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Gear4music (Holdings) PLC
14 November 2023

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Gear4music (Holdings) plc
Interim results for the six months ended 30 September 2023

"Progressing against our strategic objectives amidst a challenging backdrop"

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 2023 ("the Period").

£m	6-months ended 30 Sept 2023 ('FY24 H1')	6-months ended 30 Sept 2022 ('FY23 H1')	Change on FY23 H1
UK Revenues	**36.5**	35.5	**+3%**
European & Rest of World revenues	**26.1**	30.8	**(15%)**
Total revenues	**62.6**	66.3	**(6%)**
Gross profit	**17.0**	17.4	**(1%)**
Gross margin	**27.1%**	26.3%	**+80bps**
Adjusted EBITDA*	**2.9**	2.7	**+6%**
Operating loss	**(0.9)**	(0.3)	**(0.6m)**
Net loss	**(1.6)**	(1.1)	**(0.5m)**

* Adjusted EBITDA is defined as EBITDA ('Earnings before interest, tax, depreciation and amortisation') adjusted for exceptional items. In FY24 H1 EBITDA adjusted for £0.5m one-off redundancy costs (FY23 H1: £nil).

FY24 H1 Highlights:

- Results reflect delivery against previously stated prioritisation of improved gross margins and reduced costs over sales growth in a continuing challenging retail environment, particularly in our European markets:
    - A 6% decline in revenue resulted from a planned focus on prioritising gross margins which improved by 80bps, with the Group benefiting from an improved stock profile and lower delivery costs in FY24 H1; and
    - Cost reduction initiatives to achieve £4.0m of annualised cash savings were delivered in FY24 H1, with the benefit from FY24 H2 onwards - associated one-off exceptional cost of £0.5m.
- Good progress against the objective of reducing Group net debt to £18.1m, £3.7m lower than last year (30 September 2022: £21.8m), representing a high-point in the annual cash cycle as the business starts to build stock ahead of the peak trading period.
- Second Hand system continues to show good potential following European launch during FY24 H1.
- Well prepared ahead of the seasonal peak trading period, with a continuing focus on efficiency and margin improvements.

Trading Outlook:

- Whilst profit expectations remain the same, we are moderating our revenue expectation for the year to £144m, to reflect sales run rates and the actions taken to prioritise profits over growth. This has been offset by an increase in gross margins and lower costs contributing to higher overall profit margins. As such, full-year adjusted/underlying profit outlook remains in-line with current consensus market expectations**.
- Net debt and on-hand inventory expected to be further reduced by 31 March 2024.

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

"We are pleased to have made good progress during the period against our strategic objectives of increasing gross margins, reducing our cost base, and further enhancing our customer proposition with the launch of our Second-Hand system in Europe.

Although consumer demand has remained subdued this year due to the weaker environment, our FY24 H1 revenues were 27% higher than our pre-Covid FY20 H1 revenues, and we remain confident in our long-term growth strategy.

The decisive actions we have taken will ensure the business can return to stronger profitable growth by the next financial year, as we leverage efficiencies driven by AI, build upon our platform for growth, and diversify our channels to market.

We are well prepared for our seasonal peak trading period with a range of recently developed great value music products, and we look forward to providing a further trading update after Christmas on the 18 January 2024."

*** Gear4music believes that current consensus market expectations for the year ending 31 March 2024 prior to the publication of this announcement are revenues of £161.7 million, adjusted EBITDA of £9.8 million and adjusted profit before tax of £1.2 million.*

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About Gear4music.com

Operating from a Head Office in York, Distribution Centres in York, Bacup, Sweden, Germany, Ireland & Spain, and showrooms in York, Bacup, 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.

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("MAR"). Upon the publication of this announcement via the Regulatory Information Service, this inside information is now considered to be in the public domain.

Business Review

The business reports the Group's results for the six months to 30 September 2023, and updates on the strategic and commercial progress made in the Period.

Strategy

The business was in an improved position heading into FY24 having achieved material reductions in stock and net debt in FY23 H2, albeit at a lower gross margin than would normally be the case. Our focus in FY24 H1 pivoted to improving gross margin and cutting costs to provide the platform to restore profitability back towards the levels reached in previous periods, whilst maintaining a disciplined approach to working capital management.

Consumer confidence remains low across the UK and many European markets which in some cases has created a highly price competitive situation for certain products. As the largest UK-based retailer in our sector, our focus is maintaining a disciplined approach to product pricing, whilst reconfiguring the business to ensure the Group is profitable irrespective of market conditions.

In June 2023 we renewed our banking facilities, entering into a committed three-year £30m 'Revolving Credit Facility' ('RCF') with HSBC, providing a good level of headroom to meet our requirements. Nevertheless, the Board remains focused on prioritising a reduction in net debt, which we are doing focusing on cash generation, reducing our investment in software development, and actively managing stock levels across our distribution centres to reflect the evolving demand.

