25 June 2019

Gear4music (Holdings) plc
Results for the period ended 31 March 2019

Gear4music (Holdings) plc, ("Gear4music" or "the Group") (LSE: G4M), the largest UK based online retailer of musical instruments and music equipment, today announces its financial results for the 13 months ended 31 March 2019. Comparative information is on a 12 months basis unless stated, and as such may not be directly comparable.

Highlights:

£'000	13 months ended 31 March 2019	12 months ended 28 February 2018	Change
Revenue	118,155	80,100	+48%
Gross profit	26,916	20,319	+32%
EBITDA	2,281	3,458	-34%
Net (loss)/profit	(163)	1,386	

- Continuing strong revenue growth across the business: 37% in the twelve months ended 28 February 2019
- Gross margin of 22.8% is down 260bps primarily reflecting a highly competitive market
- Active customers up 53% to 727,000
- Conversion increased from 3.25% to 3.40%
- Confident of continued strong growth and delivering profit improvement in FY20

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

"Alongside delivering strong revenue growth in the period, we have worked hard to implement a number of commercial and operational initiatives to address the previously reported issues.

Our FY20 H1 focus is on improving gross margins and ensuring a robust operational infrastructure is in place ahead of our peak H2 trading period, and I am pleased to report these actions are already yielding positive results.

We are confident that we have the right strategy, customer proposition, financial resources and focus, to overcome the challenges of FY19, and achieve our objectives of maximising customer satisfaction and delivering value to shareholders."

ENDS

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About Gear4music (Holdings) plc

Operating from a Head Office in York, and Distribution Centres and showrooms in York, Sweden and 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, more recently, into the Rest of the World.

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

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No. 596/2014.

Chairman's statement

We announced in September 2018 that we were changing our financial year-end from 28 February to 31 March and this has resulted in us reporting on a 13-month accounting period ended 31 March 2019 ('FY19') and as such, unless otherwise stated, numbers may not be directly comparable.

With continuing strong growth taking revenue to £118m in FY19 (FY18: £80m, up 48%), the Group continues to rapidly gain market share, although, overall, it proved to be a challenging year. Despite another year of strong revenue growth and further expansion of our customer base, it was disappointing to announce that the Group's profits for the period would be materially below previous expectations.

It has been reassuring however to see the Executive Directors and management team reacting swiftly, and taking the decisions and actions necessary as outlined in our Chief Executive Officer Andrew Wass's report, to ensure the challenges arising during FY19 are appropriately addressed.

Since Gear4music listed on AIM in 2015, annual revenues have grown from £24m to £110m in the 12 months to 28 February 2019 and £118m in FY19. We have achieved this growth by implementing our core strategy of best-in-class customer service, e-commerce excellence, bespoke platform development, international expansion, and supply chain evolution. Like any rapidly growing business, the challenges faced in FY19 have provided the Executive team and Board an opportunity to review all aspects of the business to ensure that we are correctly positioned to achieve our next leg of growth and rebuild shareholder value.

Operating in a fragmented niche market, our customer proposition continues to be fundamental to our success, and it is pleasing to note the significant uplift in overall website visits, customer conversion and high levels of satisfaction evidenced on review sites such as TrustPilot.co.uk.

This high level of customer satisfaction, and the implementation of our growth strategy, have only been possible because of the passion and dedication of our staff, and on behalf of the Board I would like to thank all of our employees for their continued energy and commitment. We continue to look forward to the future with confidence.

Corporate Governance

It is the Board's responsibility to ensure that the Group has a corporate governance framework that is effective whilst dynamic, as a foundation for a sustainable growth strategy, and identifying, evaluating and managing risks and opportunities that will underpin long-term value creation.

I am therefore pleased to confirm that, in compliance with the AIM Rules for Companies, the Board formally adopted the 2018 QCA Corporate Governance Code with effect from 26 September 2018. Enhanced disclosures in this regard will be included in the various sections of this year's Annual Report, and made available on the Group's website.

Outlook

The Board has taken decisive action to address the underlying causes of the profitability challenges in FY19. Pleasingly, many of the issues faced are within our grasp to resolve and we are already starting to see the benefits of a more rigorous focus on margin. In parallel with these initiatives, we continue to see a significant opportunity to continue to win market share in the UK and across Europe.

With over £5m cash on hand at 31 March 2019, the Directors remain confident that the Group has the financial resources required to achieve its business objectives during the next financial period.

I believe the Group will emerge from this period as a stronger and leaner business, well prepared and better placed for the next phase of our exciting growth journey.

Ken Ford
Chairman
25 June 2019

Chief Executive's Statement

Business Review

Financial and Commercial KPIs in our fourth year as a listed business are set out below:

Financial KPIs

	FY19 (13m)	FY18 (12m)	Change
Revenue *	**£118.2m**	£80.1m	+48%
UK Revenue *	**£63.7m**	£44.3m	+44%
International Revenue *	**£54.5m**	£35.8m	+52%
Gross margin	**22.8%**	25.4%	-260bps
Total Admin expenses *	**£26.9m**	£18.4m	+46%
European Admin expenses *	**£2.8m**	£1.5m	+87%
EBITDA	**£2.3m**	£3.5m	-34%
Cash at year end	**£5.3m**	£3.5m	+51%
Net debt	**£7.5m**	£5.0m	+50%

Commercial KPIs

	FY19 (13m)	FY18 (12m)	Change
Website visitors	**27.1m**	16.9m	+60%
Conversion rate	**3.40%**	3.25%	+15bps
Average order value	**£117**	£127	-8%
Active customers	**727,000**	475,000	+53%
Products listed	**51,500**	44,700	+15%

Footnote: Revenue tables bridging from audited periods to non-GAAP accounting periods:

FY18 Revenue reconciliation

	FY18 Audited 12m to 28 Feb 18	March 2018	13m to 31 Mar 18
UK Revenue *	**£44.3m**	£3.7m	£48.0m
International Revenue *	**£35.8m**	£2.9m	£38.7m
Total Revenue *	**£80.1m**	£6.6m	£86.7m

FY19 Revenue reconciliation

	12m to 28 Feb 19	March 2019	**FY19 13m to 31 Mar 19**
UK Revenue *	£58.9m	£4.8m	**£63.7m**
International Revenue *	£51.0m	£3.5m	**£54.5m**
Total Revenue *	£109.9m	£8.3m	**£118.2m**

* See note 2

Business review

Gear4music has continued to grow revenue quickly and has gained significant additional market share throughout FY19, although as previously reported, the Group has been impacted by a number of operational and commercial issues, in what continues to be a challenging retail environment.

In response we have undertaken a thorough review of all aspects of the business, and are confident that the swift strategic and operational changes being made will significantly reduce the risk of these issues reoccurring in the year ahead.

Our core growth strategy of continually improving our customer proposition remains valid and appropriate, but in addition we will focus on margin improvement and distribution efficiency to ensure the business is effectively configured to achieve a sustainable level of profitable growth.

Targeted margin growth

The FY19 gross margin of 22.8% was well below historical averages, and margin recovery is a primary objective for FY20 and beyond. To achieve this, we will focus on more selective inventory investment where we see higher margin potential, alongside accelerating own-brand sales growth relative to other brands. As first reported in April, product margins continue to recover, and we are confident of further progress in the year ahead.

These actions will be supported by a review of our courier relationships and returns policies, alongside more targeted marketing campaigns designed to support greater profitability as well as revenue growth.

