16 November 2021

Gear4music (Holdings) plc
Interim results for the six months ended 30 September 2021

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 2021 ("the Period").

Highlights:

£m	**6-months ended 30 Sept 2021 ('FY22 H1')**	6-months ended 30 Sept 2020 ('FY21 H1')	6-months ended 30 Sept 2019 ('FY20 H1')	**Change on FY21 H1**	Change on FY20 H1
Revenue	**64.7**	70.2	49.4	**-8%**	+31%
Gross profit	**18.1**	20.1	12.5	**-10%**	+45%
Gross margin	**28.0%**	28.6%	25.2%	**-60bps**	+280bps
EBITDA	**4.8**	8.5	2.0	**-£3.7m**	+£2.8m
Operating profit	**2.4**	6.4	0.2	**-£4.0m**	+£2.2m
Net profit/(loss)	**1.1**	4.9	(0.1)	**-£3.8m**	+£1.2m

- FY22 H1 Revenues and Profits in-line with Board expectations
- Gross margins remain strong reflecting continued focus on higher margin products
- EBITDA of £4.8m is £3.7m lower than an exceptional FY21 H1 as expected due to the impact of Covid, but £2.8m higher than the more comparable period in FY20 H1
- FY22 Q3 revenue to date slower than expected due to on-going Brexit related supply chain challenges, leading the Board to revise FY22 full year EBITDA guidance to not less than £12m (FY21 EBITDA: £18.9m, FY20: £7.8m)
- Sustained improvement in operational performance with enhanced website conversion, average order value and active customers
- Acquisition of AV Distribution Ltd due to complete in December 2021; significant growth opportunity identified

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

"I am pleased to report that following the exceptional period of trading during FY21, Group financial performance during FY22 H1 was in-line with the Board's expectations, retaining strong margins and achieving significantly improved profitability compared with the more comparable FY20 H1 trading period.

FY22 Q1 sales were stronger than expected, which provided the basis for the Board to upgrade its expectations on 22 June 2021. However, Brexit related supply chain challenges are persisting for longer than we had previously anticipated, and European Q3 sales to date have been slower than previously expected. As a result, the Group is trading below FY22 consensus market expectations*, with the Board now expecting that FY22 EBITDA will be not less than £12m.

As our new hubs in Ireland and Spain scale-up to build upon our existing European infrastructure, we are confident that the remaining Brexit related challenges will be resolved by FY22 Q4 and our European customer proposition will be significantly strengthened.

With the acquisition of AV Distribution Ltd due to complete in December 2021 followed by the launch of AV.com in January 2022, which will significantly increase our addressable market size, alongside multiple planned upgrades to our E-Commerce platform during FY23, we remain confident in our profitable growth strategy."

** Gear4music believes that consensus market expectations for the year ending 31 March 2022 (i) prior to release of this announcement are currently revenue of £156.6 million and EBITDA of £14 million; and (ii) before 22 June 2021 were revenues of £152.3 million and EBITDA of £11.5 million.*

Gear4music will issue a trading statement on 20 January 2022.

Investor presentation
Andrew Wass, Chief Executive Officer, and Chris Scott, Chief Financial Officer, will provide a live presentation relating to the results on 17 November 2021 at 4.30pm GMT.

The presentation is open to all existing and potential shareholders. Investors can sign up to Investor Meet Company for free and add themselves to the meeting via: https://www.investormeetcompany.com/gear4music-holdings-plc/register-investor.

Investors who already follow Gear4music on the Investor Meet Company platform will be automatically invited.

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About Gear4music.com

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

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

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

Business Review

The business reports the Group's results for the six months to 30 September 2021, and updates on the strategic and commercial progress made in the Period.

Strategy

As previously reported our FY21 results were exceptional, as store-based competitors were adversely impacted by COVID lockdowns, and e-commerce transactions significantly increased as people took up activities in which to participate whilst spending more time at home. Gross margins also increased as prices were managed relative to stock levels, and marketing returns particularly in FY21 Q1 were strong as marketing was curtailed to manage already high levels of demand, and we transformed our distribution centres to be COVID-secure.

The UK leaving the EU on 1 January 2021 brought a number of cross-border challenges that have impacted our business, manifesting in a decline of European sales that would previously have been fulfilled from our UK distribution centre. Complementing our existing Swedish and German hubs and to address these issues more substantially and improve our European customer proposition, we opened Irish and Spanish distribution centres in September 2021, which will be fully operational by FY22 Q4.

We continue to deliver on our commitment to sustain strong gross margins, and our FY22 H1 gross margin of 28.0% compares favourably to an exceptional 28.6% in FY21 H1, and 25.2% in FY20 H1.

In FY21 a significant proportion of our software development resource was focused on preparing for Brexit, and in FY22 this resource was redeployed to work on growth-related projects, preparing to integrate AV Distribution Ltd, and launching AV.com.

