margin, %	18.3%	18.3%	16.4%	15.0%
EBIT margin, %	17.6%	11.6%	15.3%	9.9%
Other ratios				
Solvency ratio, %	48.4%	37.8%	48.4%	37.8%
Leverage ratio	0.58	1.72	0.58	1.72
NWC ratio, %	(10.5%)	(9.9%)	(10.5%)	(9.9%)
Capex ratio excl. acquisitions, %	1.9%	1.5%	1.0%	1.0%
Share information				
Earnings per share before dilution, DKK	3.35	1.23	10.37	4.80
Earnings per share after dilution, DKK	3.35	1.18	10.37	4.51

Reference is made to the consolidated financial statements for 2018 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 Q4 2018 increased by 17.1% to DKK 251.8 million (DKK 215.0 million). The revenue growth was entirely organic.

TCM Group's primary market is Denmark with 91% of Group revenue in Q4 2018. Revenue in Denmark was DKK 229.5 million (DKK 190.5 million), with an organic growth of 20.5%. The total market for kitchen and related products in Denmark developed positively during Q4 2018 compared to same period 2017. In Q4 2018 the growth was driven by the Svane Køkkenet and Tvis Køkkener branded stores primarily within the B2B segment. We estimate that the Danish market in 2018 grew by 2-3% compared to our full year organic growth of 12.3% and 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 22.3 million (DKK 24.6 million), down DKK 2.3 million. This was solely due to a decline in sale of non-branded DIY kitchens. While we continue to see great potential in the existing branded stores in Norway as well as potential of covering the full market with Svane Køkkenet stores, we are also focusing on correcting the development in non-branded DIY sales. An experienced, Norway-based country manager for non-branded DIY kitchens was employed in Q4 2018.

At the end of Q4 2018, the total number of Svane and Tvis branded stores was 65 (60). During 2018, four new Tvis Køkkener stores opened in Esbjerg, Aabenraa, Aalborg and Næstved. We signed an agreement regarding a new Svane Køkkenet store in Køge which opened in February 2019. Furthermore a Svane Køkkenet store opened in Trondheim, Norway, in Q4 2018 and we signed an agreement regarding a new Svane Køkkenet store in Drammen, Norway which is expected to open in April 2019. With the new stores, the number of branded stores will increase to 67.

Total number of employees at the end of Q4 2018 was 469 (442). 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 Q4 2018

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.

Events after the reporting period

Peter Jelkeby resigned from the Board of Directors of TCM Group as of 31 January 2019.

The Board of Directors of TCM Group will hereafter consist of Sanna Suvanto-Harsaae (chairman), Anders Skole Sørensen (deputy chairman), Carsten Bjerg and Søren Mygind Eskildsen, all elected by the annual general meeting.

The Svane Køkkenet store in Aabenraa has been sold with effect from 1 February 2019.

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.

Financial outlook

TCM Group estimates revenue for the financial year 2019 to be in the range DKK 960-1,000 million with an adjusted EBITA in the range of DKK 155-165 million, translating into an EBIT in the range of 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 Q4 2018 revenue grew organically by 17.1% to DKK 251.8 million (DKK 215.0 million).

Revenue in Denmark in Q4 2018 was up 20.5% to DKK 229.5 million (DKK 190.5 million) driven by growth in the Svane Køkkenet and Tvis Køkkener branded stores primarily within the B2B segment. Revenue in other countries in Q4 2018 was down DKK 2.3 million to DKK 22.3 million (DKK 24.6 million).

Revenue for the financial year 2018 was up 10.1% to DKK 899.9 million (DKK 817.3 million). Revenue in Denmark for the financial year 2018 was up 12.3% to DKK 809.9 million (DKK 721.3 million) and revenue in other countries for the financial year 2018 was down 6.2% to DKK 90.0 million (DKK 96.0 million).

Gross profit

Gross profit in Q4 2018 was DKK 77.9 million (DKK 67.3 million), corresponding to a gross margin of 30.9% (31.3%). The gross margin was adversely affected by sales mix compared to Q4 2017 with a higher growth within the B2B segment as well as higher share of revenue from 3rd party products.

Gross profit for the financial year 2018 was DKK 262.8 million (DKK 231.1 million), corresponding to a gross margin of 29.2% (28.3%). The gross margin was positively affected by a favorable impact from synergies related to the integration of Nettoline.

Operating expenses

Operating expenses in Q4 2018 were DKK 33.7 million (DKK 29.9 million). The increase in operating expenses of DKK 3.7 million was driven by an increase in administrative expenses of DKK 3.2 million which was primarily due to costs related to being a listed company. Operating expenses represented 13.4% of revenue in Q4 2018 (13.9%).

Operating expenses for the financial year 2018 were DKK 122.8 million (DKK 116.0 million). Operating expenses represented 13.6% of revenue for the financial year 2018 (14.2%).