The combined effect of the actions that we have taken will likely lead to a lower rate of H1 sales growth than recent years, particularly against FY19 H1 when gaining market share was prioritised over profitability. This will ensure that our margins are realigned ahead of the H2 peak trading period and help us to operate profitably and sustainably within any retail environment.

Distribution efficiency

As previously reported, during our FY19 peak Christmas trading period, our York distribution centre reached maximum capacity within its configuration at that time. This restricted additional revenue growth, and resulted in higher than anticipated labour and distribution costs.

Improving the efficiency and scalability of our distribution and logistics management systems has become a priority for the current year, alongside planning for 24/7 operations during the peak Christmas period, with contingency arrangements in place for outsourced inventory storage if required.

Our strategy of establishing a physical footprint in Europe continues to benefit the Group and provides a solid platform for growth in the future. As our European business continues to grow, we are expecting to fulfil a higher proportion of orders from our European distribution centres located in Sweden and Germany, which have significant spare capacity.

As previously notified, courier costs during FY19 were notably higher, particularly during the peak trading period. We continue to take action to ensure more robust and commercially viable arrangements with our courier partners are in place for the future, for instance through renegotiation of contracts.

Trading outlook

We have taken quick and decisive action to address the operational and commercial issues that impacted profitability in FY19. Whilst early in the current year, we are beginning to see positive trends establishing themselves which give us confidence in our refocused growth strategy. Alongside this, we will continue to develop our excellent e-commerce platform, expand our customer base in the UK and internationally, extend and refine our product ranges, and deliver the market leading service and value that has made us a leading European retailer of musical instruments and equipment in such a short space of time.

Whilst the on-going Brexit uncertainty and its impact on consumer confidence is unhelpful, we remain well positioned to benefit from further consolidation within our market. We believe we are well placed to deliver on our strategic objectives with a solid financial base and a better organised and refocused operational structure, giving us confidence in our trading outlook for the new financial year.

Andrew Wass
Chief Executive Officer
25 June 2019

Chief Financial Officer's statement

Overview

In FY19 the Group delivered continued strong revenue growth but, as Andrew has detailed in his CEO's report, profitability has been adversely impacted primarily by a highly competitive market contributing to lower gross margins as well as operational issues now being addressed.

Revenue

	FY19 13m £000	FY18 12m £000
UK Revenue	**63,672**	44,258
International Revenue	**54,483**	35,842
Revenue	**118,155**	**80,100**

Revenue increased by £29.8m (37%) over comparable 12-month periods to the end of February 2019, and £31.5m (36%) on comparable 13-month periods to the end of March 2019. This builds on growth of 43% in FY18 and 58% in FY17.

UK revenue growth was 33% on both a 12-month and 13-month basis, taking Gear4music's UK market share to an estimated 6.9% (FY18: 5.9%).

European growth continues to represent a significant opportunity and international revenue growth of 42% on a 12-month basis / 41% on a 13-month basis followed 69% growth in FY18 and 124% growth in FY17. Revenues from sales outside of Europe accounted for 1.3% of total revenue (FY18: 1.0%).

	FY19 13m £000	FY18 12m £000
Other-brand product revenue	**82,125**	56,075
Own-brand product revenue	**31,289**	20,947
Other revenue	**4,741**	3,078
Revenue	**118,155**	**80,100**

We continue to make good progress in our own-brand business with revenue growth again over-delivering on the Group's ambition of keeping pace with the growth in other-brands.

In FY19 own-brand revenue accounted for 26.5% of total revenue compared to 26.2% in FY18 and 25.7% in FY17, with these sales generated from just 3,218 SKUs representing 6% of the total range (FY18: 2,629 SKUs; FY17: 2,411 SKUs).

Other revenue comprises carriage income, warranty revenue, and commissions earned on facilitating point-of-sale credit for retail customers. These revenues accounted for 4.0% of total revenue in the period (FY18: 3.8%).

Gross profit

	FY19 **13m** **£000**	FY18 12m £000	Change %
Product sales (£'000)	**113,414**	77,022	
Product profit (£'000)	**31,558**	23,197	
Product margin	**27.8%**	30.1%	**-2.3ppts**
Carriage costs (£'000)	**9,078**	5,835	
Carriage costs as % of sales	**7.7%**	7.3%	**-0.4ppts**
Gross profit	**26,916**	20,319	
Gross margin	**22.8%**	25.4%	**-2.6ppts**

Continued strong revenue growth led to a £6.6m increase in gross profit in the 13-month period compared to last year, but gross margin fell from 25.4% to 22.8% due to competitive pressures in the market for other-brand products.

We have been referencing the highly competitive nature of the market for other-branded products since our AGM statement in July 2018, and these pressures have led to low other-brand product margins that are the main contributor to the margin shift in the period. As communicated our short-term response was to invest in our customer proposition in terms of competitive pricing and delivery options to drive market share gains, but our ability to achieve this was limited in November and December by UK-distribution challenges. In FY20 we are refocusing on restoring gross margin and we continue to take action to address this.

Medium term stock intake price prospects are improving with increasing scale and the Group's ability to source other-branded products in Swedish Krona and Euros.

The Group purchases its own-brand products in US-Dollars and as such gross margin can be impacted by exchange rate fluctuations. This led to cost push inflation in FY18 which was partly mitigated through negotiation with suppliers and passing on through price increases to consumers where it made commercial sense. In FY19 own-brand margins have not been subject to the same pressures and remained stable.

We include our costs of delivery within our cost of sales figure which is a different accounting treatment to some other e-commerce retailers. Delivery costs increased to £9.1m in the period represented 7.7% of total revenue (FY18: 7.3%).

Administrative expenses and Operating profit

	FY19 **13m** **£000**	FY18 12m £000
UK Administrative expenses	**(24,113)**	(16,823)
European Administrative expenses	**(2,814)**	(1,535)
Total Administrative expenses	**(26,927)**	(18,358)
Operating (loss)/profit	**(11)**	**1,961**

Total administrative expenses increased 47% in the 13-month period relative to FY18, compared to a 48% increase in sales. This includes an 83% increase in European Administrative expenses reflecting the continued scaling-up of the Group's European distribution centres.

Marketing and labour costs in the 13-month period were £9.8m (FY18 12m: £6.7m) and £9.5m (FY18 12m: £6.3m) respectively, represented 72% of total administrative expenses (FY18: 71%).

Marketing activities continue to be heavily data-driven and focused on return on investment and costs accounted for 8.3% of revenue in both FY19 and FY18.

Labour costs in FY19 accounted for 8.1% of revenue compared to 7.9% in FY18, reflecting an increase of 118 (38%) in average headcount, and includes the aforementioned distribution inefficiencies in November and December.

Administrative expenses include a £421,000 credit relating to the release of a rent accrual for the difference between cash paid and the average rent charge as expensed in relation to the leasehold distribution centre at Clifton Moor, York. The signing of a new lease in March 2018 triggered this release.

FY19 EBITDA of £2.3m is £1.2m lower than last year, representing an EBITDA margin of 1.9% compared to 4.3% last year and 6.4% in FY17. The Group is refocusing on returning profitability towards historical levels by improving gross margins and cost base management.

Net financial expenses of £598,000 (FY18: £461,000) include £352,000 interest (FY18: £178,000) relating to property loans, increased utilisation of the Import Loan facility, and a £249,000 net foreign exchange loss (FY18: £265,000 loss).