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

	FY22 H1	FY21 H1	FY20 H1	**Change on FY21 H1**	Change on FY20 H1
Revenue	**£64.7m**	£70.2m	£49.4m	**-8%**	+31%
Total unique website users	**13.5m**	15.2m	13.4m	**-11%**	+1%
Mobile site unique users (inc. tablet)	**8.7m**	8.8m	8.6m	**-1%**	+1%
Conversion rate	**4.00%**	3.90%	3.02%	**+10bps**	+98bps
Average order value	**£128**	£117	£120	**+9%**	+6%
Active customers *	**993,000**	954,000	773,000	**+4%**	+28%
Proportion of repeat customers **	**24.4%**	24.9%	26.9%	**-50bps**	-250bps
Email subscriber database	**725,000**	708,000	717,000	**+2%**	+1%
Trustpilot rating	**4.8/5**	4.8/5	4.8/5	**-**	-

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

Revenue in the Period totalled £64.7m, £5.5m (8%) lower than the exceptional FY21 H1, and £15.3m (31%) ahead of a more normal FY20 H1 trading period. UK revenue was flat on FY21 H1 and international revenue down 16% largely due to a fall-off in European orders as a result of the on-going disruption caused to supply chains and order fulfilment post-Brexit. The Group continues to actively monitor and manage the evolving situation and, outside of our existing sites in Sweden and Germany, the setting-up and rapid scaling of our new Irish and Spanish distribution centres will further localise and enhance our customer offer, and are expected to remedy the current challenges in FY22 Q4 and beyond.

Website user numbers decreased by 11% to 13.5m year-on-year, with visitors to the UK site decreasing by 5% and visitor numbers to the Group's 19 international websites decreasing by 15%.

Organic and direct website traffic accounted for 38% of total visitors (FY21 H1: 42%; FY20 H1: 38%) as the growth in mobile continues, and competition for screen space increases the relevance of 'Pay-per-Click' ('PPC'). In line with our stated strategy, improved PPC returns were maintained above pre-FY21 levels and marketing spend equated to 6.9% of sales compared to an exceptional 5.3% last year that reflected a lower PPC spend to manage capacity during COVID lockdowns, and 8% in FY20 H1 and 8.2% in FY19 H1.

The increasing prominence of mobile continues to be a key theme with the proportion of users from this channel increasing from 58% last year to 65% of all users this year (FY20 H1: 65%), with last year's temporary decrease reflecting COVID lockdown and an associated rise in desktop use. Mobile website development remains an important focus area for the Group.

Conversion rates improved again from 3.9% last year to 4.0% (FY20 H1: 3.0%) reflecting an on-going targeted, higher return approach to marketing, and less people browsing. Conversion in the UK improved from 6.1% last year to 6.4% (FY20 H1: 4.8%) whilst European conversion decreased from 2.6% to 2.4% (FY20 H1: 2.1%). Mobile conversion fell from 2.6% to 2.3% (FY20 H1: 2.0%).

The Group served 404,000 customers in the Period (-16%) through its websites and Active customers, being those that have purchased products within the last 12 months, increased by 4% reflecting a strong FY21 H2. The proportion of repeat customers was 24.4% (FY21 H1: 24.9%; FY20 H1: 26.9%) reflecting the 328,000 new customers that purchased during the Period. The level of repeat custom reflects the Group's product range and high average order value, and re-affirms the important differentiator that the Group is profitable from the first customer transaction.

The number of subscribers on our email database increased to 725,000 (+2%). Further segmentation improvements to our email retargeting platform are being developed with the objective of increasing the number of repeat customers.

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 and 'Excellent' rating from over 97,000 reviews.

The Group invested £2.0m in its e-commerce platform in the Period (FY21 H1: £1.4m; FY20 H1: £1.4m) which included on-going Brexit related projects, and work ahead of the integration of the soon to be acquired AV business. Deployments in the Period included:

- Additional hubs launched in Spain and Ireland
- AV.com site and system construction – most systems ready
- Moved to a new card payment system providing better security and 3D Secure V2

- Partial deployments for 3rd-party drop shipping and 2nd hand platform systems, ahead of coming online next year
- Upgrading the platform to PHP v7.4

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

Supply Chain Evolution

	FY22 H1	FY21 H1	FY20 H1	**Change on FY21 H1**	Change on FY20 H1
Own-brand product sales	**£15.3m**	£18.4m	£12.9m	-17%	+19%
Other brand product sales	**£46.2m**	£48.4m	£34.4m	-4%	+34%
Product margin	**32.0%**	32.8%	29.6%	-80bps	+240bps
Products listed	**60,500**	55,200	52,700	+10%	+15%
Brands listed	**951**	894	889	+6%	+6%

Retaining strong gross margins remains a key business objective, and much of last year's improvement has been retained with gross margin in the Period of 28.0% compared to 28.6% last year, and 25.2% in FY20 H1.