Adjusted EBITA

Adjusted EBITA in Q4 2018 was DKK 46.2 million (DKK 39.3 million), corresponding to an adjusted EBITA margin of 18.3% (18.3%). The increase in adjusted EBITA was primarily driven by revenue growth. Depreciations were DKK 1.8 million (DKK 1.9 million).

Adjusted EBITA for the financial year 2018 was DKK 147.7 million (DKK 122.8 million), corresponding to an adjusted EBITA margin of 16.4% (15.0%). Depreciations for the financial year 2018 were DKK 7.9 million (DKK 8.6 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 and are specified below:

	Q4		12 months	
Non-recurring items, DKK m	**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	0.8
Costs related to the Initial Public Offering of the company	0.0	8.8	0.0	16.7
Costs related to integration of Nettoline	0.0	3.7	2.0	9.1
Impairment of assets held for sale related to site shutdown	0.0	0.0	0.0	7.2
Total	**0.0**	**12.6**	**2.0**	**34.3**

EBIT

EBIT in Q4 2018 increased to DKK 44.3 million (DKK 24.9 million). The increase was primarily due to the profit impact from the revenue growth and a high level of non-recurring items in Q4 2017. Amortizations were on par with Q4 2017.

EBIT for the financial year 2018 increased to DKK 138.1 million (DKK 80.9 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 financial year 2018 (DKK 34.3 million). Amortizations were on par with same period last year.

Net profit

Net profit in Q4 2018 increased to DKK 33.5 million (DKK 12.3 million). The increase was primarily due to an increase in EBIT. Financial expenses had a positive impact on net profit of DKK 6.0 million primarily due to one-off costs in Q4 2017 related to reversal of capitalized loan costs when the former credit facility agreement was refinanced as a part of the listing proces.

Net profit for the financial year 2018 increased to DKK 103.7 million (DKK 48.0 million). The increase was primarily due to an increase in EBIT. Change in financial expenses had a positive impact on net profit of DKK 8.5 million due to improved interest rate terms, lower debt and the reversal of capitalized loan costs in 2017.

Free cash flow excl. acquisitions of operation and cash conversion

Free cash flow excl. acquisitions of operation in Q4 2018 was DKK 53.6 million (DKK 31.4 million). The increase in cash flow in Q4 2018 was primarily due to the higher operating profit and change in net working capital of DKK 39.2 million (DKK 32.3 million). Investments were DKK 4.8 million (DKK 3.2 million). Cash conversion in Q4 2018 was 102.6% (110.0%).

Free cash flow excl. acquisitions for the financial year 2018 was DKK 141.4 million (DKK 99.8 million). The cash flow for the financial year 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 32.6 million (DKK 27.0 million) and a change in net working capital of DKK 13.1 million (DKK 26.5 million).

Net working capital

Net working capital at the end of Q4 2018 was DKK -94.1 million (DKK -80.8 million). NWC ratio at the end of Q4 2018 was -10.5% (-9.9%).

	End of Q4	
DKK million	**2018**	**2017**
Inventory	36.5	34.5
Trade and other receivables	58.1	51.0
Trade and other payables	(188.7)	(166.3)
Net working capital	**(94.1)**	**(80.8)**
NWC ratio	**(10.5%)**	**(9.9%)**

The increase in inventory of DKK 2.0 million was primarily due to the higher activity level.

Trade and other receivables increased by DKK 7.1 million was primarily due to the organic revenue growth.

The increase in trade and other payables of DKK 22.4 million was primarily due to the higher activity level as well as improved payment terms with suppliers.

Net interest-bearing debt

Net interest-bearing debt amounted to DKK 90.7 million at the end of Q4 2018 (DKK 225.8 million). Net interest-bearing debt decreased by DKK 71.2 million in Q4 2018 primarily due to the positive cash flow from operating activities and change in net working capital. The leverage ratio measured as net interest bearing debt excluding tax liabilities divided by adjusted EBITDA LTM end of Q4 2018 was 0.58 (1.72).

Equity

Equity at the end of Q4 2018 amounted to DKK 408.8 million (DKK 304.8 million). The equity increased by DKK 33.6 million in Q4 2018, which was due to net profit for the period. No dividend has been distributed during the period. The Board of Directors recommends to the annual general meeting that a dividend of DKK 4.75 per share be declared and paid. The dividend corresponds to 46% of Net profit for the period.

The solvency ratio was 48.4% at the end of Q4 2018 (37.8%).

