12 November 2019

Gear4music (Holdings) plc
Interim results for the six months ended 30 September 2019

Operational and Commercial changes take effect, positive impact on margins

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 2019 ("the Period").

Financial and Operational Highlights:

£m	6-months ended 30 September 2019	6-months ended 31 August 2018	Change
Revenue	49.4	42.5	+16%
Gross profit	12.5	9.6	+29%
Gross margin	25.2%	22.7%	+250bps
EBITDA *	2.0	0.7	+206%
Operating profit/(loss) *	0.2	(0.3)	
Net loss *	(0.1)	(0.4)	

- Operating profit increased by £0.5m, EBITDA up by 206% to £2.0m*
- Gross margin improved by 250bps to 25.2% reflecting the Group's focus on higher margin products
- Current trading in line with the board's full year EBITDA expectations

** FY20 H1 profit figures reported on an IFRS16 basis; comparative FY19 H1 figures remain unchanged. FY20 H1 EBITDA, operating profit and net loss on a pre-IFRS16 basis are £1.3m, £0.1m and £0.2m respectively. See Note 1.2 to the Financial Information for detail.*

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

"This has been an important period of balancing sales growth with our primary objective of improving gross margins and profitability, and I am pleased to report tangible evidence that we are making good progress in achieving that objective.

Having grown our revenues by more than 350% over the last four years, our recent focus has been on ensuring that our operational infrastructure is able to keep pace with our increased scale, and I am very pleased with the progress we have made during the period in further developing our back-end systems and logistics platform.

Having made these improvements, we expect to rebalance our development resources back towards growth orientated projects from next year, which alongside further systems improvements, we are confident will deliver long term growth in profits and revenues.

As we approach the Christmas trading period, we will remain focused on improving profitability rather than driving growth in market share, particularly in the UK where the market remains highly competitive.

Having appropriately reconfigured the business, we now expect gross margins to be higher and revenues to be lower than previous guidance, reflecting our focus this year on building a sustainable platform for growth in all areas. We believe that this is the right strategy for the delivery of long-term shareholder value and we remain confident that the business is well-positioned to trade in line with our full year EBITDA expectations."

Gear4music will issue a trading statement on 23 January 2020.

Note: references to FY20 H1 represent the period 1 April 2019 to 30 September 2019, following the change to the accounting reference date and financial year end from 28 February to 31 March, with FY19 H1 representing the period 1 March 2018 to 31 August 2018.

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About Gear4music.com

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 continues to build its overseas presence.

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

Business Review

The business reports the Group's results for the six months to 30 September 2019, and updates on the strategic and commercial progress made in the Period.

Strategy

We have delivered on our stated priority of materially improving gross margins, with a FY20 H1 gross margin of 25.2%, 250bps ahead of last year and 20bps ahead of FY18 H1. We achieved this by focusing our buying and marketing efforts on more profitable products and sales.

This has been a period of catching up internally with our rapid growth achieved to date, and we are confident that by continuing to invest in our people, our processes, our platform and our products, we can improve our customer experience and competitive position, with the aim of becoming a leading global retailer of musical instruments and equipment.

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

E-commerce Excellence

	H1 FY20	H1 FY19	Change
Revenue	**£49.4m**	£42.5m	+16%
Total unique website visitors	**13.4m**	10.0m	+33%
Mobile site unique visitors (inc. tablet)	**8.7m**	5.2m	+66%
Conversion rate	**3.02%**	3.22%	-22bps
Average order value	**£120.05**	£127.48	-6%
Active customers *	**773,000**	547,000	+41%
Proportion of repeat customers **	**27.0%**	26.6%	+40bps
Email subscriber database	**717,000**	789,000	-9%
Trustpilot rating	**4.8/5**	9.5/10	

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

Revenue increased by £6.9m (16%) during the Period to £49.4m, with international revenue growth of 33% being strong relative to 3% growth in the UK that reflected a continuation of the highly competitive domestic other-brand market.

The shift to mobile continues to gain momentum, with the proportion of visitors accessing Gear4music websites from this channel increasing from 52% last year to 65% this year, and this is relevant to interpreting a number of our current e-commerce KPIs.

Website visitor numbers increased by 33% to 13.4m (FY19 H1: 10.0m), with visitors to the UK website increasing 16% and visitor numbers to the Group's 19 international websites growing by 38%.