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

	FY24 H1	FY23 H1	**Change on FY23 H1**
Revenue	**£62.6m**	£66.3m	**(6%)**
Total unique website users	**9.8m**	9.1m	**+7%**
Mobile site unique users	**6.6m**	6.6m	**-**
Conversion rate	**3.97%**	4.90%	**(93bps)**
Average order value	**£161**	£151	**+7%**
Active customers *	**823,000**	903,000	**(9%)**
Proportion of repeat customers **	**26.3%**	26.5%	**-20bps**
Email subscriber database	**1,720,200**	1,408,200	**+22%**
Trustpilot rating	**4.7/5**	4.7/5	**-**

* 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

UK revenue in the Period was 3% ahead of last year, effectively reversing a 3% decrease last year on FY22 H1. The UK market in FY24 H1 was more resilient than other territories, reflecting Gear4music's brand recognition and scale in our core market.

International revenue in the Period was 15% behind FY23 H1 reversing a 10% increase last year, as certain markets became highly price competitive at times, and Gear4music held its pricing levels in-line with strategy.

'Cost-per-Click' ('CPC') continues to be high relative to where it has historically been, with competition for less traffic in the current economic climate. We are successfully using automated AI models to maximise revenue at any defined level of return on investment, and we purposefully held marketing costs as a proportion of revenue flat on last year and FY22 H1 at 6.9%. As a consequence, the proportion of visitors from organic and direct sources increased to 51% from 46% in FY23 H1, and 38% in FY22 H1.

Website user numbers increased 7% to 9.8m reflecting an increase in browsing and visits from lower-intent to purchase prospective customers coming from direct and organic sources. Visitors to our UK sites increased by 24% offsetting a 5% reduction in visitor numbers to the Group's international websites. This shift, alongside Gear4music keeping certain prices higher than the overall market during periods of heightened competition, contributed to a reduction in conversion rate from 4.9% in FY23 H1 to 4.0%. UK conversion fell from 5.8% to 4.4% whilst European conversion reduced from 4.2% to 3.6%. Mobile conversion also fell from 2.8% to 2.4%.

Mobile continues to be a major theme with 68% of users coming through this channel (FY23 H1: 72%; FY22 H1: 65%).

'Average Order Value' ('AOV') increased by 7% to £161 further to a 19% increase last year reflecting a return to normalised pricing, and inflationary price increases, meaning the business processes fewer orders to achieve an equivalent level of sales.

The Group served 341,000 customers in the Period (-11% on FY23 H1) and 'Active customers', being those that have purchased products within the last 12 months, similarly decreased by 9%.

The proportion of repeat customers remained broadly flat at 26.3% (FY23 H1: 26.5%), having increased from 24.4% in FY22 H1, reflecting a proportionally lower level of 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 by 0.3 million to 1.7 million and we continue to make improvements to our email retargeting with the objective of cost-efficiency 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 4.7/5 and 'Excellent' rating from over 125,000 reviews.

The Group invested £2.4m in its e-commerce platform in the Period (FY23 H1: £2.8m) with deployments including:

- European launch of second-hand
- European third-party fulfilment
- Enhanced website product configurator

Supply Chain Evolution

	FY24 H1	FY23 H1	**Change on FY23 H1**
Own-brand product sales	**£15.2m**	£15.0m	**+2%**
Other brand product sales	**£44.7m**	£48.3m	**(8%)**
Product margin	**30.9%**	30.9%	**-**
Products listed	**63,900**	62,500	**+2%**
Brands listed	**1,134**	1,109	**+2%**

FY24 H1 gross margin of 27.1% is an 80bps improvement on FY23 H1, with the improvement coming from relatively lower costs on shipping products to our customers linked to a high proportion of UK-sales and a higher AOV.

Achieving strong gross margins is critical to the overall profitability of the Group and as such is a key business objective. In H2 last year, a period when traditionally margins would be expected to have improved on H1, product margin became a secondary priority as we focused on reducing stock and net debt, and product margins decreased from 30.9% down to 29.4%. As such it was important in FY24 H1 we improved product margins back to historical levels, irrespective of the tough consumer environment.

A flat product margin of 30.9% reflects a 20bps improvement in own-brand margin to 44.1%, a 50bps fall in other-branded margin, and a positive sales mix effect as own-brand accounted for 25.4% of product sales compared to 23.6% in FY23 H1.

The number of 'Stock-Keeping-Units' ('SKUs') listed increased from 62,500 at 30 September 2022 to 64,200 at 31 March 2023 and decreased to 63,900 at 30 September 2023 as we removed less profitable, slow-moving SKUs, representing a net 2% increase in 12 months (1 October 2021 to 30 September 2022: +3%).

