17 November 2020

Gear4music (Holdings) plc
Interim results for the six months ended 30 September 2020

Material improvement in H1 profits, strong trading continues leading to further upgrade

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 2020 ("the Period").

Highlights:

£m	**6-months ended 30 September 2020**	6-months ended 30 September 2019	**Change**
Revenue	**70.2**	49.4	**+42%**
Gross profit	**20.1**	12.5	**+61%**
Gross margin	**28.6%**	25.2%	**+340bps**
EBITDA	**8.5**	2.0	**+£6.5m**
Operating profit	**6.4**	0.2	**+£6.2m**
Net profit/(loss)	**4.9**	(0.1)	**+£5.0m**

- Revenue increased by £20.8m (42%) to £70.2m; Gross profit increased by £7.6m (61%) to £20.1m
- Operating profit increased by £6.2m, EBITDA up by £6.5m (325%) from £2.0m to £8.5m
- 403,000 new customers purchased during the Period, being a 52% increase on H1 FY20
- Very strong trading patterns have continued into November

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

"The material improvement in profitability we announce today reflects the excellent commercial and operational progress we have made during the last two years.

COVID restrictions across Europe continue to accelerate our rate of sales growth, which alongside our previously stated strategies of improving gross margins and increasing operational efficiency, has resulted in record profitability during the six-month period.

I would like to thank our hard-working staff for their colossal efforts and ongoing support in achieving this result, during what has been a very difficult and challenging time for everyone.

We expect the significant growth in new customers achieved during the Period will benefit the Group in both the medium and longer term, as more people appreciate the benefits that playing and creating music can bring.

Alongside the challenges of COVID, Brexit will also bring new challenges to our industry, and we expect this combination of events will drive further consolidation within our market. Whilst it is difficult to predict every outcome of Brexit, after several years of planning we are well prepared for the required operational changes, with our European hubs and local courier networks underpinning our revised distribution strategy.

I am pleased to report that trading into November continues to be very strong, and we are well positioned for what we expect to be a busy peak trading period ahead of us. We therefore expect that results for the financial year will now be ahead of the recently upgraded consensus market expectations. The Board remains focussed on prioritising profitable growth and continues to look forward with confidence over the medium term."

Gear4music will issue a trading statement on 21 January 2021.

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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 2020, and updates on the strategic and commercial progress made in the Period.

Overview – COVID

The Group continues to monitor government advice with safety measures remaining in place across all its locations to ensure the health and safety of all employees.

Whilst the Group was appropriately configured and underlying trading momentum was undoubtedly strong going into FY21, the onset of the COVID pandemic created an exceptional trading environment where the benefits of playing and creating music on mental health and wellbeing became even more apparent. The transition to online shopping accelerated due to the safety and convenience of e-commerce, with store-based competitors being negatively impacted during and after lock-down. During Q1 FY21 this situation contributed to a one-off uplift in Group revenue, higher than anticipated margins, and lower than expected marketing costs, which resulted in higher profitability than we would have expected to achieve under normal circumstances.

Strategy

In FY20 the Group delivered on its stated priorities of improving gross margin and enhancing back-office systems, processes and resilience. The focus for the remainder of FY21 will be to refocus software development toward more growth-orientated projects, continuing to ensure the Group is prepared for Brexit, and building on the sourcing, pricing and margin structure progress made in FY20.

We have delivered on our commitment to improve gross margins, with H1 FY21 gross margin of 28.6% being 340bps ahead of last year and 590bps ahead of H1 FY19. This partly reflects the one-off uplift achieved in Q1, but as we continue to focus our buying and marketing efforts on more profitable products and sales, we remain confident that a significant improvement on FY20 margins can be sustained in the medium and long term.

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

E-commerce Excellence

	H1 FY21	**H1 FY20**	**Change**
Revenue	**£70.2m**	£49.4m	+42%
Total unique website users	**15.2m**	13.4m	+13%
Mobile site unique users (inc. tablet)	**8.8m**	8.5m	+4%
Conversion rate	**3.90%**	3.02%	+88bps
Average order value	**£117**	£120	-3%
Active customers *	**954,000**	773,000	+23%
Proportion of repeat customers **	**24.9%**	26.9%	-200bps
Email subscriber database	**708,000**	717,000	-1%
Trustpilot rating	**4.8/5**	4.8/5	

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

Revenue increased by £20.8m (42%) during the Period to £70.2m, with international revenue growth of 36%, up from 33% growth achieved in H1 FY20. Our UK revenues grew by 48%, a notable increase on the 3% growth achieved in the same period last year, which was reflective of the Group repositioning itself in a competitive domestic other-brand market.