Product margins decreased 80bps from 32.8% to 32.0% (FY20 H1: 29.6%), reflecting a 30bps decrease in both own-brand and other-brand product margins, and a sales mix effect as own-brand sales accounted for 24.9% of total product sales compared to 27.6% last year (FY20 H1: 27.3%; FY19 H1: 21.9%).

The number of SKUs listed increased from 55,200 at 30 September 2020 to 57,900 at 31 March 2021 and 60,500 at 30 September 2021, representing a net 15% increase in 12 months.

The number of own-brand products increased from 3,600 at 30 September 2020 to 3,900 at 30 September 2021, with own-brand revenue accounting for 24.9% of total product sales from just 6.5% of SKUs reflecting the effort expended in developing our range of high-quality instruments and equipment at affordable prices. New products continue to be developed and during the Period we launched:

- A large range of SubZero, RedSub & Hartwood guitar & bass amplifiers
- A range of SubZero Guitar Pedals
- 18x SubZero speakers & PA systems
- DP-12 Digital Pianos
- DD500 Range of Digital Drum Kits
- sideKIK Personal Musician's Amp
- VISIONKEY Keyboards

Progress continues to be made in developing the Premier brand that we acquired earlier in the year, with the imminent launch of Premier digital drum kits. We have also been shaping the future of Premier Acoustic Drum Kits with several exciting new ranges due to launch Summer/Autumn 2022 to coincide with Premier's centenary celebrations.

We have deliberately and significantly increased stock by £8.7m (30%) from £28.7 million at 30 September 2020, to £37.5 million, to put the business in a strong position heading into peak trading, and as a precautionary measure against potential supply chain issues and increased container costs.

International Expansion

Although we were well prepared ahead of Brexit, the cost, administrative burden and time to deliver products to our European customers from the UK significantly increased as a result of the Brexit deal announced on 24 December 2020, causing our overall customer proposition to decline across these cross-border SKUs.

To help mitigate these challenges, we further scaled and invested into stock in our Swedish and German distribution centres, and in September 2021 added 15,000 square feet of distribution space in Ireland and 45,000 square feet in Spain. Whilst factored into our expectation, the impact on FY22 H1 revenue was significant with a marked decline in cross UK-EU border sales.

These operational challenges have continued to impact our business post period end. However, in line with strategy we now have a European distribution infrastructure capable of handling over £120m of sales per annum meaning that the Group remains well positioned to capitalise on the medium-term growth opportunity.

Current trading and outlook

As planned, our new European hubs in Ireland and Spain became operational in September, but due to some short-term supply chain challenges, these new hubs are taking longer to scale-up than we originally anticipated. As a result, ongoing Brexit related challenges are impacting for longer than we had hoped, and our European Q3 sales to date have been lower than previously expected. As such the Board believes that results for the financial year will be lower than recently upgraded consensus market expectations.

The Board is confident that the Group now has the European infrastructure to resolve these issues, and further localise and improve our customer proposition in mainland Europe.

The acquisition of AV Distribution Ltd is expected to complete in December 2021 and the launch of AV.com in January 2022, alongside planned upgrades to our e-Commerce platform during FY23, provides the Board with the basis for reiterating its confidence in the Group's growth strategy.

The Group will issue a Christmas trading update on 20 January 2022.

Financial Review

	FY22 H1	FY21 H1	FY20 H1	**Change on FY21 H1**	Change on FY20 H1
Revenue	**£64.7m**	£70.2m	£49.4m	**-8%**	+31%
Gross profit	**£18.1m**	£20.1m	£12.5m	**-10%**	+45%
Gross margin	**28.0%**	28.6%	25.2%	**-60bps**	+280bps
EBITDA	**£4.8m**	£8.5m	£2.0m	**-£3.7m**	+£2.8m
EBITDA margin	**7.4%**	12.1%	4.0%	**-470bps**	+340bps
Operating profit	**£2.4m**	£6.4m	£0.2m	**-£4.0m**	+£2.2m
Marketing costs	**£4.4m**	£3.7m	£3.9m	**+19%**	+13%
Marketing costs as % of revenue	**6.9%**	5.3%	8.0%	**+160bps**	-110bps
Total Labour costs	**£6.1m**	£5.5m	£4.7m	**+11%**	+30%
Total Labour costs as % of revenue	**9.4%**	7.8%	9.4%	**+160bps**	-
Cash	**£3.6m**	£5.4m	£3.4m	**-£1.8m**	+£0.2m
Net bank debt	**£13.4m**	£5.7m	£9.7m	**+£7.7m**	+£3.7m

Revenue

Revenue in the six months to 30 September 2021 decreased by 8% on a COVID-boosted exceptional trading period last year, when revenue increased by 42%. FY22 H1 revenue of £64.7m was £15.3m (31%) ahead of a more normal FY20 H1 trading period.

