15 November 2022

Gear4music (Holdings) plc
Interim results for the six months ended 30 September 2022

Gear4music (Holdings) plc, ("Gear4music" or "the Group") (LSE: G4M), the largest UK based online retailer of musical instruments and music equipment, today announces its unaudited financial results for the six months ended 30 September 2022 ("the Period").

£m	**6-months ended 30 Sept 2022 ('FY23 H1')**	6-months ended 30 Sept 2021 ('FY22 H1')	**Change on FY22 H1**
Revenue	**66.3**	64.7	**+2%**
Gross profit	**17.4**	18.1	**(4%)**
Gross margin	**26.3%**	28.0%	**-170bps**
EBITDA	**2.7**	4.8	**(44%)**
Operating (loss)/profit	**(0.3)**	2.4	**(2.7)**
Net (loss)/profit	**(1.1)**	1.1	**(2.2)**

FY23 H1 Highlights:

- Revenue growth of 2% includes a 3% decrease in UK sales due to a strong FY22 H1 comparative and a more normalised trading environment post Covid
- Stronger European growth of 10% reflects an improving localised customer proposition
- As previously reported, gross margins reflect targeted stock reductions and challenging market conditions during July and August in particular
- EBITDA was in-line with the Board's revised expectations at £2.7m. This was £2.1m behind FY22 H1 but reflects 35% growth on FY20 H1 (£2.0m), being the last full uninterrupted H1 trading period pre-Covid
- Net debt of £21.8m (31 March 2022: £24.2m, 30 September 2021: £13.4m)
- £13.2m cash headroom within the Group's banking facilities at Period end, at what is historically a low point in the annual cash cycle

Trading Outlook:

- Improved trading momentum during FY23 H2 has continued into November, maintaining the Board's expectation of a return to pre-Covid, H2 weighted trading seasonality*
- Net debt and on-hand inventory expected to reduce by 31 March 2023
- Full-year outlook in-line with consensus market expectations**

Commenting on the results, Andrew Wass, Chief Executive Officer said:

"Our FY23 H1 trading results reflect previously reported challenges, including inflationary pressures on our cost base, the cost-of-living crisis affecting consumer confidence, unusually hot weather during the summer months, and comparison to the last of the Covid-enhanced figures in FY22 Q1.

Whilst we have adapted to the challenges of the last six months, we have also remained focused on our longer-term growth strategy, delivering a wide range of customer centric improvements throughout the business. Progress has included several website upgrades, such as the ability for customers to create their own customised audio packages and cables, extending evening cut-off times for next day delivery, improving our consumer finance proposition, and upgrading our digital downloads sales platform.

I am pleased to report that we have seen a consistent improvement in trading momentum during the last two months, despite continuing macro volatility. We are also well prepared for our peak seasonal trading period. The board therefore remains confident that results for the full financial year will be in-line with current consensus market expectations**."

** H1 sales as % of full-year sales were 44% in FY22, 45% in FY21, 41% in FY20, 36% in FY19 and 39% in FY18.*

*** Gear4music believes that current consensus market expectations for the year ending 31 March 2023 are revenue of £155.1 million, EBITDA of £8.9 million and profit before tax of £1.1 million.*

The Group plans to issue a trading statement for the three months ending 31 December 2022 on 19 January 2023.

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About Gear4music.com

Operating from a Head Office in York, Distribution Centres in York, Sweden, Germany, Ireland & Spain, and showrooms in York, Sweden & Germany, the Group sells own-brand musical instruments and music equipment alongside premium third-party brands including Fender, Yamaha and Roland, to customers ranging from beginners to musical enthusiasts and professionals, in the UK, Europe and the Rest of the World.

Having developed its own e-commerce platform, with multilingual, multicurrency websites delivering to over 190 countries, the Group continues to build its overseas presence.

Business Review

The business reports the Group's results for the six months to 30 September 2022, and updates on the strategic and commercial progress made in the Period.

Strategy

Our focus in FY22 H1 has been on managing the business to meet the impacts that the current macro-economic situation is having on consumer confidence and spending across Europe, through cost control and working capital management. This has included a focus on stock management and active reduction of slower moving product lines that impacted gross margins, particularly in Q1. These measures have contributed to an improvement in the cash position since the financial year-end, resulting in net debt of £21.8m at 30 September 2022, relative to a £35m facility at what is traditionally a low point in the annual cash cycle.

We have continued our measured investment in our European distribution centres and improved our proposition to customers in those and adjacent territories with a broader on-hand stock offering and more and improved delivery options, resulting in relatively high growth in these markets.