Website user numbers increased by 13% to 15.2m with visitors to the UK website increasing 17% and visitor numbers to the Group's 19 international websites growing by 13%. Organic and direct website traffic accounted for 42% of total visitors (FY20 H1: 38%), as the growth in mobile and competition for limited screen space continues to increase the relevance of PPC ('Pay-per-Click'). In line with our stated strategy, PPC returns improved significantly in the Period, although this in part reflects a lower PPC spend to manage capacity during the Q1 COVID lock-down.

The increasing prominence of mobile continues to be a key theme, with the proportion of users from this channel accounting for 58% of all users (FY20 H1: 65%; FY19 H1: 52%), with the slight decrease reflecting COVID lockdown and an associated rise in desktop use. Mobile website development will remain an important focus area for the Group going forward.

Conversion rates improved from 3.0% in H1 FY20 to 3.9% reflecting an increase in people coming to our sites with the intention of buying during the COVID lockdown, and less people browsing. Conversion in the UK improved from 4.8% in H1 FY20 to 6.1% whilst European conversion increased from 2.1% to 2.6%. Mobile conversion improved from 2.0% to 2.6%.

The Group served 482,000 customers in the Period (+47%) and Active customers increased by 23%. The proportion of repeat customers was 24.9% (FY20 H1: 26.9%) reflecting the 403,000 new customers that purchased during the Period, being a 52% increase on H1 FY20. The level of repeat custom reflects the Group's product range and high average order value, and re-affirms the importance that the Group is profitable from the first customer transaction.

The number of subscribers on our email database decreased by 1% to 708,000, due to guest login functionality and GDPR ease of opt-out. Segmentation improvements to our email retargeting platform are being developed with the objective of improving subscriber retention later in FY21.

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 77,000 reviews.

The Group invested £1.4m in its e-commerce platform in the Period (FY20 H1: £1.4m) which included a range of Brexit-mitigation projects. Deployments in the Period included:

- Warehouse operational upgrades
- Established returns centres at European hubs
- Ability to add Extended Warranty to basket from the mobile product page

Development into key growth-related projects remains on-going.

Supply Chain Evolution

	H1 FY21	H1 FY20	Change
Own-brand product sales	**£18.4m**	£12.9m	+43%
Other brand product sales	**£48.4m**	£34.4m	+41%
Product margin	**32.8%**	29.6%	+320bps
Products listed	**55,200**	52,700	+5%
Brands listed	**894**	889	+1%

Product margins improved 320bps from 29.6% to 32.8% (FY20 H1 improvement: +210bps) as we continue to invest in more profitable other-brand products, and in our own-brand ranges. Supply chain and competitor uncertainties in the Period resulted in increased prices on certain SKUs where we had limited stock, which contributed to the one-off margin upside during the Period.

The number of SKUs available increased from 52,700 at 30 September 2019 to 54,200 at 31 March 2020 and 55,200 at 30 September 2020, representing a net 5% increase in 12 months.

The number of own-brand products increased from 3,300 at 30 September 2019 to 3,600 at 30 September 2020. New products continue to be developed and in the Period we launched new digital drumkits, new samplers and MIDI controllers, and expanded our range of SubZero studio, live and podcasting microphones.

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 28% of product sales overall (H1 FY20: 27%; H1 FY19: 22%) from 7% of SKUs.

International Expansion

We currently have 78,000 square feet of distribution space in Sweden and 72,000 square feet in Germany. These distribution centres are a key part of the Group’s approach to trading post 1 January 2021 when the UK leaves the EU.

In H1 FY21 we fulfilled 26% of orders from our European distribution centres (H1 FY20: 24%; H1 FY19: 18%), and this is increasing in H2 FY21 as stock levels and profiles are reconfigured and more local courier options are added.

