RNS Number : 5565P
Gear4music (Holdings) PLC
21 June 2022

21 June 2022

Gear4music (Holdings) plc
Audited results for the year ended 31 March 2022
"Good progress following an exceptional prior year"

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 2022.

FY22 Highlights [1]:

£m	Year ended 31 March 2022 ("FY22")	Year ended 31 March 2021 ("FY21")	Year ended 31 March 2020 ("FY20")	Change on FY21	Change on FY20
Revenue	147.6	157.5	120.3	-6%	+23%
Gross profit	41.1	46.4	31.2	-11%	+32%
Gross margin	27.9%	29.4%	25.9%	-150bps	+200bps
EBITDA	11.2	19.8	7.8	-43%	+44%
PBT	5.0	14.6	3.1	-66%	+61%

- Gross profit of £41.1m was 11% below an exceptional, Covid boosted FY21 and 32% ahead of FY20
- Reported EBITDA [2] of £11.2m is 43% below FY21 and 44% ahead of FY20
- Net debt at year end of £24.2m (31 March 2021: net cash £2.7m) with new £35m RCF, partially used for M&A (£11.4m) and an increase in stock (£17.1m) to protect the business against supply chain issues and price inflation. Net debt expected to reduce in FY23 with reduction in stock.
- Active customers of 0.92m is 13% behind FY21 and 14% ahead of FY20
- Conversion improved to 4.1% from 3.7% in FY21 and 3.4% in FY20
- Trading in line with consensus market expectations for FY23

[1] *FY20 shown for comparison as FY21 was exceptional due to the positive impact of COVID-19 lockdowns.*

[2] *Includes £0.2m of one-off M&A costs and £0.3m share option costs.*

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

"During FY21, Gear4music was reportedly the world's fastest growing large online retailer of musical instruments and music equipment*, being uniquely positioned to serve customers during Covid lockdowns. As previously reported, this meant our FY21 financial results were exceptional, and comparing FY22 against FY20 pre-pandemic levels provides a better indication of the progress the business has made.

I am pleased to be reporting FY22 full year results today that are slightly ahead of our previous expectations, with EBITDA of £11.2m and pre-tax profit of £5m. These results are a significant improvement on FY20 pre-pandemic levels, showing the continued growth and development of our business, and are a testament to the hard work and determination of our talented teams.

In April 2021, we agreed a new £35m borrowing facility with HSBC which, as planned, was partially utilised by making acquisitions totalling £11.4m to help drive future growth. We also deliberately invested over £17m into additional short-term inventory, to ensure continuing high levels of customer service and strong website conversion during what has been a prolonged period of supply chain disruption. We continue to have a significant amount of headroom within our banking facilities and covenants, and during FY23 we expect the additional inventory will

reduce, and our year-end net debt position will decrease accordingly.

We have a strong pipeline of growth orientated projects due to be deployed during FY23, including the launch of AV.com into Europe and our second-hand platform, alongside multiple new product releases, including from the recently acquired Premier brand which celebrates its 100th anniversary.

As previously stated, weaker consumer confidence across the broader retail landscape is likely to continue impacting our progress during H1, although alongside careful overhead cost management we believe our growth initiatives will help offset these headwinds and provide opportunities for stronger growth during H2. We continue to trade in line with market expectations for FY23** and remain confident in our medium and long-term profitable growth strategy."

** Source = Music Trades: Worldwide largest 20 online retailers; 2021 sales data*

*** Gear4music believes that consensus market expectations for the year ending 31 March 2023 are currently revenue of £163.9 million and EBITDA of £11.9 million.*

ENDS

Enquiries:

Gear4music +44 (0)20 3405 0205
Andrew Wass, Chief Executive Officer
Chris Scott, Chief Financial Officer

Singer Capital Markets - Nominated Adviser and Joint Broker Peter Steel/Amanda Gray, Corporate Finance +44 (0)20 7496 3000
Tom Salvesen, Corporate Broking

Investec Bank plc - Joint Broker +44 (0)20 7597 5970
David Flin
Alex Wright
Alice King

Alma PR - Financial PR +44 (0)20 3405 0205
Rebecca Sanders-Hewett Gear4Music@almapr.co.uk
David Ison
Joe Pederzolli
Josh Royston

About Gear4music (Holdings) plc

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

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

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

Chairman's statement

I am pleased to report on what we consider to be a strong set of results during what has been an unusual and challenging period. The year started with us all having to come to terms with life post Covid, and ended with war in Eastern Europe and the highest rate of inflation seen in recent times, impacting on consumer confidence and discretionary spending.

Operational and Commercial progress

The FY22 financial results were always going to pale in comparison to what was an exceptional FY21, but represent continued improvement relative to a more normal trading period in FY20. Achieving these results reflects on the significant efforts of the Executive and Senior Management team, and the hard work, passion and dedication of all our colleagues across the business.

Post Covid, we remain vigilant and have rolled out a phased return to the office as we strongly believe working closely together across teams and departments, collaborating and communicating together, is best done in person and is fundamental to the long-term success of our Group. We have retained some flexible working practices and are well set to respond to any future developments.

The addition of a committed three-year £35m Revolving Credit Facility in April 2021 enabled the Group to progress acquisition opportunities and make investments positioning the Group well to be able to thrive in the future. The addition of the Premier brand to the growing own-brand stable, and the diversification into the large Audio-Visual ('AV') market, albeit early stage, makes for exciting times ahead.

In FY22, the Group faced and addressed lingering challenges of the UK leaving the EU. The addition of two new distribution centres in Europe has improved the Group's European proposition, increased capacity and puts the Group in a stronger position heading into FY23.