Conversion rates have declined for the first time from 3.2% in FY19 H1 to 3.0%, principally due to the increasing proportion of mobile traffic. Conversion in the UK improved from 4.6% in FY19 H1 to 4.8% compared to European conversion decreasing from 2.2% in FY19 H1 to 2.1%. Mobile conversion remained flat at 2.0% which holds back the average and this was especially relevant in Europe in the Period, where mobile growth was higher. Mobile website development remains an important focus area for us going forward.

The Group served 348,000 customers in the Period, up 27% on last year.

Active customers increased by 41% and the proportion of repeat customers was 27.0% (FY19 H1: 26.6%). Despite a reduction in the Period, the Group's high average order value means the business achieves immediate payback on new customer recruitment.

The number of subscribers on our email database decreased by 9% to 717,000, due to an initial overly strict application of the GDPR legislation, and a cleansing exercise to maintain the database's relevance and quality.

Organic and direct website traffic accounted for 38% of total visitors (FY19 H1: 46%) as the growth in mobile and competition for limited screen space increases the relevance of PPC (PayPerClick). Our return on PPC marketing is constantly measured and has improved in the Period.

We continue to invest in our customer proposition and service teams, resulting in a positive overall customer experience, reflected in Gear4music.com's Trustpilot score of 4.8 from over 57,000 reviews.

Supply Chain Evolution

	H1 FY20	**H1 FY19**	**Change**
Own-brand product sales	**£12.9m**	£9.0m	+43%
Other brand product sales	**£34.4m**	£32.0m	+8%
Product margin	**29.6%**	27.5%	+210bps
Products listed	**52,700**	50,000	+5%
Brands listed	**889**	842	+6%

Product margins improved 210bps from 27.5% to 29.6% as we invested in the more profitable other-brands and products and in our own-brand ranges.

The number of SKUs available increased from 50,000 at 31 August 2018 to 51,600 at 31 March 2019 and 52,700 at 30 September 2019, representing a net 5% increase over the period.

Own-brand revenue growth of 43% represents excellent progress in developing our range of high-quality instruments and equipment at affordable prices, and accounted for 27% of product sales overall (FY19 H1: 22%).

The number of own-brand products increased from 3,200 at 31 August 2018 to 3,300 at 30 September 2019. New products continue to be developed: we launched new Sound & Studio product ranges and an extended premium guitar range during the Period.

International Expansion

In FY17 we opened our distribution centres in Sweden and Germany in order to localise our customer proposition and increase international sales. Since then we have out-grown our initial Swedish warehouse and last Autumn relocated to a larger warehouse which is better configured to meet our requirements.

We currently have 78,000 square feet of distribution space in Sweden and 72,000 in Germany. In FY20 H1 we fulfilled 24% of orders from our European distribution centres (FY19 H1: 18%). Both operations continue to contribute to the Group's profitability and we expect that EU sales will overtake UK sales for the first time over FY20 H2.

Bespoke Platform Development

The Group invested £1.45m in its e-commerce platform in the Period (FY19 H1: £1.10m), principally into back-end systems. Key projects in the Period included:

- Warehouse and distribution upgrades
- Returns system upgrades
- Inventory and transaction management systems
- Product listing page upgrade (deployed October 2019)

In 2020 our plan is to move back toward more growth-focused projects.

Current trading and prospects

We are pleased with the strategic progress made in the Period. Our focus remains on improving margins and ensuring that we have a stable and efficient operating model as a platform to deliver future growth.

Having appropriately reconfigured the business, we now expect gross margins to be higher and revenues to be lower than previous guidance and, as such, we are confident ahead of our peak trading period that the Group is well-placed to deliver EBITDA for the full year in line with the Board's expectations.

The Group will issue a Christmas trading update on 23 January 2020.

Financial Review

	H1 FY20	H1 FY19	Change
Revenue	**£49.4m**	£42.5m	+16%
Gross profit	**£12.5m**	£9.6m	+29%
Gross margin	**25.2%**	22.7%	+250bps
EBITDA *	**£2.0m**	£0.7m	+£1.3m
Operating profit/(loss) *	**£0.2m**	-£0.3m	+£0.5m
Marketing costs	**£3.9m**	£3.5m	+12%
Marketing costs as % of sales	**8.0%**	8.2%	-20bps
Total Labour costs	**£4.7m**	£3.8m	+24%
Total Labour costs as % of sales	**9.4%**	8.8%	+60bps

** The Group adopted IFRS16 effective 1 April 2019. See Note 1 to the Financial Information for further information*

Revenue

Revenue in the six months to 30 September 2019 increased by 16%, equating to two-year growth of 58%.