Current trading and outlook

On 27 July 2020 and again on 22 October 2020, the Group reported very strong trading with higher gross margins, lower marketing costs and a controlled cost base, and guided to Board expectations for the full-year being ahead of then consensus market expectations.

We continue to be mindful of the uncertainties posed by Brexit and COVID, but remain confident in the actions we are taking and the ability and commitment of our team to ensure that the business is well positioned to overcome any potential short-term challenges.

Trading continues to be very strong into November and as such, the Board is confident that results for the full financial year will be ahead of recently upgraded consensus market expectations.

The Group will issue a Christmas trading update on 21 January 2021.

Financial Review

	H1 FY21	H1 FY20	Change
Revenue	**£70.2m**	£49.4m	+42%
Gross profit	**£20.1m**	£12.5m	+61%
Gross margin	**28.6%**	25.2%	+340bps
EBITDA	**£8.5m**	£2.0m	+£6.5m
EBITDA margin	**12.1%**	4.0%	+810bps
Operating profit	**£6.4m**	£0.2m	+£6.2m
Marketing costs	**£3.7m**	£3.9m	-5%
Marketing costs as % of sales	**5.3%**	8.0%	-270bps
Total Labour costs	**£5.5m**	£4.7m	+17%
Total Labour costs as % of sales	**7.8%**	9.4%	-160bps
Cash	**£5.4m**	£3.4m	+£2.0m
Net debt	**£5.7m**	£9.7m	+£4.0m

Revenue

Revenue in the six months to 30 September 2020 increased by 42% (FY20 H1 +16%), equating to two-year growth of 65% (FY20 H1 two-year growth: 58%).

Revenue from the UK market increased by £11.9m (+48%) to £36.7m taking our estimated share of the UK market to 8.6% (FY20 H1 estimate: 6.9%).

Revenue in international markets increased by £8.9m (36%) to £33.5m, accounting for 48% of Group revenue compared to 50% in FY20 H1 and 45% in FY19 H1.

Gross Profit

The Group considers the increase in gross profits, being a function of strong sales growth and gross margins that make good commercial sense, to be the primary measure of growth.

Gross profit increased by £7.6m (61%) from £12.5m last year to £20.1m in H1 FY21.

In FY20 the Group delivered on a number of initiatives to materially improve gross margins and restore them back to historic levels, and in FY20 H1 we reported a 250bps improvement to 25.2%. This momentum and focus carried into FY21, and was boosted by price increases on certain products where we had short supply, resulting in gross margin improving a further 340bps to 28.6%, our highest reported H1 result.

Operating Profit and Administrative Expenses

Operating profit of £6.4m represents a £6.2m improvement on FY20 H1 driven by a £20.8m increase in sales, a 340bps improvement in gross margin, and marketing cost efficiencies.

Administrative costs increased by £1.5m (12%) including a £0.8m increase in labour costs, £0.3m increase in depreciation and amortisation, and increases in other activity-linked variable costs.

Marketing and labour costs continue to be key business drivers and the main component parts of our overhead base, accounting for a combined 67% of total administrative expenses in the Period (FY20 H1: 70%).

Notwithstanding the 42% increase in revenue, marketing costs decreased by £0.2m (5%) to £3.7m, reflecting the requirement to manage capacity as new health and safety measures were introduced in the warehouse.

Total labour costs increased by £0.8m (17%) to £5.5m reflecting increased activity and recruitment into the business.

European distribution centre local administrative expenses increased by £0.3m (22%) on FY20 H1, to £1.7m.

Depreciation and amortisation in the Period totalled £2.1m (FY20 H1: £1.8m) including £0.9m (FY20 H1: £0.7m) of amortisation relating to our bespoke e-commerce platform, and £0.6m depreciation of 'Right of Use' assets.

Net Profit

Financial expenses include a £0.3m foreign exchange loss (FY20 H1: £0.1m loss), £0.2m interest on lease liabilities (FY20 H1: £0.2m), and £0.1m of bank interest (FY20 H1: £0.2m).

Net profit of £4.9m (FY20 H1: net loss of £0.1m) reflects strong underlying trading built on the improvements made in FY20 and momentum carried into FY21, and a significant one-off COVID impact.