Revenue from the UK market was maintained at £36.7m taking our estimated share of the UK market to 8.9% (FY21 H1 estimate: 8.6%).

Revenue into international markets has been hampered by Brexit related factors and decreased by £5.5m (16%) to £28.0m (FY20 H1: £24.6m), accounting for 43% of Group revenue compared to 48% in FY21 H1 and 50% in FY20 H1.

Gross Profit

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

Gross profit decreased by £2.0m (10%) from the exceptional £20.1m last year, to £18.1m, as the Group sought to retain much of the FY21 H1 gross margin improvement, with an FY22 H1 margin of 28.0% being just 60bps down on last year.

Operating Profit and Administrative Expenses

Operating profit of £2.4m represents a £4.0m decrease on an exceptional FY21 H1, reflecting a £2.0m decrease in gross profit driven by lower revenue, and a £2.0m increase in administrative costs.

The increase in administrative costs of £2.0m (15%) includes a £0.7m (19%) increase in marketing costs, a £0.6m (11%) increase in labour costs, a £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 cost base, accounting for a combined 67% of total administrative expenses in the Period (FY21 H1: 67%).

In FY21, H1 marketing costs as a percentage of revenue reached 5.3% compared to 6.9% in FY22 H1, with expenditure in the prior period restricted particularly in FY21 Q1 to help manage capacity as new health and safety measures were introduced into our warehouses. FY22 H1 has been a more 'normal' trading period with a focus on maintaining a strong, pre-defined return on investment.

Total labour costs increased by £0.6m (11%) on last year reflecting pay increases, recruitment to respond to Brexit, and the full-year effect of FY21 new hires.

European distribution centre local administrative expenses increased by £0.3m (24%) on FY21 H1, to £2.0m.

Depreciation and amortisation in the Period totalled £2.4m (FY21 H1: £2.1m) including £1.1m (FY21 H1: £0.9m) of amortisation relating to our bespoke e-commerce platform, and £0.6m depreciation of 'Right of Use' assets (FY21 H1: £0.6m).

Net Profit

Financial expenses of £0.5m include £0.2m bank interest (FY21 H1: £0.1m), £0.2m interest on lease liabilities (FY20 H1: £0.2m), and a small foreign exchange loss (FY21 H1: £0.3m loss).

Net profit of £1.1m (FY21 H1: £4.9m; FY20 H1: £0.1m loss) represents a good result to take into the second half of the financial year. The business reported a net profit in every month in FY22 H1.

Cash Flow and Balance Sheet

September generally represents a low point in the annual cash cycle as stock builds ahead of the peak Christmas trading period, and this has been amplified in response to potential supply chain issues. Nevertheless, net bank debt of £13.4m (30 September 2020: £5.7m), leaves headroom of £21.6m including £18m within the Group's £35m RCF three-year committed Revolving Credit Facility ('RCF') with HSBC Bank plc.

In the Period the business has utilised its debt facility to significantly invest in stock (+£8.7m), make £4.7m of brand and domain acquisitions (AV.com domain £3.0m; Premier business and certain assets £1.7m), and invest £2.0m in software development.

The carrying value of stock at 30 September 2021 was £37.5m (30 September 2020: £28.7m) including £6.2m of inbound stock-in-transit (30 September 2020: £5.1m) arriving ahead of peak trading.

Trade and other payables decreased from £18.7m last year to £15.6m as stock was brought in and suppliers paid earlier, and includes the associated liability for the £6.2m of inbound stock-in-transit (30 September 2020: £5.1m).

Capitalised software development costs totalled £2.0m in the Period taking total spend to date to £15.5m. Amortisation in the Period was £1.1m leading to a £0.9m increase in net book value since the start of the financial year.

Property, plant and equipment capital expenditure was £0.7m in the Period (FY21 H1: £0.5m), relating principally to the new Irish and Spanish distribution centres.

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 2021 (unaudited) £000**	6 months ended 30 September 2020 (unaudited) £000	Year ended 31 March 2021 (audited) £000
Revenue	*3*	**64,694**	70,217	157,451
Cost of sales		**(46,573)**	(50,121)	(111,097)
Gross profit		**18,121**	20,096	46,354
Administrative expenses	*4*	**(15,728)**	(13,685)	(30,945)
Operating profit	*4*	**2,393**	6,411	15,409
Financial expenses	*6*	**(463)**	(660)	(770)
Profit before tax		**1,930**	5,751	14,639
Taxation	*7*	**(850)**	(802)	(1,998)
Profit for the period		**1,080**	4,949	12,641
Other comprehensive income				
Items that will not be reclassified to profit or loss:				
Deferred tax movements		**(120)**	-	8
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation differences – foreign operations		**(36)**	(8)	(17)
Total comprehensive income for the period		**924**	4,941	12,632
Profit per share attributable to equity shareholders of the company				
Basic profit per share	*5*	**5.2p**	23.6p	60.3p
Diluted profit per share	*5*	**5.1p**	23.4p	59.7p