Revenue growth in the UK reflects a highly competitive local market in other-brand products, with growth of £0.8m (3%) to £24.8m in the Period, taking our estimated share of the UK market to 6.9%.

Revenue in international markets increased by £6.1m (33%) to £24.6m (FY19 H1: £5.2m increase; 39% growth), now accounting for 50% of our revenue compared to 45% in FY19 H1 and 43% in FY18 H1.

Gross Profit

As the business is focused on improving margins and profitability, gross profit, which increased by £2.9m (29%) to £12.5m (FY19 H1: £1.8m, +23%) in the Period, is considered by management to be the primary measure of growth.

Gross margin increased from 22.7% in FY19 H1 to 25.2% as the Group focused on restoring profitability toward historic levels ahead of the peak seasonal trading period, and reflects Own-brand product sales accounting for 27% of product sales (FY19 H1: 22%).

The Group sources products locally in Europe, in Euros and Swedish Krona, but still purchases the majority of its other-branded products in GBP.

Operating Profit and Administrative Expenses

Operating profit of £0.2m represents a £0.5m improvement on FY19 H1, principally due to the 250bps improvement in gross margin. Last year’s figures included a £0.4m gain relating to the release of a rent accrual in relation to the leasehold distribution centre at York.

Marketing and people costs continue to be key business drivers and the main component parts of our overhead base, accounting for a combined 70% of total administrative expenses in the Period (FY19 H1: 73%). Marketing costs increased by £0.4m to £3.9m, representing a 12% increase relative to the revenue increase of 16%. Labour costs rose by £0.9m (25%) to £4.7m, reflecting the full year impact of recruitment in FY19 H2, and investing in the warehouse teams ahead of peak trading.

European distribution centre administrative expenses increased by £0.3m (40%) on FY19 H1, to £1.2m.

Depreciation and amortisation in the period totalled £1.8m (FY19 H1: £1.0m) including £0.5m depreciation of 'Right of Use' assets on adoption of IFRS16, and £0.7m (FY19 H1: £0.5m) of amortisation relating principally to our bespoke e-commerce platform.

Net Profit

A reported net loss of £0.1m for the Period is a £0.2m improvement on last year, and is £0.1m lower than if prepared under the old IAS17 lease accounting rules.

Financial expenses include £0.21m of interest relating to new IFRS 16 lease liabilities (FY19 H1: nil, as not re-stated), £0.18m of bank interest (FY19 H1: £0.13m), and a £0.11m foreign exchange loss (FY18 H1: £0.07m).

Cash Flow and Balance Sheet

In common with many retailers, September represents a low point in the annual cash cycle as stock builds ahead of the peak Christmas trading period. Nevertheless, cash as at 30 September 2019 was £3.4m (31 August 2018: £2.7m).

Net debt at 30 September 2019 of £9.7m (31 August 2018: £7.6m) includes £4.3m of debt (of which £3.7m is long-term) linked to our freehold Head Office in York, £8.4m Trade Finance loans (31 August 2018: £5.4m) supporting the investment in stock and £0.4m of finance lease liabilities. The Group has a £10m Trade Finance facility in place.

The Group continues to invest in stock with headroom in the Trade Finance facility and continues to make early payments to other brand suppliers so as to maximise all available settlement discounts. The carrying value of stock at 30 September 2019 was £24.0m (31 August 2018: £21.3m) and includes £4.9m of inbound Own-brand stock-in-transit (FY19 H1: £4.3m) for peak season.

Trade and other payables have increased from £14.9m last year to £16.9m and include the associated liability for the £4.9m of inbound stock-in-transit (FY19 H1: £4.3m).

Capitalised software development costs totalled £1.45m (FY19 H1: £1.10m) in the Period, taking total spend to date to £10.69m. Amortisation in the Period was £0.70m leading to a £0.75m increase in net book value.

Property, plant and equipment capital expenditure in the Period was £0.76m (FY19 H1: £0.21m), relating to improvements in the distribution centres well ahead of the peak trading period.

Dividend Policy

Consistent with its previous approach, the Group repeats its intention to revisit its shareholder distribution policy periodically, including at the end of this financial year.

