



25 June 2024

Gear4music (Holdings) plc
Audited results for the year ended 31 March 2024

“Key financial and strategic objectives met in FY24; Refreshed growth strategy in place to drive profitable growth in FY25”

Gear4music (Holdings) plc, (“Gear4music” or “the Group”) (LSE: G4M), the largest UK based online retailer of musical instruments and music equipment, today announces its financial results for the year ended 31 March 2024.

FY24 Highlights:

£m	Year ended 31 March 2024 ("FY24")	Year ended 31 March 2023 ("FY23")	Change on FY23
Revenue	144.4	152.0	-5%
Gross profit	39.4	39.0	+1%
Gross margin	27.3%	25.7%	+160bps
EBITDA	9.4	7.4	+28%
Adjusted* EBITDA	9.9	7.4	+34%
PBT/(LBT)	0.6	(0.4)	+1.0m
Adjusted* PBT/(LBT)	1.1	(0.4)	+1.5m

* Adjusted for £487,000 of one-off redundancy costs

- FY24 revenues in line with market expectations reflecting prioritisation of increasing gross margins and cost base reductions to improve profitability, ahead of revenue growth
- Gross margin of 27.3% (FY23: 25.7%; FY22: 27.8%)
- Adjusted EBITDA of £9.9m is 34% ahead of FY23 and in line with market expectation
- Continued progress in reducing net debt to £7.3m at year-end, reduced from £14.5m at 31 March 2023 and £24.2m at 31 March 2022, ahead of market expectation
- First full year of second-hand business already demonstrating strong growth potential
- Refreshed growth strategy in place, with enhanced product offering and operational efficiency to drive profitable growth in FY25

Post-period Board update:

The following Board changes will take effect from Friday 5 July 2024, as announced on 24 April and today:

- Ken Ford to step down as Non-Executive Chair and retire from the Board
- Dean Murray to step down as Non-Executive Director and retire from the Board

- Andrew Wass to move from CEO to Executive Chair
- Gareth Bevan, current CCO, to be appointed CEO
- Neil Catto to join the board as Senior Independent Director and Audit Committee chair
- Sharon Daly to join the board as Non-Executive Director

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

"We are pleased to be reporting FY24 financial results in line with market expectations**, with adjusted EBITDA of £9.9m representing a 34% increase on £7.4 million in FY23 highlighting the successful execution of our strategy to prioritise and protect margins.

The Group has also delivered on another strategy priority with net debt reducing to £7.3m as of 31 March 2024, almost halving since 31 March 2023 and being 0.7x FY24 adjusted EBITDA. In addition, we improved gross margins by 160bps to 27.3% during FY24 whilst at the same time reducing overhead costs, delivering a £1.5m improvement in adjusted profit before tax.

Having delivered the key objectives we set ourselves at the beginning of FY24, the Group is well positioned to relaunch its profitable growth strategy for FY25. This will focus on expanding sales verticals and channels to market whilst further enhancing and leveraging our unique bespoke e-commerce platform and product offering.

International revenue growth faced some localised challenges in FY24; however, the Board is confident that, through our ongoing actions and new initiatives, such as our second-hand proposition, European sales are set to start recovering in FY25.

The cost reductions implemented through FY24 are now delivering full-year benefits as we commence FY25. Alongside this, based on trading performance since our last update in April, the Board remains confident in delivering further improvements in financial performance during FY25 in line with market expectations."

** Gear4music believes that, prior to publication of this announcement, current consensus market expectations (i) for the year ended 31 March 2024 were revenue of £144.2 million, adjusted EBITDA of £9.8 million, adjusted profit before tax of £1.3 million, and pre-IFRS16 net debt of £9.4 million; and (ii) for the year ending 31 March 2025 were revenue of £154.8 million, EBITDA of £11.8 million, profit before tax of £2.8 million, and pre-IFRS16 net debt of £6.6 million. Note Gear4music believes that adjusted profit before tax consensus market expectations do not take into account foreign exchange gains or losses. £0.2m foreign exchange losses were recognised in FY24.

ENDS

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About Gear4music (Holdings) plc

Operating from a Head Office in York, Distribution Centres in York, Bacup, Sweden, Germany, Ireland & Spain, and showrooms in York, Bacup, 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.

Chairman's Statement

As we stated heading into the year, whilst our drive for long-term growth remains unabated, our focus in FY24 was on reducing our cost-base and increasing efficiency, and delivering working capital improvements to materially improve our net debt position. This was reflective of a period of uncertainty for many retailers and consumers, with high inflation and interest rates weighing on consumer confidence and disposable income, and therefore we shifted our short-term focus accordingly to address these challenges.

Operational and Commercial progress

I am pleased that the Group has delivered the affirmative action that we set out to, delivering a cost reduction programme to improve underlying profitability, which puts us in a strong position to deliver our long-term profitable growth ambitions when markets return to more 'normal' conditions.

As a result of these actions the Group has delivered a second significant annual net debt reduction, from a year-end peak of £24.2m at 31 March 2022 down to £7.3m at 31 March 2024. With a committed £30m Revolving Capital Facility ('RCF') in place until at least June 2026 secured by £75.2m of assets including £7.6m of freehold properties, the Group has the certainty and resources required to take advantage of opportunities as and when they arise.

Environmental, Social and Governance

We are committed to having a positive impact on our society, the environment, and our team. We acknowledge there is increasing interest from a wide range of stakeholders on the various impacts that our business has, and what we are doing to improve outcomes, and this year we are pleased to include our first TCFD-aligned Climate Report for the financial year ending 31 March 2024. We aim to improve the depth and quality of our reporting over the coming years, better informing and enabling us to reduce our environmental impact wherever there is the opportunity.

Board Changes

Having served the Group since IPO in 2015 and been part of the remarkable growth journey in that time, I am approaching the end of my nine-year tenure and intend to step down on 5 July 2024. It has been an honour and privilege to serve and want to extend my heartfelt thanks to Andrew and the Board, our whole team, and all stakeholders for their commitment to the business and enthusiasm. Looking back, this period has seen significant growth with challenges to overcome along the way but, today, our business stands significantly stronger, a testament to the collective efforts and dedication of our team.

Having also served as a Non-Executive Director for over nine years, Dean Murray has decided to retire from the Board. I wish Dean well for the future and on behalf of the whole Gear4music team thank him for his significant contributions dating back to 2012, and particularly for his efforts since IPO as Audit Committee Chair and as a member of the Remuneration and Nomination Committees.

Ahead of these changes the Board and Nominations committee diligently evaluated revised board structures to ensure the best outcomes for all stakeholders and, having consulted with our advisors and certain of the Company's major shareholders, we concluded matters and announced that Andrew Wass will move from CEO to Executive Chair and Gareth Bevan, current CCO, will move to CEO. Chris Scott's and Harriet Williams' (CFO and NED respectively) roles and responsibilities remain unchanged.

To underpin the new structure and provide strong, independent challenge and support, I am delighted to report that Neil Catto and Sharon Daly have agreed to join the Board as Senior Independent Director and

Non-Executive Director respectively. Both bring significant relevant experience, and skills that will complement and improve the capability of the existing Board.

I am confident that the diverse skills and experience of the restructured Board will continue to drive transformative change. I extend my best wishes to the new team on their journey towards sustainable and profitable growth and I am confident that they will continue to drive Gear4music forward.