Stock at 30 September 2023 of £39.0m is £4.4m (10%) lower than at 30 September 2022 reflecting a continued focus on reducing both stock levels in light of lower customer demand, and net debt.

Own-brand

It has been an exciting period for own-brand product development with a number of new product lines coming to fruition, alongside establishing our new brand architecture with a fresh approach to branding and customer experience. We have made significant improvements to elevate brand identity and perception with a strong emphasis on the customer journey through improved brand assets including lifestyle imagery and video content, and updating existing product lines such as specifications, price points, packaging and supporting documents.

The number of our own-brand products increased from 4,250 at 30 September 2022 to 5,200 (+22%) at 30 September 2023, with own-brand revenue accounting for 25.4% of total product sales from just 8.1% 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.

International Expansion

Our international customer proposition continues to be improved from our existing footprint, with improving stock profiles better reflecting local and adjacent territory demand, and increasing the number of cost effective and premium delivery options.

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 as and when consumer markets improve.

Current trading and outlook

Continuing macro-economic uncertainties have impacted the consumer in the UK and across Europe. Whilst profit expectations remain the same, we are moderating our revenue expectation for the year to £144m, to reflect sales run rates and the actions taken to prioritise profits over growth. The impact on the bottom line has been offset by an increase in gross margins and lower costs. We are well-prepared ahead of the seasonal peak trading period and our full-year adjusted/underlying profit outlook remains in-line with current consensus market expectations.

We remain confident in the enduring consumer demand for Gear4Music products, and we are well-placed to benefit once the consumer discretionary spend environment improves.

The Group plans to issue a Christmas trading update on 18 January 2024.

Financial Review

	FY24 H1	FY23 H1	**Change on FY23 H1**
Revenue	**£62.6m**	£66.3m	**(6%)**
Gross profit	**£17.0m**	£17.4m	**(2%)**
Gross margin	**27.1%**	26.3%	**+80bps**
Unadjusted EBITDA	**£2.4m**	£2.7m	**(12%)**
Exceptional item - Redundancy costs	**(£0.5m)**	-	**(£0.5m)**
Adjusted EBITDA	**£2.9m**	£2.7m	**+6%**
Adjusted EBITDA margin	**4.6%**	4.1%	**+50bps**

Operating loss	**(£0.9m)**	(£0.3m)	**(£0.6m)**
Marketing costs	**£4.3m**	£4.6m	**(6%)**
Marketing costs as % of revenue	**6.9%**	6.9%	**-**
Total Labour costs	**£6.9m**	£7.0m	**(1%)**
Total Labour costs as % of revenue	**11.0%**	10.5%	**(50bps)**
Cash and cash equivalents	**£5.9m**	£7.2m	**(£1.3m)**
Net bank debt	**£18.1m**	£21.8m	**(£3.7m)**

Revenue

Revenue in the Period of £62.6m was £3.7m (6%) lower than last year. UK revenue was up 3% taking our estimated share of a flat UK market to 9.3% (FY23 H1: 9.1%). International revenues of £26.1m were 15% down on last year reflecting difficult trading conditions, and accounted for 42% of Group revenue compared to 47% in FY23 H1.

Gross Margin and Gross Profit

As outlined above in the 'Business Review' gross margin improved 80bps from 26.3% last year to 27.1%, reflecting a product margin that was flat on FY23 H1 but importantly 150bps higher than FY23 H2, and a relative reduction in delivery costs reflecting a 7% higher AOV, and a greater proportion of UK-sales where delivery costs are typically lower.

Net result of revenue and gross margin movements is gross profit of £17.0m, being £0.4m (2%) lower than last year.

Exceptional items

Exceptional costs of £0.5m relate to redundancy costs incurred during the restructure of various Head Office teams, principally Software Development. These costs were paid in full in FY24 H1.

Operating Loss and Administrative Expenses

The operating loss before exceptional items of £0.4m represents a £0.1m decrease on FY23 H1 reflecting a fall of £0.4m in gross profit mitigated by a net £0.3m reduction in admin expenses.

Admin expenses increased from 27.4% of sales in FY23 H1 to 28.5% in FY24 H1.

Marketing and labour costs continue to be key components of our cost base, accounting for a combined 63% of total administrative expenses in the Period (FY23 H1: 65%):

- Our marketing spend continues to be heavily invested in direct 'Pay-per-click' ('PPC') marketing and our approach focuses on delivering a pre-defined return on investment. Marketing costs of £4.3m equated to 6.9% of sales, the same as in FY23 H1 and FY22 H1. Alongside this 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.
- Total labour costs decreased 1% on FY23 H1 with an estimated 8% increase in average salary offset by a reduction in average headcount of 72. Headcount at 30 September 2023 (including Software Development team) of 434 was 20% lower than as at 30 September 2022 (541).

European distribution centre local admin expenses increased £0.1m (4%) on FY23 H1, to £2.5m reflecting inflationary cost increases limited by reduced activity.