Unaudited consolidated interim statement of financial position

	Note	**30 September 2021 (unaudited)**	30 September 2020 (unaudited)	31 March 2021 (audited)
		£000	£000	£000
Non-current assets				
Property, plant and equipment	*8*	**11,289**	11,125	11,190
Right of use assets	*9*	**8,953**	8,743	7,871
Intangible assets	*10*	**15,901**	9,585	10,395
		36,143	29,453	29,456
Current assets				
Inventories	*11*	**37,452**	28,732	28,430
Trade and other receivables	*12*	**3,317**	4,453	3,647
Cash and cash equivalents		**3,648**	5,434	6,203
		44,417	38,619	38,820
Total assets		**80,560**	68,072	67,736
Current liabilities				
Interest bearing loans and borrowings	*13*	**-**	(7,520)	(575)
Trade and other payables	*14*	**(15,591)**	(18,675)	(18,938)
Lease liabilities	*15*	**(1,158)**	(1,184)	(1,099)
		(16,749)	(27,379)	(20,612)
Non-current liabilities				
Interest bearing loans and borrowings	*13*	**(17,000)**	(3,166)	(2,901)
Other payables	*14*	**(78)**	(124)	(110)
Lease liabilities	*15*	**(9,221)**	(9,205)	(8,315)
Deferred tax liability		**(2,206)**	(1,589)	(1,486)
		(28,505)	(14,084)	(12,812)
Total liabilities		**(45,254)**	(41,463)	(33,424)
Net assets		**35,306**	26,609	34,312
Equity				
Share capital		**2,098**	2,095	2,095
Share premium		**13,286**	13,165	13,165
Foreign currency translation reserve		**(87)**	(42)	(51)
Revaluation reserve		**1,640**	1,674	1,640
Retained earnings		**18,369**	9,717	17,463
Total equity		**35,306**	26,609	34,312

Unaudited consolidated interim statement of cash flows

	Note	**6 months ended 30 September 2021 (unaudited) £000**	6 months ended 30 September 2020 (unaudited) £000	Year ended 31 March 2021 (audited) £000
Cash flows from operating activities				
Profit for the period:		**1,080**	4,949	12,641
Adjustments for:				
Depreciation and amortisation	*8-10*	**2,424**	2,100	4,372
Financial expense	*6*	**425**	322	770
Profit on sales of property, plant and equipment		**(8)**	-	(4)
Share-based payment (credit)/charge		**(54)**	46	64
Tax expense	*7*	**850**	802	1,998
		4,717	8,219	19,841
Increase/(decrease) in trade and other receivables		**916**	(1,952)	(1,181)
Increase in inventories		**(9,022)**	(6,717)	(6,415)
(Decrease)/increase in trade and other payables		**(1,533)**	3,917	2,687
		(4,922)	3,467	14,932
Tax paid		**(2,535)**	(92)	(37)
Net cash from operating activities		**(7,457)**	3,375	14,895
Cash flows from investing activities				
Proceeds from sales of property, plant and equipment		**57**	-	14
Acquisition of property, plant and equipment	*8*	**(738)**	(467)	(1,166)
Acquisition of intangible assets	*10*	**(3,013)**	-	-
Acquisition of a business (net of cash acquired)	*10*	**(1,685)**	-	-
Capitalised development expenditure	*10*	**(1,996)**	(1,433)	(3,186)
Payment of deferred consideration		**-**	(200)	(200)
Net cash from investing activities		**(7,375)**	(2,100)	(4,538)
Cash flows from financing activities				
Cash from share issue		**-**	13	13
Proceeds from new borrowings	*13*	**17,000**	-	29
Repayment of borrowings		**(3,476)**	(2,702)	(9,948)
Interest paid (including lease interest)	*6*	**(427)**	(319)	(692)
Lease payments		**(784)**	(664)	(1,379)
Net cash from financing activities		**12,313**	(3,672)	(11,977)
Net decrease in cash and cash equivalents		**(2,519)**	(2,397)	(1,620)
Cash and cash equivalents at beginning of period		**6,203**	7,839	7,839
Foreign exchange movement		**(36)**	(8)	(16)
Cash and cash equivalents at end of period		**3,648**	5,434	6,203

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 2021	**2,095**	**13,165**	**(51)**	**1,640**	**17,463**	**34,312**
Profit for the period	-	-	-	-	1,080	**1,080**
Other comprehensive income	-	-	(36)	-	-	**(36)**
Deferred tax adjustment	-	-	-	-	(120)	**(120)**
Issue of shares net of expenses	3	121	-	-	-	**124**
Share based payments charge	-	-	-	-	(54)	**(54)**
Balance at 30 September 2021	**2,098**	**13,286**	**(87)**	**1,640**	**18,369**	**35,306**