Outlook

The Board is confident that the Group's customer proposition, operational infrastructure and balance sheet will enable the Group to achieve its long-term business objectives, namely delivering profitable growth and maintaining its market leading position in the UK and Europe.

Ken Ford
Chairman
24 June 2024

Chief Executive's Statement

Financial KPIs

	FY24	FY23	Change on FY23
Revenue *	£144.4m	£152.0m	-5%
UK Revenue *	£83.1m	£82.0m	+1%
International Revenue *	£61.3m	£70.0m	-12%
Gross margin	27.3%	25.7%	+160bps
Gross profit	£39.4m	£39.0m	+1%
Total Admin expenses including redundancy costs *	£37.7m	£38.7m	-3%
European Admin expenses *	£4.9m	£5.0m	-2%
Reported EBITDA	£9.4m	£7.4m	+28%
Adjusted EBITDA **	£9.9m	£7.4m	+34%
Profit/(loss) before tax	£0.6m	(£0.4m)	+£1.0m
Adjusted profit/(loss) before tax	£1.1m	(£0.4m)	+£1.5m
Net debt ***	(£7.3m)	(£14.5m)	+£7.2m

* See note 2 of the Financial Information

** Defined as Reported EBITDA less one-off redundancy costs. See note 1.3 to the Financial Information

*** See notes 13 and 14 of the Financial Information

Commercial KPIs

	FY24	FY23	Change on FY23
Website users	23.7m	26.5m	-11%
Conversion rate	3.93%	3.95%	-2bps
Average order value	£153	£150	+2%
Active customers	799,000	865,000	-8%
Products listed	63,000	64,200	-2%

Business review

I am incredibly grateful to our entire team for their outstanding performance in achieving our key objectives during FY24. Our primary goals were to enhance our margins and profitability and at the same time reduce net debt and lower our cost base. Thanks to their dedication and hard work, we have successfully met these targets.

At the beginning of FY24, we communicated our intention to prioritise these objectives over revenue growth. Having now achieved two consecutive years of significant Net Debt reduction, the Group is well-positioned to focus on growth initiatives, whilst continuing to improve profitability.

A highlight of the year was the launch of our unique Second-Hand proposition in March 2023. From a standing start, we have acquired over 7,500 second-hand items from consumers. The resale of these products is already a high-growth sales vertical in FY25, with significant potential for expansion.

We also implemented several significant upgrades to our website throughout the year. These enhancements include improved on-site search functionality and an upgraded customer review platform. With a view to boosting productivity, we integrated multiple AI-based systems and process enhancements.

The expansion of our in-house product design and development capacity allowed us to launch 485 new own-brand products. This aligns with our strategy of enhancing our proposition and improving product margins, further reinforcing the strength of our market position.

In summary, FY24 has been a year of strategic progress and laying the groundwork for future growth. We are well-equipped to pursue our growth initiatives from a solid foundation of reduced debt, enhanced efficiency, and a strong product offering.

Strategy

Our refreshed Profitable Growth Strategy for FY25 is built on four key pillars designed to drive growth and enhance our market position:

1. Transform our platform by integrating artificial intelligence at its core
2. Enhance our product offerings
3. Diversify our channels to market
4. Expand our sales verticals by establishing new operations in Europe

Transform our platform by integrating artificial intelligence at its core

This will boost productivity and elevate the customer experience through unique solutions in our market, such as our innovative second-hand system, which we expect to significantly increase our market share.

Enhance our product offerings

This includes scaling up our second-hand and digital download propositions, developing and launching a greater number of best-in-class own-brand products, and exploring additional strategic brand partnerships. These initiatives are designed to ensure value for money while simultaneously strengthening our market share. Additionally, we will evaluate opportunities to acquire legacy brands as they arise, such as Premier, to further broaden our own-brand portfolio.

Diversifying our channels to market

We will integrate with new European marketplaces and develop affiliate programs, leveraging influencers to expand our reach. Where appropriate, these efforts will be driven and informed by AI to maximise their effectiveness.

Expand our sales verticals by establishing new operations in Europe

This expansion, focused on our hub network, aims to drive market share in Europe and enhance our purchasing, marketing, and fulfilment operations within the region. Furthermore, we will explore new opportunities in the USA, India, and Southeast Asia to broaden our global footprint.

Board Changes

I would like to extend my heartfelt thanks to Ken and Dean for their invaluable contributions over the past nine years. Their wise counsel and dedication have been instrumental to our success, and we are deeply appreciative of their service.

We are excited to welcome Neil Catto as Senior Independent Director and Sharon Daly as a Non-Executive Director, effective 05 July 2024. We are eager to work with Neil and Sharon and are confident that their expertise and insights will significantly enhance our Board's capabilities.

Additionally, I look forward to collaborating with Gareth in his new role as CEO. The transition will ensure seamless continuity within our leadership team, and after twelve years of working with Gareth in his role as Chief Commercial Officer, I firmly believe there is no better person to be Gear4music's CEO.

In my new role as Executive Chair, I will continue to spearhead our strategic initiatives and oversee our growth strategy. I am committed to providing support to our team and stakeholders wherever needed, ensuring that we achieve our goals and maintain our long-term trajectory of success.

Thank you for your continued support during this exciting transition.

Outlook

During FY24, we implemented a wide range series of strategic actions designed to mitigate the impact of a weaker consumer environment. This was the right thing to do, and these measures have paid off, strengthening our foundation ensuring we are well positioned to capitalise on emerging opportunities and leaving us well-prepared for the future.

We are optimistic about our prospects for further profitable growth during FY25 and have launched our refreshed growth strategy with strategic priorities aligned to driving growth and continuing our commitment to driving innovation, expanding our market reach, and delivering exceptional value to our customers. Our strategic initiatives are beginning to bear fruit, and our efforts to strengthen our financial position and operational capabilities have set the stage for sustainable long-term growth.

Andrew Wass
Chief Executive Officer
24 June 2024

Chief Financial Officer's statement

Overview

As stated in our FY23 Financial Review, and against a continuing backdrop of higher inflation and interest rates than has historically been the case, it was important that we built on the good work done in FY23 in terms of reducing our cost base and inventory levels to reflect demand, sustainably improving gross margins, and materially reducing net debt. In FY24 we delivered on these priorities:

- notwithstanding inflationary pressures, Administrative expenses (excluding redundancy costs) remained 4% lower than FY23 broadly in line with sales as average headcount was reduced by 89 (16%);
- investment in software development was reduced to £3.7m (FY23: £5.3m) following the successful delivery of a number of large projects in FY23; and
- inventory reduced by £8.8m (25%) further to an £11.1m reduction in FY23.

These improvements combined to generate a £7.2m reduction in net bank debt, down to £7.3m representing 0.7x FY24 adjusted EBITDA (£9.9m) and secured by £7.6m of freehold properties within the Group.

Our underlying cost base is lower heading into FY25 and until the macro-economic climate and consumer confidence show sustained signs of recovery, tight cost control will remain a priority.

Revenue

	FY24	FY23	Change on FY23
	£m	£m	%
UK revenue	83.1	82.0	+1%
European revenue	59.2	67.0	-12%
Rest of the World revenue	2.1	3.0	-31%
Revenue	144.4	152.0	-5%

Revenue decreased £7.6m (5%) on FY23 with a 6% decrease in H1 and 5% in H2.