Cash Flow and Balance Sheet

In common with many retailers, September generally represents a low point in the annual cash cycle as stock builds ahead of the peak Christmas trading period. Cash as at 30 September 2020 was £5.4m (30 September 2019: £3.4m) reflecting strong cash generation in H1 FY21.

Net debt of £5.7m (30 September 2019: £9.7m) includes £3.8m of property loans linked to our freehold Head Office (51% LTV), and £7.0m Trade Finance loans. The Group has an £11m Trade Finance facility and £3m overdraft in place.

Against a backdrop of COVID and Brexit related uncertainties and with significant financial resources, the Group continues to invest in stock. The carrying value of stock at 30 September 2020 was £28.7m (30 September 2019: £24.0m) including £5.1m of inbound own-brand stock-in-transit (FY20 H1: £4.9m) for peak season.

Trade and other payables increased from £16.9m last year to £18.7m and include the associated liability for the £5.1m of inbound stock-in-transit (FY19 H1: £4.9m).

Capitalised software development costs totalled £1.4m in the Period taking total spend to date to £13.5m. Amortisation in the Period was £0.9m leading to a £0.5m increase in net book value since the start of the financial year.

Property, plant and equipment capital expenditure in the Period was £0.5m (FY20 H1: £0.8m), 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 2020 (unaudited) £000	6 months ended 30 September 2019 (unaudited) £000	Year ended 31 March 2020 (audited) £000
Revenue	3	**70,217**	49,397	120,326
Cost of sales		**(50,121)**	(36,937)	(89,170)
Gross profit		**20,096**	12,460	31,156
Administrative expenses	4	**(13,685)**	(12,235)	(27,089)
Operating profit	4	**6,411**	225	4,067
Financial expenses	6	**(660)**	(504)	(989)
Profit/(loss) before tax		**5,751**	(279)	3,078
Taxation	7	**(802)**	134	(488)
Profit/(loss) for the period		**4,949**	(145)	2,590
Other comprehensive income				
Items that will not be reclassified to profit or loss:				
Revaluation of property, plant and equipment		**-**	-	309
Deferred tax movements		**-**	-	(93)
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation differences – foreign operations		**(8)**	4	(37)
Total comprehensive income/(loss) for the period		**4,941**	(141)	2,769
Profit per share attributable to equity shareholders of the company				
Basic profit/(loss) per share	5	**23.6p**	(0.7p)	12.4p
Diluted profit/(loss) per share	5	**23.4p**	(0.7p)	12.2p

Unaudited consolidated interim statement of financial position

	Note	30 September 2020 (unaudited) £000	30 September 2019 (unaudited) £000	31 March 2020 (audited) £000
Non-current assets				
Property, plant and equipment	*8*	**11,125**	10,957	11,219
Right of use assets	*8*	**8,743**	9,214	8,962
Intangible assets	*9*	**9,585**	8,547	9,084
		29,453	28,718	29,265
Current assets				
Inventories	*10*	**28,732**	24,032	22,015
Trade and other receivables	*11*	**4,453**	3,812	2,501
Cash and cash equivalents		**5,434**	3,395	7,839
		38,619	31,239	32,355
Total assets		**68,072**	59,957	61,620
Current liabilities				
Interest bearing loans and borrowings	*12*	**(7,520)**	(9,146)	(9,949)
Trade and other payables	*13*	**(18,675)**	(16,876)	(14,442)
Lease liabilities	*14*	**(1,184)**	(869)	(1,148)
		(27,379)	(26,891)	(25,539)
Non-current liabilities				
Interest bearing loans and borrowings	*12*	**(3,166)**	(3,970)	(3,439)
Other payables	*13*	**(124)**	(91)	(107)
Lease liabilities	*14*	**(9,205)**	(9,323)	(9,519)
Deferred tax liability		**(1,589)**	(1,059)	(1,407)
		(14,084)	(14,443)	(14,472)
Total liabilities		**(41,463)**	(41,334)	(40,011)
Net assets		**26,609**	18,623	21,609
Equity				
Share capital		**2,095**	2,095	2,095
Share premium		**13,165**	13,152	13,152
Foreign currency translation reserve		**(42)**	7	(34)
Revaluation reserve		**1,674**	1,424	1,674
Retained earnings		**9,717**	1,945	4,722
Total equity		**26,609**	18,623	21,609