	Share capital £000	Share premium £000	Foreign currency translation reserve £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 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 2020	2,095	13,152	(34)	1,674	4,722	21,609
Profit for the year	-	-	-	-	12,641	12,641
Other comprehensive income	-	-	(17)	-	10	(7)
Deferred tax adjustment – timing difference	-	-	-	-	(8)	(8)
Issue of shares net of expenses	-	13	-	-	-	13
Share based payments charge	-	-	-	-	64	64
Depreciation transfer	-	-	-	(34)	34	-
Balance at 31 March 2021	2,095	13,165	(51)	1,640	17,463	34,312

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'). In the six-month period ended 30 September 2021 Gear4music Limited set-up a 100% owned Irish subsidiary ('Gear4music Ireland Limited) and a 100% owned Spanish subsidiary ('Gear4music Spain S.L.'). The Group also has 100% owned dormant subsidiaries in the UK ('Cagney Limited') and in Norway ('Gear4music Norway').

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

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

1 Accounting policies

Basis of preparation

The unaudited consolidated interim financial information has been prepared under the historical cost convention, except for land and buildings that are stated at their fair value, and in accordance with the recognition and measurement requirements of 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 2021, 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 2021, as detailed on pages 62 to 67 of the Group's Annual Report and Financial Statements for the year ended 31 March 2021, a copy of which is available on the Group's website, www.gear4musicplc.com.

The comparative financial information contained in the condensed consolidated financial information in respect of the year ended 31 March 2021 has been extracted from the 2021 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 2021.

Notes to the Interim Financial Information (continued)

Going concern

The Group's business activities and position in the market are described in detail in the Strategic Report included on pages 1 to 39 of the Group's 2021 Annual Report and Financial Statements

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

The financial year ended 31 March 2021 was a period of exceptionally strong trading and the Group reported a further strengthened balance sheet with net assets of £34.3m (31 March 2020: £21.6m), and net cash at the year-end of £2.7m (31 March 2020: net debt of £5.5m).

The Group's policy is to ensure that it has sufficient facilities to cover its future funding requirements. On 21 April 2021 the Group secured a £35m three-year committed Revolving Credit Facility with its bankers, HSBC. At 30 September 2021 the Group had net debt of £13.4m and £21.6m of headroom including £18m within its facilities. This significant headroom has been factored into the Directors going concern assessment.

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

There is a diverse supply chain with no key dependencies.

Having duly considered all of these factors and having reviewed the forecasts for the 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 2022 to be unchanged from those set out in the group's Annual Report and Financial Statements for the year ended 31 March 2021, and can be summarised as:

- Impact of the UK having left the EU
- COVID-19
- Change management of rapid growth, new markets and/or mergers and acquisitions
- Management of Warehousing and Distribution
- IT and Cyber reliability
- Brand and proposition
- Competition
- Supplier relationships
- Dependence on key personnel

These are set out in detail on pages 32 to 35 of the Group's Annual Report and Financial Statements for the year ended 31 March 2021, a copy of which is available on the Group's Plc website, www.gear4musicplc.com.

Notes to the Interim Financial Information (continued)

3 Segmental analysis

Revenue by Geography:

	6 months ended 30 September 2021 £000	6 months ended 30 September 2020 £000	Year ended 31 March 2021 £000
UK	**36,704**	36,686	78,690
Europe and Rest of the World	**27,990**	33,531	78,761
	64,694	70,217	157,451

Administrative Expenses by Geography:

	6 months ended 30 September 2021 £000	6 months ended 30 September 2020 £000	Year ended 31 March 2021 £000
UK	**13,685**	12,034	27,109
Europe and Rest of the World	**2,043**	1,651	3,836
	15,728	13,685	30,945

Revenue by Product Category:

	6 months ended 30 September 2021 £000	6 months ended 30 September 2020 £000	Year ended 31 March 2021 £000
Other-brand products	**46,228**	48,353	104,199
Own-brand products	**15,339**	18,428	45,368
Carriage income	**2,757**	3,042	7,135
Warranty income	**246**	268	545
Other	**124**	126	204
	64,694	70,217	157,451

Notes to the Interim Financial Information (continued)

4 Expenses and other income

Included in profit/loss are the following:

	6 months ended 30 September 2021 £000	6 months ended 30 September 2020 £000	Year ended 31 March 2021 £000
Depreciation of property, plant and equipment	**590**	561	1,185
Depreciation of right-of-use assets	**646**	607	1,219
Amortisation of intangible assets	**1,188**	932	1,968
Amortisation of government grants	**4**	3	11
Profit on disposal of property, plant and equipment	**(8)**	-	(4)
R&D expenditure recognised as an expense	**102**	73	155

	6 months ended 30 September 2021 £000	6 months ended 30 September 2020 £000	Year ended 31 March 2021 £000
Other income	**350**	329	688