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

	Note	**6 months ended 30 September 2019 (unaudited) £000**	6 months ended 31 August 2018 (unaudited) £000	13 months ended 31 March 2019 (audited) £000
Revenue		**49,397**	42,521	118,155
Cost of sales		**(36,937)**	(32,885)	(91,239)
Gross profit		**12,460**	9,636	26,916
Administrative expenses	*1,2*	**(12,235)**	(9,967)	(26,927)
Operating profit/(loss)	*1,2*	**225**	(331)	(11)
Financial expense	*1,4*	**(504)**	(214)	(598)
Loss before tax		**(279)**	(545)	(609)
Taxation	*5*	**134**	177	446
Loss for the period		**(145)**	(368)	(163)
Other comprehensive income				
Items that will not be reclassified to profit or loss:				
Deferred tax movements		**-**	(48)	(89)
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation differences – foreign operations		**4**	(2)	(9)
Total comprehensive income for the year		**(141)**	(418)	(261)
Profit per share attributable to equity shareholders of the company				
Basic (loss)/profit per share	*3*	**(0.7p)**	(1.8p)	(0.8p)
Diluted (loss)/profit per share	*3*	**(0.7p)**	(1.8p)	(0.8p)

Unaudited consolidated interim statement of financial position

	Note	30 September 2019 (unaudited)	31 August 2018 (unaudited)	31 March 2019 (audited)
		£000	£000	£000
Non-current assets				
Property, plant and equipment	*6*	**10,957**	9,811	10,766
Right of use assets	*1*	**9,214**	-	-
Intangible assets	*7*	**8,547**	6,951	7,827
		28,718	16,762	18,593
Current assets				
Inventories	*8*	**24,032**	21,326	18,661
Trade and other receivables	*9*	**3,812**	3,825	1,657
Cash and cash equivalents		**3,395**	2,655	5,304
		31,239	27,806	25,622
Total assets		**59,957**	44,568	44,215
Current liabilities				
Loans and borrowings	*10*	**(9,146)**	(5,912)	(8,555)
Lease liabilities	*1*	**(869)**	-	-
Trade and other payables	*11*	**(16,876)**	(14,874)	(11,533)
		(26,891)	(20,786)	(20,088)
Non-current liabilities				
Loans and borrowings	*10*	**(3,970)**	(4,343)	(4,272)
Lease liabilities	*1*	**(9,323)**	-	-
Other payables	*11*	**(91)**	(427)	(263)
Deferred tax liability	*5*	**(1,059)**	(516)	(885)
		(14,443)	(5,286)	(5,420)
Total liabilities		**(41,334)**	(26,072)	(25,508)
Net assets		**18,623**	18,496	18,707
Equity				
Share capital		**2,095**	2,095	2,095
Share premium		**13,152**	13,152	13,152
Foreign currency translation reserve		**7**	10	3
Revaluation reserve		**1,424**	1,424	1,424
Retained earnings		**1,945**	1,815	2,033
Total equity		**18,623**	18,496	18,707

Unaudited consolidated interim statement of cash flows

	Note	**6 months ended 30 September 2019 (unaudited) £000**	6 months ended 31 August 2018 (unaudited) £000	13-month period ended 31 March 2019 (audited) £000
Cash flows from operating activities				
Loss for the period:		**(145)**	(368)	(163)
Adjustments for:				
Depreciation and amortisation	*2,6,7*	**1,771**	983	2,293
Financial expense	*4*	**395**	140	349
Loss on sales of property, plant and equipment		**11**	-	34
Share-based payment charge	*12*	**57**	(76)	(22)
Taxation	*5*	**(134)**	(177)	(446)
		1,955	502	2,045
(Increase)/decrease in trade and other receivables		**(2,155)**	(1,121)	1,047
Increase in inventories		**(5,371)**	(4,271)	(1,606)
Increase in trade and other payables		**6,471**	3,823	497
		900	(1,067)	1,983
Tax paid		**(9)**	(4)	593
Net cash from operating activities		**891**	(1,071)	2,576
Cash flows from investing activities				
Proceeds from sales of property, plant and equipment		**50**	-	-
Acquisition of property, plant and equipment	*6*	**(757)**	(209)	(1,785)
Capitalised development expenditure	*7*	**(1,447)**	(1,104)	(2,703)
Acquisition of a business		**(200)**	(200)	(400)
Net cash from investing activities		**(2,354)**	(1,513)	(4,888)
Cash flows from financing activities				
Cash from share issue		**-**	105	105
Proceeds from new borrowings	*10*	**687**	2,019	5,030
Repayment of borrowings		**(273)**	(273)	(593)
Interest paid	*4*	**(390)**	(130)	(352)
Lease payments	*10*	**(474)**	(20)	(105)
Net cash from financing activities		**(450)**	1,701	4,085
Net (decrease)/increase in cash and cash equivalents		**(1,913)**	(883)	1,773
Cash and cash equivalents at beginning of period		**5,304**	3,540	3,001
Foreign exchange losses/(gains)		**4**	(2)	(9)
Cash and cash equivalents at end of period		**3,395**	2,655	5,304