We continue to make progress against the three pillars of our progressive e-commerce strategy, and outline developments in each area below:

E-commerce Excellence

	FY23 H1	FY22 H1	**Change on FY22 H1**
Revenue	**£66.3m**	£64.7m	**+2%**
Total unique website users	**9.1m**	13.5m	**-32%**
Mobile site unique users (inc. tablet)	**6.6m**	8.7m	**-25%**
Conversion rate	**4.90%**	4.00%	**+90bps**
Average order value	**£151**	£128	**+19%**
Active customers *	**903,000**	993,000	**-9%**
Proportion of repeat customers **	**26.5%**	24.4%	**+210bps**
Email subscriber database	**1,408,200**	725,000	**+94%**
Trustpilot rating	**4.8/5**	4.8/5	**-**

* Active customers are those that have purchased products within the last 12 months
** Repeat customers are those that have made a purchase in the defined period and have historically made at least one purchase

Revenue in the Period of £66.3m was £1.6m (2%) ahead of last year, £3.9m (6%) behind an exceptional Covid period in FY21 H1, and £16.9m (34%) ahead of a more normal and comparable, pre-Covid, FY20 H1 trading period.

UK revenue was 3% down relative to a strong FY22 H1 comparative, and international revenues were 10% ahead of last year reflecting an improved local customer proposition in Europe as our new distribution centres became increasingly well established.

Website user numbers decreased by 32% to 9.3m, with visitors to the UK sites decreasing by 26% and visitor numbers to the Group's international websites decreasing by 36% reflecting a drop-off in browsing and visits from low-intent to purchase prospective customers. This trend has contributed to a marked improvement in conversion rate from 4.0% to 4.9%, delivered by our targeted, return-based approach to investment in marketing. The introduction of further consumer finance options on a non-recourse basis to the business has made products more accessible to more people.

Conversion in the UK fell from a peak of 6.4% last year to 5.8%, still well ahead of a pre-pandemic rate of 4.8%, whilst European conversion improved significantly from 2.4% to 4.2%, reflecting good stock availability and improved and lower cost delivery options in mainland Europe. Mobile conversion also improved from 2.3% to 2.8%.

'Costs-per-Click' ('CPC') have increased in the Period as competitors compete for less ad space and traffic in the current economic climate. We use automated models to maximise revenue at any defined level of return on investment, and as such marketing costs as a proportion of revenue were held flat on last year at 6.9%, and the proportion of visitors from organic and direct sources increased from 38% to 46%.

Growth in mobile continues to be a major theme with the proportion of users from this channel increasing from 65% last year to 72% this year, and mobile site development is a priority focus in all our development work.

'Average Order Value' ('AOV') increased by 19% from £128 in FY22 H1 to £151, reflecting inflationary price increases and proportionally less own-brand sales that are typically at lower price points.

The Group served 384,000 customers in the Period (-5% on FY22 H1) and 'Active customers', being those that have purchased products within the last 12 months, similarly decreased by 9%.

The proportion of repeat customers increased to 26.5% (FY22 H1: 24.4%), reflecting proportionally less paid-for new customers. The level of repeat custom is lower than in other e-commerce sectors, reflecting the nature of the Group's product range and high average order value, and re-affirms the importance of the Group being profitable from the first customer transaction.

The number of subscribers on our email database increased to 1.4 million and we continue to make improvements to our email retargeting with the objective of increasing the number of repeat customers.

We continue to invest in our customer proposition and service teams, resulting in a great overall customer experience, reflected in Gear4music.com's Trustpilot score of 4.8 and 'Excellent' rating from over 111,000 reviews.

The Group invested £2.8m in its e-commerce platform in the Period (FY22 H1: £2.0m) representing a peak level, and annualised costs will start to reduce from FY22 H2. Deployments to the date of this report include:

- Digital downloads extension
- Updated consumer finance
- Customer bundle builder
- Custom cable builder

Development of key growth-related projects remains on-going, including investment into our second-hand platform and enabling AV.com European launch.

Supply Chain Evolution

	FY23 H1	FY22 H1	**Change on FY22 H1**
Own-brand product sales	**£15.0m**	£15.3m	-2%
Other brand product sales	**£48.3m**	£46.2m	+5%
Product margin	**30.9%**	32.0%	-110bps
Products listed	**62,500**	60,500	+3%
Brands listed	**1,109**	951	+17%

FY23 H1 gross margin of 26.3% was 170bps below FY22 H1's result of 28.0% that reflected some Covid-related upside particularly in the earlier months, but is 90bps ahead of the last pre-Covid comparative (FY20 H1) of 25.2%. Achieving higher gross margins is critical to the overall profitability of the Group and as such remains a key business objective. In FY23 Q1 this was balanced with targeted reductions in certain slower moving stock lines, and reflects a sales mix effect across the Period, with own-brand products accounting for 23.6% of total product sales compared to 24.9% in FY22 H1 as demand for entry-level products slowed.

Product margins decreased 110bps from 32.0% last year to 30.9%, and compares to 29.6% in pre-Covid FY20 H1. This reflects a 180bps decrease in own-brand product margin to 43.9% as certain slower moving lines were moved through in FY23 Q1, and a 60bps decrease in other-brand margin to 26.9% reflecting heightened competition in the market at the start of the Period.

The number of SKUs listed increased from 60,500 at 30 September 2021 to 62,400 at 31 March 2022 and 62,500 at 30 September 2022, representing a net 3% increase in 12 months.

We reduced stock by £2.1m from £45.5m at 31 March 2022 to £43.4m at 30 September 2022 which provides good availability across our distribution centres heading into peak and, subject to demand, levels will be actively managed to ensure we have an appropriate level of stock heading into January 2023 and FY24.