Unaudited consolidated interim statement of cash flows

	Note	**6 months ended 30 September 2020 (unaudited) £000**	6 months ended 30 September 2019 (unaudited) £000	Year ended 31 March 2020 (audited) £000
Cash flows from operating activities				
Profit/(loss) for the period:		**4,949**	(145)	2,590
Adjustments for:				
Depreciation and amortisation	*4,8,9*	**2,100**	1,771	3,687
Financial expense	*6*	**322**	395	989
Loss on sales of property, plant and equipment		**-**	11	11
Share-based payment charge		**46**	57	133
Tax expense/(income)	*7*	**802**	(134)	488
		8,219	1,955	7,898
Increase in trade and other receivables		**(1,952)**	(2,155)	(844)
Increase in inventories		**(6,717)**	(5,371)	(3,354)
Increase in trade and other payables		**3,917**	6,471	3,273
		3,467	900	6,973
Tax (paid)/received		**(92)**	(9)	501
Net cash from operating activities		**3,375**	891	7,474
Cash flows from investing activities				
Proceeds from sales of property, plant and equipment		**-**	50	50
Acquisition of property, plant and equipment	*8*	**(467)**	(757)	(740)
Capitalised development expenditure	*9*	**(1,433)**	(1,447)	(2,820)
Payment of deferred consideration		**(200)**	(200)	(400)
Net cash from investing activities		**(2,100)**	(2,354)	(3,910)
Cash flows from financing activities				
Cash from share issue		**13**	-	-
Proceeds from new borrowings	*12*	**-**	687	1,565
Repayment of borrowings		**(2,702)**	(273)	(546)
Interest paid	*6*	**(319)**	(390)	(806)
Lease payments	*12*	**(664)**	(474)	(1,205)
Net cash from financing activities		**(3,672)**	(450)	(992)
Net (decrease)/increase in cash and cash equivalents		**(2,397)**	(1,913)	2,572
Cash and cash equivalents at beginning of period		**7,839**	5,304	5,304
Foreign exchange (gains)/losses		**(8)**	4	(37)
Cash and cash equivalents at end of period		**5,434**	3,395	7,839

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 2020	**2,095**	**13,152**	**(34)**	**1,674**	**4,722**	**21,609**
Profit for the period	-	-	-	-	4,949	**4,949**
Other comprehensive income	-	-	(8)	-	-	**(8)**
Issue of shares net of expenses	-	13	-	-	-	**13**
Share based payments charge	-	-	-	-	46	**46**
Balance at 30 September 2020	**2,095**	**13,165**	**(42)**	**1,674**	**9,717**	**26,609**

	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 April 2019	2,095	13,152	3	1,424	2,033	18,707
Profit for the year	-	-	-	-	2,590	2,590
Other comprehensive income	-	-	(37)	-	(34)	(71)
Freehold property revaluation	-	-	-	309	-	309
Deferred tax impact of revaluation	-	-	-	(59)	-	(59)
Share based payments charge	-	-	-	-	133	133
Balance at 31 March 2020	2,095	13,152	(34)	1,674	4,722	21,609

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

Basis of preparation

The unaudited consolidated interim financial information has been prepared under the historical cost convention, except for land and buildings that are stated at their fair value, and in accordance with the recognition and measurement requirements of International Financial Reporting Standards ("IFRS") as adopted by the European Union, IFRIC interpretations, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The condensed consolidated interim financial information does not constitute financial statements within the meaning of Section 434 of the Companies Act 2006 and does not include all of the information and disclosures required for full annual financial statements. It should therefore be read in conjunction with the Group's Annual Report for the year ended 31 March 2020, which has been prepared in accordance with International Financial Reporting Standards and is available on the Group's investor website.