The competitive retail landscape in musical instruments and equipment is seeing a continued channel shift to online, albeit understandably at lower online penetration levels than during lockdowns. We expect the current challenging economic environment will add further pressure to less agile competitors already struggling post-Covid, thereby allowing us to take further market share. This, in turn, may present future growth opportunities for the Group.

Environmental, Social and Governance

We understand the importance of sustainable business practices on our physical and social environments and the role we must play. We acknowledge there is increasing interest from a wide range of stakeholders on the various impacts that the business has, and what it is doing to improve the outcomes.

During the year, we combined all of the relevant work already being done across our business and formalised it in our ESG policy. We look forward to reporting continued progress in FY23.

Outlook

Against a backdrop of significant geo-political and macro-economic uncertainties affecting consumer confidence across Europe, and having just come out of a global pandemic makes predicting the year ahead less straightforward. Nevertheless, alongside our new growth initiatives, the Board remains confident that our customer proposition, enhanced operational infrastructure and balance sheet will enable the Group to achieve its business objectives, namely accelerating market share gains and delivering operational efficiencies, during the current financial year and beyond.

Ken Ford
Chairman
20 June 2022

Chief Executive's Statement

Financial KPIs

	FY22	FY21	FY20	**Change on FY21**	Change on FY20
Revenue *	**£147.6m**	£157.5m	£120.3m	**-6%**	+23%
UK Revenue *	**£82.6m**	£78.7m	£61.8m	**+5%**	+34%
International Revenue *	**£65.0m**	£78.8m	£58.5m	**-18%**	+11%
Gross margin	**27.9%**	29.4%	25.9%	**-150bps**	+200bps
Gross profit	**£41.1m**	£46.4m	£31.2m	**-11%**	+32%
Total Admin expenses *	**£35.9m**	£31.6m	£27.7m	**+13%**	+30%
European Admin expenses *	**£4.6m**	£3.8m	£2.5m	**+21%**	+84%
EBITDA					

EBITDA	**£11.2m**	£19.8m	£7.8m	**-43%**	+44%
Profit before tax	**£5.0m**	£14.6m	£3.1m	**-66%**	+63%
Net (debt)/cash **	**(£24.2m)**	£2.7m	(£5.5m)	**-£26.9m**	-18.7m

* See note 3 of the Financial information

** See notes 14 and 15 of the Financial information

Commercial KPIs

	FY22	FY21	FY20	**Change on FY21**	Change on FY20
Website visitors	**28.8m**	36.0m	28.4m	**-20%**	+1%
Conversion rate	**4.06%**	3.69%	3.29%	**+37bps**	+77bps
Average order value	**£125**	£116	£117	**+8%**	+7%
Active customers	**921,000**	1,064,000	807,000	**-13%**	+14%
Products listed	**62,400**	57,900	54,200	**+8%**	+15%

Business review

Compared with pre-pandemic levels, the business made solid progress during FY22, with tangible improvements in revenues, margins and profitability being achieved despite the challenging macro environment and significant operational difficulties that were created by the new UK-EU customs border, as a result of Brexit.

During the year, we have had to navigate a period of worldwide supply chain disruption, cost price inflation, and weakening consumer confidence, which makes the level of retained gross margins following the exceptional FY21 a notable achievement that reflects the tenacity of our commercial teams.

Highlights from the year included securing a new £35m committed banking facility that enabled the acquisitions of AV distribution Ltd and Premier, the opening of two new distribution hubs in Ireland and Spain, and launching AV.com, our new retail brand focusing on the Home Audio Visual market.

Revenues were supported through FY22 by a good recovery in live-sound categories such as PA, DJ and Lighting products as musicians return to gigging and festivals have opened up again. Our Home Audio Visual category has also grown following the launch of AV.com in January 2022.

We deliberately invested into additional inventory during FY22, utilising our banking facilities, to help mitigate the consequences of supply chain disruption. Alongside funding acquisitions, this meant our levels of borrowing increased during the period, and we expect to see this reducing as the financial year progresses.

We look forward to building on the progress of FY22 and maintaining the high levels of service our new and returning customers have come to expect, supported by the deployment of multiple e-commerce platform upgrades and ongoing growth initiatives.

Growth Strategy & Acquisitions

Development of our bespoke platform remains central to our digital growth strategy, and during FY23 we plan to launch some significant new features and developments. Having grown our in-house team of software developers to 90 people, we are in a strong position to evolve and improve our customer proposition at pace.

Our second-hand platform is due to launch during FY23 and is designed to extend the lifecycle of musical instruments and equipment by providing a quick and easy way for customers to release value from products they no longer use, whilst making good quality, warrantied second hand products accessible to those who may not necessarily want or be able to purchase a new product. Helping us achieve a more circular and environmentally sustainable business, this

platform has the potential to significantly increase our addressable market size.

Following a successful UK launch, AV.com will be launched across Europe, utilising our existing European e-commerce platform, localisation technology and distribution infrastructure to significantly increase our addressable market size.

With own-brand products generating over £38m in sales last year we have a proven track record of success in sourcing and developing unique products that fit alongside the world's best-known brands. Following on from the acquisitions of Premier and Eden, we will further refine and accelerate our own-brand strategy with the launch of G4M, a new premium own-brand range suitable for worldwide distribution, and AVCOM, featuring products focused on the Home Audio Visual market.

Trading outlook

As a result of Brexit, Covid, and now the war in Ukraine, the general outlook for many retailers during 2022 remains challenging and difficult to predict, with increasing product and overhead costs forcing up product retail prices and potentially impacting profits.

To help combat these challenges, we have a strong pipeline of growth orientated projects launching in FY23, and we will retain a sharp focus on productivity, efficiency and overhead cost control.

Inflationary pressures and weaker consumer confidence are likely to constrain growth in profitability in the short term. However, with the strategies and actions we are taking, along with our strong balance sheet and significant working capital headroom, we believe we remain well positioned to take market share and are confident in our medium and longer-term profitable growth strategy.