Depreciation and amortisation in the Period totalled £3.3m (FY23 H1: £3.0m) including amortisation of £1.8m (FY23 H1: £1.4m) relating to our bespoke e-commerce platform, and £0.9m depreciation of 'Right of Use' assets (FY23 H1: £0.8m).

An adjusted EBITDA margin of 4.6% compares to 4.1% last year and 7.4% in FY22 H1.

Net Loss and Financial Expenses

Financial expenses of £1.0m include £0.8m bank interest (FY23 H1: £0.5m) reflecting increased interest rates and the level of debt in the business, and £0.2m interest on lease liabilities (FY23 H1: £0.2m).

A tax credit of £0.4m restricted the loss in the Period to £1.6m, compared to a £1.1m net loss in FY23 H1.

Cash Flow and Balance Sheet

In FY23 the business successfully reduced its stockholding to better reflect the level of sales and as such FY24 has seen a return to a more usual trading pattern, with a stock increase of £4.6m since 31 March 2023 ahead of the peak Christmas trading period. Stock at 30 September 2023 includes £4.4m of inbound stock-in-transit (30 September 2022: £4.1m) that will arrive ahead of peak trading.

Trade and other payables of £20.3m were £1.4m (7%) higher than last year reflecting stock deals on pre-agreed terms, and includes £1.4m of customer prepayments (30 September 2022: £2.2m).

Net bank debt was £18.1m at what is historically a low point in the annual cash cycle, leaving headroom of £11.9m within the Group's £30m RCF, and is expected to reduce further by 31 March 2024.

Capitalised software development costs totalled £2.4m in the Period (FY23 H1: £2.8m), taking total capitalisation to date to £27.4m. Amortisation in the Period was £1.8m leading to a £0.6m increase in net book value since the start of the financial year to £13.4m. In FY23 we capitalised £5.3m of software development costs. The post-restructure annualised capitalisation run rate based on the current team, is £2.8m compared to amortisation of £3.1m in FY23.

Property, plant and equipment capital expenditure was limited to £36,000 in the Period (FY23 H1: £0.6m).

Dividend Policy

The Board does not recommend the payment of a dividend (FY23 H1: nil). Consistent with its previous stated approach, the Group will revisit its shareholder distribution policy at the appropriate time.

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

	Note	**6 months ended 30 September 2023 (unaudited) £000**	6 months ended 30 September 2022 (unaudited) £000	Year ended 31 March 2023 (audited) £000
Revenue	*3*	**62,641**	66,305	152,039
Cost of sales		**(45,656)**	(48,892)	(112,996)
Gross profit		**16,985**	17,413	39,043
Administrative expenses	*3,4*	**(18,324)**	(18,138)	(38,705)
Other income	*4*	**407**	459	949
Operating (loss)/profit before exceptional items	*4*	**(445)**	(266)	1,287
Exceptional items	*5*	**(487)**	-	-
Operating (loss)/profit after exceptional items		**(932)**	(266)	1,287
Financial expenses	*7*	**(981)**	(777)	(1,694)
Loss before tax		**(1,913)**	(1,043)	(407)
Taxation	*8*	**353**	(66)	(237)

Loss for the Period		**(1,560)**	(1,109)	(644)
Other comprehensive income				
Items that will not be reclassified to profit or loss:				
Revaluation of property, plant and equipment		**-**	-	(550)
Deferred tax movements		**-**	-	147
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation differences - foreign operations		**272**	(101)	-
Total comprehensive loss for the Period		**(1,288)**	(1,210)	(1,047)
Loss per share attributable to equity shareholders of the company				
Basic loss per share	*6*	**(7.4p)**	(5.3p)	(3.1p)
Diluted loss per share	*6*	**(7.4p)**	(5.3p)	(3.1p)

Unaudited consolidated interim statement of financial position

	Note	**30 September 2023 (unaudited) £000**	30 September 2022 (unaudited) £000	31 March 2023 (audited) £000
Non-current assets				
Property, plant and equipment	*9*	**11,326**	12,805	11,934
Right of use assets	*10*	**9,088**	7,438	7,288
Intangible assets	*11*	**22,616**	21,184	22,049
		43,030	41,427	41,271
Current assets				
Inventories	*12*	**38,954**	43,378	34,381
Trade and other receivables	*13*	**4,083**	3,270	3,434
Corporation tax receivable		**371**	1,019	1,066
Cash and cash equivalents		**5,919**	7,199	4,460
		49,327	54,866	43,341
Total assets		**92,357**	96,293	84,612
Current liabilities				
Trade and other payables	*15*	**(20,303)**	(18,912)	(17,647)
Lease liabilities	*16*	**(1,057)**	(1,171)	(1,130)
		(21,360)	(20,083)	(18,777)
Non-current liabilities				
Interest bearing loans and borrowings	*14*	**(24,000)**	(29,000)	(19,000)
Other payables	*15*	**(89)**	(81)	(83)
Lease liabilities	*16*	**(9,215)**	(7,822)	(7,470)
Deferred tax liability		**(1,679)**	(2,335)	(2,048)
		(34,983)	(39,238)	(28,601)
Total liabilities		**(56,343)**	(59,321)	(43,478)
Net assets		**36,014**	36,972	37,234
Equity				
Share capital		**2,098**	2,098	2,098
Share premium		**13,286**	13,286	13,286
Foreign currency translation reserve		**198**	(175)	(74)
Revaluation reserve		**1,203**	1,589	1,203
Retained earnings		**19,229**	20,174	20,721
Total equity		**36,014**	36,972	37,234

