



Gear4music (Holdings) plc FY24 H1 Results

Investor Presentation | November 2023

FY24 H1 Overview

PRIORITISING GROSS MARGINS AHEAD OF SALES GROWTH

- Gross margin of 27.1% was 80bps higher than last year (FY23 H1: 26.3%)
 - 3% UK revenue growth a good result given the focus on margin improvement
 - European revenues impacted by a highly competitive market in weak consumer environment
 - 6% total revenue decline to £62.6m reflects the above; still 26% ahead of pre-Covid FY20 H1 revenues
-

FY24 H1 EBITDA INLINE WITH BOARD EXPECTATIONS

- Adjusted EBITDA of £2.9m (FY23 H1: £2.7m)
 - £0.5m one-off redundancy costs
 - £4.0m annualised cash savings implemented during FY24 H1 will benefit FY24 H2 onwards
 - Net debt reduction to £18.1m (FY23 H1: £21.8m, FY22 H1: £24.2m) with further reduction planned
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TRADING OUTLOOK

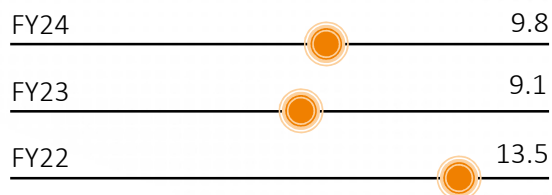
- Market conditions continue to be challenging
- Improved margins and overhead cost reduction strategy is delivering
- Return to stronger profitable growth expected by FY25

FY24 H1 Highlights

WEBSITES

WEBSITE USERS +7%

9.8m



CONVERSION RATE -90BPS

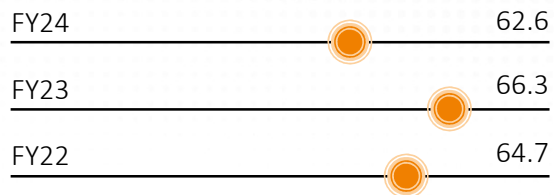
4.0%



SALES

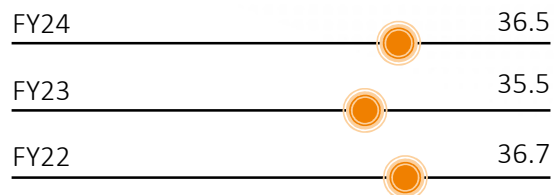
TOTAL REVENUES -6%

£62.6m



UK REVENUES +3%

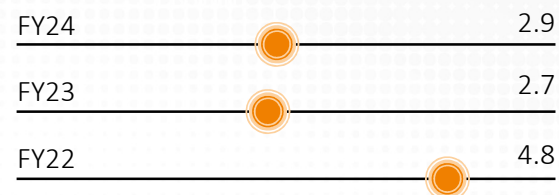
£36.5m



PROFITABILITY

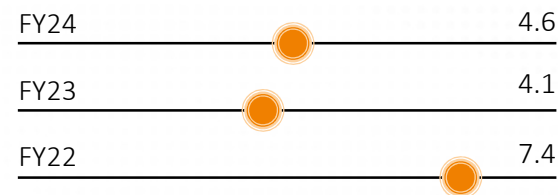
ADJUSTED EBITDA +6%

£2.9m



ADJUSTED EBITDA MARGIN -280BPS

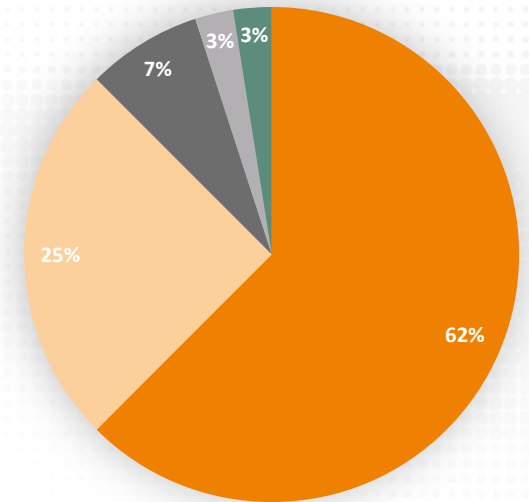
4.6%



Cost saving initiatives

FY24 H1 SAVINGS IMPLEMENTED

- £4.0m annualised cash savings implemented during FY24 H1:
 - Team size reduced by 20% compared with September 2022:
 - £2.5m reduction in software development team annual salaries *(See slide 5)*
 - £1.0m reduction in other annual wages and salaries
 - (One-off non-recurring redundancy costs of £0.5m)
 - £0.5m annualised reduction in other Administrative expenses
 - Includes £0.3m of European payment card processing savings



FY24 H1 SAVINGS



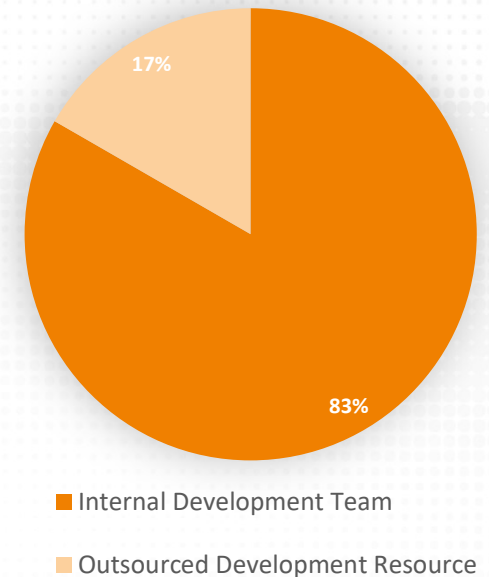
FY24 H2 POTENTIAL SAVINGS

- Marketing spend as a % of sales; AI driven reduction targeted by FY25
- Review of overhead costs & labour ongoing

Development team restructure

FY24 H1 SAVINGS IMPLEMENTED

- £2.5m reduction in annual software development costs:
 - FY23 Internal development team cost: £5.6m
 - Annual internal development team cost estimate from FY24 H2: £2.5m
 - Outsourced annual development cost estimate from FY24 H2: £0.5m
 - Annual P&L direct saving: £0.1m
 - Reduced annual capitalisation: £2.4m



PROJECTS RECENTLY COMPLETED

- Use of AI in creating development code
- Second Hand system: European launch
- European third-party stock fulfilment

PROJECTS CURRENTLY IN DEVELOPMENT

- Second Hand system for AV.com
- AI Purchasing Platform
- Enhanced marketing data for AI systems

FY24 H2 Strategy Overview

FURTHER RECONFIGURATION TO ENHANCE PROFITABILITY FROM FY25

- Additional cost base reductions targeted during FY24 H2
- Continuing product margin improvement
 - Ongoing shift to higher margin SKUs: own-brand, second hand & digital products
- Reduced capital expenditure; no major infrastructure projects planned during FY25
- Development team downsized following completion of recent large projects:
 - Outsourced overseas resources onboarded and adaption of AI technologies to increase productivity
- Further Net Debt reduction
 - Enhanced buying & forecasting inventory management systems
 - Inventory consolidation in China to drive European hub efficiencies

