TCM Group

TCM Group Management's review

Interim report Q3 2019 (July 1 - September 30)

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

A strong Q3 for TCM Group with 17.3% organic growth

CEO Ole Lund Andersen:

"TCM Group continued to perform well in Q3 with revenue showing an organic growth of 17.3%, well in excess of the Danish market which we estimate is growing at a rate of 1-2%. We are pleased to see that TCM Group continues to gain market share and that our strategy of expanding our B2B sales across all categories is successfull. We are furthermore pleased that earnings also grew double-digit."

Financial highlights Q3

- Revenue DKK 237.5 million (DKK 202.4 million) corresponding to an organic growth of 17.3%.
- Adjusted EBITA up DKK 6.5 million to DKK 39.0 million (DKK 32.5 million), corresponding to an increase of 19.9%. Adjusted EBITA margin was 16.4% (16.1%), 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 3.0 million due to a production setback following a lightning strike at one of our 3 factories.
- EBIT up DKK 3.5 million to DKK 34.1 million (DKK 30.6 million), corresponding to an EBIT margin of 14.4% (15.1%).
- Net profit up 12.8% to DKK 25.9 million (DKK 23.0 million).
- Free cash flow excl. acquisitions of operations was DKK 39.5 million (DKK 35.1 million).
- Cash conversion ratio was 101.7% (99.4%).

Financial highlights 9 months 2019

- Revenue DKK 745.3 million (DKK 648.1 million) corresponding to an organic growth of 15.0%.
- Adjusted EBITA up DKK 14.4 million to DKK 115.9 million (DKK 101.5 million), corresponding to an increase of 14.1%. Adjusted EBITA margin was 15.5% (15.7%).
- Non-recurring items had a negative impact of DKK 3.0 million in the first 9 month of 2019 due to a production setback following a lightning strike at one of our 3 factories.
- EBIT up DKK 13.3 million to DKK 107.2 million (DKK 93.8 million), corresponding to an increase of 14.2%. EBIT margin was 14.4% (14.5%).
- Net profit up 16.0% to DKK 81.5 million (DKK 70.2 million).
- Free cash flow excl. acquisitions of operations was DKK 87.7 million (DKK 87.8 million). The underlying free cash flow is considerably stronger than in 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 2019 is reiterated: Revenue in the range DKK 1,000-1,030 million, adjusted EBITA in the range DKK 160-170 million, and EBIT in the range DKK 150-160 million.

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Key figures and ratios

DKK million	Q3 2019*	Q3 2018	9mth 2019*	9mth 2018	FY 2018
Income statement					
Revenue	**237.5**	**202.4**	**745.3**	**648.1**	**899.9**
Gross profit	66.7	59.8	203.9	184.9	262.8
Earnings before interest, tax, depreciation and amortisation (EBITDA)	39.5	34.5	122.9	105.6	153.6
Adjusted EBITDA	42.5	34.5	125.9	107.6	155.6
Earnings before interest, tax and amortisation (EBITA)	36.0	32.5	112.9	99.5	145.7
Adjusted EBITA	**39.0**	**32.5**	**115.9**	**101.5**	**147.7**
Operating profit (EBIT)	**34.1**	**30.6**	**107.2**	**93.8**	**138.1**
Profit before tax	33.1	29.4	104.1	89.4	132.3
Net profit for the period	25.9	23.0	81.5	70.2	103.7
Balance sheet					
Total assets	907.4	821.8	907.4	821.8	844.0
Net working capital (NWC)	(72.7)	(55.2)	(72.7)	(55.2)	(94.1)
Net interest-bearing debt (NIBD)	118.5	161.9	118.5	161.9	90.7
Equity	442.9	375.3	442.9	375.3	408.8
Cash Flow					
Free cash flow excl. acquisitions of operations	39.5	35.1	87.7	87.8	141.5
Cash conversion, %	101.7%	99.4%	101.7%	99.4%	102.6%
Growth ratios					
Revenue growth, %	17.3%	9.5%	15.0%	7.6%	10.1%
Gross profit growth, %	11.6%	13.7%	10.3%	12.9%	13.7%
Adjusted EBITA growth, %	19.9%	14.6%	14.1%	21.6%	20.3%
EBIT growth, %	11.3%	271.8%	14.2%	67.5%	70.7%
Net profit growth, %	12.8%	603.4%	16.0%	96.8%	116.1%
Margins					
Gross margin, %	28.1%	29.6%	27.4%	28.5%	29.2%
EBITDA margin, %	16.7%	17.1%	16.5%	16.3%	17.1%
Adjusted EBITA margin, %	16.4%	16.1%	15.5%	15.7%	16.4%
EBIT margin, %	14.4%	15.1%	14.4%	14.5%	15.3%
Other ratios					
Solvency ratio, %	48.8%	45.7%	48.8%	45.7%	48.4%
Leverage ratio	0.57	0.96	0.57	0.96	0.58
NWC ratio, %	(7.3%)	(6.4%)	(7.3%)	(6.4%)	(10.5%)
Capex ratio excl. acquisitions, %	1.8%	1.3%	1.3%	0.7%	1.0%
Share information					
Earnings per share before dilution, DKK	2.59	2.30	8.15	7.02	10.37
Earnings per share after dilution, DKK	2.59	2.30	8.15	7.02	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 the description in note 1 Accounting policies.