Unaudited consolidated interim statement of cash flows

	Note	**6 months ended 30 September 2023 (unaudited) £000**	6 months ended 30 September 2022 (unaudited) £000	Year ended 31 March 2023 (audited) £000
Cash flows from operating activities				
Loss for the Period:		**(1,560)**	(1,109)	(644)
Adjustments for:				
Depreciation and amortisation	*9-11*	**3,313**	2,970	6,081
Financial expense	*7*	**978**	701	1,694
(Profit)/loss on sales of property, plant and equipment		**(6)**	17	17
Share-based payment charge		**71**	146	282
Tax expense	*8*	**(353)**	66	(208)
		2,443	2,791	7,222
(Increase)/decrease in trade and other receivables		**(649)**	(92)	14
(Increase)/decrease in inventories		**(4,573)**	2,138	11,135
Increase in trade and other payables		**2,342**	3,134	1,865
		(437)	7,971	20,236
Tax received/(paid)		**824**	(385)	(530)
Net cash from operating activities		**387**	7,586	19,706
Cash flows from investing activities				
Proceeds from sales of property, plant and equipment		**14**	32	31
Acquisition of property, plant and equipment	*9*	**(36)**	(612)	(989)
Acquisition of domains	*11*	**-**	(8)	(8)
Capitalised development expenditure	*11*	**(2,382)**	(2,822)	(5,319)
Payment of deferred consideration		**-**	(388)	(419)
Net cash from investing activities		**(2,404)**	(3,798)	(6,704)
Cash flows from financing activities				
Proceeds from new borrowings	*14*	**5,000**	1,000	-
Repayment of borrowings		**-**	-	(9,000)
Interest paid	*7*	**(880)**	(702)	(1,694)
Payment of lease liabilities		**(644)**	(689)	(1,713)
Net cash from financing activities		**3,476**	(391)	(12,407)
Net increase in cash and cash equivalents		**1,459**	3,397	595
Cash at beginning of Period		**4,460**	3,903	3,903
Foreign exchange movement		**-**	(101)	(38)
Cash at end of Period		**5,919**	7,199	4,460

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 2023	**2,098**	**13,286**	**(74)**	**1,203**	**20,721**	**37,234**
Loss for the Period	-	-	-	-	(1,560)	**(1,560)**
Other comprehensive income	-	-	272	-	-	**272**
Share based payments charge	-	-	-	-	68	**68**

Balance at 30 September 2023	**2,098**	**13,286**	**198**	**1,203**	**19,229**	**36,014**

	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
Loss for the Period	-	-	-	-	(1,109)	(1,109)
Other comprehensive income	-	-	(101)	-	-	(101)
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 2022	2,098	13,286	(74)	1,606	21,120	38,036
Loss for the year	-	-	-	-	(644)	(644)
Other comprehensive income	-	-	-	-	-	-
Freehold property revaluation	-	-	-	(550)	-	(550)
Deferred tax impact of revaluation	-	-	-	147	-	147
Share based payments charge	-	-	-	-	245	245
Balance at 31 March 2023	2,098	13,286	(74)	1,203	20,721	37,234

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 two 100% owned dormant subsidiaries in the UK ('Cagney Limited' and 'AV Distribution Limited') and one 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) and Gear4music Limited (company number: 03113256) is Holgate Park Drive, York, YO26 4GN.

1 Accounting policies

Basis of preparation

The consolidated interim financial information, which has been neither audited nor reviewed by the auditor, 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 International Accounting 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 and is thus not in full compliance with UK-adopted international accounting standards. It should therefore be read in conjunction with the Group's Annual Report for the year ended 31 March 2023, which has been prepared in accordance with UK-adopted 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 2023, as detailed on pages 69 to 74 of the Group's Annual Report and Financial Statements for the year ended 31 March 2023, a copy of which is available on the Group's website, www.gear4musicplc.com.

As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS 34 "Interim financial reporting".

The comparative financial information contained in the condensed consolidated financial information in respect of the year ended 31 March 2023 has been extracted from the 2023 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 2023.