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:

11 April 2019	Annual General Meeting
7 May 2019	Interim report Q1 2019
14 August 2019	Interim report Q2 2019
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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Consolidated interim financial statements

Consolidated income statement

		Q4		12 months	
DKK m	**Note**	**2018**	**2017**	**2018**	**2017**
Revenue	2	251.8	215.0	899.9	817.3
Cost of goods sold		(173.9)	(147.7)	(637.1)	(586.2)
Gross profit		**77.9**	**67.3**	**262.8**	**231.1**
Selling expenses		(19.7)	(19.2)	(70.7)	(69.8)
Administrative expenses		(13.9)	(10.8)	(52.1)	(46.2)
Other operating income		0.0	0.0	0.1	0.1
Operating profit before non-recurring items		**44.3**	**37.4**	**140.1**	**115.2**
Non-recurring items	3	0.0	(12.6)	(2.0)	(34.3)
Operating profit		**44.3**	**24.9**	**138.1**	**80.9**
Financial income		0.0	0.2	0.1	0.3
Financial expenses		(1.4)	(7.4)	(5.9)	(14.4)
Profit before tax		**42.9**	**17.8**	**132.3**	**66.7**
Tax for the period		(9.4)	(5.4)	(28.6)	(18.7)
Net profit for the period		**33.5**	**12.3**	**103.7**	**48.0**
Earnings per share before dilution, DKK		3.35	1.23	10.37	4.80
Earnings per share after dilution, DKK		3.35	1.18	10.37	4.51

Consolidated statement of comprehensive income

	Q4		12 months	
DKK m	**2018**	**2017**	**2018**	**2017**
Net profit for the period	33.5	12.3	103.7	48.0
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	0.5	0.1
Tax on value adjustments of cash-flow hedges	(0.0)	(0.0)	(0.1)	(0.0)
Other comprehensive income for the period	**0.1**	**0.0**	**0.4**	**0.0**
Total comprehensive income for the period	**33.6**	**12.4**	**104.1**	**48.0**

Consolidated balance sheet

		End of	
DKK m	**Note**	**2018**	**2017**
ASSETS			
Intangible assets			
Goodwill		369.8	369.8
Brand		172.0	172.0
Other intangible assets		17.8	26.8
		559.6	**568.6**
Tangible assets			
Land and buildings		70.9	70.0
Tangible assets under construction and prepayments		1.1	0.2
Machinery and other technical equipment		12.5	12.1
Equipment, tools, fixtures and fittings		3.1	2.6
		87.5	**84.9**
Financial assets		0.7	0.7
Total non-curent assets		**647.9**	**654.3**
Inventories		**36.5**	**34.5**
Current receivables			
Trade receivables		41.2	35.1
Other receivables		13.9	12.3
Prepaid expenses and accrued income		3.0	3.6
		58.1	**51.0**
Cash and cash equivalents		100.9	49.2
Assets held for sale		0.7	16.6
Total current assets		**196.1**	**151.3**
Total assets		**844.0**	**805.5**

Consolidated balance sheet

DKK m	Note	End of 2017	2017
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital		1.0	1.0
Value adjustments of cash flow hedges		(0.1)	(0.4)
Retained earnings		360.4	304.2
Proposed dividend for the financial year		47.5	0
Total shareholders' equity		**408.8**	**304.8**
Deferred tax		54.8	58.9
Mortgage loans		36.2	39.0
Bank loans		129.0	196.1
Other liabilities		2.3	0
Total long-term liabilities		**222.4**	**294.1**
Mortgage loans		2.8	16.4
Bank loans		23.1	23.1
Prepayments from customers		2.3	2.2
Trade payables		133.2	117.2
Current tax liabilities		0.5	0.4
Derivative instruments		0.1	0.6
Other liabilities		51.0	46.3
Deferred income		0.0	0.6
Total short-term liabilities		**212.8**	**206.7**
Total shareholders' equity and liabilities		**844.0**	**805.5**

Change in consolidated shareholders' equity

	Share capital DKK m	Value adjustments of Cash flow hedges after tax DKK m	Retained earnings DKK m	Proposed dividend DKK m	Total DKK m
Opening balance 01.01.2017	**0.1**	**(0.5)**	**340.3**	**0.0**	**339.9**
Net profit for the period	0.0	0.0	48.0	0.0	48.0
Other comprehensive income for the period	0.0	0.0	0.0	0.0	0.0
Total comprehensive income for the period	**0.0**	**0.0**	**48.0**	**0.0**	**48.0**
Share-based payments	0.0	0.0	3.3	0.0	3.3
Bonus issue	0.9	0.0	(0.9)	0.0	0.0
Cash settlement of warrants	0.0	0.0	(86.5)	0.0	(86.5)
Closing balance 31.12.2017	**1.0**	**(0.4)**	**304.2**	**0.0**	**304.8**
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**