The Group is reporting a loss before tax of £0.6m compared to a £1.5m profit last year.

The net loss for the period of £0.2m (FY18 net profit: £1.4m) translates into an EPS loss of 0.8p (FY18: +6.7p).

Cash-flow and net debt

The cash flow statement for the financial year reflects the Group continuing to deploy growth capital to generate returns, by investing in stock and the e-commerce platform to improve the customer proposition and drive revenue growth.

	FY19 **13m** **£000**	FY18 12m £000
Opening cash	**3,540**	3,001
(Loss)/profit for the year	**(163)**	1,386
Movement in working capital	**(62)**	(3,123)
Depreciation and amortisation	**2,293**	1,497
Financial expense	**349**	196
Other operating adjustments	**159**	199
Net cash from operating activities:	**2,576**	155
Net cash from investing activities:	**(4,888)**	(9,517)
Net cash from financing activities:	**4,085**	9,899
Increase in cash in the year	**1,773**	537
Foreign exchange	(**9)**	2
Closing cash	**5,304**	3,540

Investment in working capital was £0.1m compared to £3.1m in FY18 and £3.5m in FY17, and demonstrates the Group's ability to manage working capital to generate cash should it be required.

Period-end stock increased by £1.6m (9%) reflecting lower stock holdings of brands where the current product margins do not justify the working capital investment, and a clean-up of overstocked items resulting from under-delivering on peak revenue and of slower moving inventory.

Net cash from investing activities of £4.9m includes £2.7m of software development (FY18: £1.7m) and £1.8m of tangible fixed additions comprising £1.0m in the UK which was part funded by the drawing of £0.5m of finance leases, and £0.6m in Sweden relating to the new distribution centre.

Net cash from financing activities of £4.1m includes a £4.5m increase in utilisation of the HSBC Import Loan facility secured against stock. On 31 May 2019 this facility was increased from £8m to £10m providing further headroom should it be required.

Balance sheet and net assets

The Group has a strong year-end balance sheet, with net assets of £18.7m (FY18: £18.9m), and £5.3m cash (FY18: £3.5m).

	31 March 2019 £000	28 February 2018 £000
Software platform	**5,814**	4,304
Other intangible assets	**2,013**	2,074
Property, plant and equipment	**10,766**	10,054
Total non-current assets	**18,593**	16,432
Stock	**18,661**	17,055
Cash	**5,304**	3,540
Other current assets	**1,657**	2,704
Total current assets	**25,622**	23,299
Trade payables	**(7,464)**	(7,325)
Loans and Borrowings	**(8,555)**	(3,914)
Other current liabilities	**(4,069)**	(3,591)
Total current liabilities	**(20,088)**	(14,830)
Loans and Borrowings	**(4,272)**	(4,616)
Other non-current liabilities	**(1,148)**	(1,400)
Total non-current liabilities	**(5,420)**	(6,016)
Net assets	**18,707**	18,885

The investment in our bespoke e-commerce platform in the period was £2.7m (FY18: £1.7m) to develop enhanced functionality and resilience, taking total investment to date to £9.2m, and net book value to £5.8m (28 February 2018: £4.3m).

The Group had net debt of £7.5m at the period end (28 February 2018: £5.0m), including debt of £4.6m that relates to and is secured by the freehold head office valued at £7.2m. Period end net debt is made up of £3.2m of net debt payable under one year and £4.3m is due over one year.

Dividends

The Board remains confident in the cash generative nature of the business, but in light of the increased level of debt and the importance of retaining cash reserves to support future growth, the Board does not consider it appropriate to declare a dividend at this time but will continue to review this position on an annual basis.

On behalf of the Board

Chris Scott
Chief Financial Officer
25 June 2019

Consolidated Statement of Profit and Loss and Other Comprehensive Income

	Note	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Revenue		**118,155**	80,100
Cost of sales		**(91,239)**	(59,781)
Gross profit		**26,916**	20,319
Administrative expenses	*2,3,4*	**(26,927)**	(18,358)
Operating (loss)/profit	*3*	**(11)**	1,961
Financial expense	*6*	**(598)**	(461)
(Loss)/profit before tax		**(609)**	1,500
Taxation	*7*	**446**	(114)
(Loss)/profit for the year		**(163)**	1,386
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation of property, plant and equipment	*8*	**-**	1,716
Deferred tax movements		**(89)**	(203)
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences – foreign operations		**(9)**	2
Total comprehensive (loss)/income for the year		**(261)**	2,901
Basic (loss)/profit per share	*5*	**(0.8p)**	6.7p
Diluted (loss)/profit per share	*5*	**(0.8p)**	6.7p

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Financial Position

	Note	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Non-current assets			
Property Plant and Equipment	*8*	**10,766**	10,054
Intangible assets	*9*	**7,827**	6,378
		18,593	16,432
Current assets			
Inventories	*10*	**18,661**	17,055
Trade and other receivables	*11*	**1,657**	2,704
Cash and cash equivalents	*12*	**5,304**	3,540
		25,622	23,299
Total assets		**44,215**	39,731
Current liabilities			
Other interest-bearing loans and borrowings	*13*	**(8,555)**	(3,914)
Trade and other payables	*14*	**(11,533)**	(10,916)
		(20,088)	(14,830)
Non-current liabilities			
Other interest-bearing loans and borrowings	*13*	**(4,272)**	(4,616)
Other payables	*14*	**(263)**	(751)
Deferred tax liability		**(885)**	(649)
		(5,420)	(6,016)
Total liabilities		**(25,508)**	(20,846)
Net assets		**18,707**	18,885
Equity			
Share capital	*15*	**2,095**	2,087
Share premium	*15*	**13,152**	13,055
Foreign currency translation reserve	*15*	**3**	12
Revaluation reserve	*15*	**1,424**	1,424
Retained earnings	*15*	**2,033**	2,307
Total equity		**18,707**	18,885

The accompanying notes form an integral part of the consolidated financial report.

Company registered number: 07786708

Consolidated 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 March 2017	**2,016**	**8,933**	**10**	**-**	**763**	**11,722**
Profit for the year	-	-	-	-	1,386	**1,386**
Other comprehensive income	-	-	2	-	-	**2**
Issue of shares net of expenses	71	4,122	-	-	-	**4,193**
Freehold property revaluation	-	-	-	1,716	-	**1,716**
Deferred tax impact of revaluation	-	-	-	(292)	-	**(292)**
Share based payments charge	-	-	-	-	69	**69**
Deferred tax adj. re: share based payments	-	-	-	-	89	**89**
Balance at 28 February 2018	**2,087**	**13,055**	**12**	**1,424**	**2,307**	**18,885**
Loss for the year	-	-	-	-	(163)	**(163)**
Other comprehensive income	-	-	(9)	-	-	**(9)**
Issue of shares net of expenses	8	97	-	-	-	**105**
Share based payments charge	-	-	-	-	(22)	**(22)**
Deferred tax adj. re: share based payments	-	-	-	-	(89)	**(89)**
Balance at 31 March 2019	**2,095**	**13,152**	**3**	**1,424**	**2,033**	**18,707**