Andrew Wass
Chief Executive Officer
20 June 2022

Chief Financial Officer's statement

Overview

As an online retailer, following on from an exceptional FY21 trading period boosted by the effects of COVID lockdowns was always going to be a tough act to follow. However, relative to FY20, a more normal trading period, our FY22 results are strong and show good improvement, with revenue growth of 23%, a gross margin improvement of 200bps, and an increase of £3.4m and £1.9m in EBITDA and PBT respectively.

We started the year by securing a £35m RCF facility with HSBC to enable us to capitalise on M&A opportunities as and when they arose, and to invest in stock during a period of supply chain uncertainty and ahead of inflationary price increases. We report good progress on both fronts putting us in a strong position heading into FY23.

Post-Brexit challenges limited our ability to cost-effectively ship products from the UK to customers in Europe in a timely manner. This materially affected our UK-EU cross-border revenue, contributing to a reduction in international revenue of £13.8m (18%) during FY22. We responded by opening new distribution centres in Ireland and Spain in H2 and we expect to see a meaningful impact in FY23.

In December 2021, we acquired AV Distribution Ltd and re-platforming on to and the launch of AV.com is an exciting first step diversifying into the significant Audio-Visual market.

Revenue

	FY22	FY21	FY20
	£m	£m	£m
UK revenue	**82.6**	78.7	61.8
International revenue	**65.0**	78.8	58.5
Revenue	**147.6**	**157.5**	**120.3**

Revenue decreased £9.9m (6%) on an exceptional FY21 period that had benefited from unusually high demand as physical stores closed during COVID lockdowns and the benefits of playing musical instruments and equipment on mental health and wellbeing were recognised. Revenue increased £27.3m (23%) relative to a more normal trading period in FY20, equating to compound growth of 10.8% per annum.

UK revenue continued to grow, being less impacted by Brexit and temporarily boosted by European competitors facing similar shipping challenges into the UK. UK revenue of £82.6m was £3.9m (5%) ahead of a COVID impacted FY21, and £20.8m (34%) ahead of FY20. This takes our estimated UK market share up to 9.2% (FY21: 8.9%; FY20: 7.2%).

After the UK left the EU, our European sales that would previously have been fulfilled from the UK markedly decreased as it took longer and cost more to ship to European customers, weakening our proposition relative to local retailers. As a consequence, international revenue decreased by £13.8m (18%) on FY21 and increased £6.5m (11%) on FY20. The addition and scaling up of two new distribution centres in Ireland and Spain has improved our proposition heading into FY23.

Revenues from sales outside of Europe accounted for 1.4% of total revenue in FY22 compared to 1.3% in both FY21 and FY20.

Revenue in H1 was considered a stronger result by management, being just 8% down on peak COVID numbers and 31% up on FY20 H1, whereas H2 revenue was 5% down against a weaker comparative and 17% up on FY20 H2.

	FY22	FY21	FY20
	£m	£m	£m
Other-brand product revenue	**102.5**	104.2	79.4
Own-brand product revenue	**38.1**	45.4	35.4
Carriage income	**6.3**	7.1	4.9
Other	**0.7**	0.8	0.6
Revenue	**147.6**	**157.5**	**120.3**

We continue to make good progress in our own-brand business with revenues of £38.1m accounting for 26% of total revenue (FY21: 29%) from just 4,200 SKUs representing 7% of the total range (FY21: 3,800 SKUs). The addition of the Premier brand in particular is an exciting addition and opportunity heading in to its centenary year.

Own-brand revenue was £7.3m (16%) below an exceptional FY21 which was boosted by high demand for beginner-level products during COVID lockdowns, and limited availability of certain other-branded products. Furthermore, many bulky own-brand packs would traditionally have been shipped from the UK into Europe, and this was a category impacted post-Brexit and has since improved with increased stock held locally in Europe and more, better local carrier options. Relative to a more normal trading period, own-brand sales were £2.7m (8%) up on FY20.

Other brand revenue was £1.7m (2%) down on FY21 and £23.1m (29%) up on FY20.

Carriage income decreased by £0.8m (11%) to £6.3m linked to lower product sales, and less cross UK-EU border shipments.

Other revenue comprises paid for extended warranty income, and commissions earned on facilitating point-of-sale credit for retail customers. The proportion of revenues coming from these sources was 0.5% of total revenue in FY22, FY21 and FY20.

Gross profit

	FY22	FY21	FY20	**Change on FY21**	Change on FY20
Product sales (£m)	**140.6**	149.6	114.8		
Product profit (£m)	**45.2**	50.9	35.1	**-11%**	+29%
Product margin	**32.1%**	34.1%	30.5%	**-200bps**	+160bps
Carriage costs (£m)	**10.3**	11.7	8.8	**-12%**	+17%
Carriage costs as % of sales	**7.0%**	7.4%	7.3%	**-40bps**	-30bps
Gross profit (£m)	**41.1**	46.4	31.2	**-11%**	+32%
Gross margin	**27.9%**	29.4%	25.9%	**-150bps**	+200bps

In FY22, we maintained our pricing discipline established in FY20 and carried through FY21, and delivered a gross margin of 27.9% which was 250bps behind an exceptional FY21 period where prices were increased to manage demand, and 200bps ahead of FY20.

We significantly invested in stock throughout the year as a precautionary measure against supply chain disruption, and to lock in cost prices early in a period of increasing cost-price

inflation. This created margin opportunities in FY22 and puts us in a strong position heading into FY23.

Product margin in FY22 was impacted by sales mix, with relatively less own-brand sales (26% of total sales) than in FY21 and FY20 (both 29%).