UK revenue of £83.1m was £1.1m (1%) ahead of last year reflecting the strength of brand and proposition in our most mature market, and new initiatives such as second-hand being launched in the UK first. This takes our estimated UK market share to 9.5% (FY23: 9.1%).

European revenues of £59.2m were £7.8m (12%) behind FY23, reversing the £5.0m increase last year and reflecting a challenging market in certain European territories.

Revenues from sales outside of Europe accounted for 1.4% of total revenue (FY23: 2.0%).

	FY24	FY23	Change on FY23
	£m	£m	%
Other-brand product revenue	100.4	106.2	-5%
Own-brand product revenue	37.6	38.9	-3%
Carriage income	5.8	6.2	-6%
Other	0.6	0.7	-29%
Revenue	144.4	152.0	-5%

Own-brand revenue of £37.6m was 3% (£1.3m) down on FY23, slightly better than the overall result, and accounted for 26.0% of total revenue (FY23: 25.6%) from 8.5% (FY23: 8.0%) of SKUs. It is our ambition to grow our own-brand business and to support this we have invested in our own-brand team.

Other brand revenue of £100.4m was £5.8m (5%) behind FY23.

Carriage income of £5.8m was £0.4m (6%) behind last year, representing 4.0% of total sales compared to 4.1% last year, reflecting the Group offering more localised, cheaper delivery options.

Other revenue comprises paid for extended warranty income, and commissions earned on facilitating point-of-sale credit for retail customers. The proportion of revenue coming from these sources was 0.4% of total revenue in FY24, compared to 0.5% in FY23.

Gross profit

	FY24	FY23	Change on FY23
Product revenue (£m)	138.0	145.1	(7.1)
Product profit (£m)	43.2	43.6	(0.4)
Product margin	31.3%	30.0%	+130bps
Carriage costs (£m)	9.4	10.5	(0.9)
Carriage costs as % of sales	6.5%	6.9%	-40bps
Gross profit (£m)	39.4	39.0	0.4
Gross margin	27.3%	25.7%	+160bps

Notwithstanding a 5% decrease in revenue, gross profit was ahead of last year, reflecting improved product margins. In FY24 we benefited from the work done in FY23 on reducing stock and were able to further reduce inventory through resetting re-ordering levels rather than through price reductions, resulting in a product margin of 31.3%, 130 basis points ahead of FY23.

The Group benefits from buying scale relative to its UK competitors, and its ability to source other-branded products in Swedish Krona and Euros and receive product directly into its European distribution centres is a point of differentiation. The Group purchases its own-brand products in US Dollars and product margin can be impacted by exchange rate fluctuations.

Administrative expenses and Operating profit

Operating profit of £2.8m is £1.5m ahead of FY23 reflecting an improved gross margin and a tightly controlled cost base and includes £0.5m of one-off, non-recurring redundancy costs.

Adjusted EBITDA of £9.9m was £2.5m (34%) ahead of FY23, equating to an adjusted EBITDA margin of 6.9%.

	FY24	FY23	Change on FY23
	£m	£m	£m
UK Administrative expenses	(32.2)	(33.7)	1.5
European Administrative expenses	(4.9)	(5.0)	0.1
Administrative expenses excluding redundancy costs	(37.1)	(38.7)	1.6
Other income	0.9	0.9	-
Operating profit	2.8	1.3	1.5
Depreciation and amortisation	6.6	6.1	0.5
Unadjusted EBITDA	9.4	7.4	2.0
Exceptional item – Redundancy costs	0.5	-	
Adjusted EBITDA	9.9	7.4	2.5
Adjusted EBITDA margin	6.9%	4.8%	+210bps

Administrative expenses decreased by £1.6m (4%) on FY23 in-line with the 5% decrease in revenue, increasing slightly as a % of sales up from 25.5% in FY23 to 25.7%.

Combined marketing and labour costs of £23.6m (FY23: £25.0m) accounted for 64% of administrative expenses (FY23: 65%):

- Marketing expenditure decreased 5% in FY24 to £10.1m (FY23: £10.6m) equating to 7.0% of revenue in both FY24 and FY23; and
- Labour costs decreased £0.9m (6%) in FY24 to £13.5m (FY23: £14.4m) reflecting a 16% decrease in average headcount. Labour costs accounted for 9.4% of revenue (FY23: 9.5%).

Other expenses and net profit

Financial expenses of £2.2m (FY23: £1.7m) include £1.5m bank interest (FY23: £1.1m) reflecting higher SONIA interest rates, £0.4m of IFRS16 lease interest (FY23: £0.4m), and a £0.2m net foreign exchange loss (FY23: £0.2m loss).

The Group reports a profit before tax of £0.6m (FY23: loss before tax of £0.4m) that after tax translates into basic profit per share of 3.1p and diluted profit per share of 3.0p (FY23: 3.1p basic and diluted loss per share).

Cash-flow

Net debt halved from £14.5m at the start of the year down to £7.3m, representing 0.7x FY24 adjusted EBITDA (£9.9m), and secured by two freehold properties with a combined carrying value of £7.6m.

	FY24	FY23	Change on FY23
	£m	£m	£m
Opening cash	4.5	3.9	0.6
Profit/(loss) for the year	0.7	(0.6)	1.3
Movement in working capital	4.7	13.0	(8.3)
Depreciation and amortisation	6.6	6.0	0.7
Financial expense	2.1	1.7	0.4
Tax and Other operating adjustments	0.5	(0.4)	0.9
Net cash from operating activities:	14.6	19.7	(5.1)
Net cash used in investing activities:	(3.9)	(6.7)	2.8
Net cash used in financing activities:	(10.5)	(12.4)	1.9
Increase in cash in the year	0.2	0.6	(0.4)
Closing cash	4.7	4.5	0.2

In June 2023 the Group renewed its RCF at £30m for three more years with its bankers, HSBC, providing the headroom to invest in opportunities as and when they arise.

Group net debt was actively managed down by £7.2m (50%) to £7.3m following a £9.7m reduction last year, driven in large part by an £8.7m reduction in inventory. Year-end net debt peaked at £24.2m at 31 March 2022 reflecting an £11.4m investment in acquisitions, and a £17.1m investment in inventory that has been unwound in FY23 and FY24.

Net cash outflow in investing activities has been reduced to £3.9m (FY23: £6.7m outflow) including £3.7m of capitalised software development costs (FY23: £5.3m) and £0.2m property, plant and equipment additions (FY23: £1.0m). Depreciation and amortisation of £6.6m (FY23: £6.0m) is added back in 'net cash from operating activities'.

Net cash outflow from financing activities of £10.5m (FY23: £12.4m outflow) represents a £7.0m lower RCF drawdown (FY23: £9.0m decreased drawdown), £1.4m payment of lease liabilities (FY23: £1.7m), and £2.1m interest paid (FY23: £1.7m).