Exceptional items

The business classifies certain events as exceptional items due to their size and nature where it feels that separate disclosure would help understand the underlying performance of the business. Restructuring and transformational costs are considered on a case-by-case basis as to whether they meet the exceptional criteria. Other items are considered against the exceptional criteria based on the specific circumstances. The presentation is consistent with the way Financial Performance is measured by management and reported to the Board. Further information is disclosed in note 5.

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 45 of the Group's 2023 Annual Report and Financial Statements.

On 15 June 2023 the Group renewed its RCF with HSBC at £30m for a further three-year period. This facility provides a good and appropriate level of headroom that has been factored into the Directors going concern assessment.

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

At 30 September 2023 the Group had net debt of £18.1m (30 September 2022: £21.8m) including £5.9m cash (30 September 2023: £7.2m), 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 prospects based on its current proposition and online offering in the UK and Europe, strategic developments delivered and in progress, 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 2024, 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 2024 to be unchanged from those set out in the group's Annual Report and Financial Statements for the year ended 31 March 2023, and can be summarised as:

- Macroeconomic and geopolitical factors

- Macroeconomic and geopolitical factors
- Climate risk and sustainability
- UK outside the EU
- Change management - Operational, Regulatory and Technological
- IT and Cyber Security
- Management of Warehousing and Distribution
- Global pandemics
- Brand and proposition
- Competition
- Supplier relationships
- Financial risk
- ESG

These are set out in detail on pages 36 to 42 of the Group's Annual Report and Financial Statements for the year ended 31 March 2023, 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 2023 £000	6 months ended 30 September 2022 £000	Year ended 31 March 2023 £000
UK	**36,535**	35,459	82,084
Europe and Rest of the World	**26,106**	30,846	69,955
	62,641	66,305	152,039

Administrative Expenses by Geography:

	6 months ended 30 September 2023 £000	6 months ended 30 September 2022 £000	Year ended 31 March 2023 £000
UK	**15,330**	15,718	33,678
Europe and Rest of the World	**2,507**	2,420	5,027
Exceptional items - UK	**487**	-	-
	18,324	18,138	38,705

Revenue by Category:

	6 months ended 30 September 2023 £000	6 months ended 30 September 2022 £000	Year ended 31 March 2023 £000
Other-brand products	**44,682**	48,329	106,189
Own-brand products	**15,219**	14,966	38,860
Carriage income	**2,484**	2,672	6,187
Warranty income	**184**	220	452
Other	**72**	118	351
	62,641	66,305	152,039

Notes to the Interim Financial Information (continued)

4 Expenses and other income

Included in profit/loss are the following:

	6 months ended 30 September 2023 £000	6 months ended 30 September 2022 £000	Year ended 31 March 2023 £000
Depreciation of property, plant and equipment	**634**	716	1,414
Depreciation of right-of-use assets	**863**	797	1,577
Amortisation of intangible assets	**1,815**	1,457	3,090
Amortisation of government grants	**-**	3	3
(Profit)/loss on disposal of property, plant and equipment	**(6)**	17	17
R&D expenditure recognised as an expense	**117**	141	280

Other income

	6 months ended 30 September 2023 £000	6 months ended 30 September 2022 £000	Year ended 31 March 2023 £000
RDEC tax credits	**145**	231	445
Rental income	**99**	96	239
Other	**163**	132	265
Total other income	**407**	459	949

Rental income relates to our freehold Head Office in York. 'Other' includes income from on-site café at our Head Office in York, grants and marketing support.

5 Exceptional items

Costs incurred comprise redundancies relating to the restructure and reorganisation of various Head Office teams, principally Software Development.

	6 months ended 30 September 2023 £000	6 months ended 30 September 2022 £000	Year ended 31 March 2023 £000
Redundancy costs	**487**	-	-

Notes to the Interim Financial Information (continued)

6 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 earnings 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.

Dilutive shares are not included as where their effect is anti-dilutive.

	6 months ended 30 September 2023	6 months ended 30 September 2022	Year ended 31 March 2023
Loss attributable to equity shareholders of the parent (£'000)	**(1,560)**	(1,109)	(644)
Basic weighted average number of shares	**20,976,938**	20,976,938	20,976,938
Basic loss per share	**(7.4p)**	(5.3p)	(3.1p)
Diluted loss per share	**(7.4p)**	(5.3p)	(3.1p)

7 Finance expenses

	6 months ended 30 September 2023 £000	6 months ended 30 September 2022 £000	Year ended 31 March 2023 £000
Bank interest	**754**	508	1,127
IFRS16 lease interest	**225**	193	375
Net foreign exchange loss	**2**	76	190
Net fair value movements	**-**	-	2
Total finance expense	**981**	777	1,694

Notes to the Interim Financial Information (continued)

8 Taxation

	6 months ended 30 September 2023 £000	6 months ended 30 September 2022 £000	Year ended 31 March 2023 £000
Current tax expense	**15**	29	342
Deferred tax (credit)/expense	**(368)**	37	(105)
Total tax (credit)/expense	**(353)**	66	237

The deferred tax liability has been decreased by £368,000 to £1,679,000 reflecting the recognition of a £466,000 deferred tax asset arising on the tax losses in the Period.