LONGER TERM STRATEGY REMAINS INTACT

- Profitable growth driven by second hand, digital sales, AV.com, own-brand, international expansion



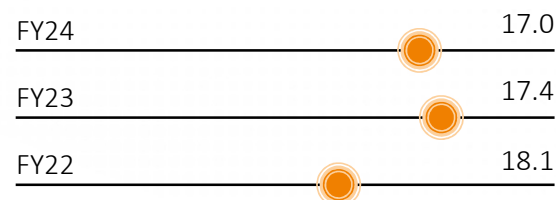
Financial Overview

FY24 H1 Financial Highlights

PROFITABILITY

GROSS PROFIT -2%

£17.0m



FULL YEAR GROSS MARGIN



	FY24 H1		FY23 H1	FY22 H1
	£'000		% of total sales	
Revenue	62,641	100%	66,305	64,694
Gross profit	16,985	27.1%	26.3%	28.0%
European Distribution	(1,679)	(2.7%)	(2.4%)	(2.3%)
Marketing costs	(4,302)	(6.9%)	(6.9%)	(6.9%)
UK labour costs	(5,550)	(8.9%)	(8.6%)	(7.8%)
Other costs	(2,590)	(4.1%)	(4.3%)	(3.6%)
Adjusted EBITDA margin	2,864	4.6%	4.1%	7.4%

Product Margin Analysis

	FY24 H1		FY23 H1	FY22 H1
	£'000	% of total revenue		
Product profit	18,517	29.6%	29.5%	30.4%
Carriage Income	2,484	4.0%	4.0%	4.3%
Carriage & packaging cost	(4,016)	(6.5%)	(7.2%)	(6.7%)
Gross profit	16,985	27.1%	26.3%	28.0%
		Product Margin		
Own brand margin	6,719	44.1%	43.9%	45.7%
Other brand margin	11,798	26.4%	26.9%	27.5%
Total product margin	18,517	30.9%	30.9%	32.0%

- Product margin of 30.9% is flat on FY23 H1 and 150bps higher than FY23 H2 (29.4%) reflecting re-prioritising gross margins ahead of sales growth:
- Own-brand margin 20bps up on FY23 H1 and 410bps on FY23 H2;
- Other-brand margin 50bps down on FY23 H1 and 140bps up on FY23 H2.
- Sales mix effect – Own-brand accounts for 25.4% of product sales compared to 23.6% last year.
- Carriage & packaging costs reduced to 6.5% of sales (FY23 H1: 7.2%) reflecting a 7% increase in AOV, and a higher proportion of cheaper UK-deliveries.

Trading KPIs

6-month period ended	30 Sept 23	30 Sept 22	30 Sept 21
Rate of overall sales growth	(5.5%)	2.5%	(7.9%)
Rate of UK sales growth	3.0%	(3.4%)	0.0%
Rate of International sales growth	(15.4%)	10.2%	(16.5%)
Own-brand sales (£'000)	15,219	14,966	15,339
Own-brand growth	1.7%	(2.4%)	(16.8%)
Other-brand sales (£'000)	44,682	48,364	46,227
Other-brand growth	(7.6%)	4.6%	(4.4%)
Own-brand % of total sales	24.3%	22.6%	23.7%
Marketing costs (£'000)	4,302	4,597	4,442
Marketing as % of sales	6.9%	6.9%	6.9%
Total labour costs (£'000)	6,879	6,966	6,099
Labour costs as % of sales	11.0%	10.5%	9.4%

- Sales 5.5% behind FY23 H1 at £62.6m.
- UK sales increased by £1.0m (3%) to £36.5m reflecting a strong result in a difficult market. Estimated market share c.9.3%.
- International sales decreased £4.7m (15%) to £26.1m reflecting a highly competitive European market.
- Return of Own-brand growth to 2% compared with a decline of 8% in other-branded sales.
- Marketing return maintained at 6.9% of sales.
- Labour costs decreased by £0.1m (1%) reflecting restructuring and tight control on recruitment. Excludes £487,000 one-off redundancy cost.
- 30 September 2023 headcount = 434 compared to 541 at 30 September 2022.

Income Statements

6-month period ended	30 Sept 23	30 Sept 22	30 Sept 21
	£'000	£'000	£'000
Total Sales	62,641	66,305	64,694
Product Profit*	18,517	19,549	19,701
Product Margin	30.9%	30.9%	32.0%
Gross Profit	16,985	17,413	18,121
GP%	27.1%	26.3%	28.0%
Reported EBITDA	2,377	2,704	4,817
Reported EBITDA as % of sales	3.8%	4.1%	7.4%
One-off redundancy costs	(487)		
Adjusted EBITDA	2,864		
Depreciation & Amortisation	(3,308)	(2,970)	(2,424)
Finance expenses	(982)	(777)	(463)
Tax	353	(66)	(850)
Net (loss)/profit	(1,560)	(1,109)	1,080
Basic (loss)/earnings per share	(7.4p)	(5.3p)	5.2p

* Representing product profit, excluding warranty income and consumer finance commissions