Balance sheet

	31 March 2024	31 March 2023	Change on 31 March 2023
	£m	£m	£m
Property, plant and equipment	10.9	11.9	(1.0)
Right-of-use assets	8.1	7.3	0.8
Software platform	12.8	12.8	-
Other intangible assets	9.2	9.2	-
Total non-current assets	41.0	41.2	(0.2)
Inventory	25.6	34.4	(8.8)
Cash	4.7	4.5	0.2
Other current assets	3.9	4.5	(0.6)
Total current assets	34.2	43.4	(9.2)
Trade payables	(6.9)	(9.3)	2.4
Lease liabilities	(1.8)	(1.1)	(0.7)
Other current liabilities	(6.6)	(8.4)	1.8
Total current liabilities	(15.3)	(18.8)	3.5
Loans and Borrowings	(12.0)	(19.0)	7.0
Lease liabilities	(7.6)	(7.5)	(0.1)
Other non-current liabilities	(1.9)	(2.1)	(0.2)
Total non-current liabilities	(21.5)	(28.6)	7.1
Net assets	38.4	37.2	1.2

Capital expenditure on property, plant and equipment totalled £0.2m across all sites.

Right-of-use assets increased to £8.1m reflecting the conclusion of a rent review at our York distribution centre in July 2023. This lease expires in 2033.

The Group capitalised £3.7m (FY23: £5.3m) of software development costs relating to our bespoke e-commerce platform, of which £2.4m was in H1 and £1.3m in H2 reflecting the reduced team-size going forward. Platform amortisation in the year of £3.7m (FY23: £3.0m) was split £1.8m in H1 and £1.9m in H2. Year-end net book value of our software platform remained at £12.8m.

Other intangible assets include £5.3m goodwill and £3.0m domain names.

Inventory of £25.6m is £8.8m (26%) lower than at 31 March 2023 reflecting planned reductions. The Board considers this to be an appropriate level to take into FY25, providing breadth and depth across categories across our distribution centres.

The Group carried net bank debt of £7.3m at the year-end (31 March 2023 net bank debt: £14.5m).

Dividends

The Board is confident in the prospects for the business and recognises the importance of generating and retaining cash reserves to support future growth, and as such the Board does not consider it appropriate to declare a dividend at this time but will continue to review this position on an annual basis.

Chris Scott

Chief Financial Officer

24 June 2024

Consolidated Statement of Profit and Loss and Other Comprehensive Income

	Note	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Revenue	2	144,384	152,039
Cost of sales		(104,947)	(112,996)
Gross profit		39,437	39,043
Administrative expenses	2,3,4	(37,609)	(38,705)
Other income	3	935	949
Operating profit before exceptional items		3,250	1,287
Exceptional items	1.3	(487)	-
Operating profit		2,763	1,287
Financial expenses	6	(2,223)	(1,694)
Financial income	6	44	-
Profit/(loss) before tax		584	(407)
Taxation	7	67	(237)
Profit/(loss) for the year		651	(644)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Revaluation of property, plant and equipment	8	-	(550)
Deferred tax movements		150	147
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation differences – foreign operations		177	-
Total comprehensive income/(loss) for the year		978	(1,047)
Basic profit/(loss) per share	5	3.1p	(3.1p)

Diluted profit/(loss) per share

5

3.0p

(3.1p)

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

Consolidated Statement of Financial Position

		Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Non-current assets	<i>Note</i>		
Property Plant and Equipment	8	10,862	11,934
Right-of-use assets	9	8,099	7,288
Intangible assets	10	22,049	22,049
		<hr/>	<hr/>
		41,010	41,271
		<hr/>	<hr/>
Current assets			
Inventories	11	25,643	34,381
Trade and other receivables	12	3,079	3,434
Corporation tax receivable		768	1,066
Cash and cash equivalents	13	4,696	4,460
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		34,186	43,341
		<hr/>	<hr/>
Total assets		75,196	84,612
		<hr/> <hr/>	<hr/> <hr/>
Current liabilities			
Trade and other payables	15	(13,478)	(17,647)
Lease liabilities	16	(1,794)	(1,130)
		<hr/>	<hr/>
		(15,272)	(18,777)
		<hr/>	<hr/>
Non-current liabilities			
Interest-bearing loans and borrowings	14	(12,000)	(19,000)
Other payables	15	(91)	(83)
Lease liabilities	16	(7,599)	(7,470)
Deferred tax liability		(1,868)	(2,048)
		<hr/>	<hr/>
		(21,558)	(28,601)
		<hr/>	<hr/>
Total liabilities		(36,830)	(47,378)
		<hr/> <hr/>	<hr/> <hr/>
Net assets		38,366	37,234
		<hr/> <hr/>	<hr/> <hr/>
Equity			
Share capital	17	2,098	2,098
Share premium	17	13,286	13,286
Foreign currency translation reserve	17	103	(74)

		Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Revaluation reserve	<i>Note</i> 17	1,171	1,203
Retained earnings	17	21,708	20,721
Total equity		38,366	37,234

The notes 1 to 18 form part of the consolidated financial report.

Company registered number: 07786708

Consolidated Statement of Changes in Equity

	Share capital £000	Share premium £000	Foreign currency translatio n reserve £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
Balance at 31 March 2022	2,098	13,286	(74)	1,606	21,120	38,036
Comprehensive loss for the year						
Loss for the year	-	-	-	-	(644)	(644)
Share based payments charge	-	-	-	-	245	245
Other Comprehensive income:						
Freehold property revaluation	-	-	-	(550)	-	(550)
Deferred tax impact of revaluation	-	-	-	147	-	147
Total comprehensive loss for the year	-	-	-	(403)	(399)	(802)
Balance at 31 March 2023	2,098	13,286	(74)	1,203	20,721	37,234
Comprehensive income for the year						
Profit for the year	-	-	-	-	651	651
Share based payments charge	-	-	-	-	154	154
Other Comprehensive income:						
Foreign currency translation difference	-	-	177	-	-	177
Deferred tax adjustment	-	-	-	-	150	150
Depreciation transfer	-	-	-	(32)	32	-
Total comprehensive income for the year	-	-	177	(32)	987	1,132
Balance at 31 March 2024	2,098	13,286	103	1,171	21,708	38,366

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

Consolidated Statement of Cash Flows

	<i>Note</i>	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Cash flows from operating activities			
Profit/(loss) for the year		651	(644)
<i>Adjustments for:</i>			
Depreciation and amortisation	3	6,642	6,081
Financial expenses and financial income	6	2,173	1,694
(Profit)/loss on sale of property, plant and equipment		(16)	17
Share based payment charge		184	282
Taxation income	7	(456)	(208)
		9,178	7,222
Decrease in trade and other receivables	12	355	14
Decrease in inventories	11	8,738	11,135
(Decrease)/increase in trade and other payables	15	(4,383)	1,865
		13,888	20,236
Tax received/(paid)	7	736	(530)
Net cash from operating activities		14,624	19,706
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		26	31
Acquisition of property, plant and equipment	8	(166)	(989)
Capitalised development expenditure	10	(3,726)	(5,319)
Business combinations: Deferred consideration	10	(25)	(419)
Acquisition of domains	10	(12)	(8)
Interest received	6	44	-
Net cash from investing activities		(3,859)	(6,704)
Cash flows from financing activities			
Interest paid		(2,106)	(1,694)
Repayment of borrowings	14	(7,000)	(9,000)
Payment of lease liabilities	16	(1,401)	(1,713)
Net cash from financing activities		(10,507)	(12,407)

	<i>Note</i>	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Net increase in cash and cash equivalents		258	595
Cash at beginning of year		4,460	3,903
Foreign exchange movement		(22)	(38)
Cash at end of year	<i>13</i>	4,696	4,460

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

Notes to the consolidated financial report

(forming part of the financial report)

General Information

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

The group financial statements consolidate those of the Company and its subsidiaries (collectively referred to as the "Group").