Deferred tax balances have been provided at 25% which was the tax rate which was substantively enacted at 30 September 2023.

Notes to the Interim Financial Information (continued)

9 Property, plant and equipment

	Freehold property £000	**Plant and equipment £000**	**Fixtures and fittings £000**	**Motor vehicles £000**	**Computer equipment £000**	**Total £000**

Cost	Freehold property	Plant and equipment	Fixtures and fittings	Motor vehicles	Computer equipment	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 October 2022	8,751	2,311	7,178	39	1,385	19,664
Additions	-	127	214	-	36	377
Revaluation decrease	(550)	-	-	-	-	(550)
Balance at 31 March 2023	8,201	2,438	7,392	39	1,421	19,491
Additions	-	-	32	-	4	36
Disposals	-	-	-	(9)	(17)	(26)
Balance at 30 September 2023	**8,201**	**2,438**	**7,424**	**30**	**1,408**	**19,501**
Depreciation						
Balance at 1 October 2022	393	1,741	3,669	32	1,024	6,859
Charge for the Period	87	126	504	4	81	802
Disposals	-	-	(101)	(3)	-	(104)
Balance at 31 March 2023	480	1,867	4,072	33	1,105	7,557
Charge for the Period	139	133	268	2	94	636
Disposals	-	-	-	(5)	(13)	(18)
Balance at 30 September 2023	**619**	**2,000**	**4,340**	**30**	**1,186**	**8,175**
Net book value as at 30 September 2023	**7,582**	**438**	**3,084**	**-**	**222**	**11,326**
Net book value as at 31 March 2023	7,721	571	3,320	6	316	11,934
Net book value as at 30 September 2022	8,358	570	3,509	7	361	12,805

Notes to the Interim Financial Information (continued)

10 Right-of-use Assets

Leasehold properties

At 30 September 2023 the Group had six leased properties: Distribution centres and showrooms in York, Sweden and Germany, Distribution centres in Ireland and Spain, and a software development office in Manchester.

On 28 July 2023 the Group agreed a Rent Review in relation to its York distribution centre.

As at 30 September 2023 the associated right of use assets are as follows:

	Land and Buildings
	£000
Cost	
Balance at 1 October 2022	12,135
Modifications	567
Additions	63

	Land and Buildings £000
Balance at 31 March 2023	12,765
Modifications	2,663
Balance at 30 September 2023	**15,428**
Depreciation	
Balance at 1 October 2022	4,697
Charge for the Period	780
Balance at 31 March 2023	5,477
Charge for the Period	863
Balance at 30 September 2023	**6,340**
Net book value as at 30 September 2023	**9,088**
Net book value as at 31 March 2023	7,288
Net book value as at 30 September 2022	7,438

Notes to the Interim Financial Information (continued)

11 Intangible assets

	Goodwill £000	Software platform £000	Brand £000	Domain names £000	Other Intangibles £000	Total £000
Cost						
Balance at 1 October 2022	5,324	22,509	1,372	3,031	149	32,385
Additions	-	2,496	-	-	-	2,496
Balance at 31 March 2023	5,324	25,005	1,372	3,031	149	34,881
Additions	-	2,382	-	-	-	2,382
Balance at 30 September 2023	**5,324**	**27,387**	**1,372**	**3,031**	**149**	**37,263**
Amortisation						
Balance at 1 October 2022	-	10,605	563	2	30	11,200
Amortisation for the Period	-	1,612	-	1	19	1,632
Balance at 31 March 2023	-	12,217	563	3	49	12,832
Amortisation for the Period	-	1,761	-	1	53	1,815
Balance at 30 September 2023	**-**	**13,978**	**563**	**4**	**102**	**14,647**
Net book value as at 30 September 2023	**5,324**	**13,409**	**809**	**3,027**	**47**	**22,616**

	~~Goodwill~~ £000	Software ~~platform~~ £000	~~Brand~~ £000	Domain ~~names~~ £000	Other ~~Intangibles~~ £000	~~Total~~ £000
Net book value as at 31 March 2023	5,324	12,788	809	3,028	100	22,049
Net book value as at 30 September 2022	5,324	11,904	809	3,029	118	21,184

12 Inventories

	30 September 2023 £000	30 September 2022 £000	31 March 2023 £000
Finished goods	**38,954**	43,378	34,381

The cost of inventories recognised as an expense and included in cost of sales in the period ended 30 September 2023 amounted to £41.8m (FY23 H1: £44.6m).