The accounting policies used in the financial information are consistent with those used in the Group's consolidated financial statements as at and for the year ended 31 March 2020, as detailed on pages 56 to 61 of the Group's Annual Report and Financial Statements for the year ended 31 March 2020, a copy of which is available on the Group's website, www.gear4musicplc.com. The following adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 17 Insurance Contracts, including Amendments to IFRS 17, effective 1 January 2023
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities and Current or Non-Current, effective 1 January 2022
- Amendments to IFRS 3 Business Combinations, IFRS 16 Property, Plant and Equipment, IAS 37 Contingent Liabilities and Contingent Assets, and Annual Improvements 2018 – 2020, all effective 1 January 2022

The comparative financial information contained in the condensed consolidated financial information in respect of the year ended 31 March 2020 has been extracted from the 2020 Financial Statements. Those financial statements have been reported on by Grant Thornton UK LLP, and delivered to the Registrar of Companies. The report was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006.

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at the year ended 31 March 2020.

Notes to the Interim Financial Information (continued)

Going concern

The Directors are confident that the Group has sufficient financial resources and is well placed to manage its business risks, and flourish.

The Directors have considered the Group's growth prospects based on its product proposition and online offering in the UK and Europe, and concluded that potential growth rates remain strong as channel shift continues and customers move online. There is a diverse supply chain with no key dependencies and c.70% of Administrative expenses relate to marketing and labour costs.

The Directors have reflected on the impact of COVID on the Group's financial position, liquidity and performance. All three distribution centres remained open and sales were at materially elevated level compared to previous years and business plan.

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.

In H1 FY21 the Group reports a £4.9m net profit compared to £0.1m loss in FY20 H1. At 30 September 2020 the Group had £5.4m cash (30 September 2019: £3.4m) and net debt of £5.7m (30 September 2019: £9.7m), with £14m of Import loan and overdraft facilities in place to 31 May 2021. 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 they have no reason to believe that it will not do so.

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

2 Principal risks and uncertainties

The Board considers the principal risks and uncertainties which could impact the Group over the remaining six months of the financial year to 31 March 2021 to be unchanged from those set out in the group's Annual Report and Financial Statements for the year ended 31 March 2020, and can be summarised as:

- COVID
- The UK leaving the EU
- Management of rapid growth
- Management of Warehousing and Distribution
- Technological changes, data security and IT reliability
- Brand and proposition
- Supplier relationships
- Dependence on key personnel

These are set out in detail on pages 32 to 35 of the Group's Annual Report and Financial Statements for the year ended 31 March 2020, a copy of which is available on the Group's website, website, www.gear4musicplc.com.

Notes to the Interim Financial Information (continued)

3 Segmental analysis

Revenue by Geography:

	6 months ended 30 September 2020 £000	6 months ended 30 September 2019 £000	Year ended 31 March 2020 £000
UK	**36,686**	24,842	61,821
Europe and Rest of the World	**33,531**	24,555	58,505
	70,217	49,397	120,326

Administrative Expenses by Geography:

	6 months ended 30 September 2020 £000	6 months ended 30 September 2019 £000	Year ended 31 March 2020 £000
UK	**12,034**	10,884	24,562
Europe and Rest of the World	**1,651**	1,351	2,527
	13,685	12,235	27,089

Revenue by Product Category:

	6 months ended 30 September 2020 £000	6 months ended 30 September 2019 £000	Year ended 31 March 2020 £000
Other-brand products	**48,353**	34,355	79,416
Own-brand products	**18,428**	12,873	35,432
Warranty income	**268**	166	337
Other	**3,168**	2,003	5,141
	70,217	49,397	120,326

Notes to the Interim Financial Information (continued)

4 Expenses

Included in profit/loss are the following:

	6 months ended 30 September 2020 £000	6 months ended 30 September 2019 £000	Year ended 31 March 2020 £000
Depreciation of property, plant and equipment	**561**	504	909
Depreciation of right-of-use assets	**607**	540	1,215
Amortisation of intangible assets	**932**	727	1,563
Amortisation of government grants	**3**	4	8
Loss on disposal of property, plant and equipment	**-**	11	11
Share based payment charge	**46**	57	133