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 2019	**2,095**	**13,152**	**3**	**1,424**	**2,033**	**18,707**
Loss for the period	-	-	-	-	(145)	**(145)**
Other comprehensive income	-	-	4	-	-	**4**
Share based payments charge	-	-	-	-	57	**57**
Balance at 30 September 2019	**2,095**	**13,152**	**7**	**1,424**	**1,945**	**18,623**

	Share capital £000	Share premium £000	Foreign currency translation reserve £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 March 2018	2,087	13,055	12	1,424	2,307	18,885
Loss for the period	-	-	-	-	(368)	(368)
Other comprehensive income	-	-	(2)	-	-	(2)
Issue of shares net of expenses	8	97	-	-	-	105
Share based payments charge	-	-	-	-	(76)	(76)
Deferred tax adj. re: share based payments	-	-	-	-	(48)	(48)
Balance at 31 August 2018	2,095	13,152	10	1,424	1,815	18,496

	Share capital £000	Share premium £000	Foreign currency translation reserve £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 March 2018	2,087	13,055	12	1,424	2,307	18,885
Loss for the period	-	-	-	-	(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

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 those 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') and Germany ('Gear4music GmbH'). The Group has 100% owned dormant subsidiaries in the UK ('Cagney Limited') and in Norway ('Gear4music Norway').

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

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

1 Accounting policies

1.1 Basis of preparation

The unaudited consolidated interim financial information for the period ended 30 September 2019 has been prepared in accordance with the AIM Rules for Companies and complies with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The condensed consolidated interim financial information does not constitute financial statements within the meaning of Section 434 of the Companies Act 2006 and does not include all of the information and disclosures required for full annual financial statements. It should therefore be read in conjunction with the Group's Annual Report for the 13-month period ended 31 March 2019, which has been prepared in accordance with International Financial Reporting Standards and is available on the Group's investor website.

The comparative financial information contained in the condensed consolidated financial information in respect of the 13-month period ended 31 March 2019 has been extracted from the 2019 Financial Statements. Those financial statements have been reported on by KPMG 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 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 period ended 31 March 2019.

The Group's accounting policies are set out below. Except as described in section 1.2, the accounting policies applied in this interim financial information are the same as those applied in the Group's consolidated financial statements as at and for the period ended 31 March 2019.

The financial information has been prepared on the historical cost basis.

1.2 Changes in accounting standards

IFRS 16 'Leases'

The Group has adopted IFRS 16 for accounting periods commencing 1 April 2019 replacing IAS17 and applied the modified retrospective approach and the exemption for short term leases and leases of low-value items. Comparative figures have not been re-stated.

IFRS 16 impacts the Group's consolidated financial statements by recognising right-of-use assets representing its right to use the underlying assets and a corresponding lease liability representing its obligation to make lease payments. Lease liabilities were measured at the present value of the remaining lease payments, discounted at an incremental borrowing rate which reflects the characteristics of the underlying assets at 1 April 2019.

Right-of-use assets are measured as an amount equal to the lease liability less the release of the lease incentive accrual previously held on the balance sheet.

Notes to the Interim Financial Information (continued)

1.2 Changes in accounting standards (continued)

IFRS 16 'Leases' (continued)

The right-of-use asset is depreciated on a straight-line basis over the life of the lease. Interest is 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 is unaffected by the new standard.

There is no impact on cash flows, although the presentation of the Cash Flow Statement has changed 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 impact of adopting IFRS 16 is as follows:

Impact on the Statement of Financial Position at 1 April 2019

Right of use assets of £9.80m recognised and presented separately, having netted £0.80m of lease incentive accrual previously held on the balance sheet.