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Cash Flows

	Note	**Period ended 31 March 2019 £000**	**Year ended 28 February 2018 £000**
Cash flows from operating activities			
(Loss)/profit for the period		**(163)**	1,386
Adjustments for:			
Depreciation and amortisation	*3,8,9*	**2,293**	1,497
Financial expense	*6*	**349**	196
Loss on sale of property, plant and equipment		**34**	6
Share based payment charge		**(22)**	69
Taxation	*7*	**(446)**	114
		2,045	3,268
Decrease/(increase) in trade and other receivables	*11*	**1,047**	(1,356)
Increase in inventories	*10*	**(1,606)**	(5,369)
Increase in trade and other payables	*14*	**497**	3,602
		1,983	145
Tax paid	*7*	**593**	10
Net cash from operating activities		**2,576**	155
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**-**	19
Acquisition of property, plant and equipment	*8*	**(1,785)**	(7,443)
Capitalised development expenditure	*9*	**(2,703)**	(1,693)
Acquisition of a business	*9*	**(400)**	(400)
Net cash from investing activities		**(4,888)**	(9,517)
Cash flows from financing activities			
Cash from share issue		**105**	4,193
Proceeds from new borrowings		**5,030**	6,349
Interest paid		**(352)**	(178)
Repayment of borrowings		**(593)**	(363)
Payment of finance lease liabilities		**(105)**	(102)
Net cash from financing activities		**4,085**	9,899
Net increase/(decrease) in cash and cash equivalents		**1,773**	537
Cash and cash equivalents at beginning of period		**3,540**	3,001
Foreign exchange (gains)/losses		**(9)**	2
Cash and cash equivalents at end of period	*12*	**5,304**	3,540

The accompanying notes form an integral part of the consolidated financial report.

Notes

(forming part of the financial report)

1 General Information and basis of preparation

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

The group financial statements consolidate those of the Company and its subsidiaries (collectively referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its group.

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

In December 2018 the Group changed the registered office of Gear4music (Holdings) plc (company number: 07786708), Gear4music Limited (company number: 03113256) and Cagney Limited (dormant subsidiary; company number: 04493300) to Holgate Park Drive, York, YO26 4GN.

The Group has two trading European subsidiaries: Gear4music Sweden AB and Gear4music GmbH, and one dormant European subsidiary, Gear4music Norway AS. All three are 100% subsidiaries of Gear4music Limited.

The financial statements have been prepared in accordance with the AIM rules for Companies, and apply the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs') and make amendments where necessary in order to comply with Companies Act 2006

The Group's accounting policies are set out below and have been applied consistently in the consolidated financial statements.

The financial information set out above does not constitute the company's statutory accounts for the 13 month period ended 31 March 2019 or the year ended 28 February 2018. The financial information for 2018 is derived from the statutory accounts for 2018 which have been delivered to the registrar of companies. The auditor has reported on the 2018 accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The statutory accounts for 2019 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the registrar of companies in due course.

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.

The announcement will be published on the Company's website. The maintenance and integrity of the website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Accounting period

The financial statements presented cover the period ended 31 March 2019 and the year ended 28 February 2018.

Measurement convention

The financial statements have been prepared on the historical cost basis except for Land and Buildings that are stated at their fair value.

Adoption of new and revised standards

The Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from contracts with customers' from 1 March 2018. The Group has adopted these standards using the cumulative effect method, under which the comparative information is not restated.

Neither standard has a material impact on the Group's financial statements:

IFRS 9 'Financial instruments'

IFRS 9 sets out requirements for the classification and measurement of financial assets and financial liabilities, and a basis for recognising provisions based on expected credit losses, and simplified hedge accounting. Management has reviewed the Group's business, its debt structure and absence of hedging and determined the new standard does not have a material impact on the Income statement or Balance sheet.

IFRS 15 'Revenue from contracts with customers'

IFRS15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. Management have determined that, given the industry in which the Group operates, the significant majority of the Group's revenue come from products sales made direct to customers at standard prices, and estimates are already made of anticipated returns, the new standard does not have a material impact on the timing or measurement of revenue recognition in comparison to the standard previously applied.

Various new or revised accounting standards have been issued which are not yet effective. The key standard affecting the Group is IFRS 16 Leases effective from 1 January 2019, that is applicable to the Group for the year ending 29 February 2020 and has not been early adopted by the Group.

IFRS 16 'Leases'

The Group has not early adopted IFRS16 and plans to apply it for the year ending 31 March 2020, using the modified retrospective approach.

IFRS 16 will affect the presentation of the Group consolidated financial statements introducing a single, on-balance sheet lease accounting model for lessees. There are recognition exemptions available for short term leases and leases of low-value items, which the Group plans to adopt.

On lease agreements will give rise to both a right-of-use asset and a lease liability for future lease payables. The right-of-use asset will be depreciated on a straight-line basis over the life of the lease. Interest will be recognised on the lease liability, resulting in a higher interest expense in the earlier years of the lease term. The total expense recognised in the Income Statement over the life of the lease will be unaffected by the new standard. However, IFRS 16 will result in the timing of lease expense recognition being accelerated for leases which would be currently accounted for as operating leases.

There will be no impact on cash flows, although the presentation of the Cash Flow Statement will change significantly, with an increase in cash flows from operating activities being offset by an increase in cash flows from financing activities.

The Group has four leased properties (in York, Manchester, Sweden and Germany). The minimum lease commitments on these at the financial period end is disclosed in note 17 and these leases will be recognised on balance sheet once this standard is adopted.

The impact on the Group, based on contractual arrangements in place at 31 March 2019, will be the recognition of lease liabilities of between £10-11 million along with right-of-use assets with the same value. This liability corresponds to the minimum lease payments under operating leases disclosed in note 17 to these consolidated financial statements, adjusted for the effect of discounting.

In the income statement, operating lease charges will be replaced by depreciation and interest expenses. The estimated impact on the Group in FY20 is expected to be an increase in EBITDA of between £1.3m-£1.45m, offset by an increase in finance costs of £0.35m-£0.5m and additional depreciation of £1.15m-£1.4m.

Going concern

The Directors believe that the Group has significant financial resources, has demonstrated continued strong revenue growth, and in FY20 can achieve a good level of profitability from operating activities, and as such the Group is well placed to manage its business risks.

The Group's policy is to ensure that it has sufficient facilities to cover its future funding requirements. Short term flexibility is available through import loans and overdraft facilities.

As with any company placing reliance on external funding for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

At 31 March 2019 the Group had £5.3m of cash and bank balances (28 February 2018: £3.6m) and on 30 May 2019 the Group's bankers, HSBC, confirmed that the Group's Import loan and overdraft facilities have been renewed at £10m (FY18: £8m) for a further 12-months. The Directors are confident that the facilities will be renewed in 2020 and this has been factored in to their going concern assessment.

Having duly considered all of these factors and having reviewed the forecasts for the coming year including the investments outlined in the CEO's statement, 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 Segmental reporting

The Group's revenue and profit was derived from its principal activity which is the sale of musical instruments and equipment.

In accordance with IFRS 8 'Operating segments', the Group has made the following considerations to arrive at the disclosure made in these financial statements. IFRS 8 requires consideration of the 'Chief Operating Decision Maker ('CODM') within the Group. Operating segments have been identified based on the internal reporting information and management structures with the Group. Based on this information it has been noted that the CODM reviews the business as one segment and receives internal information on this basis. Therefore, it has been concluded that there is only one reportable segment.