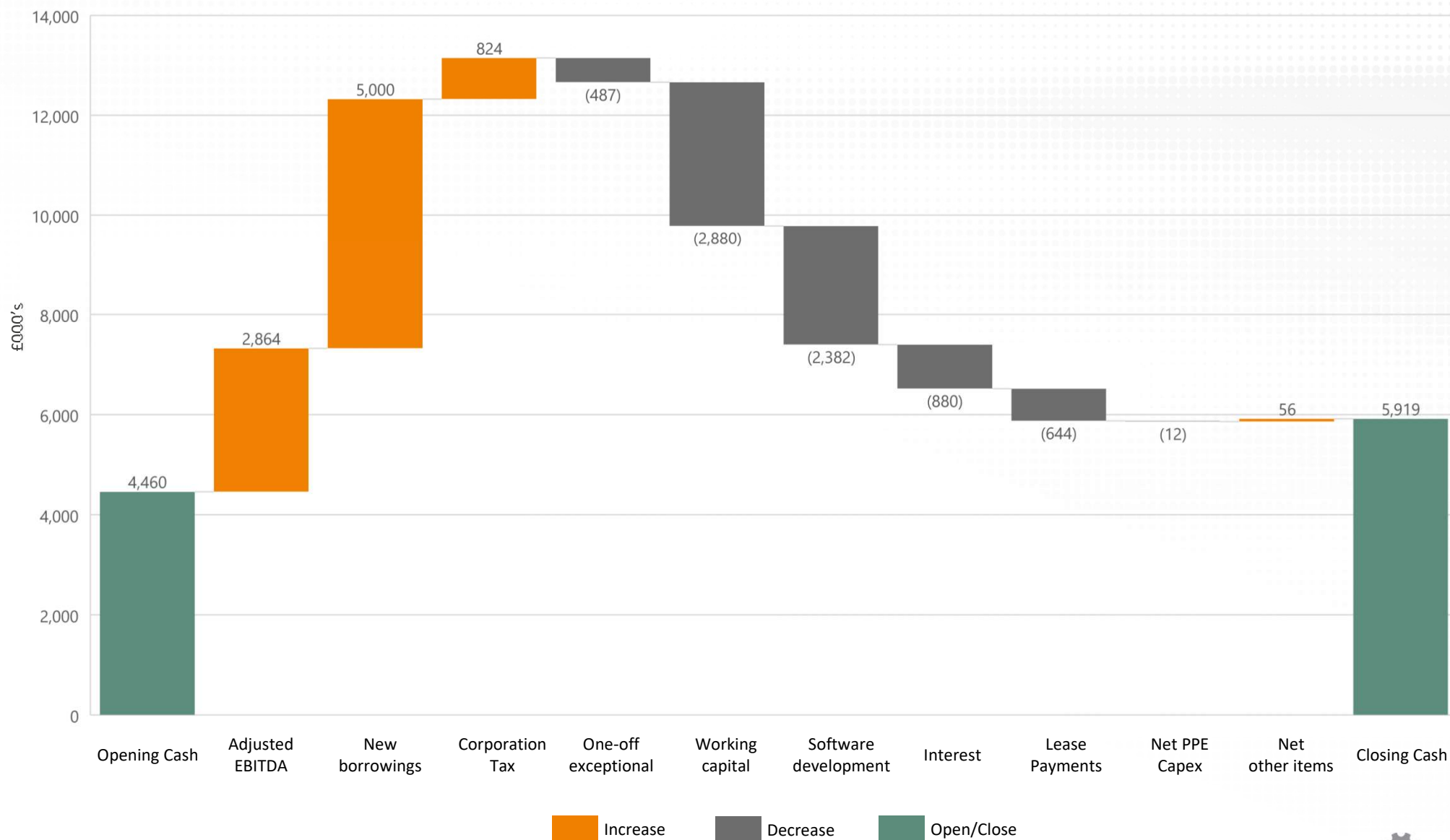
- Sales decrease reflects a focus on improving gross margins during a challenging period for retailers of discretionary consumer products.
- Gross margin improved 80bps on FY23 H1 and is expected to improve in H2 as is normally the case.
- Admin expenses down £0.3m (2%) including £0.3m lower marketing costs, and £0.1m lower labour costs.
- European admin expenses of £2.5m (FY23 H1: £2.4m) including £1.7m overheads and £0.8m PPE and right-of-use asset depreciation.
- 'Reported' EBITDA includes a one-off £0.5m redundancy cost. Adjusting for these costs results in underlying EBITDA of £2.9m and an EBITDA margin of 4.6%.
- Financial expenses increased £0.2m to £1.0m, including £0.8m bank interest (FY23 H1: £0.5m) and £0.2m IFR16 lease interest (FY23 H1: £0.2m).

Balance Sheet Overview

As at	30 Sept 23	30 Sept 22	30 Sept 21
	£'000	£'000	£'000
Freehold land and buildings	7,582	8,358	7,275
Other PPE including Right of Use asset	12,832	11,885	12,967
Intangible asset – software platform	13,409	11,904	9,316
Intangible assets – brand and goodwill	9,207	9,280	6,585
Fixed assets	43,030	41,427	36,143
Inventories	38,954	43,378	37,452
Trade and other receivables	4,454	4,289	3,317
Cash and cash equivalents	5,919	7,199	3,648
Current assets	49,327	54,866	44,417
Trade and other payables	(20,303)	(18,912)	(15,591)
Leases	(1,057)	(1,171)	(1,158)
Current liabilities	(21,360)	(20,083)	(16,749)
Net current assets	27,967	34,783	27,668
Loans and borrowings	(24,000)	(29,000)	(17,000)
Leases	(9,215)	(7,822)	(9,221)
Other long-term liabilities	(1,768)	(2,416)	(2,284)
Non-current liabilities	(34,983)	(39,238)	(28,505)
Net assets	36,014	36,972	35,306

- Strong balance sheet - £36.0m net assets and renewed £30m committed RCF with HSBC.
- Net debt down £3.7m to £18.1m (30 September 23: £21.8m) reflecting significant reduction in stock achieved principally in FY23 H2.
- PPE capex held to £36,000 (FY23 H1: £0.6m).
- Capitalised £2.4m of software development costs (FY23 H1: £2.8m). Restructured team size equates to c.£2.8m annualised capitalised cost compared to FY23 amortisation of £3.1m.
- Stock decreased £4.4m (10%) in response to lower sales, with further reductions planned in H2.