The number of our own-brand products increased from 3,900 at 30 September 2021 to 4,250 at 30 September 2022, with own-brand revenue accounting for 23.6% of total product sales from just 6.8% of SKUs, reflecting the significant on-going efforts of our in-house team in developing our range of high-quality instruments and equipment at affordable prices.

Product development has been focused on bringing Premier to market and longer-term projects that will come to fruition in FY24 and improve our offering at both the value and premium end of the scale with our new G4M brand. Products launched during the Period include:

- Further development of our new look electronic drum kit range
- First products in our VISIONKEY keyboard range
- Hartwood Sonata electro acoustic guitars
- SubZero HICAST column PA system

Premier

Ahead of Premier celebrating its 100-year anniversary, our focus has been on the design, development and marketing of a revamped acoustic kit offering, with launch to coincide with the centenary celebrations.

Four core ranges from entry-level to professional kits, incorporating attributes that reimagine original Premier features, alongside some special centenary edition variants and a UK-made limited edition collector's snare drum, were brought to market.

The launch was supported by an extensive content project including the launch of new dedicated brand website https://www.premier-percussion.com/, drawing on resources from multiple departments, including video, photography, UX, copy and marketing, culminating in a successful and far-reaching launch that was received very positively by the market.

Our efforts to establish a global distribution network are ongoing.

International Expansion

As we reported last year our European business has been adversely impacted by the UK leaving the EU. In response we added new distribution centres in Ireland and Spain, increased the breadth and depth of stock held across all our European distribution centres, and added more local delivery options to restore a comparable customer proposition in mainland Europe. The Group estimates it has a European distribution infrastructure capable of handling £150m of revenue per annum, and is well placed to capitalise on the medium-term growth opportunity.

In FY23 H2 the Group plans to launch fully-translated and localised European versions of AV.com.

Current trading and outlook

Whilst mindful of the current heightened macro-economic uncertainties and the impact on the consumer in the UK and across Europe, trading in October and November to date gives the Board further confidence that results for the financial year will be in line with the recently updated consensus market expectations.

The Group plans to issue a Christmas trading update on 19 January 2023.

Financial Review

	FY23 H1	FY22 H1	Change on FY22 H1
Revenue	**£66.3m**	£64.7m	**+2%**
Gross profit	**£17.4m**	£18.1m	**-4%**
Gross margin	**26.3%**	28.0%	**-170bps**
EBITDA	**£2.7m**	£4.8m	**-44%**
EBITDA margin	**4.1%**	7.4%	**-330bps**
Operating (loss)/profit	**-£0.3m**	£2.4m	**-£2.7m**
Marketing costs	**£4.6m**	£4.4m	**+3%**
Marketing costs as % of revenue	**6.9%**	6.9%	**-**
Total Labour costs	**£7.0m**	£6.1m	**+14%**
Total Labour costs as % of revenue	**10.5%**	9.4%	**+110bps**
Cash	**£7.2m**	£3.6m	**+£3.6m**
Net bank debt	**£21.8m**	£13.4m	**+£8.4m**

Revenue

Revenue in the Period of £66.3m was £1.6m (2%) higher than last year and included growth in both Q1 and Q2. We maintain our expectation of a return to a pre-Covid, H2 weighted trading seasonality.

UK revenue was down 3% relative to a strong FY22 H1 comparative that included the last Covid-boosted months, and represents growth of 43% on pre-Covid FY20 H1 numbers taking our estimated share of the UK market to 9.1% (FY22 H1: 8.9%).

In FY23 H1 Europe and Rest of the World revenues of £30.8m were 10% ahead of FY22 H1, reflecting an improved local customer proposition in Europe, and accounting for 47% of Group revenue compared to 43% in FY22 H1. Growth of 25% relative to pre-Covid FY20 H1 numbers is lower than achieved in the UK as it took time to adapt our business to the UK being outside of the EU.

Gross Margin and Gross Profit

As outlined above in the 'Business Review' gross margin decreased 170bps from 28.0% last year to 26.3%, reflecting a 110bps decrease in product margin and a reduction in delivery cost borne by the customer, reflecting part-absorption of cost inflation.

Gross profit of £17.4m is £0.7m (4%) lower than last year and compares to £12.5m in the more normal pre-Covid FY20 H1.

Operating Loss and Administrative Expenses

An operating loss of £0.3m represents a £2.7m decrease on FY22 H1, reflecting a £2.0m increase in administrative costs including a £0.9m increase in labour costs, £0.5m increase in depreciation and amortisation, and a £0.2m increase in marketing costs

Marketing and labour costs continue to be the main component parts of our cost base, accounting for a combined 65% of total administrative expenses in the Period (FY22 H1: 67%).

Our marketing spend continues to be heavily invested in direct ‘Pay-per-click’ (‘PPC’) marketing and our approach focuses on delivering a strong, pre-defined return on investment. In a period of increasing cost-per-click it is important we invest in enhancing our organic and direct marketing capabilities which in the longer term will support our ambition to reduce marketing spend as a proportion of sales, and we have made two senior appointments to support our plans.