Revenue by Geography

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
UK	**63,672**	44,258
Europe and Rest of the World	**54,483**	35,842
	118,155	80,100

Administrative expenses by Geography

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
UK	**24,113**	16,823
Europe	**2,814**	1,535
	26,927	18,358

Revenue by Product category

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Other-brand products	**82,125**	56,075
Own-brand products	**31,289**	20,947
Warranty income	**296**	302
Other	**4,445**	2,776
	118,155	80,100

3 Expenses

Included in profit/loss are the following:

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Depreciation of tangible fixed assets	**1,039**	645
Amortisation of intangible assets	**1,254**	852
Amortisation of government grants	**37**	31
Loss on disposal of property, plant and equipment	**34**	6
Rentals under operating leases – land & buildings	**1,425**	973
Rentals under operating leases – plant & machinery	**8**	11
Auditor remuneration – audit of these financial statements	**30**	20
Auditor remuneration – audit of financial statements of subsidiaries	**45**	30
Auditor remuneration – other	**-**	17
Release of rent accrual	**(421)**	-

4 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the period, analysed by category, was as follows:

	Period ended 31 March 2019 No.	Year ended 28 February 2018 No.
Administration	**184**	130
Selling and Distribution	**247**	183
	431	313

The aggregate payroll costs of these persons were as follows:

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Wages and salaries	**8,146**	5,428
Equity-settled share-based payments (see note 16)	**(22)**	69
Cash-settled share-based payments (see note 16)	**(11)**	8
Social security costs	**954**	701
Contributions to defined contribution plans	**480**	126
	9,547	6,332

Directors' remuneration

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Directors remuneration	**688**	535
Company contributions to money purchase pension schemes	**81**	17
	769	552

There are four directors (2018: 4) for whom retirement benefits are accruing under a money purchase pension scheme.

The aggregate remuneration of the highest paid director was £283,000 during the 13-month period (2018: £200,000), including company pension contributions of £75,000 (2018: £3,000) that were made to a money purchase scheme on their behalf.

5 Earnings per share

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.

	Period ended 31 March 2019	Year ended 28 February 2018
(Loss)/profit attributable to equity shareholders of the parent (£'000)	**(163)**	1,386
Basic weighted average number of shares	**20,926,717**	20,713,281
Dilutive potential ordinary shares	-	88,155
Diluted weighted average number of shares	**20,926,717**	20,801,436
Basic (loss)/profit per share	**(0.8p)**	6.7p

Diluted (loss)/profit per share	**(0.8p)**	6.7p

6 Finance income and expense

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Fair value movement	**33**	-
Total finance income	**33**	-

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Bank interest	**348**	169
Finance leases	**4**	9
Net foreign exchange loss	**249**	265
Unwinding of discount on deferred consideration	**30**	18
Total finance expense	**631**	461
Total net finance expense	**598**	461

7 Taxation

Recognised in the income statement

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Current tax expense		
UK Corporation tax	**(584)**	4
Overseas Corporation tax	**20**	10
Adjustments for prior periods	**(29)**	(24)
Current tax credit	**(593)**	(10)
Deferred tax expense		
Origination and reversal of temporary differences	**123**	79
Adjustments for prior periods	**24**	45
Deferred tax expense	**147**	124
Total tax (credit)/expense	**(446)**	114

The corporation tax rate applicable to the company was 19% for the period ended 31 March 2019 and 19.08% in the year ended 28 February 2018. A reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax assets and liabilities at 31 March 2019 have been calculated based on these rates.

Reconciliation of effective tax rate

	Period ended 31 March 2019 £000	**Year ended 28 February 2018 £000**
(Loss)/profit for the period	**(163)**	1,386
Total tax charge	**(446)**	114
(Loss)/profit excluding taxation	**(609)**	1,500
Current tax at 19% (*2018: 19.08%)*		
Tax using the UK corporation tax rate for the relevant period:	**(116)**	286
Non-deductible expenses	**(1)**	32
Difference between current and deferred tax rates	**(15)**	(8)
Adjustments relating to prior year – deferred tax	**24**	45
Adjustments relating to prior year – current tax	**(29)**	(24)
R&D claim additional deduction	**(252)**	(219)
Impact of overseas tax rate	**1**	2
Deferred tax assets not recognised	**(58)**	-
Total tax (credit)/charge	**(446)**	114

8 Property, plant and equipment

	Plant and equipment £000	Fixtures and fittings £000	Motor Vehicles £000	Computer equipment £000	Land and Buildings £000	Total £000
Cost						
At 1 March 2017	553	1,907	64	449	-	2,973
Additions	234	1,384	29	162	5,634	7,443
Disposals	-	-	(31)	-	-	(31)
	-	-	-	-	1,716	1,716
Balance at 28 February 2018 & 1 March 2018	787	3,291	62	611	7,350	12,101
Additions	472	1,136	-	177	-	1,785
Disposals	-	(43)	-	(10)	-	(53)
Balance at 31 March 2019	**1,259**	**4,384**	**62**	**778**	**7,350**	**13,833**
Depreciation and impairment						
At 1 March 2017	293	836	6	273	-	1,408
Depreciation charge for the year	151	394	15	85	-	645
Disposals	-	-	(6)	-	-	(6)
Balance at 28 February 2018 & 1 March 2018	444	1,230	15	358	-	2,047
Depreciation charge for the period	212	528	13	127	159	1,039
Disposals	-	(14)	-	(5)	-	(19)
Balance at 31 March 2019	**656**	**1,744**	**28**	**480**	**159**	**3,067**
Net book value as at 31 March 2019	**603**	**2,640**	**34**	**298**	**7,191**	**10,766**
Net book value as at 28 February 2018	343	2,061	47	253	7,350	10,054

Freehold property revaluation

On 30 June 2017 the Group acquired freehold office premises at Holgate Park, York for £5.30m. Total amounts capitalised on acquisition totalled £5.63m. At 28 February 2018 the freehold property was revalued at market value using information provided by an independent chartered surveyor. The valuation was carried out in accordance with the provisions of RICS Appraisal and Valuation Standards (‘The Red Book’).

At 31 March 2019 the Directors remain comfortable with the valuation based on their understanding of local rental values.

Leased assets

At 31 March 2019, the net carrying amount of leased tangible fixed assets was £526,000 (28 February 2018: £98,000), and the accumulated depreciation against these leased assets was £44,000 (28 February 2018: £286,000).

Security

The Group's bank borrowings are secured by fixed and floating charges over the Group's assets.

9 Intangible assets

	Goodwill £000	Software platform £000	Brand £000	Total £000
Cost				
At 1 March 2017	1,848	4,845	564	7,257
Additions	-	1,693	-	1,693
Balance at 28 February 2018 & 1 March 2018	1,848	6,538	564	8,950
Additions	-	2,703	-	2,703
Balance at 31 March 2019	**1,848**	**9,241**	**564**	**11,653**
Amortisation				
At 1 March 2017	-	1,438	282	1,720
Amortisation for the year	-	796	56	852
Balance at 28 February 2018 & 1 March 2018	-	2,234	338	2,572
Amortisation for the period	-	1,193	61	1,254
Balance at 31 March 2019	**-**	**3,427**	**399**	**3,826**
Net book value as at 31 March 2019	**1,848**	**5,814**	**165**	**7,827**
Net book value as at 28 February 2018	1,848	4,304	226	6,378

The amortisation charge is recognised in Administrative expenses profit and loss account.

Goodwill

On 19 March 2012 goodwill arose on the acquisition of the entire share capital of Gear4music Limited (formerly known as Red Submarine Limited).