Cash Flow Overview



KPI Review

FY24 H1 Customer metrics



PROFITABLE FROM FIRST TRANSACTION

£16

COST OF ACQUISITION

£161

AVERAGE ORDER VALUE

£40

GP PER TRANSACTION

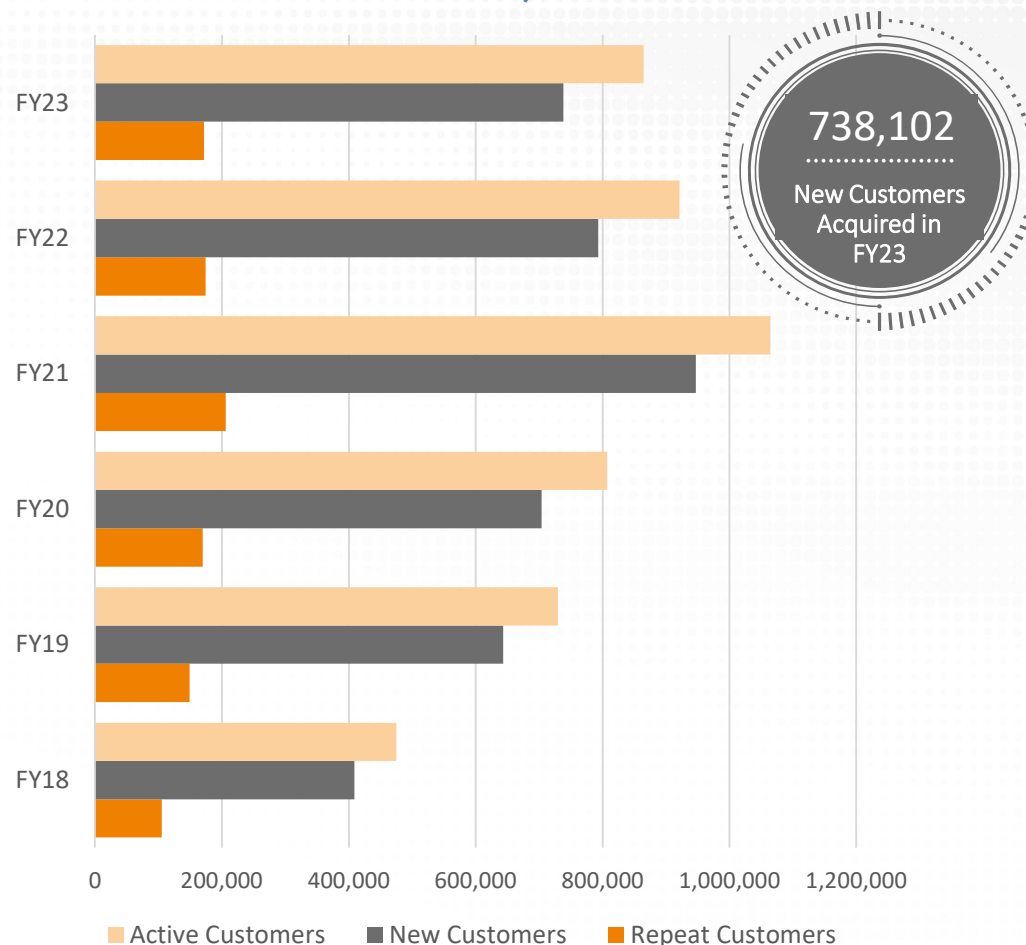
£333

SALES LIFETIME VALUE

	FY22 H1	FY23 H1	FY24 H1
Average order value	£128	£151	£161
Gross profit per transaction	£36	£40	£40
Relevant Marketing cost*	£4.3m	£4.4m	£4.1m
Cost of acquisition	£13	£15	£16
Sales life time value	£234	£298	£333
Email subscriber database	0.73m	1.41m	1.72m

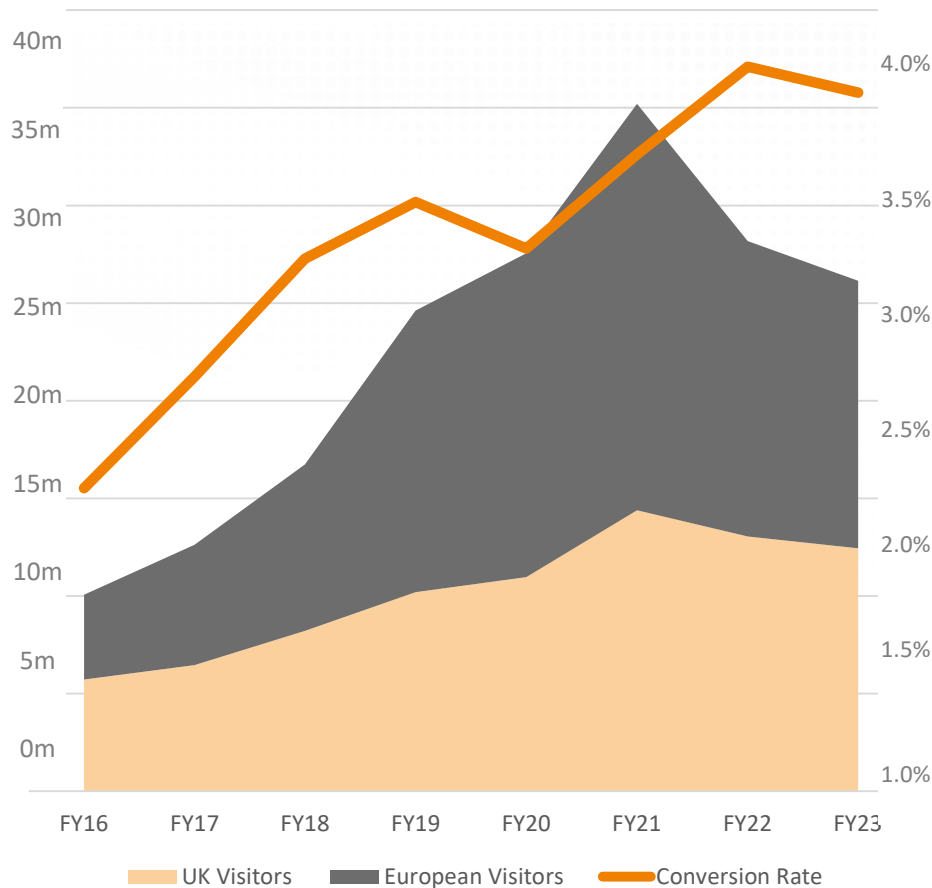
* Excludes Amazon and POS

CUSTOMER PROFILES, FY18 – FY23



FY24 H1 Website metrics

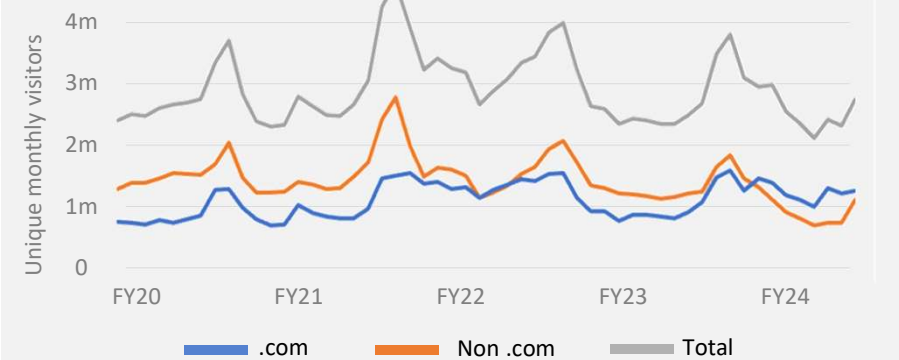
ANNUAL WEBSITE CONVERSION & TRAFFIC



WEBSITE DATA

	FY22 H1	FY23 H1	FY24 H1	Diff.
Total unique website users	13.5m	9.1m	9.8m	+7%
Total pages viewed	59.6m	50.8m	55.6m	+9%
UK website users	5.6m	4.1m	5.1m	+24%
European website users	7.6m	4.8m	4.6m	-5%
Mobile traffic as % of total	65%	72%	68%	-400BPS
UK conversion rate	6.39%	5.82%	4.37%	-145BPS
European conversion rate	2.41%	4.22%	3.55%	-67BPS
Mobile conversion	2.30%	2.81%	2.37%	-44BPS

FY20 – FY24 H1 WEBSITE TRAFFIC



FY24 H1 Product sales



28%

GUITARS

Electric, acoustic
& bass guitars

Revenue
£16.7m

Growth
-6%



14%

KEYS

Pianos, synths,
digital keyboards

Revenue
£8.3m

Growth
-9%



10%

STUDIO

Mixers, headphones,
monitors, interfaces

Revenue
£6.1m

Growth
-15%



26%

LIVE & PA

Speakers, lighting
& microphones

Revenue
£15.3m

Growth
-5%



10%

DRUMS

Electric, acoustic
& percussion

Revenue
£6.2m

Growth
+2%



6%

ORCHESTRAL

String instruments,
brass, woodwind

Revenue
£3.4m

Growth
-6%

Categories totalling 5% or less of sales are excluded

Summary

Financial

- Weak consumer environment impacting revenues, particularly in Europe
- Cost base reductions will benefit FY24 H2 onwards
- Good progress made with improving gross margins
- Further net debt reduction expected