Business review

Revenue in Q3 2019 increased by 17.3% to DKK 237.5 million (DKK 202.4 million). The revenue growth was entirely organic.

TCM Group's primary market is Denmark which contributed with 93% of Group revenue in Q3 2019. Revenue in Denmark was DKK 219.8 million (DKK 184.8 million), with an organic growth of 18.9%. In Q3 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 Q3 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. This year's product launch, S19, has generated a higher revenue compared to previous years' product launches.

Revenue in other countries was up 0.3% to DKK 17.6 million (DKK 17.6 million). An increase in sales to the Norwegian market through branded stores was off-set by lower sales through non-branded stores.

At the end of Q3 2019, the total number of Svane and Tvis branded stores was 67 (62). In November 2019, a new Tvis Køkkener store will open 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 upen during Q1 2020. With the new stores, the number of branded stores will increase to 69.

Total number of employees at the end of Q3 2019 was 505 (471). The increase in number of employees was primarily due to an increase in the production labor force to support revenue growth.

We continue our dedicated efforts to reduce our climate footprint i.e. through recycling and a reduction of our relative CO2 emission. The above is a part of TCM Groups total commitment regarding UN's Sustainable Development Goals.

Events after the reporting period

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

Financial outlook

Full-year guidance for the financial year 2019 is reiterated: Revenue in the range DKK 1,000-1,030 million, adjusted EBITA in the range DKK 160-170 million, and EBIT in the range DKK 150-160 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 Q3 2019 revenue grew organically by 17.3% to DKK 237.5 million (DKK 202.4 million).

Revenue in Denmark in Q3 2019 was up 18.9% to DKK 219.8 million (DKK 184.8 million) driven by growth in the branded stores primarily within the B2B market. Revenue in other countries in Q3 2019 was up 0.3% to DKK 17.6 million (DKK 17.6 million). Sales to the Norwegian market through branded stores grew by 12%, which was off-set by lower sales through non-branded DIY stores.

Revenue for the first nine months of 2019 was up 15.0% to DKK 745.3 million (DKK 648.1 million). Revenue in Denmark for the first nine months of 2019 was up 17.1% to DKK 679.7 million (DKK 580.4 million) and revenue in other countries for the first nine months of 2019 was down 3.1% to DKK 65.6 million (DKK 67.7 million).

Gross profit

Gross profit in Q3 2019 was DKK 66.7 million (DKK 59.8 million), corresponding to a gross margin of 28.1% (29.6%). 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 first nine months of 2019 was DKK 203.9 million (DKK 184.9 million), corresponding to a gross margin of 27.4% (28.5%).

Operating expenses

Operating expenses in Q3 2019 were DKK 29.7 million (DKK 29.2 million). Operating expenses represented 12.5% of revenue in Q3 2019, which was a decrease of 1.9%-point compared to Q3 2018 as a result of increased leverage from growing revenue.

Operating expenses for the first nine months of 2019 were DKK 93.7 million (DKK 89.2 million). Operating expenses represented 12.6% of revenue for the first nine months of 2019 (13.8%).

EBITDA

EBITDA in Q3 2019 was DKK 39.5 million (DKK 34.5 million), corresponding to an EBITDA margin of 16.7% (17.1%). 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 1.3 million, corresponding to an impact on EBITDA margin of 0.5%-point.

EBITDA for the first nine months of 2019 was DKK 122.9 million (DKK 105.6 million), corresponding to an EBITDA margin of 16.5% (16.3%). 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 3.7 million, corresponding to an impact on EBITDA margin of 0.5%-point.