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 an important point of differentiation.

The Group purchases its own-brand products in US Dollars and product margin can be impacted by exchange rate fluctuations.

Gear4music includes 'costs of delivery' within cost of sales which is a different accounting treatment to some other e-commerce retailers. Delivery costs were £10.3m in the period and represented 7.0% of total revenue (FY21: 7.4%), and an illustrative adjusted gross margin would be 34.9% (FY21: 36.8%).

Administrative expenses and Operating profit

Operating profit of £6.1m is £9.3m (60%) below FY21, and a £2.0m (49%) improvement on FY20.

	FY22	FY21	FY20
	£m	£m	£m
UK Administrative expenses	**(31.3)**	(27.8)	(25.2)
European Administrative expenses	**(4.6)**	(3.8)	(2.5)
Total Administrative expenses	**(35.9)**	**(31.6)**	**(27.7)**
Other income	**0.8**	0.7	0.6
Operating profit	**6.1**	**15.4**	**4.1**
Depreciation and amortisation	**5.1**	4,4	3.7
EBITDA	**11.2**	**19.8**	**7.8**

Total administrative expenses increased by 13% (£4.3m) on FY21 relative to a revenue decrease of 6%, principally due to a more normal marketing return and continued investment in our people.

Combined marketing and labour costs of £23.9m (FY21: £21.5m) accounted for 67% of total administrative expenses (FY21: 68%):

- Marketing expenditure increased in FY22 to £10.8m (FY21: £9.2m) equating to 7.3% of revenue compared to 5.9% last year and 7.7% in FY20, as the business returned to more normal trading and competitive conditions; and

- Labour costs increased 7% in FY22 to £13.1m (FY21: £12.3m) reflecting an 8% increase in average headcount. Labour costs accounted for 8.9% of revenue (FY21: 7.8%).

FY22 EBITDA of £11.2m is £8.6m lower than FY21 and £3.4m higher than FY20.

Other expenses and net profit

Financial expenses of £1.1m (FY21: £0.8m) include £0.5m bank interest as the new RCF was increasingly utilised as the year progressed (FY21: £0.2m), £0.4m of IFRS16 lease interest (FY21: £0.4m), and a £0.2m net foreign exchange loss (FY21: £0.2m loss).

The Group reports profit before tax of £5.0m (FY21: £14.6m) that after tax translates into a basic EPS of 17.8p (FY21: 60.3p) and diluted EPS of 17.3p (FY21: 59.7p).

Cash-flow

	FY22	FY21	FY20
	£m	£m	£m
Opening cash	**6.2**	7.8	5.3
Profit for the year	**3.7**	12.6	2.6
Movement in working capital	**(16.2)**	(4.9)	(0.9)
Depreciation and amortisation	**5.1**	4.4	3.7
Financial expense	**1.1**	0.8	1.0
Tax and Other operating	**(1.3)**	2.0	1.0

adjustments			
Net cash (used in)/from operating activities:	**(7.6)**	14.9	7.4
Net cash used in investing activities:	**(16.5)**	(4.5)	(3.9)
Net cash from/(used in) financing activities:	**21.8**	(12.0)	(1.0)
Decrease in cash in the year	**(2.3)**	(1.6)	2.5
Closing cash	**3.9**	6.2	7.8

In April 2021 the Group secured a £35m RCF with its bankers, HSBC, to enable it to invest in opportunities if, as and when they arose.

Group indebtedness increased £26.9m from a £2.7m net cash position at the start of the year to a £24.2m net debt position at the end, reflecting acquisitions totalling £11.4m and a deliberate £17.1m increase in stock:

- Acquisitions: The Group acquired the Premier drum brand for £1.7m, the AV.com domain for £3.0m, and AV Distribution Ltd for £7.1m (£0.4m deferred); and

- Stock: the business actively invested in stock throughout the year to protect against potential supply chain disruption, secure cost prices ahead of inflationary price increases, and increase stock in European distribution centres. This higher level of stock is a response to broader market and macro uncertainties rather than a structural requirement, and is expected to decrease in the normal course of business in FY23.

Reported net cash outflow from investing activities of £16.5m includes £7.4m of business acquisitions, net of cash acquired, including a £1.3m freehold property acquired with AV Distribution Ltd, £4.4m of capitalised software development costs (FY21: £3.2m), the £3.0m acquisition of the AV.com domain, and £1.8m tangible fixed asset additions. Depreciation and amortisation of £3.7m (FY21: £3.2m) is added back in 'net cash from operating activities' with respect to these asset categories.

Net cash inflow from financing activities of £21.7m (FY21: £12.0m outflow) represents a £28.0m RCF drawdown net of £3.5m repayment of borrowings (FY21: £9.9m repayment), £1.9m payment of lease liabilities (FY21: £1.4m), and £0.9m interest paid (FY21: £0.7m).

Balance sheet

	31 March 2022	31 March 2021	31 March 2020
	£m	£m	£m
Property, plant and equipment	**13.0**	11.2	11.2
Right-of-use assets	**8.2**	7.9	9.0
Software platform	**10.5**	8.4	7.1
Goodwill	**5.3**	1.9	1.9
Other intangible assets	**4.0**	0.1	0.1
Total non-current assets	**41.0**	29.5	29.3
Stock	**45.5**	28.4	22.0
Cash	**3.9**	6.2	7.8
Other current assets	**3.9**	3.6	2.5
Total current assets	**53.3**	38.2	32.3
Trade payables	**(9.5)**	(11.4)	(10.1)
Loans and Borrowings	**-**	(0.6)	(10.0)
Lease liabilities	**(1.2)**	(1.1)	(1.1)
Other current liabilities	**(6.7)**	(7.5)	(4.3)
Total current liabilities	**(17.4)**	(20.6)	(25.5)
Loans and Borrowings	**(28.0)**	(2.9)	(3.4)
Lease liabilities	**(8.5)**	(8.3)	(9.5)
Other non-current liabilities	**(2.3)**	(1.6)	(1.6)
Total non-current liabilities	**(38.8)**	(12.8)	(14.5)
Net assets	**38.0**	34.3	21.6

Capital expenditure on property, plant and equipment of £3.1m includes the addition of a

freehold warehouse valued at £1.3m as part of the AV Distribution Ltd acquisition, £0.8m investment on the new distribution centres in Ireland and Spain, and £0.6m and £0.4m investment in the UK and Sweden respectively.