Total labour costs increased 14% on FY22 H1 reflecting an estimated 6% increase in average salary, and an increase in headcount of 37.

European distribution centre local administrative expenses increased by £0.4m (18%) on FY22 H1, to £2.4m reflecting the addition of two new distribution centres in FY22 H2.

Depreciation and amortisation in the Period totalled £3.0m (FY22 H1: £2.4m) including amortisation of £1.4m (FY22 H1: £1.1m) relating to our bespoke e-commerce platform, and £0.8m depreciation of ‘Right of Use’ assets (FY22 H1: £0.6m).

EBITDA margin of 4.1% compares to 7.4% in FY22 H1, and 4.0% in pre-Covid FY20 H1.

Net Loss

Financial expenses of £0.8m include £0.5m bank interest (FY22 H1: £0.2m) reflecting the level of debt in the business, £0.2m interest on lease liabilities (FY22 H1: £0.2m), and a small foreign exchange loss.

A net loss of £1.1m in the Period (FY22 H1: £1.1m net profit) reflects a return to a more normal seasonal pattern where the majority of our profits are made in H2.

Cash Flow and Balance Sheet

The business has deliberately maintained a high level of stock through FY22 and FY23 to date and as such the usual increase in September ahead of the peak Christmas trading period has not been required. Reported stock has decreased £2.1m since 31 March 2022 and is planned to decrease further by the end of FY23 H2. Stock at 30 September 2022 of £43.4m (30 September 2021: £37.5m) includes £4.1m of inbound stock-in-transit (30 September 2021: £6.2m) scheduled to arrive ahead of peak trading.

Net bank debt was £21.8m, at what has historically been a low point in the annual cash cycle, leaving headroom of £13.2m within the Group’s £35m Revolving Credit Facility (‘RCF’), and is expected to reduce further by 31 March 2023.

Trade and other payables of £18.9m were £3.3m (21%) higher than last year and £0.2m (1%) higher than 30 September 2020, and included a £1.3m increase in customer prepayments and stock deals on pre-agreed terms.

Capitalised software development costs totalled £2.8m in the Period (FY22 H1: £2.0m) taking total capitalisation to date to £22.5m. Amortisation in the Period was £1.4m leading to a £1.4m increase in net book value since the start of the financial year to £11.9m.

Property, plant and equipment capital expenditure was £0.6m in the Period (FY22 H1: £0.7m), relating principally to the on-going development of our distribution centres.

Dividend Policy

Consistent with its previous approach, the Group repeats its intention to revisit its shareholder distribution policy periodically.

Unaudited consolidated interim statement of profit and loss and other comprehensive income

	Note	**6 months ended 30 September 2022 (unaudited) £000**	6 months ended 30 September 2021 (unaudited) £000	Year ended 31 March 2022 (audited) £000
Revenue	*3*	**66,305**	64,694	147,630
Cost of sales		**(48,892)**	(46,573)	(106,500)
Gross profit		**17,413**	18,121	41,130
Administrative expenses	*4*	**(17,679)**	(15,728)	(35,061)
Operating (loss)/profit	*4*	**(266)**	2,393	6,069
Financial expenses	*6*	**(777)**	(463)	(1,055)
(Loss)/profit before tax		**(1,043)**	1,930	5,014
Taxation	*7*	**(66)**	(850)	(1,291)
(Loss)/profit for the period		**(1,109)**	1,080	3,723
Other comprehensive income				
Items that will not be reclassified to profit or loss:				
Deferred tax movements		-	(120)	(109)
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation differences – foreign operations		**(101)**	(36)	(23)
Total comprehensive income for the period		**(1,210)**	924	3,591
(Loss)/profit per share attributable to equity shareholders of the company				
Basic profit per share	*5*	**(5.3p)**	5.2p	17.8p
Diluted profit per share	*5*	**(5.3p)**	5.1p	17.3p

Unaudited consolidated interim statement of financial position

	Note	**30 September 2022 (unaudited)**	30 September 2021 (unaudited)	31 March 2022 (audited)
		£000	£000	£000
Non-current assets				
Property, plant and equipment	*8*	**12,805**	11,289	12,958
Right of use assets	*9*	**7,438**	8,953	8,235
Intangible assets	*10*	**21,184**	15,901	19,812
		41,427	36,143	41,005
Current assets				
Inventories	*11*	**43,378**	37,452	45,516
Trade and other receivables	*12*	**4,289**	3,317	3,841
Cash and cash equivalents		**7,199**	3,648	3,903
		54,866	44,417	53,260
Total assets		**96,293**	80,560	94,265
Current liabilities				
Interest bearing loans and borrowings	*13*	**-**	-	-
Trade and other payables	*14*	**(18,912)**	(15,591)	(16,183)
Lease liabilities	*15*	**(1,171)**	(1,158)	(1,229)
		(20,083)	(16,749)	(17,412)
Non-current liabilities				
Interest bearing loans and borrowings	*13*	**(29,000)**	(17,000)	(28,000)
Other payables	*14*	**(81)**	(78)	(64)
Lease liabilities	*15*	**(7,822)**	(9,221)	(8,455)
Deferred tax liability		**(2,335)**	(2,206)	(2,298)
		(39,238)	(28,505)	(38,817)
Total liabilities		**(59,321)**	(45,254)	(56,229)
Net assets		**36,972**	35,306	38,036
Equity				
Share capital		**2,098**	2,098	2,098
Share premium		**13,286**	13,286	13,286
Foreign currency translation reserve		**(175)**	(87)	(74)
Revaluation reserve		**1,589**	1,640	1,606
Retained earnings		**20,174**	18,369	21,120
Total equity		**36,972**	35,306	38,036