Additional lease liabilities of £10.60m recognised and presented separately in Other interest-bearing loans and borrowings.

Impact on the Statement of Profit and Loss and Other Comprehensive Income

Rent expense decreased by £0.70m relating to previous operating leases derecognised.

Depreciation expense increased by £0.54m relating to the depreciation of the right-of-use assets recognised.

Finance costs increased by £0.21m relating to the interest expense on additional lease liabilities.

Impact on the Statement of Financial Position at 30 September 2019

Right of use asset of £9.21m.

Lease liabilities of £10.19m of which £0.87m is due under one-year.

1.3 Going concern

The Group has significant financial resources and access to further debt funding should it be required. The business continues to trade well and Management considers it to be well positioned going into its critical trading period. The Group operates a rolling monthly reforecast providing trading and financial visibility to the financial year end.

Accordingly, and further to due consideration of all financial and commercial information available, the Directors have concluded that the Group has adequate resources to continue to trade for the foreseeable future and it is therefore appropriate to continue to adopt the going concern basis of accounting in the preparation of this consolidated interim financial information.

1.4 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

Notes to the Interim Financial Information (continued)

1.5 Foreign currency

International transactions that are denominated in foreign currencies are recorded in the respective foreign currencies, and translated into the functional currency of the Group, Sterling, at the exchange rate ruling at the date of the transaction. Translational accounting gains and losses are recognised in the income statement in the period they arise.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Functional currency

The consolidated financial information is presented in Sterling which is the Company's functional currency.

1.6 Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in this financial information for called up share capital and share premium account exclude amounts in relation to those shares.

1.7 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributed transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

Notes to the Interim Financial Information (continued)

1.8 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on either a straight-line basis or a reducing balance basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- Freehold property 50 years straight line
- Plant and equipment 4-5 years' straight line
- Fixtures and fittings 20-25% on reducing balance
- Motor vehicles 25% on reducing balance
- Computer equipment 3-5 years' straight line

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below in 1.15.

1.9 Business combinations

All business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Costs related to the acquisition are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Goodwill impairment testing

Goodwill is not amortised but tested annually for impairment. For the purpose of impairment testing, the Goodwill is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of Goodwill impairment testing, CGUs to which Goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which Goodwill is monitored for internal reporting purposes.

1.10 Intangible assets

Software platform

Computer software development costs that generate economic benefits beyond one year and meet the development asset recognition criteria as laid out in IAS 38 'Intangible Assets', are capitalised as Intangible assets.

These costs include the payroll costs of employees directly associated with the development, and other direct external material and service costs. Costs are capitalised only where there is an identifiable development that will bring future economic benefit. All other website and maintenance costs are expenses in the statement of comprehensive income.

Capitalised software development costs are amortised over their estimated useful lives and charged to administrative expenses in the statement of comprehensive income.

Other intangible assets

Expenditure on internally generated Goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and Goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Brand 10 years; and
- Software Platform 3-8 years

1.11 Inventories

Inventories are stated at the lower of cost and net realisable value ("NRV"). Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and other costs in bringing them to their existing location and condition. Stock is neither fashionable nor perishable.

A provision is made in respect of inventories as follows:

- 100% against returns stock 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 previous 12-months retail experience for the expected product loss on dealing with returns stock.

1.12 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows. The effect of discounting is not material. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes to the Interim Financial Information (continued)

1.12 Impairment excluding inventories and deferred tax assets (continued)

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For Goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The Goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of Goodwill impairment testing, CGUs to which Goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which Goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss would be recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. No impairments have been recognised in the periods presented.

1.13 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Share-based payments

The Group operates share option plans for qualifying employees of the Group. The fair value of the shares is determined using the Black Scholes option pricing model and is expensed in the statement of comprehensive income on a straight-line basis over the vesting period after allowing for an estimate of the number of shares that are expected to vest. The level of vesting is reviewed annually and the expense adjusted to reflect any changes in estimates.

1.14 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.15 Revenue

Product sales and delivery receipts

Revenue from the sale of goods and delivery receipts are recognised when the customer receives the goods ordered at which point title and risk passes to third parties and revenue can be reliably measured.