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 2021	6 months ended 30 September 2020	Year ended 31 March 2021
Profit attributable to equity shareholders of the parent (£'000)	**1,080**	4,949	12,641
Basic weighted average number of shares	**20,958,821**	20,947,015	20,948,595
Dilutive potential ordinary shares	**193,452**	218,299	218,033
Diluted weighted average number of shares	**21,152,273**	21,165,314	21,166,628
Basic profit per share	**5.2p**	23.6p	60.3p
Diluted profit per share	**5.1p**	23.4p	59.7p

Notes to the Interim Financial Information (continued)

6 Finance expenses

	6 months ended 30 September 2021 £000	6 months ended 30 September 2020 £000	Year ended 31 March 2021 £000
Bank interest	**201**	109	196
IFRS16 lease interest	**193**	210	403
Net foreign exchange loss	**38**	338	161
Net fair value movements	**31**	3	10
Total finance expense	**463**	660	770

7 Taxation

	6 months ended 30 September 2021 £000	6 months ended 30 September 2020 £000	Year ended 31 March 2021 £000
Current tax expense	**249**	620	1,919
Deferred tax expense	**601**	182	86
Total tax expense	**850**	802	2,005

The deferred tax liability has been increased by £721,000 to £2,206,000. The £721,000 movement consists of a P&L charge of £601,000 and a £120,000 charge to other comprehensive income. The increase in the deferred tax liability is due to a restatement of deferred tax liabilities relating to the freehold revaluation, from the rate it was initially included at, to the tax rate substantively enacted at the Balance Sheet date, and the acceleration of tax relief for intangible assets as a result of an R&D claim. The claim results in an R&D tax credit.

The corporation tax rate applicable to the company was 19% in the period to 30 September 2021. An increase in the corporation tax rate to 25% with effect from 1 April 2023 was substantively enacted in legislation on 24 May 2021. Therefore, the company's deferred tax assets and liabilities at 30 September 2021 have been recognised / provided at that rate.

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 2020	7,500	1,688	5,238	62	1,015	15,503
Additions	-	159	461	-	79	699
Disposals	-	-	-	(32)	-	(32)
Balance at 31 March 2021	7,500	1,847	5,699	30	1,094	16,170
Additions	-	185	470	-	83	738
Disposals	-	(61)	-	-	-	(61)
Balance at 30 September 2021	**7,500**	**1,971**	**6,169**	**30**	**1,177**	**16,847**
Depreciation						
Balance at 1 October 2020	75	1,079	2,499	39	686	4,378
Charge for the period	75	143	321	2	83	624
Disposals	-	-	-	(22)	-	(22)
Balance at 31 March 2021	150	1,222	2,820	19	769	4,980
Charge for the period	75	176	256	1	82	590
Disposals	-	(12)	-	-	-	(12)
Balance at 30 September 2021	**225**	**1,386**	**3,076**	**20**	**851**	**5,558**
Net book value as at 30 September 2021	**7,275**	**573**	**3,093**	**10**	**338**	**11,289**
Net book value as at 31 March 2021	7,350	625	2,879	11	325	11,190
Net book value as at 30 September 2020	7,425	609	2,739	23	329	11,125

9 Right-of-use Assets

Leasehold properties

At 31 March 2021 the Group had four leased properties: Distribution centres and showrooms in York, Sweden and Germany, and a software development office in Manchester).

In August 2021 the Group added an Irish property lease for a new distribution centre, and in September 2021 added a Spanish property lease for a new distribution centre.

As at 30 September 2021 the associated right of use assets are as follows:

	Land and Buildings
	£000
Cost	
Balance at 1 October 2020	10,566
Foreign exchange movement	(261)
Balance at 31 March 2021	10,305
Foreign exchange movement	14
Additions	1,714
Balance at 30 September 2021	**12,033**
Depreciation	
Balance at 1 October 2020	1,823
Charge for the period	611
Balance at 31 March 2021	2,434
Charge for the period	646
Balance at 30 September 2021	**3,080**
Net book value as at 30 September 2021	**8,953**
Net book value as at 31 March 2021	7,871
Net book value as at 30 September 2020	8,743

Notes to the Interim Financial Information (continued)

10 Intangible assets

	Goodwill £000	Software platform £000	Brand £000	Domain names £000	Total £000
Cost					
Balance at 1 October 2020	1,848	13,494	564	-	15,906
Additions	-	1,753	93	-	1,846
Balance at 31 March 2021	1,848	15,247	657	-	17,752
Additions	-	1,996	-	-	1,996
Additions by acquisition	1,525	-	160	3,013	4,698
Balance at 30 September 2021	**3,373**	**17,243**	**817**	**3,013**	**24,446**
Amortisation					
Balance at 1 October 2020	-	5,838	483	-	6,321
Amortisation for the period	-	1,008	28	-	1,036
Balance at 31 March 2021	-	6,846	511	-	7,357
Amortisation for the period	-	1,081	32	75	1,188
Balance at 30 September 2021	**-**	**7,927**	**543**	**75**	**8,545**
Net book value as at 30 September 2021	**3,373**	**9,316**	**274**	**2,938**	**15,901**
Net book value as at 31 March 2021	1,848	8,401	146	-	10,395
Net book value as at 30 September 2020	1,848	7,656	81	-	9,585

Acquisitions

On 21 June 2021 the Group completed the acquisition of the ‘Premier’ drum and percussion brand, business and certain assets from Premier Music International Limited and High House 123 Limited liability partnership, for £1.685m.