Unaudited consolidated interim statement of cash flows

	Note	**6 months ended 30 September 2022 (unaudited) £000**	6 months ended 30 September 2021 (unaudited) £000	Year ended 31 March 2022 (audited) £000
Cash flows from operating activities				
(Loss)/profit for the period:		**(1,109)**	1,080	3,723
Adjustments for:				
Depreciation and amortisation	*8-10*	**2,970**	2,424	5,138
Financial expense	*6*	**701**	425	1,055
Loss/(profit) on sales of property, plant and equipment		**17**	(8)	(12)
Share-based payment charge/(credit)		**146**	(54)	55
Tax expense	*7*	**66**	850	1,243
		2,791	4,717	11,202
(Increase)/decrease in trade and other receivables		**(92)**	916	302
Decrease/(increase) in inventories		**2,138**	(9,022)	(14,195)
Increase/(decrease) in trade and other payables		**3,134**	(1,533)	(2,187)
		7,971	(4,922)	(4,878)
Tax paid		**(385)**	(2,535)	(2,709)
Net cash from operating activities		**7,586**	(7,457)	(7,587)
Cash flows from investing activities				
Proceeds from sales of property, plant and equipment		**32**	57	95
Acquisition of property, plant and equipment	*8*	**(612)**	(738)	(1,773)
Acquisition of domains	*10*	**(8)**	(3,013)	(3,023)
Acquisition of a business (net of cash acquired)	*10*	**-**	(1,685)	(7,360)
Capitalised development expenditure	*10*	**(2,822)**	(1,996)	(4,439)
Payment of deferred consideration		**(388)**	-	-
Net cash from investing activities		**(3,798)**	(7,375)	(16,500)
Cash flows from financing activities				
Cash from share issue		-	-	124
Proceeds from new borrowings	*13*	**1,000**	**17,000**	28,000
Repayment of borrowings		-	**(3,476)**	(3,445)
Interest paid (including lease interest)	*6*	**(702)**	**(427)**	(917)
Lease payments		**(689)**	**(784)**	(1,952)
Net cash from financing activities		**(391)**	**12,313**	21,810
Net increase/(decrease) in cash and cash equivalents		**3,397**	**(2,519)**	(2,277)
Cash and cash equivalents at beginning of period		**3,903**	**6,203**	6,203
Foreign exchange movement		**(101)**	**(36)**	(23)
Cash and cash equivalents at end of period		**7,199**	**3,648**	3,903

Unaudited consolidated interim statement of changes in equity

	Share capital £000	**Share premium £000**	**Foreign currency translation reserve £000**	**Revaluation reserve £000**	**Retained earnings £000**	**Total equity £000**
Balance at 1 April 2022	**2,098**	**13,286**	**(74)**	**1,606**	**21,120**	**38,036**
Profit for the period	-	-	-	-	(1,109)	**(1,109)**
Other comprehensive income	-	-	(101)	-	-	**(101)**
Deferred tax adjustment	-	-	-	-	-	**-**
Share based payments charge	-	-	-	-	146	**146**
Depreciation transfer	-	-	-	(17)	17	**-**
Balance at 30 September 2022	**2,098**	**13,286**	**(175)**	**1,589**	**20,174**	**36,972**

	Share Capital £000	Share premium £000	Foreign currency translation reserve £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2021	2,095	13,165	(51)	1,640	17,463	34,312
Profit for the period	-	-	-	-	1,080	1,080
Other comprehensive income	-	-	(36)	-	-	(36)
Deferred tax adjustment	-	-	-	-	(120)	(120)
Issue of shares net of expenses	3	121	-	-	-	124
Share based payments charge	-	-	-	-	(54)	(54)
Balance at 30 September 2021	2,098	13,286	(87)	1,640	18,369	35,306

	Share capital £000	Share premium £000	Foreign currency translation reserve £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2021	2,095	13,165	(51)	1,640	17,463	34,312
Profit for the year	-	-	-	-	3,723	3,723
Other comprehensive income	-	-	(23)	-	(109)	(132)
Deferred tax adjustment – timing difference	-	-	-	-	(46)	(46)
Issue of shares net of expenses	3	121	-	-	-	124
Share based payments charge	-	-	-	-	55	55
Depreciation transfer	-	-	-	(34)	34	-
Balance at 31 March 2022	2,098	13,286	(74)	1,606	21,120	38,036

Notes to the Interim Financial Information

General Information

Gear4music (Holdings) plc is a public limited company incorporated and domiciled in the United Kingdom, and is listed on the Alternative Investment Market ('AIM') of the London Stock Exchange.