The 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.

At the financial year-end the Group has four trading European subsidiaries: Gear4music Sweden AB, Gear4music GmbH, Gear4music Europe Limited (formerly known as Gear4music Ireland Limited), and Gear4music Spain SL. All four are 100% subsidiaries of Gear4music Limited.

Accounting policies

1.1 Basis of preparation

The financial information set out in this announcement does not constitute statutory accounts as defined by section 434 of the Companies Act 2006.

It has been prepared in accordance with the recognition and measurement principles of UK-adopted International Accounting Standards, including IFRIC interpretations issued by the International Accounting Standards Board, and in accordance with the AIM rules and is not therefore in full compliance with IFRS. The principal accounting policies of the Group have remained unchanged from those set out in the Group's 2023 annual report. The financial statements have been prepared under the historical cost convention with the exception of land and buildings which are accounted for at fair value.

The results for the year ended 31 March 2024 have been extracted from the full accounts of the Group for that year which have not yet been delivered to the Registrar of Companies. Grant Thornton UK LLP has reported on those accounts and their report is (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The financial information for the year ended 31 March 2023 is derived from the statutory accounts for that year, which have been delivered to the Registrar of Companies. Grant Thornton UK LLP reported on those accounts and their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group.

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

Accounting period

The financial report presented covers the years ended 31 March 2024 and 31 March 2023.

Measurement convention

The financial report has been prepared on the historical cost basis except for land and buildings that are stated at their fair value.

Monetary amounts are expressed in Sterling (GBP) and rounded to the nearest £1,000.

1.2 Adoption of new and revised standards

Various new or revised accounting standards have been issued which are not yet effective.

The following new standards, and amendments to standards, have been adopted by the Group during the year ending 31 March 2024, and the impact was not material:

- IFRS 17 Insurance Contracts
- Amendments to IFRS 17
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12
- Definition of Accounting Estimates – Amendments to IAS 8

1.3 Exceptional items

The business classifies certain events as exceptional items due to their size and nature where it feels that separate disclosure would help understand the underlying performance of the business. Restructuring and transformational costs are considered on a case-by-case basis as to whether they meet the exceptional criteria. Other items are considered against the exceptional criteria based on the specific circumstances. In order for an item to be presented as exceptional items, it should typically meet at least one of the following criteria:

- It is unusual in nature or outside the normal course of business and significant in value.
- Items directly incurred as a result of either a significant acquisition or a divestment, or arising from a major business change or restructuring programme which of itself has significant impact on the Income Statement.

The presentation is consistent with the way Financial Performance is measured by management and reported to the Board. The exceptional costs in these financial statements of £487,000 relate to redundancy costs incurred during the restructure of various Head Office teams, principally Software Development. These costs were paid in full in FY24.

1.4 Going concern presumption for the period to 30 June 2025

The Group sets an annual budget against which performance is compared, and operates a monthly reporting and rolling forecasting cycle, which the board uses to ensure that the profitability, cash flow and capital requirements of the business are sufficient to ensure its ongoing viability. Management relies on weekly and monthly financial, commercial and operational reporting to monitor, assess and control

performance through the financial year. These reports form the basis upon which the board satisfies its requirements to update stakeholders with relevant financial performance and prospects.

In FY24 the Group renewed its RCF with HSBC at £30m for a further three-year period. This facility provides a good and appropriate level of headroom that has been factored into the Directors going concern assessment.

In FY23 and FY24 the Group focused on reducing its investment in inventory, thereby significantly reducing its net debt by initially £9.7m to £14.5m at 31 March 2023, and then by a further £7.2m to £7.3m at 31 March 2024.

The Group has conducted a reverse stress test where revenue was assumed to decrease 20% on a 15-month basis below a reasonable base case, and the Group was able to rely on cost reduction and working capital mitigations to continue to trade. The Group has therefore concluded that there is no plausible scenario where the Group breaches its covenants, re-affirming the assessment of the Group as a going concern.

The Directors have considered the Group's position and prospects in the period to 30 June 2025 based on its offering in the UK and Europe and concluded that potential growth rates remain strong. There is a diverse supply chain with no key dependencies.

The Group's policy is to ensure that it has sufficient facilities to cover its future funding requirements. At 31 March 2024 the Group had net debt of £7.4m (31 March 2023: £14.5m), with £4.7m cash (31 March 2023: £4.5m cash).

Having duly considered all of these factors and having reviewed the forecasts for the period to 30 June 2024, the Directors have a reasonable expectation that the Group has adequate resources to continue trading for the foreseeable future, and as such continue to adopt the going concern basis of accounting in preparing the financial statements.

2 Segmental reporting

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

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

Revenue by Geography

Year ended	Year ended
31 March	31 March
2024	2023

	£000	£000
UK	83,109	82,084
Europe	59,222	66,967
Rest of the World	2,053	2,988
	<hr/>	<hr/>
	144,384	152,039
	<hr/> <hr/>	<hr/> <hr/>

Administrative expenses by Geography

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
UK	32,669	33,678
Europe	4,940	5,027
	<hr/>	<hr/>
	37,609	38,705
	<hr/> <hr/>	<hr/> <hr/>

UK Administrative expenses of £32.7m include £487,000 of exceptional redundancy costs.

The majority of Group assets are held in the UK except for local right of use assets and property, plant and equipment, and cash in Sweden (31 March 2024: £3.2m; 31 March 2023: £3.5m), Germany (31 March 2024: £2.2m; 31 March 2023: £2.3m), Spain (31 March 2024: £1.2m; 31 March 2023: £1.5m), and Ireland (31 March 2024: £0.6m; 31 March 2023: £0.6m).

Revenue by Product category

All revenue is recognised on a point-in-time basis except for warranty income which is spread over time.

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Other-brand products	100,404	106,189
Own-brand products	37,607	38,860
Carriage income	5,809	6,187
Warranty income	411	452
Other	153	351
	<hr/>	<hr/>
	144,384	152,039
	<hr/> <hr/>	<hr/> <hr/>

3 Expenses and other income

Included in profit/loss are the following:

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Expenses		
Rentals – short-term rentals of plant & machinery	10	41
Equity-settled share-based payment charges	184	208
Depreciation of property, plant and equipment	1,227	1,414
Depreciation of right-of-use assets	1,677	1,577
Amortisation of Intangible assets	3,739	3,090
Amortisation of government grants	-	3
(Profit)/loss on disposal of property, plant and equipment	(16)	17
R&D expenditure recognised as an expense	183	280
Auditor remuneration – audit of these financial statements	72	65
Auditor remuneration – this year’s audit of financial statements of subsidiaries	80	74
Auditor remuneration – non-audit fees – Other audit related services	6	5
	<hr/> <hr/>	<hr/> <hr/>
	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Other income		
RDEC tax credits	389	445
Rental income	244	239
Other	302	265
	<hr/> <hr/>	<hr/> <hr/>
	935	949

Rental income relates to our freehold Head-office in York. ‘Other’ includes income from on-site café at York Head-office, grants, and marketing support.