5 Earnings per share

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

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

	6 months ended 30 September 2020	6 months ended 30 September 2019	Year ended 31 March 2020
Profit/(loss) attributable to equity shareholders of the parent (£'000)	**4,949**	(145)	2,590
Basic weighted average number of shares	**20,947,015**	20,945,328	20,945,328
Dilutive potential ordinary shares	**218,299**	-	228,119
Diluted weighted average number of shares	**21,165,314**	20,945,328	21,173,447
Basic profit/(loss) per share	**23.6p**	(0.7p)	12.4p
Diluted profit/(loss) per share	**23.4p**	(0.7p)	12.2p

Notes to the Interim Financial Information (continued)

6 Finance expenses

	6 months ended 30 September 2020 £000	6 months ended 30 September 2019 £000	Year ended 31 March 2020 £000
Bank interest	**109**	180	389
Unwind of interest on lease liabilities	**210**	210	442
Net foreign exchange loss	**338**	106	144
Net fair value movements	**3**	8	14
Total finance expense	**660**	504	989

Bank interest comprises £59,000 of Trade finance loan interest (FY19 H1: £112,000) and £50,000 (FY19 H1: £68,000) of property loan interest.

7 Taxation

	6 months ended 30 September 2020 £000	6 months ended 30 September 2019 £000	Year ended 31 March 2020 £000
Current tax expense/(credit)	**620**	(308)	59
Deferred tax expense	**182**	174	429
Total tax expense/(credit)	**802**	(134)	488

The deferred tax liability has been increased by £182,000 to £1,589,000. The £182,000 movement consists of a P&L charge of £182,000 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 2020.

Notes to the Interim Financial Information (continued)

8 Property, plant and equipment

	Freehold property £000	Plant and equipment £000	Fixtures and fittings £000	Motor vehicles £000	Computer equipment £000	Total £000
Cost						
Balance at 1 October 2019	7,350	1,589	4,695	62	831	14,527
Additions	-	43	247	-	69	359
Revaluation	150	-	-	-	-	150
Balance at 31 March 2020	7,500	1,632	4,942	62	900	15,036
Additions	-	56	296	-	115	467
Balance at 30 September 2020	**7,500**	**1,688**	**5,238**	**62**	**1,015**	**15,503**
Depreciation						
Balance at 1 October 2019	233	819	1,945	32	541	3,570
Charge for the period	-	89	319	4	68	480
Revaluation	(233)	-	-	-	-	(233)
Balance at 31 March 2020	-	908	2,264	36	609	3,817
Charge for the period	75	171	235	3	77	561
Balance at 30 September 2020	**75**	**1,079**	**2,499**	**39**	**686**	**4,378**
Net book value as at 30 September 2020	**7,425**	**609**	**2,739**	**23**	**329**	**11,125**
Net book value as at 31 March 2020	7,500	724	2,678	26	291	11,219
Net book value as at 30 September 2019	7,117	770	2,750	30	290	10,957

Notes to the Interim Financial Information (continued)

8 Property, plant and equipment *(continued)*

Right-of-use Assets

Assets leased under leases

At 30 September 2020, the net carrying amount of leased plant and equipment assets was £682,000 (30 September 2019: £477,000), and the accumulated depreciation against these leased assets was £271,000 (30 September 2019: £94,000).

Leasehold properties

The Group has four leased properties: Distribution centres and showrooms in York, Sweden and Germany, and a software development office in Manchester.

As at 30 September 2020 the associated right of use assets are as follows:

	Land and Buildings
	£000
Cost	
Balance at 1 October 2019	10,177
Balance at 31 March 2020	10,177
Foreign exchange movement	389
Balance at 30 September 2020	**10,566**
Depreciation	
Balance at 1 October 2019	581
Charge for the period	634
Balance at 31 March 2020	1,215
Charge for the period	608
Balance at 30 September 2020	**1,823**
Net book value as at 30 September 2020	**8,743**
Net book value as at 31 March 2020	8,962
Net book value as at 30 September 2019	9,596

Notes to the Interim Financial Information (continued)