The Group financial information consolidates the financial information of the Company and its subsidiaries (collectively referred to as the "Group"). The Group has 100% owned trading subsidiaries in the UK ('Gear4music Limited'), Sweden ('Gear4music Sweden AB'), Germany ('Gear4music GmbH'), Ireland ('Gear4music Ireland Limited) and Spain ('Gear4music Spain S.L.'). The Group also has 100% owned dormant subsidiaries in the UK ('Cagney Limited') and in Norway ('Gear4music Norway').

The principal activity of the Group is the retail of musical instruments and equipment.

The registered office of Gear4music (Holdings) plc (company number: 07786708), Gear4music Limited (company number: 03113256) and Cagney Limited (dormant subsidiary; company number: 04493300) is Holgate Park Drive, York, YO26 4GN.

1 Accounting policies

Basis of preparation

The unaudited consolidated interim financial information has been prepared under the historical cost convention, except for land and buildings that are stated at their fair value, and in accordance with the recognition and measurement requirements of UK Adopted Financial Reporting Standards, IFRIC interpretations, and with those parts of the Companies Act 2006 applicable to companies reporting under UK Adopted Financial Reporting Standards. The condensed consolidated interim financial information does not constitute financial statements within the meaning of Section 434 of the Companies Act 2006 and does not include all of the information and disclosures required for full annual financial statements. It should therefore be read in conjunction with the Group's Annual Report for the year ended 31 March 2022, which has been prepared in accordance with International Financial Reporting Standards and is available on the Group's investor website.

The accounting policies used in the financial information are consistent with those used in the Group's consolidated financial statements as at and for the year ended 31 March 2022, as detailed on pages 72 to 77 of the Group's Annual Report and Financial Statements for the year ended 31 March 2022, a copy of which is available on the Group's website, www.gear4musicplc.com.

The comparative financial information contained in the condensed consolidated financial information in respect of the year ended 31 March 2022 has been extracted from the 2022 Financial Statements. Those financial statements have been reported on by Grant Thornton UK LLP, and delivered to the Registrar of Companies. The report was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006.

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at the year ended 31 March 2022.

Notes to the Interim Financial Information (continued)

Going concern

The Group's business activities and position in the market, and principal risks, uncertainties and mitigations are described in detail in the Strategic Report included on pages 1 to 47 of the Group's 2022 Annual Report and Financial Statements.

In April 2021 the Group secured a £35m three-year committed Revolving Credit Facility with its bankers, HSBC, to make acquisitions and invest in stock for precautionary reasons during a period of potential supply chain disruption, and early in a period of inflationary cost price increases, putting the Group in a strong competitive position.

The Group's policy is to ensure that it has sufficient facilities to cover its future funding requirements.

At 30 September 2022 the Group had net debt of £21.8m (31 March 2022: £24.2m), with £7.2m cash (31 March 2022: £3.9m cash), with a good and appropriate level of headroom that has been factored into the Directors going concern assessment.

The Directors have considered the Group's growth prospects based on its current proposition and online offering in the UK and Europe, strategic developments in the pipeline, and entry to the European AV market, and concluded that there are significant opportunities for profitable growth as channel shift continues and customers move online.

There is a diverse supply chain with no key dependencies.

Having duly considered all of these factors and having reviewed the forecasts for the period to 31 December 2023, the Directors have a reasonable expectation that the Group has adequate resources to continue trading for the foreseeable future, and as such continue to adopt the going concern basis of accounting in preparing the financial statements.

2 Principal risks and uncertainties

The Board considers the principal risks and uncertainties which could impact the Group over the remaining six months of the financial year to 31 March 2023 to be unchanged from those set out in the group's Annual Report and Financial Statements for the year ended 31 March 2022, and can be summarised as:

- Macroeconomic and geopolitical factors
- UK outside EU
- COVID-19 – new variants and/or other pandemics
- Change management of growth, new markets and/or mergers and acquisitions
- Management of Warehousing and Distribution
- IT and Cyber reliability
- Brand and proposition
- Competition
- Supplier relationships
- Dependence on key personnel

These are set out in detail on pages 40 to 44 of the Group's Annual Report and Financial Statements for the year ended 31 March 2022, a copy of which is available on the Group's Plc website, www.gear4musicplc.com.

Notes to the Interim Financial Information (continued)

3 Segmental analysis

Revenue by Geography:

	6 months ended 30 September 2022 £000	6 months ended 30 September 2021 £000	Year ended 31 March 2022 £000
UK	**35,459**	36,704	82,639
Europe and Rest of the World	**30,846**	27,990	64,991
	66,305	64,694	147,630

Administrative Expenses by Geography:

	6 months ended 30 September 2022 £000	6 months ended 30 September 2021 £000	Year ended 31 March 2022 £000
UK	**15,259**	13,685	31,253
Europe and Rest of the World	**2,420**	2,043	4,628
	17,679	15,728	35,881

Revenue by Product Category:

	6 months ended 30 September 2022 £000	6 months ended 30 September 2021 £000	Year ended 31 March 2022 £000
Other-brand products	**48,329**	46,228	102,473
Own-brand products	**14,966**	15,339	38,121
Carriage income	**2,672**	2,757	6,266
Warranty income	**220**	246	483
Other	**118**	124	287
	66,305	64,694	147,630

Notes to the Interim Financial Information (continued)

4 Expenses and other income

Included in profit/loss are the following:

	6 months ended 30 September 2022 £000	6 months ended 30 September 2021 £000	Year ended 31 March 2022 £000
Depreciation of property, plant and equipment	**716**	590	1,254
Depreciation of right-of-use assets	**797**	646	1,466
Amortisation of intangible assets	**1,457**	1,188	2,385
Amortisation of government grants	**3**	4	7
Loss/(profit) on disposal of property, plant and equipment	**17**	(8)	(12)
R&D expenditure recognised as an expense	**141**	102	230

	6 months ended 30 September 2022 £000	6 months ended 30 September 2021 £000	Year ended 31 March 2022 £000
Other income	**459**	350	820

Other income comprises rental income on our freehold property, Research and Development Expenditure credits, and marketing support.

5 Earnings per share

Basic earnings per share is calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted profit per share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

	6 months ended 30 September 2022	6 months ended 30 September 2021	Year ended 31 March 2022
(Loss)/profit attributable to equity shareholders of the parent (£'000)	**(1,109)**	1,080	3,723
Basic weighted average number of shares	**20,976,938**	20,958,821	20,967,831
Dilutive potential ordinary shares	**549,374**	193,452	570,440
Diluted weighted average number of shares	**20,976,938**	21,152,273	21,538,271
Basic (loss)/profit per share	**(5.3p)**	5.2p	17.8P
Diluted (loss)/profit per share	**(5.3p)**	5.1p	17.3P

Notes to the Interim Financial Information (continued)

6 Finance expenses

	6 months ended 30 September 2022 £000	6 months ended 30 September 2021 £000	Year ended 31 March 2022 £000
Bank interest	**508**	201	524
IFRS16 lease interest	**193**	193	403
Net foreign exchange loss	**76**	38	97
Net fair value movements	**-**	31	31
Total finance expense	**777**	463	1,055

7 Taxation

	6 months ended 30 September 2022 £000	6 months ended 30 September 2021 £000	Year ended 31 March 2022 £000
Current tax expense	**29**	249	636
Deferred tax expense	**37**	601	655
Total tax expense	**66**	850	1,291

The deferred tax liability has been increased by £37,000 to £2,335,000. The £37,000 movement consists of a P&L charge of £37,000. The increase in the deferred tax liability is due to a change of deferred tax liabilities relating to the freehold revaluation, from the rate it was initially included at, to the tax rate substantively enacted at the Balance Sheet date, and the acceleration of tax relief for intangible assets as a result of an R&D claim. The claim results in an R&D tax credit.

The substantively enacted rate at 30 September 2022 was 25% and this will be in force and effect from 1 April 2023. Deferred tax has been recognised at a mixture of 19% and 25% based on the expected unwind of the deferred tax balances.

Notes to the Interim Financial Information (continued)

8 Property, plant and equipment

	Freehold property £000	Plant and equipment £000	Fixtures and fittings £000	Motor vehicles £000	Computer equipment £000	Total £000
Cost						
Balance at 1 October 2021	7,500	1,971	6,169	30	1,177	16,847
Additions	1,251	304	630	38	135	2,358
Balance at 31 March 2022	8,751	2,275	6,799	68	1,312	19,205
Additions	-	41	498	-	73	612
Disposals	-	(5)	(119)	(29)	-	(153)
Balance at 30 September 2022	**8,751**	**2,311**	**7,178**	**39**	**1,385**	**19,664**
Depreciation						
Balance at 1 October 2021	225	1,386	3,076	20	851	5,558
Charge for the period	80	150	361	14	84	689
Balance at 31 March 2022	305	1,536	3,437	34	935	6,247
Charge for the period	88	209	329	1	89	716
Disposals	-	(4)	(97)	(3)	-	(104)
Balance at 30 September 2022	**393**	**1,741**	**3,669**	**32**	**1,024**	**6,859**
Net book value as at 30 September 2022	**8,358**	**570**	**3,509**	**7**	**361**	**12,805**
Net book value as at 31 March 2022	8,446	739	3,362	34	377	12,958
Net book value as at 30 September 2021	7,275	573	3,093	10	338	11,289

Notes to the Interim Financial Information (continued)

9 Right-of-use Assets

Leasehold properties

At 30 September 2022 the Group had five leased properties: Distribution centres and showrooms in York, Sweden and Germany, and Distribution centres in Ireland and Spain.

In September 2022 the Group vacated a software development office in Manchester at the end of the lease.