Strategy

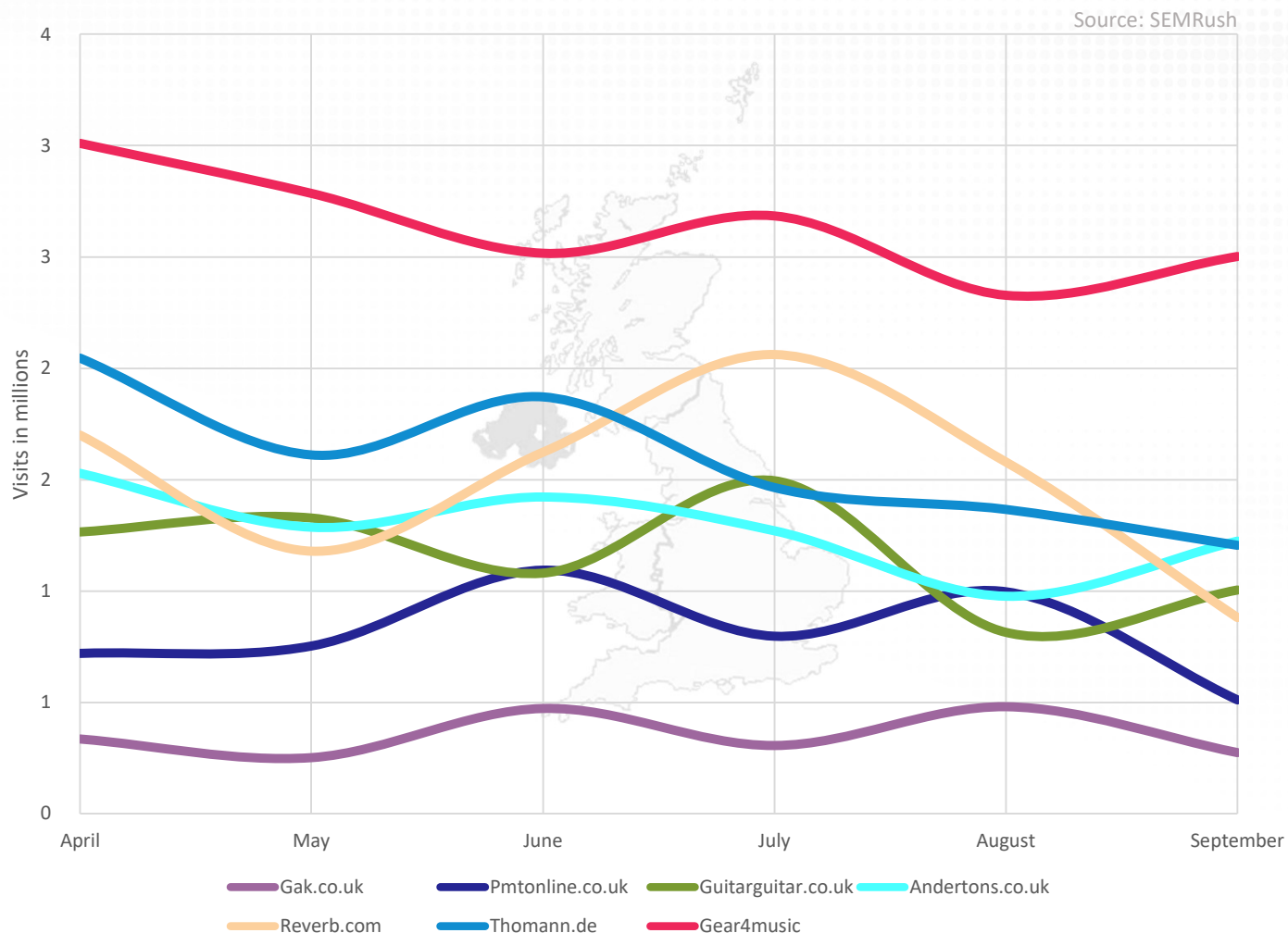
- Focus on efficiency and productivity
- Prioritise higher margin products
- Continue diversifying sales and fulfilment channels
- Further build on new growth initiatives, including Second Hand system and AV.com



Market Background

Estimated UK market: £898m

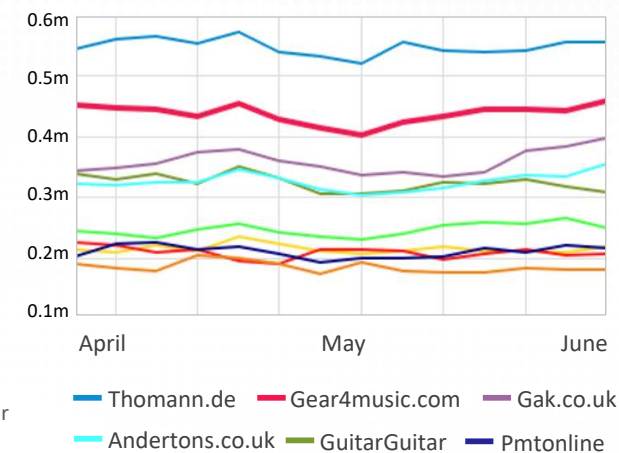
FY24 H1 UK INTERNET TRAFFIC SHARE



- Gear4music FY24 H1 market share c.9.3%, up 0.2% on FY23 H1
- Estimated UK online market c.£327m*
- Highly fragmented market, growing at c.2% (Source: Music Trades)
- Long term shift: high street to online