Consolidated cash flow statement

DKK m	Note	Q4 2018	Q4 2017	12 months 2018	12 months 2017
Operating activities					
Operating profit		44.2	24.9	138.0	80.9
Depreciation and amortization		3.6	3.8	15.4	23.7
Share-based payments		0.0	0.6	0.0	3.3
Income tax paid		(28.7)	(27.0)	(32.6)	(27.0)
Change in net working capital		39.2	32.3	13.1	26.5
Cash flow from operating activities		**58.3**	**34.6**	**133.9**	**107.5**
Investing activities					
Investments in fixed assets		(4.8)	(3.2)	(9.2)	(8.5)
Sale of fixed assets		0.1	0.0	16.7	0.8
Acquisition of operations		0.0	0.0	(0.5)	(52.8)
Cash flow from investing activities		**(4.7)**	**(3.2)**	**7.1**	**(60.5)**
Financing activities					
Interest paid		(1.2)	(1.6)	(5.3)	(7.8)
Proceeds from loans		1.0	219.1	1.0	219.1
Repayments of loans		(12.3)	(171.3)	(85.0)	(219.2)
Cash flow from financing activities		**(12.5)**	**(40.2)**	**(89.3)**	**(94.5)**
Cash flow for the period		**41.1**	**(8.9)**	**51.7**	**(47.4)**
Cash and cash equivalents at the beginning of the period		**59.7**	**58.1**	**49.2**	**96.6**
Cash flow for the period		41.1	(8.9)	51.7	(47.4)
Cash and cash equivalents at the end of the period		**100.9**	**49.2**	**100.9**	**49.2**

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 2018 as adopted by the European Union.

Implementation of the standards and amendments have not had any material impact on the Group’s Financial Stantements 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. Calculations of the effects based on 2018 input, in terms of amounts, that capitalization of these leases may give rise to, indicates no significant impact on profit before tax, a favorable impact on EBITA margin of c. 0.1%-point and an adverse impact on the solvency ratio of c. 2-3%-points.

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.

	Q4		**12 months**	
Revenue by region, DKK m	**2018**	**2017**	**2018**	**2017**
Denmark	229.5	190.5	809.9	721.3
Other countries	22.3	24.6	90.0	96.0
	251.8	**215.0**	**899.9**	**817.3**

Revenue consists of sale of goods and services.

3. Non-recurring items

	Q4		**12 months**	
Non-recurring items, DKK m	**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	0.8
Costs related to the Initial Public Offering of the company	0.0	8.8	0.0	16.7
Costs related to integration of Nettoline	0.0	3.7	2.0	9.1
Impairment of assets held for sale related to site shutdown	0.0	0.0	0.0	7.2
Total	**0.0**	**12.6**	**2.0**	**34.3**

Notes to the interim consolidated financial statements

4. Financial instruments – fair value

Interest rate swaps at a value of DKK (0.1) 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

Peter Jelkeby resigned from the Board of Directors of TCM Group as of 31 January 2019.

The Board of Directors of TCM Group will hereafter consist of Sanna Suvanto-Harsaae (chairman), Anders Skole Sørensen (deputy chairman), Carsten Bjerg and Søren Mygind Eskildsen, all elected by the annual general meeting.

The Svane Køkkenet store in Aabenraa has been sold with effect from 1 February 2019.

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, 27 February, 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

Supplementary financial disclosure

Quarterly overview

DKK million	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Income statement					
Revenue	**215.0**	**213.6**	**232.1**	**202.4**	**251.8**
Gross profit	67.3	55.9	69.1	59.8	77.9
Earnings before interest, tax, depreciation and amortisation (EBITDA)	28.7	28.4	42.7	34.5	48.0
Adjusted EBITDA	41.3	30.4	42.7	34.5	48.0
Earnings before interest, tax and amortisation (EBITA)	26.8	26.4	40.6	32.5	46.2
Adjusted EBITA	**39.3**	**28.4**	**40.6**	**32.5**	**46.2**
Operating profit (EBIT)	**24.9**	**24.5**	**38.7**	**30.6**	**44.3**
Profit before tax	17.8	22.7	37.3	29.4	42.9
Net profit for the period	12.3	18.0	29.2	23.0	33.5
Balance sheet					
Total assets	805.5	814.1	791.5	821.8	844.0
Net working capital	(80.8)	(65.2)	(51.3)	(55.2)	(94.1)
Net interest-bearing debt (NIBD)	225.8	206.6	188.9	161.9	90.7
Equity	304.8	322.8	352.2	375.3	408.8
Cash Flow					
Free cash flow excl. acquisitions of operations	31.4	24.6	28.2	35.1	53.6
Margins					
Gross margin, %	31.3%	26.2%	29.8%	29.6%	30.9%
EBITDA margin, %	13.3%	13.3%	18.4%	17.1%	19.0%
Adjusted EBITA margin, %	18.3%	13.3%	17.5%	16.1%	18.3%
EBIT margin, %	11.6%	11.5%	16.7%	15.1%	17.6%
Other ratios					
Solvency ratio, %	37.8%	39.7%	44.5%	45.7%	48.4%