9 Intangible assets

	Goodwill £000	Software platform £000	Brand £000	Total £000
Cost				
Balance at 1 October 2019	1,848	10,688	564	13,100
Additions	-	1,373	-	1,373
Balance at 31 March 2020	1,848	12,061	564	14,473
Additions	-	1,433	-	1,433
Balance at 30 September 2020	**1,848**	**13,494**	**564**	**15,906**
Amortisation				
Balance at 1 October 2019	-	4,126	427	4,553
Amortisation for the period	-	808	28	836
Balance at 31 March 2020	-	4,934	455	5,389
Amortisation for the period	-	904	28	932
Balance at 30 September 2020	**-**	**5,838**	**483**	**6,321**
Net book value as at 30 September 2020	**1,848**	**7,656**	**81**	**9,585**
Net book value as at 31 March 2020	1,848	7,127	109	9,084
Net book value as at 30 September 2019	1,848	6,562	137	8,547

10 Inventories

	30 September 2020 £000	30 September 2019 £000	31 March 2020 £000
Finished goods	**28,732**	24,032	22,015

The cost of inventories recognised as an expense and included in cost of sales in the period ended 30 September 2020 amounted to £45.5m, (period ended 30 September 2019 totalled £33.9m).

Inventories include £5.1m of Own-brand stock-in-transit (FY20 H1: £4.9m) from Far East manufacturers.

Notes to the Interim Financial Information (continued)

11 Trade and other receivables

	30 September 2020 £000	30 September 2019 £000	31 March 2020 £000
Trade receivables	**3,554**	**2,828**	1,651
Prepayments	**899**	**984**	850
	4,453	**3,812**	2,501

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.

12 Interest bearing loans and borrowings

	30 September 2020 £000	30 September 2019 £000	31 March 2020 £000
Non-current liabilities			
Bank loans	**3,166**	3,751	3,439
Finance lease liabilities	**-**	219	-
	3,166	3,970	3,439
Current liabilities			
Bank loans	**7,520**	8,943	9,949
Finance lease liabilities	**-**	203	-
	7,520	9,146	9,949
Total liabilities			
Bank loans	**10,686**	12,694	13,388
Finance lease liabilities	**-**	422	-
	10,686	13,116	13,388

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 140-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 renewed in June 2020 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 capital outstanding of £3.12m at 30 September 2020; and
- The second loan was for £1,797,500 and is a five-year loan with interest of 2.85% over LIBOR, and capital outstanding of £0.63m at 30 September 2020.

Notes to the Interim Financial Information (continued)

13 Trade and other payables

	30 September 2020 £000	30 September 2019 £000	31 March 2020 £000
Current			
Trade payables	**13,887**	14,411	10,090
Accruals and deferred income	**1,847**	1,311	1,686
Deferred consideration	**-**	387	197
Government grants	**7**	7	8
Other creditors including tax and social security	**2,934**	760	2,461
	18,675	16,876	14,442
Non-current			
Accruals and deferred income	**117**	78	99
Government grants	**7**	13	8
	124	91	107

Final deferred consideration payments totalling £200,000 due in relation to the acquisition of the software development team in January 2017, were made in the Period.

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

14 Leases

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

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

	30 September 2020 £000	30 September 2019 £000	31 March 2020 £000
Current	**1,184**	869	1,148
Non-current	**9,205**	9,323	9,519
	10,389	10,192	10,667

Notes to the Interim Financial Information (continued)

15 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.

Exercised options

On 29 July 2020 4,848 ordinary shares were issued pursuant to the exercise of options by employees under the Company's 2017 CSOP Scheme, taking the total number of Ordinary Shares in issue to 20,950,176.

Lapsed options

On 29 July 2020 options over 7,324 ordinary shares due to Directors and Senior Management under the Company's 2017 CSOP Scheme lapsed as the performance criteria had not been met.

Options granted

On 1 September 2020 options over a total of 2,352 ordinary shares were granted to four employees under the Company's CSOP scheme.

16 Related party transactions

There were no significant related party transactions during the six months to 30 September 2020 (H1 FY20: none).

17 Takeover Code – rebuttal of presumption of concertedness

It has been agreed with The Takeover Panel that Andrew Wass, Chief Executive Officer and the Company's largest shareholder with 7,161,993 Ordinary Shares (34.2% of the Company's voting rights), is not considered to be acting in concert with Gareth Bevan (Chief Commercial Officer), Dean Murray (Non-Executive Director) and Chris Scott (Chief Financial Officer), each of whom has been a shareholder in the Company since prior to its IPO in 2015.