4 Staff numbers and costs

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

	Year ended 31 March 2024 Nos.	Year ended 31 March 2023 Nos.
Administration	198	255
Selling and Distribution	286	318
	<hr/>	<hr/>
	484	573
	<hr/> <hr/>	<hr/> <hr/>

The aggregate payroll costs of these persons were as follows:

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Wages and salaries	14,319	16,421
Social security costs	1,681	1,948
Contributions to defined contribution plans	994	1,213
Less: capitalised as development costs	(3,473)	(5,156)
	<hr/>	<hr/>
	13,521	14,426
	<hr/> <hr/>	<hr/> <hr/>

Wages and salaries, social security costs, and staff pension costs of £487,000 (2023: nil) relating to redundancy costs are reported as 'exceptional costs' and not included in the figures above.

Directors' remuneration

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Directors' emoluments	723	717
	<hr/> <hr/>	<hr/> <hr/>

The three Executive Directors are paid through Gear4music Limited, and the three Non-Executive Directors are paid through Gear4music (Holdings) plc. The remuneration of all six Directors is included above.

The aggregate remuneration of the highest paid director was £230,000 during the year (2023: £232,000), including company pension contributions of £8,000 (2023: £9,000) that were made to a money purchase scheme on their behalf.

There are five directors (2023: five) for whom retirement benefits are accruing under a money purchase pension scheme.

5 Earnings per share

Diluted profit per share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of CSOP and LTIP dilutive potential ordinary shares into ordinary shares. In FY23 the diluted loss per share was restricted to the basic loss per share to prevent having an anti-dilutive effect.

	Year ended 31 March 2024	Year ended 31 March 2023
Profit/(loss) attributable to equity shareholders of the parent (£'000)	651	(644)
Basic weighted average number of shares	20,976,938	20,976,938
Dilutive potential ordinary shares	1,102,450	549,269
	<hr/>	<hr/>
Diluted weighted average number of shares	22,079,388	21,526,207
	<hr/>	<hr/>
Basic profit/(loss) per share	3.1p	(3.1p)
Diluted profit/(loss) per share	3.0p	(3.1p)
	<hr/>	<hr/>

6 Financial expenses and Financial income

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Bank interest	1,545	1,127
IFRS16 lease interest	490	375
Net foreign exchange loss	185	190
Unwinding of discount on deferred consideration	3	2
	<hr/>	<hr/>
Total financial expenses	2,223	1,694
	<hr/>	<hr/>

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Bank interest	44	-
Total financial income	44	-

7 Taxation

Recognised in the income statement

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Current tax expense		
UK Corporation tax	-	-
Overseas Corporation tax	32	66
Adjustments for prior periods	(82)	277
Current tax (credit)/expense	(50)	342
Deferred tax expense		
Origination and reversal of temporary differences	215	(79)
Adjustments for prior periods	(232)	(26)
Deferred tax credit	(17)	(105)
Total tax (credit)/expense	(67)	237

The corporation tax rate applicable to the company was 25% for the year ended 31 March 2024, and 19% for the period ended 31 March 2023. The deferred tax assets and liabilities at 31 March 2024 have been calculated based on that rate.

Reconciliation of effective tax rate

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Profit/(loss) for the year	651	(644)
Total tax (credit)/charge	(67)	237

Profit/(loss) before taxation	584	(407)
Current tax at 25% (2023: 19.0%)		
Tax using the UK corporation tax rate for the relevant period:	146	(61)
Non-deductible expenses	94	120
Adjustments relating to prior year – deferred tax	(232)	36
Adjustments relating to prior year – current tax	(82)	214
Impact of overseas tax rate	(4)	1
Deferred tax assets not recognised	-	1
R&D credit	11	(11)
Difference between current and deferred tax rates	-	(19)
Impact of capital allowances super deduction	-	(44)
Total tax (credit)/charge	(67)	237

8 Tangible fixed assets

Property, Plant and Equipment

	Plant and equipment £000	Fixtures and fittings £000	Motor Vehicles £000	Computer equipment £000	Land and Buildings £000	Total £000
Cost or Valuation						
At 1 April 2022	2,275	6,799	68	1,312	8,751	19,205
Additions	163	717	-	109	-	989
Revaluation decrease	-	-	-	-	(550)	(550)
Disposals	-	(124)	(29)	-	-	(153)
Balance at 31 March 2023	2,438	7,392	39	1,421	8,201	19,491
Additions	-	157	-	8	-	165
Disposals	-	-	(9)	(33)	-	(42)
Balance at 31 March 2024	2,438	7,549	30	1,396	8,201	19,614
Depreciation and impairment						
At 1 April 2022	1,536	3,437	34	935	305	6,247
Depreciation charge for the year	331	736	2	170	175	1,414
Disposals	-	(101)	(3)	-	-	(104)
Balance at 31 March 2023	1,867	4,072	33	1,105	480	7,557
Depreciation charge for the year	235	682	1	144	165	1,227

Disposals	-	-	(9)	(23)	-	(32)
Balance at 31 March 2024	2,102	4,754	25	1,226	645	8,752
Net book value as at 31 March 2024	336	2,795	5	170	7,556	10,862
Net book value as at 31 March 2023	571	3,320	6	316	7,721	11,934
Net book value as at 31 March 2022	739	3,362	34	377	8,446	12,958

Freehold property valuation – Holgate Park Head Office

At 31 March 2023 the freehold office premises at Holgate Park were revalued at market value using information provided by an independent chartered surveyor. The valuation was carried out in accordance with the provisions of RICS Appraisal and Valuation Standards ('The Red Book'). The appraisal was carried out using level 3 inputs observable inputs including prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the property in question, including plot size, location, encumbrances and current use. Market value at 31 March 2023 was confirmed at £6.5m.

Management have reviewed the fair value at 31 March 2024 and concluded that this would not be materially different. If the property had not been revalued the net book value would have been £5.0m.

Freehold property valuation – Bacup distribution centre

In December 2021 the Group acquired a 25,145 sq. ft freehold warehouse property in Bacup, Lancashire as part of the acquisition of AV Distribution Ltd. The property was valued on 10 August 2021 at £1.26m by an independent chartered surveyor on behalf of HSBC Bank plc for loan security purposes.

Management have reviewed the fair value as at 31 March 2024 and concluded that this would not be materially different.

Security

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

9 Right-of-use assets

Leasehold properties

At 31 March 2024 the Group has five leased properties comprising Distribution Centres and Showrooms in York, Sweden and Germany, and Distribution Centres in Ireland and Spain.

In July 2023 the Group concluded a rent review in relation to its York distribution centre resulting in a right-of-use asset and lease modification.

In November 2023 the Group vacated the software development office in Manchester.

The associated right-of-use assets are as follows:

	Short leasehold properties £000
Cost	
At 1 April 2022	12,135
Modifications	567
Additions	63
	<hr/>
Balance at 31 March 2023	12,765
	<hr/> <hr/>
Modifications	2,666
Net exchange differences	(178)
Disposals	-
	<hr/>
Balance at 31 March 2024	15,253
	<hr/> <hr/>
Depreciation	
At 1 April 2022	3,900
Depreciation charge for the year	1,577
	<hr/>
Balance at 31 March 2023	5,477
	<hr/> <hr/>
Depreciation charge for the year	1,677
	<hr/>
Balance at 31 March 2024	7,154
	<hr/> <hr/>
Net book value as at 31 March 2024	8,099
	<hr/> <hr/>
Net book value as at 31 March 2023	7,288
Net book value as at 31 March 2022	8,235
	<hr/> <hr/>

10 Intangible assets

FY24 Software platform additions comprise £3,473,000 (2023: £5,205,000) of internally developed additions being 95% of software developer wages and salaries, £149,000 (2023: £87,000) of capitalised interest, £78,000 (2023: nil) of externally developed additions, and £26,000 (2023: £27,000) of software licences for tools used in development.