The Group capitalised £4.4m (FY21: £3.2m) of software development costs relating to our bespoke e-commerce platform, including projects linked to the opening of new distribution centres, the re-platforming of the AV Distribution Ltd business and launching AV.com. Platform amortisation in the year was £2.3m (FY21: £1.9m) taking net book value to £10.5m (31 March 2021: £8.4m).

Other intangible assets include £5.3m goodwill and £3.0m of domains.

The Group had net debt of £24.2m at the year-end (31 March 2021 net cash: £2.7m) having used its facilities to invest in acquisitions and stock.

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.

On behalf of the Board

Chris Scott Chief Financial Officer 20 June 2022

Consolidated Statement of Profit and Loss and Other Comprehensive Income

	Note	**Year ended 31 March 2022 £000**	**Year ended 31 March 2021 £000**
Revenue		**147,630**	157,451
Cost of sales		**(106,500)**	(111,097)
Gross profit		**41,130**	46,354
Administrative expenses	*3,4*	**(35,881)**	(31,633)
Other income	*5*	**820**	688
Operating profit		**6,069**	15,409
Financial expenses	*7*	**(1,055)**	(770)
Profit before tax		**5,014**	14,639
Taxation	*8*	**(1,291)**	(1,998)
Profit for the year		**3,723**	12,641
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation of property, plant and equipment	*9*	**-**	-
Deferred tax movements		**(109)**	8
Items that are or may be reclassified subsequently to profit or loss:		**(23)**	(17)
Foreign currency translation differences - foreign operations		**3,591**	12,632
Total comprehensive income for the year			

Basic profit per share	*6*	**17.8p**	60.3p
Diluted profit per share	*6*	**17.3p**	59.7p

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

Consolidated Statement of Financial Position

	Note	**Year ended 31 March 2022 £000**	**Year ended 31 March 2021 £000**
Non-current assets			
Property Plant and Equipment	*9*	**12,958**	11,190
Right-of-use assets	*10*	**8,235**	7,871
Intangible assets	*11*	**19,812**	10,395
		41,005	29,456
Current assets			
Inventories	*12*	**45,516**	28,430
Trade and other receivables	*13*	**3,841**	3,647
Cash and cash equivalents	*14*	**3,903**	6,203
		53,260	38,280
Total assets		**94,265**	67,736
Current liabilities			
Interest-bearing loans and borrowings	*15*	**-**	(575)
Trade and other payables	*16*	**(16,183)**	(18,938)
Lease liabilities	*17*	**(1,229)**	(1,099)
		(17,412)	(20,612)
Non-current liabilities			
Interest-bearing loans and borrowings	*15*	**(28,000)**	(2,901)
Other payables	*16*	**(64)**	(110)
Lease liabilities	*17*	**(8,455)**	(8,315)
Deferred tax liability		**(2,298)**	(1,486)
		(38,817)	(12,812)
Total liabilities		**(56,229)**	(33,424)
Net assets		**38,036**	34,312
Equity			
Share capital	*18*	**2,098**	2,095
Share premium	*18*	**13,286**	13,165
Foreign currency translation reserve	*18*	**(74)**	(51)
Revaluation reserve	*18*	**1,606**	1,640
Retained earnings	*18*	**21,120**	17,463
Total equity		**38,036**	34,312

The notes 1 to 19 form part of the consolidated financial report.

Company registered number: 0778670.

Consolidated Statement of Changes in Equity

	Share capital £000	Share premium £000	Foreign currency translation reserve £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
Balance at 31 March 2020	**2,095**	**13,152**	**(34)**	**1,674**	**4,722**	**21,609**
Comprehensive income for the year						
Profit for the year	-	-	-	-	12,641	**12,641**
Other comprehensive income	-	-	(17)	-	10	**(7)**
Deferred tax adjustment - timing difference	-	-	-	-	(8)	**(8)**
Share based payments charge	-	-	-	-	64	**64**
Depreciation transfer	-	-	-	(34)	34	**-**
Total comprehensive income for the year	**-**	**-**	**(17)**	**(34)**	**12,741**	**12,690**
Transactions with owners						
Issue of shares	-	13	-	-	-	**13**
Total transactions with owners	**-**	**13**	**-**	**-**	**-**	**13**
Balance at 31 March 2021	**2,095**	**13,165**	**(51)**	**1,640**	**17,463**	**34,312**
Comprehensive income for the year						
Profit for the year	-	-	-	-	3,723	**3,723**
Other comprehensive income	-	-	(23)	-	(109)	**(132)**
Deferred tax adjustment	-	-	-	-	(46)	**(46)**
Share based payments charge	-	-	-	-	55	**55**
Depreciation transfer	-	-	-	(34)	34	**-**
Total comprehensive income for the year	**-**	**-**	**(23)**	**(34)**	**3,657**	**3,600**
Transactions with owners						
Issue of shares	3	121	-	-	-	**124**
Total transactions with owners	**3**	**121**	**-**	**-**	**-**	**124**
Balance at 31 March 2022	**2,098**	**13,286**	**(74)**	**1,606**	**21,120**	**38,036**