As at 30 September 2022 the associated right of use assets are as follows:

	Land and Buildings
	£000
Cost	
Balance at 1 October 2021	12,033
Foreign exchange movement	80
Additions	22
Balance at 31 March 2022	12,135
Foreign exchange movement	-
Additions	-
Balance at 30 September 2022	**12,135**
Depreciation	
Balance at 1 October 2021	3,080
Charge for the period	820
Balance at 31 March 2022	3,900
Charge for the period	797
Balance at 30 September 2022	**4,697**
Net book value as at 30 September 2022	**7,438**
Net book value as at 31 March 2022	8,235
Net book value as at 30 September 2021	8,953

Notes to the Interim Financial Information (continued)

10 Intangible assets

	Goodwill £000	Software platform £000	Brand £000	Domain names £000	Other Intangibles £000	Total £000
Cost						
Balance at 1 October 2021	3,373	17,243	817	3,013	-	24,446
Additions	1,950	2,444	555	10	150	5,109
Balance at 31 March 2022	5,323	19,687	1,372	3,023	150	29,555
Additions	-	2,822	-	8	-	2,830
Balance at 30 September 2022	**5,323**	**22,509**	**1,372**	**3,031**	**150**	**32,385**
Amortisation						
Balance at 1 October 2021	-	7,927	543	-	-	8,470
Amortisation for the period	-	1,240	21	-	12	1,273
Balance at 31 March 2022	-	9,167	564	-	12	9,743
Amortisation for the period	-	1,438	-	2	18	1,458
Balance at 30 September 2022	**-**	**10,605**	**564**	**2**	**30**	**11,201**
Net book value as at 30 September 2022	**5,323**	**11,904**	**809**	**3,029**	**120**	**21,184**
Net book value as at 31 March 2022	5,323	10,519	809	3,023	138	19,812
Net book value as at 30 September 2021	3,373	9,316	274	2,938	-	15,901

Notes to the Interim Financial Information (continued)

11 Inventories

	30 September 2022 £000	30 September 2021 £000	31 March 2022 £000
Finished goods	**43,378**	37,452	45,516

The cost of inventories recognised as an expense and included in cost of sales in the period ended 30 September 2022 amounted to £44.6m (2021: £42.6m).

Inventories include £4.1m of predominantly Own-brand stock-in-transit (30 September 2021: £6.2m) from Far East manufacturers.

12 Trade and other receivables

	30 September 2022 £000	30 September 2021 £000	31 March 2022 £000
Trade receivables	**1,516**	1,099	1,772
Prepayments	**2,773**	2,218	2,069
	4,289	3,317	3,841

Trade receivables includes cash lodged with payment providers, Amazon and the Group's consumer finance partner, and UK and International education and trade accounts where standard credit terms are 30-days.

13 Interest bearing loans and borrowings

	30 September 2022 £000	30 September 2021 £000	31 March 2022 £000
Non-current liabilities			
Bank loans	**29,000**	17,000	28,000
	29,000	17,000	28,000
Current liabilities			
Bank loans	**-**	-	-
	-	-	-
Total liabilities			
Bank loans	**29,000**	17,000	28,000
	29,000	17,000	28,000

In April 2021 the Group entered into a £35m Revolving Credit facility with HSBC. The facility expires in April 2024 and is secured by a debenture over the Group's assets.

Notes to the Interim Financial Information (continued)

14 Trade and other payables

	30 September 2022 £000	30 September 2021 £000	31 March 2022 £000
Current			
Trade payables	**10,585**	10,013	9,472
Accruals and deferred income	**5,341**	2,985	3,164
Deferred consideration	**36**	24	424
Other creditors including tax and social security	**2,950**	2,569	3,122
	18,912	15,591	16,182
Non-current			
Accruals and deferred income	**42**	9	24
Deferred consideration	**39**	69	39
	81	78	63

Accruals at 30 September 2022 include £42,000 (2021: £9,000) relating to the estimated cash bonuses accrued relating to the CSOP schemes.

Deferred consideration

In March 2021 the Group acquired the Eden brand and associated assets from Marshall Amplification plc for £140,000 of which £100,000 was deferred and payable in four equal instalments of £25,000 on the first, second, third and fourth anniversary of the completion date, with £75,000 outstanding at 30 September 2022. These amounts are valued in the accounts at fair value and subsequently amortised.

The Directors consider the carrying amount of other 'trade and other payables' to approximate their fair value.

15 Leases

The Group has leases for plant and machinery (£0.02m) and five properties (£8.9m).

Each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment.

Lease liabilities are presented in the statement of financial position as follows:

	30 September 2022 £000	30 September 2021 £000	31 March 2022 £000
Current	**1,171**	1,158	1,229
Non-current	**7,822**	9,221	8,455
	8,993	10,379	9,684

Notes to the Interim Financial Information (continued)

16 Share based payments

The Group operates share option plans for qualifying employees of the Group. Options in the plans are settled in equity in the Company and are subject to vesting conditions.

Lapsed options – LTIP (2018)

On 1 July 2022 and further to the performance conditions specified in the Plan not being met, options over a total of 29,400 ordinary shares lapsed, including options of 7,350, 6,300, and 6,300 to Gareth Bevan, Andrew Wass and Chris Scott respectively.

Options granted

On 3 August 2022 options over a total of 8,334 Ordinary shares were granted to 2 employees under the Company's CSOP scheme.

17 Related party transactions

There were no significant related party transactions during the six months to 30 September 2022 (30 September 2021: none).