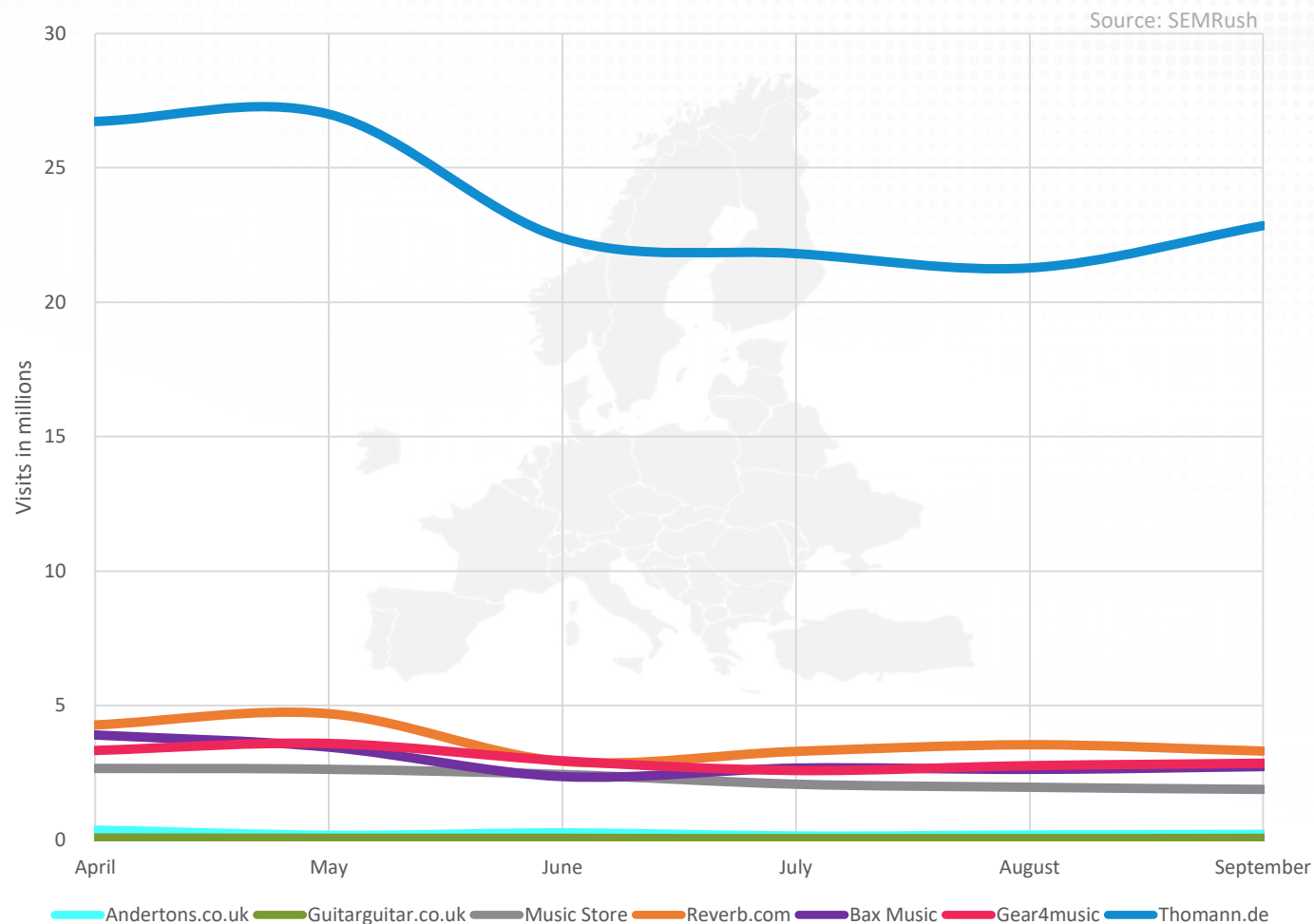
FY16 website traffic

The chart below shows comparative unique UK website visitors in the UK in 2015. Source: Hitwise



Estimated European market: £4.2bn

FY24 H1 EUROPEAN TRAFFIC SHARE



- Gear4music European market share down 0.3% to 1.3%; significant opportunity for growth
- FY24 H1 European revenues of £25.0m, down 15% on FY23 H1
- Four European Distribution hubs with capacity to service revenues up to £150m
- Localised proposition features 15 languages and 8 currencies

Top European Markets*

Country	Estimated Market Size (£m)
Germany	1,426
France	1,030
Italy	691
Netherlands	241
Austria	216
Spain	198
Switzerland	169
Sweden	128
Norway	98
Total Size	4,197

Operations & Competitors

Gear4music

FY23 Revenues: £148m
FY22 Revenues: £157m
Growth -6%

S&T Audio (PMT)

2022 Revenues £47m
2021 Revenues £34m
Growth 37%

Andertons

2022 Revenues £65m
2021 Revenues £72m
Growth -9%

GuitarGuitar

2022 Revenues £45m
2021 Revenues £49m
Growth -7%

Bax Shop

2022 Revenues £152m
2021 Revenues £140m
Growth 9%

Kytary.cz

2022 Revenues £42m
2021 Revenues £38m
Growth 12%

Thomann

2022 Revenues £1.3bn
2021 Revenues £1.3bn
Growth 2%

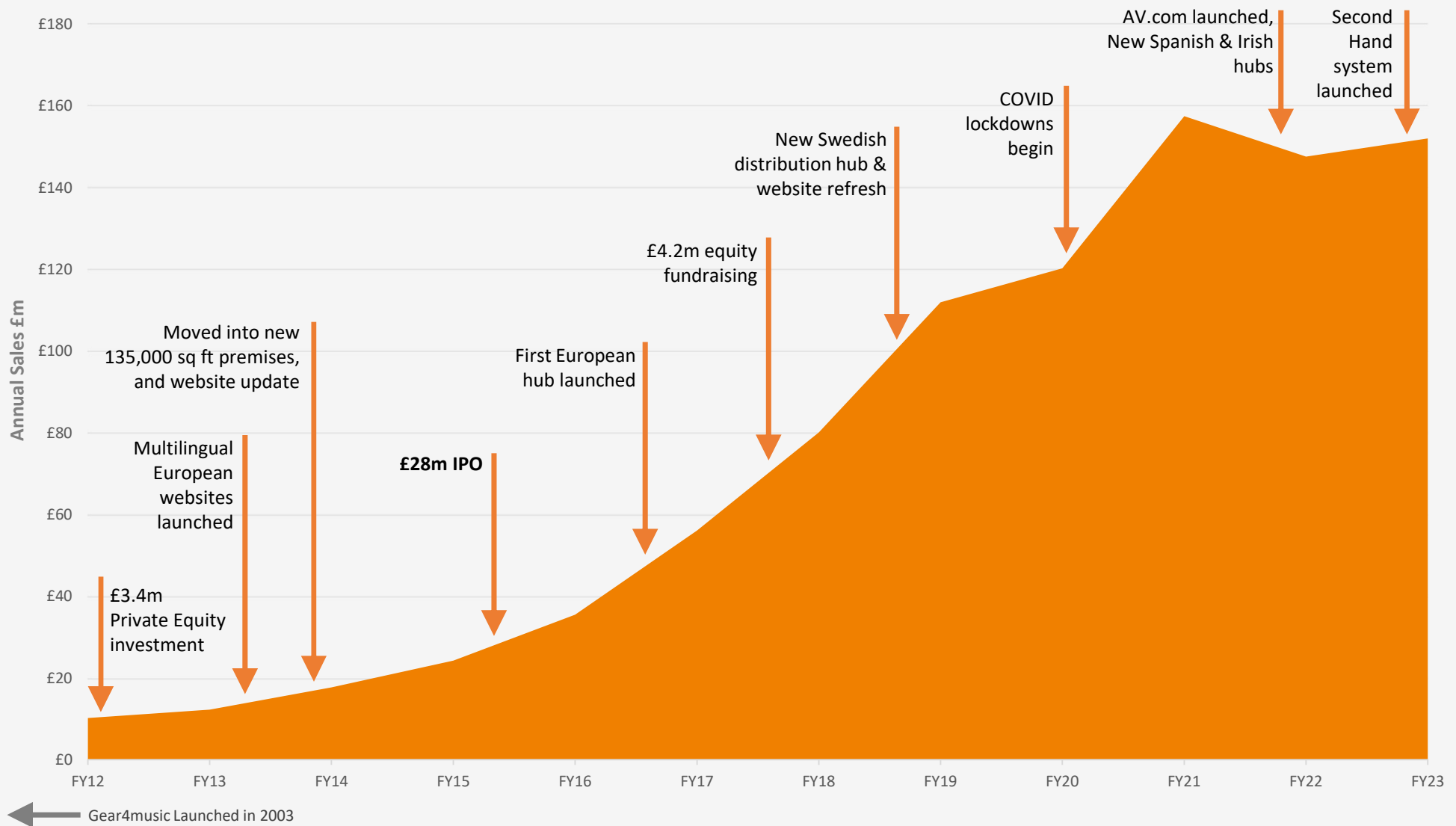
Music Store

2022 Revenues £155m
2021 Revenues £152m
Growth 8%

Gear4music delivery timescales:  1 day road/ economy delivery  2 days road/ economy delivery  3+ days road/ economy delivery