Adjusted EBITA

Adjusted EBITA in Q3 2019 was DKK 39.0 million (DKK 32.5 million), corresponding to an adjusted EBITA margin of 16.4% (16.1%). The increase in adjusted EBITA was primarily driven by revenue growth. Depreciations were DKK 3.6 million (DKK 2.0 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 first nine months of 2019 was DKK 115.9 million (DKK 101.5 million), corresponding to an adjusted EBITA margin of 15.5% (15.7%). Depreciations for the first nine months of 2019 were DKK 10.0 million (DKK 6.1 million). The implementation of IFRS 16 increased depreciations by DKK 3.7 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 Q3 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 3 million in the quarter. Production was back to normal at the end of October 2019. Non-recurring items in Q3 and 9 months 2019 and 2018 are specified below:

	Q3		**9 months**	
Non-recurring items, DKK m	**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	3.0	0.0	3.0	0.0
Total	**3.0**	**0.0**	**3.0**	**2.0**

EBIT

EBIT in Q3 2019 increased to DKK 34.1 million (DKK 30.6 million). The increase was primarily due to the profit impact from the revenue growth. Amortizations were on par with Q3 2018. The implementation of IFRS 16 had no significant impact on EBIT.

EBIT for the first nine months of 2019 increased to DKK 107.2 million (DKK 93.8 million). The increase was primarily due to the profit impact from the revenue growth and that the first nine months 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 Q3 2019 increased to DKK 25.9 million (DKK 23.0 million). The increase was primarily due to an increase in EBIT. Change in financial expenses had a positive impact on net profit of DKK 0.2 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 nine months of 2019 increased to DKK 81.5 million (DKK 70.2 million). The increase was primarily due to an increase in EBIT. Change in financial expenses had a positive impact on net profit of DKK 1.3 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 Q3 2019 was DKK 39.5 million (DKK 35.1 million). The increase in cash flow in Q3 2019 compared to Q3 2018 was primarily due to the higher operating profit. This was partly off-set by higher investments in Q3 2019 of DKK 4.2 million (DKK 2.6 million). Cash conversion in Q3 2019 was 101.7% (99.4%).

Free cash flow excl. acquisitions for the first nine months of 2019 was DKK 87.7 million (DKK 87.8 million). The first nine months 2018 was positively impacted by the sale of the production site in Horsens of DKK 16.6 million. In addition investments in the first nine months of 2019 were DKK 9.7 million compared to DKK 4.4 million in the first nine months 2018. This was off-set by the higher operating profit.

Net working capital

Net working capital at the end of Q3 2019 was DKK -72.7 million (DKK -55.2 million). NWC ratio at the end of Q3 2019 was -7.3% (-6.4%).

	End of Q3	
DKK million	**2019**	**2018**
Inventory	41.8	41.5
Trade and other receivables	57.4	72.8
Trade and other payables	(171.9)	(169.4)
Net working capital	**(72.7)**	**(55.2)**
NWC ratio	**(7.3%)**	**(6.4%)**

The increase in inventory of DKK 0.3 million was primarily due to the higher activity level. Trade and other receivables decreased by DKK 15.4 million primarily due to a lower number of outstanding debtor days at the end of Q3 compared to last year. Other receivables as of 30 September 2019 presented above is excluding the value of DKK 25.5 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 2.4 million was primarily due to the higher activity level.

Net interest-bearing debt

Net interest-bearing debt amounted to DKK 118.5 million at the end of Q3 2019 (DKK 161.9 million). Net interest-bearing debt decreased by DKK 32.0 million in Q3 2019 primarily due to operating profit for the period. The implementation of IFRS 16 resulted in an increase in net interest-bearing debt of DKK 42.2 million as per end of Q3 2019. Leverage ratio measured as net interest bearing debt excluding tax liabilities divided by adjusted EBITDA LTM end of Q3 2019 was 0.58 (0.96).

Equity

Equity at the end of Q3 2019 amounted to DKK 442.9 million (DKK 375.3 million). The equity increased by DKK 25.9 million in Q3 2019, which was due to the net profit for the period.