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

Consolidated Statement of Cash Flows

	Note	**Year ended 31 March 2022 £000**	**Year ended 31 March 2021 £000**
Cash flows from operating activities			
Profit for the year		**3,723**	12,641
Adjustments for:			
Depreciation and amortisation	*9,10,11*	**5,138**	4,372
Financial expense	*7*	**1,055**	770
(Profit)/loss on sale of property, plant and equipment		**(12)**	(4)
Share based payment charge		**55**	64
Taxation	*8*	**1,243**	1,998
		11,202	19,841
Increase in trade and other receivables	*13*	**302**	(1,181)
Increase in inventories	*12*	**(14,195)**	(6,415)
Increase in trade and other payables	*16*	**(2,187)**	2,687
		(4,878)	14,932
Tax (paid)/received	*8*	**(2,709)**	(37)
Net cash from operating activities		**(7,587)**	14,895
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**95**	14
Acquisition of property, plant and equipment	*9*	**(1,773)**	(1,166)
Capitalised development expenditure	*11*	**(4,439)**	(3,186)
Acquisition of a business	*11*	**(7,360)**	(200)
Acquisition of domains	*11*	**(3,023)**	-
Net cash from investing activities		**(16,500)**	(4,538)
Cash flows from financing activities			
Cash from share issue		**124**	13
Proceeds from new borrowings	*15*	**28,000**	29
Interest paid		**(917)**	(692)
Repayment of borrowings	*15*	**(3,445)**	(9,948)
Payment of lease liabilities	*17*	**(1,952)**	(1,379)
Net cash from financing activities		**21,810**	(11,977)
Net (decrease)/increase in cash and cash equivalents		**(2,277)**	(1,620)
Cash and cash equivalents at beginning of year		**6,203**	7,839
Foreign exchange movement		**(23)**	(16)
Cash and cash equivalents at end of year	*14*	**3,903**	6,203

	Note	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000

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

Notes

(forming part of the financial statements)

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. The Group has one dormant European subsidiary, Gear4music Norway AS. All five are 100% subsidiaries of Gear4music Limited.

On 1 December 2021 the Group acquired AV Distribution Ltd and on 13 January 2022 the business, assets and liabilities were hived-up into Gear4music Limited.

1 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 2021 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 2022 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 2021 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.

The Group's accounting policies are set out below and have been applied consistently in the consolidated financial statements.

Accounting period

The financial statements presented cover the years ended 31 March 2022 and 31 March 2021.

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 for the first time during the year ending 31 March 2022, and the impact is not material:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IFRS 9, IAS 39 and IFRS7: Interest Rate Benchmark Reform
- Amendment to IFRS 16: COVID-19-Related Rent Concessions
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform - Phase 2

1.3 Going concern

The Group's business activities and position in the market, and principal risks, uncertainties and mitigations are described in the Strategic Report.

In FY21 the Group successfully managed the challenges of operating distribution centres through the COVID pandemic, and as a result reported a significant increase in profits and profitability, a stronger balance sheet, and net cash at 31 March 2021.

In FY22 the Group secured a £35m three-year committed Revolving Credit Facility with its bankers, HSBC, to make acquisitions and invest in stock for precautionary reasons during a period of potential supply chain disruption, and early in a period of inflationary cost price increases, putting the Group in a strong competitive position heading in to FY23.

The Directors have considered the Group's position and prospects in the period to 31 March 2023 based on its offering in the UK and improved proposition in 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 2022 the Group had net debt of £24.2m (31 March 2021: net cash of £2.7m), with £3.9m cash (31 March 2021: £6.2m cash), with a good and appropriate level of headroom that has been factored into the Directors going concern assessment. The Group has conducted various budget flexes principally on a reduction in revenue, and performed a reverse stress test. There is no plausible scenario where the Group breaches its covenants, re-affirming the assessment of the Group as a going concern.

Having duly considered all of these factors and having reviewed the forecasts for the period to 30 June 2023, 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 Business Combinations

Premier

On 21 June 2021 Gear4music Limited acquired the business and assets of Premier Music International Limited and High House 123 Limited Liability Partnership for £1.685m paid in full in cash on completion. The acquisition was funded through the Group's revolving credit facility.

The addition of Premier, a Drums and Percussion brand with a rich musical heritage dating back to 1922, is a significant addition to the Group's own-brand portfolio. This included the worldwide rights to Premier's products, including all related intellectual property, as well as all the existing customer contracts, customer relationships, supply contracts and supplier relationships with the manufacturers of all Premier product. The revenue, EBITDA and PBT of this acquisition is immaterial to the results of the Group.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised assets on acquisition:

Recognised values on acquisition	*Note*	**Pre-acquisition book value**	**Fair value adjustments**	**Recognised value on acquisition**
		£000	**£000**	**£000**
Brand	11			

Brand	*11*	-	715	**715**
Total other intangible assets		-	715	**715**
Property, plant and equipment	*9*	10	-	**10**
Net identifiable assets and liabilities at fair value		10	715	**725**
Goodwill recognised on acquisition	*11*	-	-	**960**
Consideration paid and accrued		10	1,675	**1,685**

Measure of fair values

The 'Income approach - Relief from Royalty method' valuation technique was used for measuring the fair value of the Brand acquired. Management commissioned an independent accountants' report to support the fair values of intangible assets.

Acquisition-related costs

The Group incurred acquisition-related costs of £0.04m on legal fees and due diligence costs. These are not included as part of the consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss, as part of Administrative expenses.

AV Distribution Ltd

On 1 December 2021 Gear4music Limited acquired 100% of the share capital of AV Distribution Ltd (Company number: 05385699) trading as 'AV Online', an online retailer of Home Cinema and HiFi equipment, for total consideration of £6.05m (on a cash free, debt free basis), of which £5.65m was paid in cash on completion and £0.4m deferred for six months subject to final agreement of tax balances. The acquisition was funded through the Group's revolving credit facility, and the Group acquired a freehold property valued at £1.25m as part of the transaction.