Background information

Key Milestones



Directors



Andrew Wass

CEO

- Launched Gear4music.com in 2003
- Set up a recording studio business in 1992 after studying popular music and sound recording at Salford
- Began selling IT systems for the audio recording market in 1998
- Responsible for Strategy & Growth, with a focus on systems development & customer experience



Ken Ford

Chairman

- Joined Gear4music's board in June 2015
- Previously Chief Executive of Teather & Greenwood & Former Chair of the QCA
- Currently Non-Exec Chair of SDI Group plc & CMO Group PLC
- Fellow of the Securities Institute



Chris Scott

CFO

- Joined Gear4music in October 2012
- Chartered Accountant & Executive MBA graduate
- 12 years with KPMG: eight in the advisory practice
- Previous industry experience: Barclays Bank & CFO of Officers Club
- Responsible for Finance, HR & compliance; Company



Dean Murray

Non-Executive Director

- Joined Gear4music in March 2012
- CEO of CMO Group PLC & Chairman of BHID Group Limited
- Former CFO & COO of Myriad Childrenswear Group
- Former Director of French Connection
- Chartered Accountant



Gareth Bevan

CCO

- Joined Gear4music in July 2012
- Previously at DV247, the largest music equipment retailer at that time, where he was responsible for purchasing, sales & marketing
- Over 22 years' experience in music equipment retail
- Responsible for Purchasing, Pricing & Supplier relationship management



Harriet Williams

Non-Executive Director

- Joined Gear4music in January 2021
- Vice President of Global E-commerce at the LEGO Group & NED of Stockmann Group
- Former Chief Digital Officer at The Body Shop
- Previous industry experience: Gucci, Debenhams, Marakon Associates

Operational Management

Executive Board



Andrew Wass
CEO
Founder, 2003



Chris Scott
CFO
Joined 2012



Gareth Bevan
CCO
Joined 2012

Operational Board



Jonathan Meager
E-commerce Director
Joined 2007



Robert Newport
Operations Director
Joined 2016



Charlotte Mahon
HR Director
Joined 2015



David Stuart
Head of Customer Service
Joined 2005



Jeanne Cuénod
Group Financial Controller
Joined 2023

Senior Management



Dan Cryer
Technical Operations
Director
Joined 2018



Alison Lynch
Head of UK Buying
Joined 2018



Jan Imig
International
Operations Manager
Joined 2017



Victor Burrau
Swedish Logistics
Manager
Joined 2016



Mark Fratson
UK Logistics Manager
Joined 2005

Diversifying Sales & Fulfilment



PROGRESS SINCE LAUNCH

- 6,300 SKUs listed
- 195 Brands now online
- Multilingual websites launched
- Ability to dispatch from other Gear4music Group warehouses
- New management, content & merchandising teams in place

Product categories include:

- Home Cinema & TV's
- HiFi & Speakers
- Headphones
- Cables & accessories
- Specialist AV Furniture

LARGE EUROPEAN MARKET

£2.7 billion

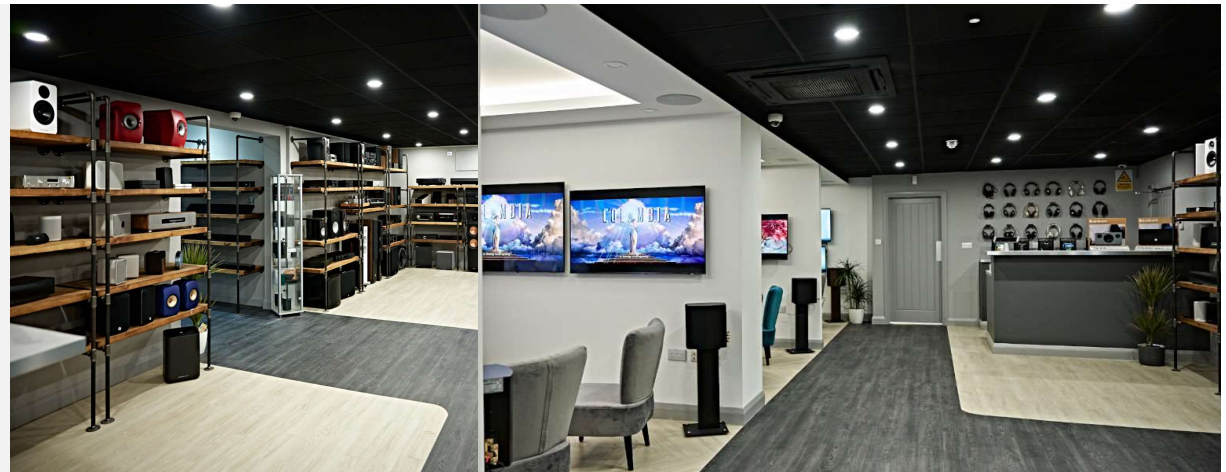
ADDRESSABLE EUROPEAN MARKET⁺¹

- Mainly served by store based retailers
- No Dominant specialist online retailers

⁺¹ Management estimate based on extrapolation of Ibis World data for UK market size

AV BUSINESS OPERATIONS

- Freehold property in Bacup acquired with the acquisition of AV Distribution Ltd
- Bacup warehouse now upgraded, providing double the previous storage capacity
- Bacup showroom upgrade completed, to support new brands
- German showroom now open



Second Hand System

Customer clicks 'trade-in Gear' on Gear4music



Instant prices calculated & provided



Gear4music arranges collection



Verify product & pay cash or credit on account



Item listed for sale on Gear4music

Second Hand System

SECOND HAND SYSTEM OVERVIEW

- Proprietary system launched in March 2023
- Unique positioning; simplifies equipment trade-in
- 12,000 products currently available for trade-in
- Now Launched in UK & Europe
- AV.com to follow in FY24

CUSTOMER ADVANTAGES

- Quick, low effort process; no photography or delivery requirements
- Selling risks eliminated
- Attractive cash price; increased value for G4M account credit to support next purchase
- Existing equipment gets recycled & value realised

GEAR4MUSIC ADVANTAGES

- Access to a new & large market
- Good resale margins
- Follow-on sales: majority choose 'credit'
- Increased customer loyalty
- SEO & content benefits
- Alternative source of product supply

Own-brands

VALUE FOCUSED BRANDS

Existing model continues: B2C e-commerce



- 'By Gear4music' – A specialist beginner brand
- Featuring a wide range of music making products across all categories
- Six category focused sub-brands