On 1 January 2017 goodwill arose on the acquisition of a software development business from Venditan Limited, which effectively brought development of the group's proprietary software platform in-house. This transaction is detailed in the FY17 Annual Report.

Goodwill balances are denominated in Sterling:

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Gear4music Limited	**417**	417
Software development business	**1,431**	1,431
	1,848	1,848

Impairment testing

In accordance with IAS 36 Impairment of Assets, the Group reviews the carrying value of its intangible assets. A detailed review was undertaken at 31 March 2019 to assess whether the carrying value of assets was supported by the net present value in use calculations based on cash-flow projections from formally approved budgets and longer-term forecasts.

Intangible assets comprise Goodwill, the Gear4music brand name, and the proprietary software platform.

A Cash Generating Unit ("CGU") is defined as the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups thereof. The Group is deemed to have a single CGU to which the goodwill, the software platform and the brand are allocated. An impairment review has been performed on this CGU. The recoverable amount of this CGU has been determined based on value-in-use calculations. In assessing value in use, a five-year forecast to 31 March 2024 was used to provide cash-flow projections that have been discounted at a pre-tax discount rate of 10% (FY18: 10%). The cash flow projections are subject to key assumptions in respect of revenue growth, gross margin performance, overhead expenditure, and capital expenditure. Management has reviewed and approved the assumptions inherent in the model:

- Revenue forecasts based on growth by geographical market, at a range of growth levels based on market size and estimate of opportunity, trends, specific projects underway, and Management's experience and expectation;
- Product costs are assumed to be broadly flat and gross margins are forecast to improve from FY19 toward historic levels; and
- Wage increases are a function of recruitment and a person-by-person review of current staff, with a range of % increases.

No impairment loss was identified in the current year (FY18: £nil). The valuation indicates significant headroom and therefore a terminal growth rate assumption has not been needed to be applied in order to support the valuation of this CGU. Any reasonably possible change in other key assumptions, including the discount rate, would not result in an impairment of the related goodwill or other intangible assets.

10 Inventories

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Finished goods	**18,661**	17,055

The cost of inventories recognised as an expense and included in cost of sales in the period amounted to £83.4m (£55.7m in the year ended 28 February 2018).

Management has included a provision of £107,245 (28 February 2018: £79,879), representing a 100% provision against returns stock subsequently found to be faulty, that is retained to be used for spare parts on the basis there is no direct NRV value, and a provision based on the expected product loss on dealing with returns stock.

11 Trade and other receivables

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Trade receivables	**856**	1,645
Prepayments	**801**	1,059
	1,657	2,704

Credit risk and impairment

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The carrying amount of trade receivables represents the maximum credit exposure. The Group does not take collateral in respect of trade receivables.

Trade receivables comprise balances dues from schools and colleges and funds lodged with payment providers.

Customer receivables

The Group faces low credit risk as customers typically pay for their orders in full on shipment of the product, with the only exceptions being:

- are a small number of education accounts with schools and colleges that have 30-day terms (1.8% of 2019 and 2018 revenues); and
- trade sales that accounted for 1.2% of 2019 revenue (2018: 2.0%), although credit terms are rarely offered.

Funds lodged with payment providers

Funds lodged with Amazon, Digital River, Klarna and V12 Retail Finance totalled £128,000 on 31 March 2019 (28 February 2018: £557,000) and are included in Trade debtors. Credit risk in relation to cash held with financial institutions is considered low risk, given the credit rating of these organisations.

12 Cash and cash equivalents

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Cash and cash equivalents per balance sheet	**5,304**	3,540
Cash and cash equivalents per cash flow statements	**5,304**	3,540

13 Other interest-bearing loans and borrowings

This note contains information about the Group's interest-bearing loans and borrowing which are carried at amortised cost.

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Non-current liabilities		
Bank loans	**3,990**	4,616
Finance lease liabilities	**282**	-
	4,272	4,616
Current liabilities		
Bank loans	**8,384**	3,890
Finance lease liabilities	**171**	23
	8,555	3,913
Total liabilities		
Bank loans	**12,374**	8,506
Finance lease liabilities	**453**	23
	12,827	8,529

Bank loans comprise an Import Loan facility, and term loans all provided by the Group's bankers, HSBC, and are secured against the by fixed and floating charges over the Group's assets.

The interest rate on 160-day import loans drawn under the Import Loan agreement is 2.45% per annum over HSBC's Sterling Base Rate, and on an overdraft if and when drawn, is 3.25% over base. Interest on import loans is paid at the maturity of the relevant loan. Interest on an overdraft would be paid monthly in arrears. Import Loan and overdraft facilities were approved for renewal on 30 May 2019 for a 12-month period.

There are two term loans that were drawn around the time of the freehold property acquisition in June 2017:

- The first loan was for £3,727,500 and is a five-year loan with capital repayments scheduled over 20-years, and interest is 2.04% over LIBOR; and
- The second loan was for £1,797,500 and is a five-year loan with interest of 2.85% over LIBOR

As at 31 March 2019 there was £4.6m capital outstanding across these two loans.

All borrowings are denominated in Sterling.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments At 31 March 2019 £000	Interest At 31 March 2019 £000	Principal At 31 March 2019 £000
Less than one year	**179**	**8**	**171**
Between one and five years	**295**	**13**	**282**
	474	**21**	**453**

	Minimum lease payments At 28 February 2018 £000	Interest At 28 February 2018 £000	Principal At 28 February 2018 £000
Less than one year	24	1	23
Between one and five years	-	-	-
	24	1	23

Finance leases relate to assets located at the Distribution Centre in York, with net book values of £526,000 (28 February 2018: £98,000).

Changes in liabilities from financing activities

	Loans and borrowings £000	Finance lease liabilities £000	Total £000
Balance at 1 March 2018	8,506	23	**8,529**
Changes from financing cash flows			
Proceeds from loans and borrowings	4,495	-	**4,495**
Repayment of borrowings	(593)	-	**(593)**
Payment of finance lease liabilities	-	(105)	**(105)**
Total changes from financing cash flows	3,902	(105)	**3,797**

Other changes			
New finance leases	-	535	**535**
Interest expense (note 6)	348	4	**352**
Interest paid	(309)	(3)	**(312)**
Movement in interest accrual (included in accruals and deferred income – note 14)	(39)	(1)	**(40)**
Fair value movement on loans	(34)	-	**(34)**
Total other changes	(34)	535	**501**
Balance at 31 March 2019	**12,374**	**453**	**12,827**

	Loans and borrowings £000	Finance lease liabilities £000	Total £000
Balance at 1 March 2017	2,520	125	**2,645**
Changes from financing cash flows			
Proceeds from loans and borrowings	6,349	-	**6,349**
Repayment of borrowings	(363)	-	**(363)**
Payment of finance lease liabilities	-	(102)	**(102)**
Total changes from financing cash flows	5,986	(102)	**5,884**
Other changes			
Interest expense (note 6)	169	9	**178**
Interest paid	(155)	(8)	**(163)**
Movement in interest accrual (included in accruals and deferred income – note 16)	(14)	(1)	**(15)**
Total other changes	-	-	**-**
Balance at 28 February 2018	8,506	23	**8,529**

14 Trade and other payables

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Current		
Trade payables	**7,464**	7,325
Accruals and deferred income	**1,915**	1,456
Deferred consideration	**393**	393
Government grants	**8**	35
Other taxation and social security	**1,753**	1,707
	11,533	10,916

Non-current		
Accruals and deferred income	**61**	169
Deferred consideration	**186**	555
Government grants	**16**	27
	263	751

Accruals at 28 February 2018 included £446,000 of rent accrued but not paid, being the difference in cash paid and the average rent charge as expensed, as per the commercial agreement reached with the landlord of the leasehold distribution centre at Clifton Moor, York. On 21 March 2018 the Group entered into a new 15-year lease with a 10-year clean break clause and this accrual was released in full resulting in a £421,000 credit that is included in administrative expenses.