Revenue is measured at the fair value of the consideration received, including freight charges and duty where applicable, excluding discounts, rebates, VAT and other sales taxes or duty. Returns are dealt with on receipt of the product into the warehouse which triggers an automatic credit, and an estimate for returns is provided for at the year-end.

1.15 Revenue (continued)

Other revenue

Warranty income is spread over the warranty period and as such the adoption of IFRS15 has had no impact.

The Group offers retail point of sale credit on orders over £50, through agreements with external credit providers. The Group does not retain any credit risk and commissions are recognised within revenue on recognition of the credit sale. No discount is offered on any sales made through these credit providers.

1.16 Expenses

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Exceptional items

Items which are significant by virtue of their size or nature and which are considered to be non-recurring are classified as exceptional operating items. Such items are included within the appropriate consolidated income statement category but are highlighted separately in the notes to the financial information. Exceptional operating items are excluded from the profit measures used by the Board to monitor and measure the underlying performance of the Group.

Government and other forms of grant

Government and other grants from third parties are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as a reduction in the costs incurred, on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed. Where the grant relates to an asset, it is recognised on a systematic basis over the UEL of the related asset.

Financing income and expenses

Financing expenses comprise interest payable and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Financing income comprises interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

1.17 Taxation

Tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A temporary difference on the initial recognition of goodwill is not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Notes to the Interim Financial Information (continued)

1.17 Taxation (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.18 Segmental Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The Group's Chief Operating Decision Maker has been identified as the Board of Directors.

Notes to the Interim Financial Information (continued)

2 Expenses

Included in profit/loss are the following:

	6 months ended 30 September 2019 £000	6 months ended 31 August 2018 £000	Period ended 31 March 2019 £000
Depreciation of property, plant and equipment	**504**	452	1,039
Depreciation of right-of-use assets	**540**	-	-
Amortisation of intangible assets	**727**	531	1,254
Amortisation of government grants	**4**	17	37
Loss on disposal of property, plant and equipment	**11**	-	34
Share based payment charge	**57**	(76)	(22)

3 Earnings per share

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

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

	6 months ended 30 September 2019	6 months ended 31 August 2018	Period ended 31 March 2019
Loss attributable to equity shareholders of the parent (£'000)	**(145)**	(368)	(163)
Basic weighted average number of shares	**20,945,328**	20,906,055	20,926,717
Dilutive potential ordinary shares	**-**	-	-
Diluted weighted average number of shares	**20,945,328**	20,906,055	20,926,717
Basic loss per share	**(0.7p)**	(1.8p)	(0.8p)
Diluted loss per share	**(0.7p)**	(1.8p)	(0.8p)

Notes to the Interim Financial Information (continued)

4 Finance expense

	6 months ended 30 September 2019 £000	6 months ended 31 August 2018 £000	Period ended 31 March 2019 £000
Bank interest	**180**	130	352
Unwind of interest on lease liabilities	**210**	-	-
Net foreign exchange loss	**106**	74	249
Net fair value movements	**8**	10	(3)
Total finance expense	**504**	214	598

Bank interest comprises £108,000 of Trade finance loan interest and £68,000 of property loan interest.

5 Taxation

	6 months ended 30 September 2019 £000	6 months ended 31 August 2018 £000	Period ended 31 March 2019 £000
Current tax (credit)/expense	**(308)**	4	(593)
Deferred tax expense/(credit)	**174**	(181)	147
Total tax (credit)/expense	**(134)**	(177)	(446)

The deferred tax liability has been increased by £174,000 to £1,059,000. The £174,000 movement consists of a P&L charge of £174,000 and no charge to other comprehensive income. The increase in the deferred tax liability is due to a deferred tax liability arising via the acceleration of tax relief for intangible assets as a result of an R&D claim. The claim results in the surrender of tax losses arising in the period for an R&D tax credit.

The corporation tax rate applicable to the company was 19% in the period to 30 September 2019.