On 15 July 2021 the Group acquired the AV.com domain name for £3.01m. Domain names are being amortised over 10-years.

On completion of the Group’s acquisition of AV Distribution Limited which is expected in December 2021, Management will commission independent reporting accountants to assist their assessment of the fair values of the assets and liabilities acquired, intangible assets recognised and the associated goodwill arising from all the acquisitions in the year. The information required to be disclosed under IFRS 3 will be included in the Group’s Financial statements for the year ending 31 March 2022.

Notes to the Interim Financial Information (continued)

11 Inventories

	30 September 2021 £000	30 September 2020 £000	31 March 2021 £000
Finished goods	**37,452**	28,732	28,430

The cost of inventories recognised as an expense and included in cost of sales in the period ended 30 September 2021 amounted to £42.6m (30 September 2020: £45.5m).

Inventories include £6.2m of predominantly Own-brand stock-in-transit (30 September 2020: £5.1m) from Far East manufacturers.

12 Trade and other receivables

	30 September 2021 £000	30 September 2020 £000	31 March 2021 £000
Trade receivables	**1,099**	3,554	1,579
Prepayments	**2,218**	899	2,068
	3,317	4,453	3,647

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.

Notes to the Interim Financial Information (continued)

13 Interest bearing loans and borrowings

	30 September 2021 £000	30 September 2020 £000	31 March 2021 £000
Non-current liabilities			
Bank loans	**17,000**	3,166	2,901
	17,000	3,166	2,901
Current liabilities			
Bank loans	**-**	7,520	575
	-	7,520	575
Total liabilities			
Bank loans	**17,000**	10,686	3,476
	17,000	10,686	3,476

On 21 April 2021 the Group entered into a £35m Revolving Credit facility with HSBC. This replaced the commercial property loans and import loan facility operated prior to this date. The facility expires in April 2024 and is secured by a debenture over the Group's assets.

Notes to the Interim Financial Information (continued)

14 Trade and other payables

	30 September 2021 £000	30 September 2020 £000	31 March 2021 £000
Current			
Trade payables	**10,013**	13,887	11,390
Accruals and deferred income	**2,985**	1,847	3,033
Deferred consideration	**24**	-	24
Government grants	**-**	7	7
Other creditors including tax and social security	**2,569**	2,934	4,484
	15,591	18,675	18,938
Non-current			
Accruals and deferred income	**9**	117	38
Deferred consideration	**69**	-	69
Government grants	**-**	7	3
	78	124	110

Accruals at 30 September 2021 include £9,000 (2020: £118,000) relating to the estimated cash bonuses accrued relating to the CSOP schemes.

Deferred consideration

On 10 March 2021 the Group acquired the Eden brand and associated assets from Marshall Amplification plc for £140,000 of which £100,000 is deferred and payable in four equal instalments of £25,000 on the first, second, third and fourth anniversary of the completion date. These amounts are valued in the accounts at fair value and subsequently amortised.

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

15 Leases

The Group has leases for plant and machinery (£0.1m) and six properties (£10.3m).

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 2021 £000	30 September 2020 £000	31 March 2021 £000
Current	**1,158**	1,184	1,099
Non-current	**9,221**	9,205	8,315
	10,379	10,389	9,414

Notes to the Interim Financial Information (continued)

16 Share based payments

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

Exercised options

On 30 July 2021 5,312 ordinary shares were issued pursuant to the exercise of options by 39 employees under the Company's 2018 CSOP Scheme, taking the total number of Ordinary Shares in issue to 20,955,488.

On 3 August 2021 21,450 ordinary shares were issued pursuant to exercise of options by employees under the Company's LTIP, including awards of 6,825 and 5,850 Ordinary Shares to Gareth Bevan and Chris Scott, taking their shareholdings to 91,585 and 80,690 Ordinary shares respectively. Andrew Wass's entitlement was exercised and settled in a cash award of £55,575.

These awards represented a combined dilution of 0.1%.

Options granted

On 6 August 2021 options over a total of 8,649 Ordinary shares were granted to 31 employees under the Company's CSOP scheme.

17 Related party transactions

There were no significant related party transactions during the six months to 30 September 2021 (30 September 2020: none).