REDSUB **playLITE** *Rosedale* *Archer* **WHD** **CG**



- Specialist audio electronics brand
- PA systems, mixers, studio & podcast



- Value focused drum brand
- Acquired by Gear4music in 2021
- Established in 1937



- New home audio visual focused brand
- To be introduced during FY23
- Featuring speakers, amps, TV's

COMING
SOON

PREMIUM BRANDS

B2C e-commerce with potential for B2B worldwide distribution



- New brand launched in FY23
- Featuring a wide range of products across all categories, except for drums



- Established by Gear4music in 2019
- Premium guitar products, featuring a concise range to compliment the branding



- Premium drums and percussion brand
- Acquired by Gear4music in 2021
- Newly designed ranges arrived from October 2022



- Premium bass amplification & pedal brand
- Acquired by Gear4music in 2021
- Previously owned by Marshall Amplification

Product margin focus

NEW PRODUCTS TO DRIVE OWN-BRAND SALES



- Great value, premium music gear
- G4M brand launched on 29 June 2023
- Over 130 new products will launch this year



- Premium drums & percussion brand
- Now gaining traction following new product launches in FY23
- Licence agreement reached to sell into USA

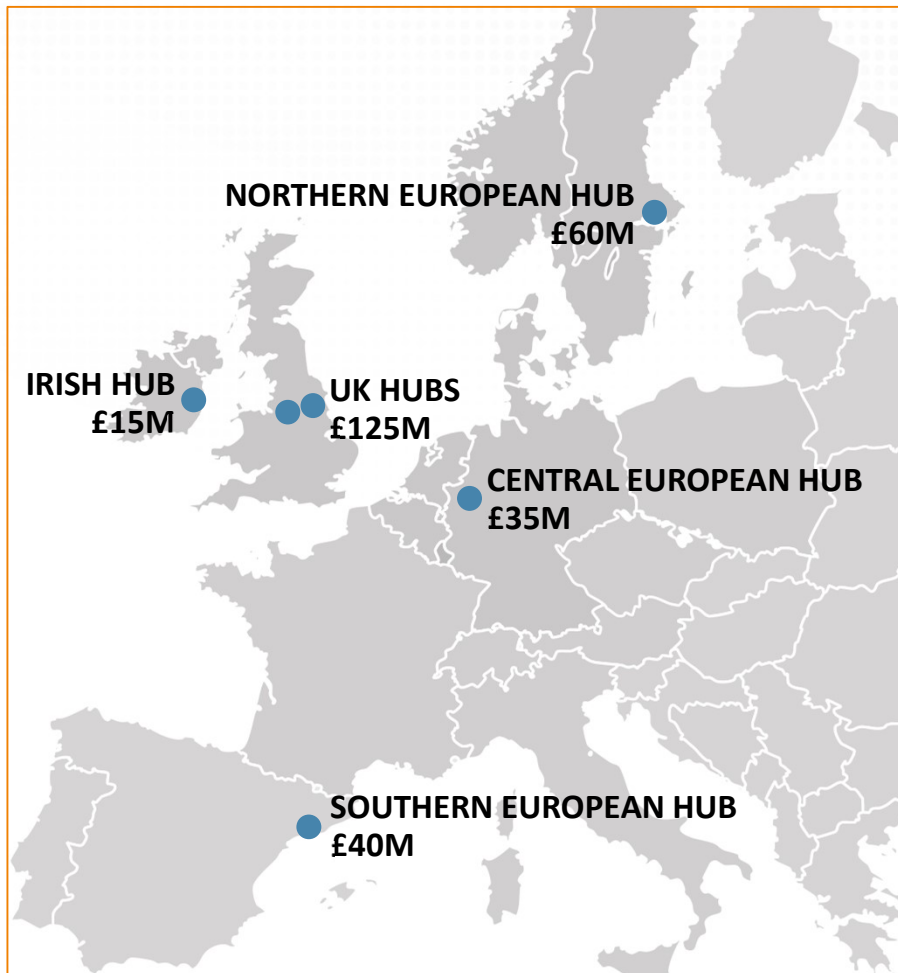


- Value driven Gear4music brand recently introduced
- Covers categories including drums, keyboards & guitars
- Designed to compete with third party Amazon sellers



European Distribution Capacity Overview

SIGNIFICANT EXPANSION CAPACITY



UK HUBS, YORK & BACUP

- Hub in Bacup acquired with AV Distribution Ltd
- Total UK inventory capacity: £25m, sales capacity: £125m
- Serves UK and ROTW

NORTHERN EUROPEAN HUB, STOCKHOLM

- Inventory capacity: £8m, sales capacity: £60m
- Serves Scandinavia & Europe

CENTRAL EUROPEAN HUB, MÜLHEIM

- Extended inventory capacity: £9m, sales capacity: £35m
- Serves Germany & Europe

IRISH HUB, DUBLIN

- Inventory capacity: £2.5m, sales capacity: £15m
- Serves Ireland & Northern Ireland

SOUTHERN EUROPEAN HUB, BARCELONA

- Inventory capacity: £7m, sales capacity: £40m
- Serves Spain & Southern Europe
- Provides additional bulk storage capacity for other European hubs

ESG

GEAR4MUSIC ESG AGENDA

Environmental Pillar		Social Pillar		Governance Pillar
Climate Change	Pollution & Waste	Our Products	Our People	Corporate Behaviour
Carbon emissions	Packaging Material & Waste	Product Safety & Quality	Health & Safety	Board Diversity and Structure
Product footprint	Electronic waste	Supply chain labour standards	Diversity and inclusion	Executive Pay
			Wellbeing	Ethics and Transparency
			Charities & Community	Anti-Corruption Policies
We recognise our responsibility to reduce our environmental impact, and can achieve this through technology, continuous improvements in operational efficiency, and doing things in new ways		We are committed to retailing high quality musical instruments and equipment and AV products and adopting and improving practices that ensure there is no slavery or human trafficking in our supply chain.	We recognise the success of our business is founded on the hard work of a team of talented and motivated individuals, and are committed to making Gear4music a great place to work	We are committed to conducting our business with integrity

- ESG sub-committee formed in July 2023; Board level agenda item
- Energy use high on priority list: solar installation planned
- Continuing high standards in product procurement and waste management
- Launch of Second-hand system
- New initiatives support the Mental Health of our colleagues
- Partnering with new charities where appropriate. Existing charities include:



**GIRLS
ROCK
LONDON**

THE BANK OF DREAMS & NIGHTMARES

Major Shareholders & Price Graph

MAJOR SHAREHOLDERS AS AT 31 OCTOBER 2023

Name	Number of shares	% of issued share capital
Andrew Wass	4,776,993	22.8%
Liontrust Investment Partners LLP	3,603,133	17.2%
Richard Harpin	2,146,289	10.2%
FIL Limited	1,215,609	5.8%
AXA Investment Managers S A	1,042,755	5.0%
Canaccord Genuity Group Inc	864,699	4.1%

SHARE PRICE GRAPH NOVEMBER 2022 TO NOVEMBER 2023



52 week range: 68.7p – 170.0p

Market cap as of 8 November 2023: £23.1m

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