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

	Goodwill £000	Software platform £000	Brand £000	Domains £000	Other Intangibles £000	Total £000
Cost						
At 1 April 2022	5,324	19,686	1,372	3,023	149	29,554
Additions	-	<u>5,319</u>	-	<u>8</u>	-	<u>5,327</u>
Balance at 31 March 2023	<u>5,324</u>	<u>25,005</u>	<u>1,372</u>	<u>3,031</u>	<u>149</u>	<u>34,881</u>
Additions	-	<u>3,726</u>	-	<u>12</u>	-	<u>3,738</u>
Balance at 31 March 2024	<u>5,324</u>	<u>28,731</u>	<u>1,372</u>	<u>3,043</u>	<u>149</u>	<u>38,619</u>
Amortisation						
At 1 April 2022	-	9,167	563	-	12	9,742
Amortisation for the year	-	<u>3,050</u>	-	<u>3</u>	<u>37</u>	<u>3,090</u>
Balance at 31 March 2023	-	<u>12,217</u>	<u>563</u>	<u>3</u>	<u>49</u>	<u>12,832</u>
Amortisation for the year	-	<u>3,699</u>	-	<u>3</u>	<u>37</u>	<u>3,739</u>
Balance at 31 March 2024	-	<u>15,916</u>	<u>563</u>	<u>6</u>	<u>85</u>	<u>16,570</u>
Net book value as at 31 March 2024	<u>5,324</u>	<u>12,814</u>	<u>809</u>	<u>3,037</u>	<u>64</u>	<u>22,049</u>
Net book value as at 31 March 2023	5,324	12,788	809	3,028	100	22,049
Net book value as at 31 March 2022	<u>5,324</u>	<u>10,519</u>	<u>809</u>	<u>3,023</u>	<u>137</u>	<u>19,812</u>

Other intangibles

Other intangibles comprise customer relationships, trademarks, and domain names acquired on acquisition of AV Distribution Ltd.

Goodwill

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

On 1 January 2017 goodwill arose on the acquisition of a software development business from Venditan Limited, which effectively brought development of the group's proprietary software platform in-house

On 21 June 2021 goodwill arose on the acquisition of the business and assets of Premier Music International Limited and High House 123 Limited Liability Partnership for £1.685m.

On 1 December 2021 goodwill arose on the acquisition of the share capital of AV Distribution Ltd, an online retailer of Home Cinema and HiFi equipment, for total consideration of £6.05m (on a cash free, debt free basis).

Goodwill balances are denominated in Sterling:

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Gear4music Limited	417	417

Software development business	1,431	1,431
Premier business	960	960
AV Distribution Ltd	2,516	2,516
	<hr/>	<hr/>
	5,324	5,324
	<hr/> <hr/>	<hr/> <hr/>

Impairment testing

In accordance with IAS 36 Impairment of Assets, the Group reviews the carrying value of its intangible assets. A detailed review was undertaken at 31 March 2024 to assess whether the carrying value of assets was supported by the net present value in use calculations based on cash-flow projections from formally approved budgets and longer-term forecasts.

Intangible assets include the proprietary software platform, the Gear4music and Premier brand names, the AV.com domain, goodwill and ‘other intangibles’. Goodwill and the AV.com domain have an indefinite useful life.

A Cash Generating Unit (“CGU”) is defined as the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups thereof. The Group has considered its operational and commercial configuration at 31 March 2024 and concluded it has a single CGU to which all intangibles are allocated. The carrying value of the CGU includes these intangibles, the Bacup freehold, the right-of-use assets, and all other PPE was £36.0m (2023: £35.9m). An impairment review has been performed on this CGU. The recoverable amount of this CGU has been determined based on value-in-use calculations. In assessing value in use, a two-year forecast to 31 March 2026 was used to provide cash-flow projections that have been discounted at a pre-tax discount rate of 13.58% (2023: 13.22%). The cash flow projections are subject to key assumptions in respect of revenue growth, gross margin performance, overhead expenditure, and capital expenditure. Management has reviewed and approved the assumptions inherent in the model:

- Annual forecast revenue growth of 6% in FY25; 5% in FY26 and 2% from FY27 based on growth by geographical market, based on market size and estimate of opportunity, trends, and Management’s experience and expectation.
- FY28-29 and into perpetuity revenue growth of 2%;
- Gross margins are forecast to be maintained in the FY25-FY26 forecast period; and
- Wage increases are a function of recruitment and review of current staff, with a range of % increases.

No impairment loss was identified in the current year (2023: £nil). The valuation indicates significant headroom and a number of reasonable revenues, profitability and capital expenditure-based sensitivities were put through the model, and the results did not result in an impairment.

11 Inventories

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Finished goods	25,643	34,381
	<hr/> <hr/>	<hr/> <hr/>

The cost of inventories recognised as an expense and included in cost of sales in the year amounted to £95.8m (2023: £102.6m).

Management has included a provision of £52,000 (31 March 2023: £50,000), representing a 100% provision against returns stock subsequently found to be faulty, that is retained to be used for spare parts on the basis there is no direct NRV value, and a provision based on the expected product loss on dealing with returns stock.

12 Trade and other receivables

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Trade receivables	1,125	1,243
Social security and other taxes	538	260
Prepayments	1,416	1,931
	<hr/>	<hr/>
	3,079	3,434
	<hr/> <hr/>	<hr/> <hr/>

Corporation tax asset of £768,000 (31 March 2023: £1,066,000) has been disclosed separately on the face of balance sheet in both years, in accordance with IAS 1.54(n).

Credit risk and impairment

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

Trade receivables comprise balances dues from schools and colleges, and funds lodged with payment providers. The value of the Expected Credit Loss ('ECL') is immaterial.

Customer receivables

The Group faces low credit risk as customers typically pay for their orders in full on shipment of the product, with the only exception being a small number of education accounts with schools and colleges that have 30-day terms (2.7% of 2024 revenues; 2.9% of 2023 revenues).

Funds lodged with payment providers

Funds lodged with Amazon, Digital River, Klarna and V12 Retail Finance totalled £508,000 on 31 March 2024 (31 March 2023: £581,000) and are included in Trade receivables. Credit risk in relation to cash held with financial institutions is considered very low risk, given the credit rating of these organisations.

13 Cash and cash equivalents

Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
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Cash and cash equivalents	4,696	4,460
	<u> </u>	<u> </u>

Cash-in-transit to the Group at 31 March 2024 was £434,000 (31 March 2023: £354,000) and is included above, representing uncleared lodgements where money providers have notified transfers pre-year-end.

14 Interest-bearing loans and borrowings

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

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Bank loans	12,000	19,000
	<u> </u>	<u> </u>
	12,000	19,000
	<u> </u>	<u> </u>

Revolving Credit Facility

At 31 March 2024 bank loans were drawn loans under the Group's three-year £30m Revolving Credit Facility ('RCF') with HSBC. This facility expires in June 2026 and is secured by a debenture over the Group's assets.