Accruals at 31 March 2019 include £62,000 (2018: £161,000) relating to the estimated cash bonuses accrued relating to the CSOP scheme, and Director Cash Plan (see note 16).

Deferred consideration is due in relation to the acquisition of a software business in January 2017 and comprises ten quarterly instalments of £100,000 payable on 1st of January/April/July/October. These amounts are valued in the accounts at fair value and subsequently amortised.

Government grants are being spread over the useful economic life of the associated asset, and relate to Regional Growth Fund and Leeds City Enterprise Partnership grants towards the acquisition of various capital items. Grant conditions exist and are linked to job creation, and these criteria have been satisfied.

Deferred consideration is valued at fair value. The Directors consider the carrying amount of other ‘trade and other payables’ to approximate their fair value. The interest expense of £30,000 in relation to the unwinding of the discount is disclosed in note 6.

15 Share capital and reserves

Share capital	**Period ended 31 March 2019 Number**	**Year ended 28 February 2018 Number**
Authorised, called up and fully paid:		
Ordinary shares of 10p each	**20,945,328**	20,867,121

The Company has one class of ordinary share and each share carries one vote and ranks equally with the other ordinary shares in all respects including as to dividends and other distributions.

On 3 June 2018, the Company issued and allotted 78,207 new Ordinary shares of 10p each on exercise of options under the Company's EMI Schemes (see note 16). This took the number of Ordinary shares in issue from 20,867,121 to 20,945,328, representing dilution of 0.4%.

Share premium

	Period ended 31 March 2019 £’000	**Year ended 28 February 2018 £’000**
Opening	**13,055**	8,933

Issue of shares	**97**	4,278
Share issue costs	**-**	(156)
Closing	**13,152**	13,055

Foreign currency translation reserve

	Period ended 31 March 2019 £'000	Year ended 28 February 2018 £'000
Opening	**12**	10
Translation (loss)/gain	**(9)**	2
Closing	**3**	12

Revaluation reserve

	Period ended 31 March 2019 £'000	Year ended 28 February 2018 £'000
Opening	**1,424**	-
Freehold property revaluation	**-**	1,716
Deferred tax	**-**	(292)
Closing	**1,424**	1,424

The revaluation reserve represents the unrealised gain generated on revaluation of the freehold office property on 28 February 2018. It represents the excess of the fair value over deemed cost.

Retained earnings

	Period ended 31 March 2019 £'000	Year ended 28 February 2018 £'000
Opening	**2,307**	763
Share based payment charge	**(22)**	69
Deferred tax	**(89)**	89
(Loss)/profit for the period	**(163)**	1,386
Closing	**2,033**	2,307

Reserve	**Description and purpose**
Retained earnings	Cumulative net profits recognised in the consolidated income statement.

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.

At the start of the period there were four incentive schemes in place and in the period the options granted under two of these schemes were exercised and settled in full, and one new long-term management incentive plan was put in place:

- an Employees EMI scheme (all options exercised in the period);
- a Directors EMI scheme relevant to Chris Scott and Gareth Bevan (all options exercised in the period);
- two Directors cash bonus plans relevant to Andrew Wass who, by virtue of his 34% shareholding, is cash rather than equity rewarded. One of these plans was settled in the period and one remains in place;
- a CSOP scheme; and
- an LTIP set-up in the financial period relevant to six senior employees including Andrew Wass, Chris Scott and Gareth Bevan.

All equity-settled share options have an exercise price equal to the nominal value of the shares (10p) that the Company has or will subsidise by way of a bonus provided there are sufficient distributable reserves and, subject to certain conditions, will vest on a specified anniversary of the date of grant.

The fair value of the cash-settled liability is re-measured at each balance sheet date and settlement date.

Employee EMI Plan

The Board had responsibility for the operation of the Employee EMI Plan. Awards under the Employee EMI plan were only subject to service conditions. Subject to continued employment, awards were deemed exercised at the end of the relevant vesting period.
On or before 3 June 2018 awards over all 58,251 shares under this plan were satisfied by the issue of new shares and the Company paid a cash bonus to option holders, the net value of which was equivalent to the income tax, employee national insurance and the exercise price arising in relation to the awards. All options have been exercised in full.

Director EMI Plan

The Remuneration Committee had responsibility for the operation of the Director EMI Plan. Awards under the Director EMI were exercisable at the end of the vesting period subject to meeting EPS-based targets between the date of grant and vest, and subject to service conditions. These conditions were met.

On 3 June 2018 awards over all 19,956 shares under this plan were satisfied by the issue of new shares and the Company paid a cash bonus to option holders, the net value of which was equivalent to the income tax, employee national insurance and the exercise price arising in relation to the awards. All options have been exercised in full.

Director Cash Plans

The Remuneration Committee has responsibility for the operation of the Director Cash Plan and may grant cash bonus awards over shares to eligible employees and retains discretion as to the operation of the plan.

Executive Directors of the Company are eligible to participate in the Director EMI Plan and CSOP plan. An executive director who participates in the Director EMI Plan or the CSOP is not eligible to participate in the Director Cash Plan. Participation is at the discretion of the Remuneration Committee.

Awards under the Cash plan are subject to performance conditions. Awards will be exercisable at the end of the relevant vesting period subject to EPS-based performance conditions and continued employment.
Awards will be settled in cash.

On 3 June 2018 Andrew Wass (Chief Executive Officer) exercised his entitlement under the plan to an award of £72,041 that was settled in cash.

CSOP

The Board has responsibility for matters relating to Employee members of the Plan and may grant share options over shares to eligible employees. Eligible employees will generally have been employed by the Group for more than three years at the time of award but could be a shorter period at the discretion of the Board. The Board has discretion to select participants from eligible employees of the Group.

The Remuneration Committee has responsibility for matters relating to Director members of the Plan and may grant share options over shares to eligible employees and retains discretion as to the operation of the plan. Executive

Directors of the Company are eligible to participate in the Plan. Participation is at the discretion of the Remuneration Committee.

Employee awards under the CSOP plan awards are only subject to service conditions. Directors awards are subject to meeting EPS-based targets between the date of grant and vest, and subject to service conditions.

Subject to continued employment, awards will normally be deemed to have been exercised at the end of the relevant three-year vesting period.

Awards will be satisfied by the issue of new shares. The Company will grant a cash bonus to option holders in the month of exercise, the net value of which will be equivalent to the income tax, employee national insurance and the exercise price arising in relation to the awards.

An initial award of 14,460 shares under option was made in June 2017.

In June 2018 a further award over 7,403 shares was made, and the total number of shares under option under the CSOP scheme at 31 March 2019 was 19,102.

LTIP

On 13 November 2018 the Group announced a new long-term management incentive plan to incentivise senior employees in a manner aligned with the interests of the Company's shareholders.