Founded in 2003 AV Online operates from a 26,000 sq. ft. freehold warehouse, offices and showroom in Bacup, Lancashire, and is an online retailer of audio-visual equipment, including home cinema systems, HiFi systems, speakers, cables, headphones and accessories. AV Online had 21 members of staff, and generated sales principally from its main website audiovisualonline.co.uk, with further sales channels including Amazon, the showroom in Bacup, and several smaller websites operated by the business, including hificables.co.uk.

This acquisition significantly increases the Group's addressable market size and brings synergies between the market in which Gear4music operates, and the closely related but separate AV market, which is currently dominated by high-street based retailers. By moving the AV Online business onto Gear4music's highly scalable bespoke ecommerce platform, rebranding the business to AV.com, developing its product ranges, and expanding into Europe, AV.com can quickly grow its revenues and profits.

On 13 January 2022 the AV Distribution business was re-platformed on to the AV.com domain and the Group's proprietary e-commerce system, and hived up into Gear4music Limited.

In the period between completion on 1 December 2021 and hive-up into Gear4music Limited on 13 January 2022, it contributed revenue of £0.6m, EBITDA of £0.1m, and PBT of £0.1m.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed on acquisition:

Recognised values on acquisition	*Note*	**Pre-acquisition book value**	**Fair value adjustments**	**Recognised value on acquisition**
		£000	**£000**	**£000**
Other intangibles	*11*	-	149	**149**
Total other intangible assets		-	149	**149**
Freehold property	*9*			

		1,251	-	**1,251**
Other property, plant and equipment	*9*	106	-	**106**
Inventories	*14*	2,813	78	**2,891**
Trade and Other receivables	*15*	64	-	**64**
Cash and cash equivalents	*16*	1,110	-	**1,110**
Trade and Other payables	*18*	(879)	-	**(879)**
Deferred tax	*13*	(48)	-	**(48)**
Net identifiable assets and liabilities		4,417	227	**4,644**
Goodwill recognised on acquisition	*11*			**2,516**
Total consideration				**7,160**

Other intangibles comprise customer relationships, trademarks, and domain names.

Measure of fair values

A fair value for the property was performed on 10 August 2021 prior to acquisition, and value at £1.265m by an independent chartered surveyor on behalf of HSBC Bank plc.

Other intangibles were identified and valued at fair value based on valuation modelling performed by independent accountants.

Stock was valued at fair value reflecting the additional value added prior to acquisition.

Acquisition-related costs

The Group incurred acquisition-related costs of £0.20m on legal fees and due diligence costs. These are not included as part of the consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss, as part of Administrative expenses.

3 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 31 March 2022 £000	**Year ended 31 March 2021 £000**
UK	**82,639**	78,690
Europe and Rest of the World	**64,991**	78,761
	147,630	157,451

Administrative expenses by Geography

	Year ended 31 March 2022 £000	**Year ended 31 March 2021 £000**
UK	**31,253**	27,797
Europe	**4,628**	3,836

	35,881	31,633

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 2022: £4.0m; 31 March 2021: £4.3m), Germany (31 March 2022: £2.2m; 31 March 2021: £2.5m), Ireland (31 March 2022: £0.7m) and Spain (31 March 2022: £1.7m).

Revenue by Product category

	Year ended 31 March 2022 £000	**Year ended 31 March 2021 £000**
Other-brand products	**102,473**	104,199
Own-brand products	**38,121**	45,368
Carriage income	**6,266**	7,135
Warranty income	**483**	545
Other	**287**	204
	147,630	157,451

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 2022 Nos.	**Year ended 31 March 2021 Nos.**
Administration	**242**	196
Selling and Distribution	**316**	323
	558	519

The aggregate payroll costs of these persons were as follows:

	Year ended 31 March 2022 £000	**Year ended 31 March 2021 £000**
Wages and salaries	**11,620**	10,105
Social security costs	**598**	1,451
Contributions to defined contribution plans	**928**	691
	13,146	12,247

Directors' remuneration

	Year ended 31 March 2022 £000	**Year ended 31 March 2021 £000**
Directors' remuneration	**680**	641
Company contributions to money purchase pension schemes	**22**	19
	702	660

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 £229,000 during the year (2021: £228,000), including company pension contributions of £8,000 that were made to a money purchase scheme on their behalf.

There are five directors (2021: four) for whom retirement benefits are accruing under a money purchase pension scheme.

5 Other income

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Other income	**820**	688

Other income comprises rental income on our freehold property, Research and Development Expenditure credits, and marketing support.

6 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.

	Year ended 31 March 2022	Year ended 31 March 2021
Profit attributable to equity shareholders of the parent (£'000)	**3,723**	12,641
Basic weighted average number of shares	**20,967,831**	20,948,595
Dilutive potential ordinary shares	**570,440**	218,033
Diluted weighted average number of shares	**21,538,271**	21,166,628
Basic profit per share	**17.8p**	60.3p
Diluted profit per share	**17.3p**	59.7p

7 Finance expenses

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Bank interest	**524**	196
IFRS16 lease interest	**403**	403
Net foreign exchange loss	**97**	161
Unwinding of discount on deferred consideration	**31**	10

Total finance expense	**1,055**	770

8 Taxation

Recognised in the income statement

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Current tax expense		
UK Corporation tax	**574**	1,201
Overseas Corporation tax	**55**	94
Adjustments for prior periods	**7**	625
Current tax expense	**636**	1,919
Deferred tax expense		
Origination and reversal of temporary differences	**326**	989
Deferred tax rate change impact	**345**	-
Adjustments for prior periods	**(16)**	(903)
Deferred tax expense	**655**	86
Total tax expense	**1,291**	2,005

The corporation tax rate applicable to the company was 19% for the year ended 31 March 2022, and 19% for the period ended 31 March 2021. At the Budget announcement on 3 March 2021 the UK government has stated its intention to raise the corporation tax rate to 25% from 1 April 2023. The deferred tax assets and liabilities at 31 March 2022 have been calculated based on that rate. An effect of rate change has been calculated on opening balances to reflect the change of rate from 19% to 25%.