Loans incur interest at variables rates linked to SONIA, with a margin non-utilisation fee.

Changes in interest-bearing loans and borrowings

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Opening balance	19,000	28,000
	<u> </u>	<u> </u>
<i>Changes from financing cash flows</i>		
Proceeds from loans and borrowings	-	-
Repayment of borrowings	(7,000)	(9,000)
	<u> </u>	<u> </u>
Total changes from financing cash flows	(7,000)	(9,000)
	<u> </u>	<u> </u>
<i>Other changes</i>		

Interest expense (note 6)	1,545	1,127
Interest expense capitalised into intangible assets (note 10)	149	88
Interest paid	(1,667)	(1,080)
Movement in interest accrual (included in accruals and deferred income – note 15)	(30)	(137)
Fair value movement on loans	3	2
	-----	-----
Total other changes	-	-
	-----	-----
Closing balance	12,000	19,000
	=====	=====

Other bank facilities

Gear4music has a number of guarantees in relation to VAT, and issues letter of credits to its suppliers. At 31 March 2024 the Group had guarantees of £724,000 in place (31 March 2023: £654,000) and letters of credit of £57,000 (31 March 2023: £63,000).

15 Trade and other payables

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Current		
Trade payables	6,895	9,300
Accruals and deferred income	3,585	5,099
Deferred consideration	23	23
Other taxation and social security	2,975	3,225
	-----	-----
	13,478	17,647
	=====	=====
Non-current		
Accruals and deferred income	91	61
Deferred consideration	-	22
	-----	-----
	91	83
	=====	=====

Year-end accruals and deferred income included:

£1,353,000 (31 March 2023: £1,907,000) relating to customer prepayments; and

£90,000 (31 March 2023: £61,000) relating to the estimated cash bonuses accrued relating to the CSOP schemes.

The Directors consider the carrying amount of other 'trade and other payables' to approximate their fair value. The interest expense of £2,000 (2023: £2,000) in relation to the unwinding of the discount is disclosed in note 6.

Deferred consideration

In March 2021 the Group acquired the Eden brand and associated assets from Marshall Amplification plc for £140,000 of which £100,000 was deferred and payable in four equal instalments of £25,000 on the anniversary of the completion date. At 31 March 2024 one instalment remain unpaid. These amounts are valued in the accounts at fair value and subsequently amortised.

16 Lease liabilities

Short-term leases and leases of low value of £10,000 (31 March 2023: £41,000) are included in administrative expenses.

The Group has leases for motor vehicles, and five properties (31 March 2023: six). 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.

The table below describes the nature of the Group's leasing activities by type of right-of-use asset:

Right-of-use asset	No of right-of-use assets leased	Range of remaining term	Average remaining lease term	No of leases with extension options	No of leases with options to purchase	No of leases with termination options
Property	5	28 to 108-months	52-months	-	-	-
Motor vehicles	2	6 to 20-months	13-months	-	2	-

Future minimum lease payments due at 31 March 2024 were as follows:

	Within 1 year £000	1-5 years £000	More than 5 years £000
Lease payments	2,138	7,011	1,923
Finance charge	(394)	(1,124)	(161)
Net present value	1,744	5,887	1,762

Future minimum lease payments due at 31 March 2023 were as follows:

	Within 1 year £000	1-5 years £000	More than 5 years £000
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Lease payments	2,093	7,634	117
Finance charge	(223)	(1,021)	-
	<hr/>	<hr/>	<hr/>
Net present value	1,870	6,613	117
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

	31 March 2024	31 March 2023
	£000	£000
Current	1,794	1,130
Non-current	7,599	7,470
	<hr/>	<hr/>
Total	9,393	8,600
	<hr/> <hr/>	<hr/> <hr/>

Changes in lease liabilities:

	Year ended 31 March 2024	Year ended 31 March 2023
	£000	£000
Opening balance	8,600	9,684
	<hr/>	<hr/>
Cash flow lease payments	(1,350)	(1,713)
New leases	-	63
Modifications	2,143	566
	<hr/>	<hr/>
Total changes	793	(1,084)
	<hr/>	<hr/>
Closing balance	9,393	8,600
	<hr/> <hr/>	<hr/> <hr/>

In July 2023 the Group concluded a rent review in relation to its York distribution centre resulting in a lease modification.

17 Share capital and reserves

	Year ended 31 March 2024	Year ended 31 March 2023
	Number	Number
Share capital		

Authorised, called up and fully paid:

Ordinary shares of 10p each	20,976,938	20,976,938
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The Company has one class of ordinary share and each share carries one vote and ranks equally with the other ordinary shares in all respects including as to dividends and other distributions.

Share premium

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Opening	13,286	13,286
Issue of shares	-	-
Closing	13,286	13,286

Proceeds received in addition to the nominal value of the shares issued have been included in share premium, less registration and other regulatory fees and net of related tax benefits.

Foreign currency translation reserve

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Opening	(74)	(74)
Translation gain	177	-
Closing	103	(74)

The foreign currency translation reserve comprises exchange differences relating to the translation of the net assets of the Group's foreign subsidiaries from their functional currency into the parent's functional currency.

Revaluation reserve

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Opening	1,203	1,606
Freehold revaluation	-	(550)

Deferred tax	-	147
Depreciation transfer	(32)	-
	<hr/>	<hr/>
Closing	1,171	1,203
	<hr/> <hr/>	<hr/> <hr/>

The revaluation reserve represents the unrealised gain generated on revaluation of the freehold office property in York on 28 February 2018, 31 March 2020 and 31 March 2023. It represents the excess of the fair value over historic net book value.

Retained earnings

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Opening	20,721	21,120
Share based payment charge	154	245
Deferred tax	150	-
Depreciation transfer	32	-
Profit/(loss) for the year	651	(644)
	<hr/>	<hr/>
Closing	21,708	20,721
	<hr/> <hr/>	<hr/> <hr/>

Retained earnings represents the cumulative net profits recognised in the consolidated income statement.

18 Related parties

Transactions with key management personnel

The compensation of key management personnel is as follows:

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Key management emoluments including social security costs	716	711
Short-term employee benefits	7	6
Company contributions to money purchase pension plans	25	31
	<hr/>	<hr/>
	748	748
	<hr/> <hr/>	<hr/> <hr/>

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

Five directors are accruing retirement benefits under a money purchase scheme (2023: five).

Share based payments

LTIP (2023)

On 21 July 2023 the Group adopted a replacement long term incentive plan ('LTIP') with share awards made to key members of the management team (note 22). Andrew Wass, Gareth Bevan and Chris Scott are participating with 250,000 'E' ordinary shares awarded in Gear4music Limited.

The new LTIP replaced the two existing LTIPs established in 2018 (and subsequently re-based in 2020) and in 2021 in full, with all awards made under those LTIPs replaced and cancelled.

The initial subscription cost for Andrew Wass and Gareth Bevan was paid with the proceeds received from the redemption by G4M Ltd of the 'C' ordinary shares and 'D' ordinary shares from the 2018 and 2021 LTIPs respectively at their nominal value. The initial subscription cost for Chris Scott was paid with the proceeds received from the redemption by G4M Ltd of the 'C' ordinary shares and 'D' ordinary shares from the 2018 and 2021 LTIPs respectively at their nominal value, and £1,580 in cash paid by way of a cash bonus.