Inventories include £4.4m of predominantly Own-brand stock-in-transit (30 September 2022: £4.1m) from Far East manufacturers.

Notes to the Interim Financial Information (continued)

13 Trade and other receivables

	30 September 2023 £000	30 September 2022 £000	31 March 2023 £000
Trade receivables	**1,563**	1,516	1,243
Prepayments	**2,520**	1,754	2,191
	4,083	3,270	3,434

Corporation tax asset of £371,000 (30 September 2022: £1,019,000) has been disclosed separately on the face of balance sheet in all three periods, in accordance with IAS 1.54(n).

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

14 Interest bearing loans and borrowings

	30 September 2023 £000	30 September 2022 £000	31 March 2023 £000
Non-current liabilities			
Bank loans	**24,000**	29,000	19,000
	24,000	29,000	19,000
Current liabilities			
Bank loans	**-**	-	-
	-	-	-
Total liabilities			
Bank loans	**24,000**	29,000	19,000
	24,000	29,000	19,000

Revolving Credit Facility

On 15 June 2023 the Group renewed its banking facilities entering into a three year £30m RCF with HSBC. This facility expires in June 2026 and is secured by a debenture over the Group's assets.

Loans incur interest at variables rates linked to SONIA, with a margin non-utilisation fee.

Notes to the Interim Financial Information (continued)

15 Trade and other payables

	30 September 2023 £000	30 September 2022 £000	31 March 2023 £000
Current			
Trade payables	**13,120**	10,585	9,300
Accruals and deferred income	**4,519**	5,341	5,099
Deferred consideration	**23**	36	23
Other creditors including tax and social security	**2,641**	2,950	3,225
	20,303	18,912	17,647
Non-current			
Accruals and deferred income	**67**	42	61
Deferred consideration	**22**	39	22
	89	81	83

Accruals at 30 September 2023 include:

- £1,445,000 (30 September 2022: £2,151,000) relating to customer prepayments; and
- £66,000 (30 September 2022: £42,000) 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 £50,000 outstanding at 30 September 2023. 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.

16 Leases

The Group has six property leases. 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 2023 £000	30 September 2022 £000	31 March 2023 £000
Current	**1,057**	1,171	1,130
Non-current	**9,215**	7,822	7,470
	10,272	8,993	8,600

Notes to the Interim Financial Information (continued)

17 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. Relevant events in the Period include:

Options granted - CSOP (2023)

On 9 May 2023 options over a total of 56,023 Ordinary shares were granted to 22 non-Director employees under the Company's CSOP scheme.

LTIP (2023) replacing LTIP (2021) and LTIP (2018)

On 21 July 2023 the Group adopted a replacement long term incentive plan ('LTIP') with share awards made to key members of the management team. The Group's Remuneration Committee made these awards so that the key people to lead the business into the future are appropriately incentivised in a manner that aligns with the interests of the Group's shareholders. The new LTIP replaced the two existing LTIPs established in 2018 (and subsequently re-based in 2020) and in 2021 in full, with all awards made under those LTIPs replaced and cancelled.

Under the new LTIP, Gear4music Limited, ('G4M Ltd'), a wholly owned subsidiary of Gear4music (Holdings) plc issued 1,038,000 'E' ordinary shares of one-pence each ('E-Shares'), which are non-voting, non-dividend, restricted shares to the relevant individuals. The initial subscription cost was paid by the relevant individual with the proceeds received from the redemption by G4M Ltd of the 'C' ordinary shares of one-pence each and 'D' ordinary shares of ten pence each from the 2018 and 2021 LTIPs respectively at their nominal value. Any excess owed to the relevant individual was paid in cash; any excess owed by the relevant individual for the subscription cost of E Shares was paid by way of a small cash bonus.

These E Shares vest subject to achieving certain share price targets between 2026 and 2030, at which point the E Shares can be exchanged on a one-for-one basis for new ordinary shares in Gear4music (Holdings) plc. The weighted average vesting period over the life of the new LTIP is five years from the date of grant.

Further details of the new LTIP are as follows:

Financial year ending 31 March	Vesting date	Share price target	No. E Shares vesting
2026	27 July 2026	£3	207,600
2027	26 July 2027	£5	207,600
2028	24 July 2028	£7	207,600
2029	30 July 2029	£10	207,600
2030	29 July 2030	£13	207,600
		Total	**1,038,000**

The Group's executive directors participate in the new LTIP as detailed below:

Individual	Title / role		No. E Shares awarded
Andrew Wass	Chief Executive Officer		250,000
Chris Scott	Chief Financial Officer		250,000
Gareth Bevan	Chief Commercial Officer		250,000
		Total	**750,000**

18 Related party transactions

There were no significant related party transactions during the six months to 30 September 2023 (30 September 2022: none).

END

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