Notes to the Interim Financial Information (continued)

6 Property, plant and equipment

	Freehold property £000	Plant and equipment £000	Fixtures and fittings £000	Motor vehicles £000	Computer equipment £000	Total £000
Cost						
Balance at 1 September 2018	7,350	787	3,447	62	664	12,310
Additions	-	472	937	-	114	1,523
Balance at 31 March 2019	7,350	1,259	4,384	62	778	13,833
Additions	-	392	311	-	53	756
Disposals	-	(62)	-	-	-	(62)
Balance at 30 September 2019	**7,350**	**1,589**	**4,695**	**62**	**831**	**14,527**
Depreciation						
Balance at 1 September 2018	74	520	1,473	21	411	2,499
Charge for the period	85	136	271	7	69	568
Balance at 31 March 2019	159	656	1,744	28	480	3,067
Charge for the period	74	163	201	4	62	504
Disposals	-	-	-	-	(1)	(1)
Balance at 30 September 2019	**233**	**819**	**1,945**	**32**	**541**	**3,570**
Net book value as at 30 September 2019	**7,117**	**770**	**2,750**	**30**	**290**	**10,957**
Net book value as at 1 April 2019	7,191	603	2,640	34	298	10,766
Net book value as at 1 September 2018	7,276	267	1,974	41	253	9,811

Notes to the Interim Financial Information (continued)

7 Intangible assets

	Goodwill £000	Software platform £000	Brand £000	Total £000
Cost				
Balance at 1 September 2018	1,848	7,642	564	10,054
Additions	-	1,599	-	1,599
Balance at 31 March 2019	1,848	9,241	564	11,653
Additions	-	1,447	-	1,447
Balance at 30 September 2019	**1,848**	**10,688**	**564**	**13,100**
Amortisation				
Balance at 1 September 2018	-	2,737	366	3,103
Amortisation for the period	-	690	33	723
Balance at 31 March 2019	-	3,427	399	3,826
Amortisation for the period	-	699	28	727
Balance at 30 September 2019	**-**	**4,126**	**427**	**4,553**
Net book value as at 30 September 2019	**1,848**	**6,562**	**137**	**8,547**
Net book value as at 1 April 2019	1,848	5,814	165	7,827
Net book value as at 31 August 2018	1,848	4,905	198	6,951

8 Inventories

	30 September 2019 £000	31 August 2018 £000	31 March 2019 £000
Finished goods	**24,032**	21,326	18,661

The cost of inventories recognised as an expense and included in cost of sales in the period ended 30 September 2019 amounted to £33.9m, and in the period ended 31 August 2018 totalled £30.3m.

Notes to the Interim Financial Information (continued)

9 Trade and other receivables

	30 September 2019 £000	31 August 2018 £000	31 March 2019 £000
Trade receivables	**2,828**	2,837	856
Prepayments	**984**	988	801
	3,812	3,825	1,657

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

10 Loans and borrowings

	30 September 2019 £000	31 August 2018 £000	31 March 2019 £000
Non-current liabilities			
Bank loans	**3,751**	4,343	3,990
Finance lease liabilities	**219**	-	282
	3,970	4,343	4,272
Current liabilities			
Bank loans	**8,943**	5,909	8,384
Finance lease liabilities	**203**	3	171
	9,146	5,912	8,555
Total liabilities			
Bank loans	**12,694**	10,252	12,374
Finance lease liabilities	**422**	3	453
	13,116	10,255	12,827

Bank loans comprise a Trade Finance facility, and term loans, all provided by the Group's bankers, HSBC, and are secured by fixed and floating charges over the Group's assets. All borrowings are denominated in Sterling.

The interest rate on 160-day import loans drawn under the Trade Finance agreement is 2.45% per annum over HSBC's Sterling Base Rate, and on an overdraft if 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. Trade finance 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 equating to a 70% LTV against the property valuation 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.

Notes to the Interim Financial Information (continued)

11 Trade and other payables

	30 September 2019 £000	31 August 2018 £000	31 March 2019 £000
Current			
Trade payables	**14,411**	11,761	7,464
Accruals and deferred income	**1,311**	1,301	1,915
Deferred consideration	**387**	393	393
Government grants	**7**	28	8
Other creditors including tax and social security	**760**	1,391	1,753
	16,876	14,874	11,533
Non-current			
Accruals and deferred income	**78**	47	61
Deferred consideration	**-**	365	186
Government grants	**13**	15	16
	91	427	263

Deferred consideration is due in relation to the acquisition of the software development team in January 2017 and comprised ten quarterly instalments of £100,000 payable, with four payments outstanding to be paid on 1st of October/January/April/July. These amounts are valued in the accounts at fair value and subsequently amortised. Deferred consideration is valued at fair value.

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 linked to job creation, and these criteria have been satisfied.

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

12 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.

No new awards were made in the Period.

13 Related party transactions

There were no significant related party transactions during the six months to 30 September 2019.