The solvency ratio was 48.8% at the end of Q3 2019 (45.7%). 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 2019 and 2020:

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

		Q3		9 months	
DKK m	**Note**	**2019**	**2018**	**2019**	**2018**
Revenue	2	237.5	202.4	745.3	648.1
Cost of goods sold		(170.7)	(142.6)	(541.4)	(463.2)
Gross profit		**66.7**	**59.8**	**203.9**	**184.9**
Selling expenses		(16.8)	(16.8)	(54.4)	(51.0)
Administrative expenses		(12.9)	(12.4)	(39.4)	(38.2)
Other operating income		0.0	0.0	0.0	0.1
Operating profit before non-recurring items		**37.1**	**30.6**	**110.2**	**95.8**
Non-recurring items	3	(3.0)	0.0	(3.0)	(2.0)
Operating profit		**34.1**	**30.6**	**107.2**	**93.8**
Financial income		0.1	0.0	0.1	0.1
Financial expenses		(1.1)	(1.3)	(3.2)	(4.6)
Profit before tax		**33.1**	**29.4**	**104.1**	**89.4**
Tax for the period		(7.2)	(6.3)	(22.6)	(19.2)
Net profit for the period		**25.9**	**23.0**	**81.5**	**70.2**
Earnings per share before dilution, DKK		2.59	2.30	8.15	7.02
Earnings per share after dilution, DKK		2.59	2.30	8.15	7.02

Consolidated statement of comprehensive income

DKK m	Q3 2019	Q3 2018	9 months 2019	9 months 2018
Net profit for the period	25.9	23.0	81.5	70.2
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	0.3
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**	**0.3**
Total comprehensive income for the period	**25.9**	**23.1**	**81.6**	**70.5**

Consolidated balance sheet

DKK m	Note	End of Q3 2019	End of Q3 2018	End of 2018
ASSETS				
Intangible assets				
Goodwill		369.8	369.8	369.8
Brand		172.0	172.0	172.0
Other intangible assets		11.4	20.1	17.8
		553.2	**561.9**	**559.6**
Tangible assets				
Land and buildings		88.0	70.3	70.8
Tangible assets under construction and prepayments		0.0	0.0	1.1
Machinery and other technical equipment		15.0	11.4	12.5
Equipment, tools, fixtures and fittings		5.1	2.4	3.1
		108.0	**84.2**	**87.5**
Financial assets		0.7	0.7	0.7
Total non-curent assets		**662.0**	**646.9**	**647.9**
Inventories		**41.8**	**41.5**	**36.5**
Current receivables				
Trade receivables		48.0	62.0	41.2
Other receivables		32.5	6.7	13.9
Prepaid expenses and accrued income		2.4	4.1	3.0
		83.0	**72.8**	**58.1**
Cash and cash equivalents		120.7	59.7	100.9
Assets held for sale		0.0	0.9	0.7
Total current assets		**245.5**	**174.9**	**196.1**
Total assets		**907.4**	**821.8**	**844.0**

Consolidated balance sheet

DKK m	Note	End of Q3 2019	End of Q3 2018	End of 2018
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital		1.0	1.0	1.0
Value adjustments of cash flow hedges		0.0	(0.2)	(0.1)
Retained earnings		441.9	374.5	360.4
Proposed dividend for the financial year		0.0	0.0	47.5
Total shareholders' equity		**442.9**	**375.3**	**408.8**
Deferred tax		53.5	55.2	54.8
Mortgage loans		34.2	36.9	36.2
Bank loans		116.7	139.6	129.0
Lease liabilites		32.8	0.0	0.0
Other liabilities		4.1	0.0	2.3
Total long-term liabilities		**241.2**	**231.7**	**222.4**
Mortgage loans		2.8	2.7	2.8
Bank loans		22.6	23.0	23.1
Lease liabilites		10.6	0.0	0.0
Prepayments from customers		4.3	4.0	2.3
Trade payables		108.2	103.6	133.2
Current tax liabilities		19.6	19.4	0.5
Derivative instruments		0.0	0.2	0.1
Other liabilities		55.3	61.8	51.0
Total short-term liabilities		**223.4**	**214.7**	**212.8**
Total shareholders' equity and liabilities		**907.4**	**821.8**	**844.0**