The plan involved the issue of 210,000 'B' Ordinary shares in Gear4music Limited, a subsidiary of the Company. These 'B' shares vest from 2021-26 and can be exchanged on a one-for-one basis for new ordinary Company shares subject to meeting specified criteria, including reaching a specified target share price for 80% of the award (see below), and pre-determined revenue and profitability targets for 20%.

The 'B' shares are non-voting, non-dividend restricted shares. The initial subscription cost was paid by way of a cash bonus that has been expensed in FY19.

Financial year ending:	**Share price hurdle**	**Maximum number of shares vesting**
31 March 2021	£13	27,300
31 March 2022	£16	29,400
31 March 2023	£20	33,600
31 March 2024	£24	35,700
31 March 2025	£29	39,900
31 March 2026	£35	44,100

The share price hurdle being the average closing mid-price in the 30-day period following announcement of preliminary results.

The Remuneration Committee has responsibility for matters relating to members of the Plan. The Executive Directors of Gear4music Limited are the participants in the Plan.

The terms and conditions of specific grants are as follows:

Grant date / employees entitled	Method of settlement accounting	Number of Instruments	Vesting conditions	Contractual life of options
Employee EMI Award 1 - Equity settled award to eight key employees on IPO, granted by parent on 3 June 2015	Equity	23,383	Continued employment	Settled
Employee EMI Award 2 - Equity settled award to one key employee, granted by parent on 17 February 2016	Equity	1,845	Continued employment	Settled
Employee EMI Award 3 - Equity settled award to two key employees, granted by parent on 26 May 2016	Equity	9,433	Continued employment	Settled
Employee EMI Award 4 - Equity settled award to 44 employees, granted by parent on 31 May 2016	Equity	Initially 27,406; 23,590 at 28 Feb 2018	Continued employment	Settled
Director EMI Award 1a - Equity settled award to Chris Scott and Gareth Bevan, granted by parent on 31 May 2016	Equity	19,956	EPS-based performance criteria and Continued employment	Settled
Director Award 1b – Cash settled award to Andrew Wass, granted by parent on 31 May 2016	Cash	Cash equivalent to monetary result for the other directors	EPS-based performance criteria and Continued employment	Settled
Employee CSOP Award 5 - Equity settled award to 75 employees, granted by parent on 30 June 2017	Equity	Initially 7,248; 6,858 at 28 Feb 2018 1,521 forfeit in period; now 5,337	Continued employment	30 June 2020
Senior Mgmt. CSOP Award 2a - Equity settled award to Chris Scott and Gareth Bevan and two others, granted by parent on 30 June 2017	Equity	7,212	EPS-based performance criteria and Continued employment	30 June 2020
Director Award 2b – Cash settled award to Andrew Wass, granted by parent on 30 June 2017	Cash	Cash equivalent to monetary result for the other directors	EPS-based performance criteria and Continued employment	30 June 2020
Employee CSOP Award 6 - Equity settled award to 73 employees granted by parent on 30 June 2018	Equity	7,403 granted; 850 forfeit; now 6,553	Continued employment	30 June 2021
LTIP – Equity settled award to the six directors of Gear4music Limited	Equity	210,000	80% linked to share price 20% linked to revenue and profitability improvements All subject to continued employment.	From August 2021 to August 2026

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2019	Number of options 2019	Weighted average exercise price 2018	Number of options 2018
Outstanding at the beginning of the period	**-**	**92,277**	-	79,226
Forfeited during the period	**-**	**(2,371)**	-	(1,409)
Exercised during the period	**-**	**(78,207)**	-	-
Granted during the period	**-**	**217,403**	-	14,460
Lapsed during the period	**-**	**-**	-	-
Outstanding at the end of the period	**-**	**229,102**	-	92,277
Exercisable at the end of the period	**-**	**-**	-	1,845

Options over 78,207 shares were exercised in the year. The options outstanding at the year-end have a nil exercise price and a weighted average contractual life of 4.83 years (28 February 2018: 0.57 years).

The fair values of employee share options were calculated using a Black-Scholes model along with the assumptions detailed below:

Date of grant	Share price on date of grant (pence)	Exercise price (pence)	Volatility (%)	Vesting period (yrs)	Dividend yield (%)	Risk free rate of interest (%)	Fair value (pence)
3 Jun 2015	143.0	0.0	1%	3	0%	0.70%	**143.0**
17 Feb 2016	135.0	0.0	1%	2	0%	0.70%	**135.0**
26 May 2016	132.5	0.0	11.8%	2	0%	0.45%	**132.5**
31 May 2016	132.5	0.0	11.8%	2	0%	0.43%	**132.5**
31 May 2016	132.5	0.0	11.8%	2	0%	0.43%	**132.5**
30 June 2017	720.0	0.0	52.6%	3	0%	0.43%	**720.0**
30 June 2017	720.0	0.0	52.6%	3	0%	0.43%	**720.0**
30 June 2018	719.5	0.0	30.6%	3	0%	0.73%	**719.5**
8 Nov 2018	563.0	0.0	44.5%	2-7	0%	0.92%	**555.0**

The expected volatility is wholly based on the historic volatility (calculated based on the weighted average remaining life of the share options).

The total expenses recognised for the period and the total liabilities recognised at the end of the period arising from share-based payments are as follows:

	2019 £000	2018 £000
Equity settled share-based payment expense	**(22)**	69
Cash-settled share-based payment expense	**(11)**	8
	(33)	77
Opening	**181**	104
	148	181

Recognised in equity	**86**	116
Recognised as a liability	**62**	65
	148	181

17 Commitments

Operating lease commitment

Non-cancellable operating lease rentals are payable as follows:

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Less than one year	**1,446**	1,112
Between one and five years	**5,629**	4,635
More than five years	**5,673**	-
	12,748	5,747

Operating lease commitments relates to property leases of the Distribution Centre in York, the Software Development office in Manchester, and Distribution Centres in Sweden and Germany.

On 21 March 2018 the Group entered into a new 15-year lease with a 10-year clean break clause at the York Distribution Centre.

18 Related parties

Transactions with key management personnel

The compensation of key management personnel is as follows:

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Key management emoluments including social security costs	**652**	503
Company contributions to money purchase pension plans	**82**	17
	734	520

Key management personnel comprise the Chairman, CEO, CFO and CCO. All transactions with key management personnel have been made on an arms-length basis.

Four directors are accruing retirement benefits under a money purchase scheme *(2018: 4)*.

Share based payments

EMI and Director Cash Plan

An EMI share incentive plan for Chris Scott and Gareth Bevan and equivalent discretionary cash bonus plan for Andrew Wass, vested in full in June 2018.

Chris Scott received a bonus of £24,553 and Gareth Bevan a bonus of £25,443 to cover the income tax, national insurance and exercise price of the award. Chris Scott and Gareth Bevan both received 9,978 shares. Andrew Wass exercised his entitlement under the Director cash plan to an equivalent award of £72,041, and this was settled in cash.

LTIP

In FY19 a new long-term incentive plan involving Andrew Wass, Chris Scott, and Gareth Bevan was put in place and involved the issue of 210,000 'B' Ordinary shares in Gear4music Limited, a subsidiary of the Company. These 'B' shares vest from 2021-26 and can be exchanged on a one-for-one basis for new ordinary Company shares subject to meeting specified criteria, including reaching a specified target share price for 80% of the award, and pre-determined revenue and profitability targets for 20%.

The initial subscription cost was covered by way of bonus and Andrew Wass, Chris Scott, and Gareth Bevan received bonuses of £7,217, £7,217 and £8,350 respectively.