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Tandem Group (TND) — Leisure Goods

Shares in Tandem Group have performed strongly since what was effectively a 4-for-25 consolidation last September. This move tidied up the shareholder register, reducing the number of shareholders from around 17,500 to under 5,000. Not only has this reduced administration costs, but it has also stemmed the steady stream of small sales which had contributed to a depressed share price.

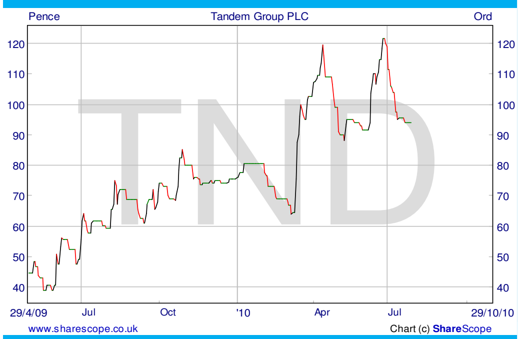
Although buying interest has led to strong relative performance in recent months, the company still has a market capitalisation of just £5.2m. With net cash held and pre-tax profits before goodwill amortisation of over £1m per annum achieved in each of the last 3 years, there is certainly scope for a far higher valuation in due course. The company operates in an interesting niche market and its intellectual property includes some valuable owned brands, indicating the potential for organic growth. However, there are some ongoing challenges with Tandem and competitors alike facing cost pressures in respect of raw material prices and freight costs, shipping line disruptions and far east labour shortages. The fact that a high proportion of costs are generally denominated in US Dollars would normally exacerbate this situation, however the company benefits from a natural hedge with a proportion of turnover derived in US Dollars. There is also a pension deficit, which stood at £1.45m at the end of January.

Overall, Tandem has demonstrated the fact that it is a solid business, achieving very credible results both before and during the economic downturn.

KEY DATA

Share Price:	94p
Prospective p/e ratio:	9.0x
Prospective net yield:	-
Market Capitalisation:	£5.2m
Next Results Due (Ints):	Oct
Gearing:	n/a
NAV per share:	126.1p

SHARE PRICE PERFORMANCE



2009/10 High/Low: 124p/39p

SNAP BULLETS

- Solid results for 2009/10
- Shares trade on a modest multiple of earnings
- Strong balance sheet with net cash position
- Management recently reorganised
- Ongoing cost pressures
- Impact from strength of US Dollar

Activities

Tandem Group is a designer, developer and distributor of sports and leisure products. The business is split into two divisions, one covering bicycles and accessories and the second sports, leisure and toy products:

Tandem Group Cycles Limited - the bicycle and accessories business is itself split in two. Falcon Cycles contains the Claud Butler, Falcon, Scorpion, Optima, Townsend, CBR, Boss, British Eagle, Holdsworth and Elswick brands. Dawes Cycles has the Dawes, Barrosa and Dirty brands. Improved sales to national retailers saw increased revenue last year. Some products were shipped directly to customers from overseas production sources, which largely eliminated UK costs but did result in lower margins. The division contributed 61.5% of group revenue in the last financial year, up from 56.2% in 2008/9.

MV Sports Group Plc – the sports, leisure and toys business owned brands are Hedstrom, Ben Sayers, Pot Black, Skaight and Kickmaster. Hedstrom covers outdoor play equipment such as trampolines, swings, slides and seesaws. Ben Sayers is an established golf brand, Pot Black is well known for its snooker equipment, Skaight is used for skateboards and accessories and Kickmaster produces football training equipment. In addition to own brands, MV is the market leader in licensed character wheeled toys with well known children's brands under licence including Ben 10, Thomas & Friends, Bob the Builder, Fireman Sam, In The Night Garden, Goochicoo and Transformers. New licenses, particularly in wheeled toys, have been taken on for 2010 and these include Moxie Girlz, Iron Man 2, Star Wars and Doctor Who. Plans for 2011 are also well underway, with further licence agreements signed for Angelina Ballerina, Tinga Tinga Tales, Ben & Holly's Little Kingdom and Transformers 3. MV also continues to explore opportunities in other product categories such as Goochicoo dolls which will be supported by a TV campaign in the Autumn and plush products for the playground craze Go Go's Crazy Bones.

Results and Consensus Forecasts

Year to 31st March	Revenue (£m)	Pre-Tax Profit (£m)	Earnings per share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2009A	35.2	0.59	5.3	17.7	-	-
2010A	35.7	1.02	17.7	5.3	-	-
2011E	35.0	0.64	10.4	9.0	-	-

Date of Report : 30 July 2010

COMPANY DATA

Nominated Adviser:
Cairn Financial Advisers

Significant Shareholdings:

Mr A Burgess - 15.1%
Jupiter Asset Management - 9.7%
Barclays PLC - 7.3%
Mr M P J Keene - 3.6%
Mr R C L Davis - 3.1%

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Final Results

Revenue for the year ended 31 January 2010 was £35.7m, up from £35.2m one year earlier. Revenue in bicycles and accessories was up 11.1% at £22.0m (2009: £19.8m) but sports, leisure and toys sales fell by 10.9% to £13.7m (2009: £15.4m). Conversely, operating profit before management charges in the latter rose from £0.81m to £1.20m whereas operating profit before management charges and goodwill impairment fell from £1.15m to £0.69m in the bicycles and accessories business.

Profit before goodwill impairment and taxation was unchanged at £1.02m. Profit after goodwill impairment and before taxation rose sharply to £1.02m (2009: £0.59m). This resulted in basic earnings per share of 17.67p versus 5.34p a year earlier, after adjusting for the share capital reorganisation which took place in September 2009. It should be noted that there are significant tax losses which are still to be utilised. No dividend was declared (2009: nil) and though dividends have not been paid, this position is under review.

Cash flow was strong, with £2.19m generated from operations. The net cash inflow from operating activities before movements in working capital was £1.52m (2009: £0.80m). This allowed the level of invoice financing to be reduced and over £3.0m of cash and cash equivalents was held at the year end. With cash less the invoice finance liability being £1.19m the business is well positioned and shares have been bought back to hold in treasury.

The balance sheet is sound, with net assets of £7.00m (2009: £6.86m). This translates into a NAV per share of 126.1p.

Prospects

Results for 2009/10 were impressive given weakness in the broad economy. Achieving pre-tax profit of over £1m again demonstrated the resilience of the business. The company's track record and skills in product design and development, importing and distribution combined with the strong relationships with its manufacturers and customers provides a solid platform to expand the existing business and explore acquisitive opportunities. There has been a recent reshuffle of senior management and the addition of new non-executive directors recently completed provides considerable expertise to continue the development of the business.

The company owns some of the best known brands in cycling and with demand for cycles likely to remain strong this will remain a key part of the business. This is not the only string to Tandem's bow and further brands may be added to or licensed by the MV Sports Group stable to supplement the likes of Pot Black and Ben Sayers.

The current year started well with revenue in the 20 weeks to 18 June being 8% ahead of last year. However, caution has been stressed with regards to the second half due to high prior year levels of national retailer sales in the bicycles segment and Ben 10 sales in the sports & leisure segment coupled with the ongoing pressures beyond the company's control referred to above, cautious retailer buying strategies and the strength of the US Dollar. The pension deficit also demands attention. The way the company has dealt with such challenges explains the recent enthusiasm from investors. The strong balance sheet and level of cash both held and being generated leaves Tandem well placed to withstand such testing conditions. Whether the cash is used to fund acquisitions, to buy licenses or invest in existing operations, or is returned through share buybacks or dividends remains to be seen. All of these outcomes should enhance shareholder value.

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