TCM Group

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 01.01.2018	**1.0**	**(0.4)**	**304.2**	**0.0**	**304.8**
Net profit for the period	0.0	0.0	70.2	0.0	70.2
Other comprehensive income for the period	0.0	0.3	0.0	0.0	0.3
Total comprehensive income for the period	**0.0**	**0.3**	**70.2**	**0.0**	**70.5**
Closing balance 30.09.2018	**1.0**	**(0.2)**	**374.5**	**0.0**	**375.3**
Opening balance 01.01.2019	**1.0**	**(0.1)**	**360.4**	**47.5**	**408.8**
Net profit for the period	0.0	0.0	81.6	0.0	81.6
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**	**81.6**	**0.0**	**81.6**
Dividend paid	0.0	0.0	0.0	(47.5)	(47.5)
Closing balance 30.09.2019	**1.0**	**0.0**	**441.9**	**0.0**	**442.9**

Consolidated cash flow statement

DKK m	Note	Q3 2019	Q3 2018	9 months 2019	9 months 2018
Operating activities					
Operating profit		34.1	30.6	107.2	93.8
Depreciation and amortization		5.5	3.9	15.7	11.8
Income tax paid		0.0	0.0	(4.9)	(4.0)
Change in net working capital		4.1	3.1	(21.7)	(26.1)
Cash flow from operating activities		**43.7**	**37.7**	**96.3**	**75.6**
Investing activities					
Investments in fixed assets		(4.2)	(2.6)	(9.7)	(4.4)
Sale of fixed assets		0.0	0.0	0.1	16.6
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		**(4.2)**	**(2.6)**	**(8.6)**	**11.7**
Financing activities					
Interest paid		(0.9)	(1.2)	(2.8)	(4.1)
Repayments of loans		(0.7)	(0.7)	(13.6)	(72.7)
Repayments of lease liabilities		(1.2)	0.0	(3.9)	0.0
Dividend paid		0.0	0.0	(47.5)	0.0
Cash flow from financing activities		**(2.8)**	**(1.9)**	**(67.8)**	**(76.8)**
Cash flow for the period		**36.7**	**33.1**	**19.9**	**10.5**
Cash and cash equivalents at the beginning of the period		**84.0**	**26.6**	**100.9**	**49.2**
Cash flow for the period		36.7	33.1	19.9	10.5
Cash and cash equivalents at the end of the period		**120.7**	**59.7**	**120.7**	**59.7**

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 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.

	Q3		9 months	
Revenue by region, DKK m	**2019**	**2018**	**2019**	**2018**
Denmark	219.8	184.8	679.7	580.4
Other countries	17.6	17.6	65.6	67.7
	237.5	**202.4**	**745.3**	**648.1**

Revenue consists of sale of goods and services.

3. Non-recurring items

	Q3		9 months	
Non-recurring items, DKK m	**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	3.0	0.0	3.0	0.0
Total	**3.0**	**0.0**	**3.0**	**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 (0.2) 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.

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 September 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 September 2019 and of the results of the Group's operations and cash flows for the period 1 January to 30 September 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, 6 November, 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	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019
Income statement					
Revenue	**202.4**	**251.8**	**249.7**	**258.2**	**237.5**
Gross profit	59.8	77.9	63.4	73.8	66.7
Earnings before interest, tax, depreciation and amortisation (EBITDA)	34.5	48.0	36.0	47.3	39.5
Adjusted EBITDA	34.5	48.0	36.0	47.3	42.5
Earnings before interest, tax and amortisation (EBITA)	32.5	46.2	32.9	44.0	36.0
Adjusted EBITA	**32.5**	**46.2**	**32.9**	**44.0**	**39.0**
Operating profit (EBIT)	**30.6**	**44.3**	**31.0**	**42.1**	**34.1**
Profit before tax	29.4	42.9	29.9	41.1	33.1
Net profit for the period	23.0	33.5	23.4	32.1	25.9
Balance sheet					
Total assets	821.8	844.0	917.0	896.8	907.4
Net working capital	(55.2)	(94.1)	(67.9)	(68.5)	(72.7)
Net interest-bearing debt (NIBD)	161.9	90.7	139.3	150.5	118.5
Equity	375.3	408.8	432.3	416.9	442.9
Cash Flow					
Free cash flow excl. acquisitions of operations	35.1	53.6	2.3	45.9	39.5
Margins					
Gross margin, %	29.6%	30.9%	25.4%	28.6%	28.1%
EBITDA margin, %	17.1%	19.0%	14.4%	18.3%	16.7%
Adjusted EBITA margin, %	16.1%	18.3%	13.2%	17.1%	16.4%
EBIT margin, %	15.1%	17.6%	12.4%	16.3%	14.4%
Other ratios					
Solvency ratio, %	45.7%	48.4%	47.1%	46.5%	48.8%