Reconciliation of effective tax rate

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Profit for the year	**12,641**	12,641
Total tax charge	**1,998**	1,998
Profit excluding taxation	**14,639**	14,639
Current tax at 19% (*2020: 19.0%)*		
Tax using the UK corporation tax rate for the relevant period:	**943**	2,781
Non-deductible expenses	**(73)**	(27)
Deferred tax rate change impact	**345**	-
Adjustments relating to prior year - deferred tax	**(16)**	(903)
Adjustments relating to prior year - current tax	**7**	624
R&D claim additional deduction	**-**	(470)
Impact of overseas tax rate	**2**	(1)
Deferred tax assets not recognised	**1**	1
R&D credit	**12**	-
Difference between current and deferred tax rates	**100**	-
Impact of capital allowances super deduction	**(31)**	-
Total tax charge	**1,291**	2,005

9 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 2020	1,632	4,942	62	900	7,500	15,036
Additions	215	757	-	194	-	1,166

	Plant and equipment £000	Fixtures and fittings £000	Motor Vehicles £000	Computer equipment £000	Land and Buildings £000	Total £000
Disposals	-		(32)			(32)
Balance at 31 March 2021	1,847	5,699	30	1,094	7,500	16,170
Additions	460	1,101	-	212		1,773
Additions through business combinations (see note 2)	29	13	68	6	1,251	1,367
Disposals	(61)	(14)	(30)	-	-	(105)
Balance at 31 March 2022	**2,275**	**6,799**	**68**	**1,312**	**8,751**	**19,205**
Depreciation and impairment						
At 1 April 2020	908	2,264	36	609	-	3,817
Depreciation charge for the year	314	556	5	160	150	1,185
Disposals	-	-	(22)	-	-	(22)
Balance at 31 March 2021	1,222	2,820	19	769	150	4,980
Depreciation charge for the year	326	625	15	166	155	1,287
Disposals	(13)	(9)	-	-	-	(22)
Balance at 31 March 2022	**1,536**	**3,437**	**34**	**935**	**305**	**6,247**
Net book value as at 31 March 2022	**739**	**3,362**	**34**	**377**	**8,446**	**12,958**
Net book value as at 31 March 2021	625	2,879	11	325	7,350	11,190
Net book value as at 31 March 2020	724	2,678	26	291	7,500	11,219

Freehold property valuation - Holgate Park Head Office

At 31 March 2020 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.

Management have reviewed the fair value as at 31 March 2022 and concluded that this would not be materially different. If the property had not been revalued the net book value would have been £5.1m.

Freehold property valuation - Bacup distribution centre

On 1 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 (see note 2). 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.

Security

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

10 Right of use assets

Leasehold properties

The Group has six leased properties:

- four properties carried forward from 2021 being Distribution Centres and Showrooms in York, Sweden and Germany, and a software development office in Manchester; and
- two new properties in 2022 being Distribution Centres in Ireland and Spain

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

	Short leasehold properties £000
Cost	
At 1 April 2020	10,177
Additions	128
Balance at 31 March 2021	10,305
Additions	1,830
Balance at 31 March 2022	**12,135**
Depreciation	
At 1 April 2020	1,215
Depreciation charge for the year	1,219
Balance at 31 March 2021	2,434
Depreciation charge for the year	1,466
Balance at 31 March 2022	**3,900**
Net book value as at 31 March 2022	**8,235**
Net book value as at 31 March 2021	7,871
Net book value as at 31 March 2020	8,962

11 Intangible assets

	Goodwill £000	Software platform £000	Brand £000	Domains £000	Other Intangibles £000	Total £000
Cost						
At 1 April 2020	1,848	12,061	564	-	-	14,473
Additions	-	3,186	93	-	-	3,279
Balance at 31 March 2021	**1,848**	**15,247**	**657**	**-**	**-**	**17,752**
Additions	-	4,439	-	3,023	-	7,462
Additions through business combinations (see note 2)	3,476	-	715	-	149	4,340
Balance at 31 March 2022	**5,324**	**19,686**	**1,372**	**3,023**	**149**	**29,554**
Amortisation						
At 1 April 2020	-	4,934	455	-	-	5,389
Amortisation for the year	-	1,912	56	-	-	1,968
Balance at 31 March 2021	**-**	**6,846**	**511**	**-**	**-**	**7,357**
Amortisation for the period	-	2,321	52	-	12	2,385
Balance at 31 March 2022	**-**	**9,167**	**563**	**-**	**12**	**9,742**

Net book value as at 31 March 2022	**5,324**	**10,519**	**809**	**3,023**	**137**	**19,812**
Net book value as at 31 March 2021	1,848	8,401	146	-	-	10,395
Net book value as at 31 March 2020	1,848	7,127	109	-	-	9,084

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

Other intangibles

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

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 LLP - see note 2.

On 1 December 2021 goodwill arose on the acquisition of the entire share capital of AV Distribution Ltd - see note 2.

Goodwill balances are denominated in Sterling:

	Year ended 31 March 2022 £000	**Year ended 31 March 2021 £000**
Gear4music Limited	**417**	417
Software development business	**1,431**	1,431
Premier business	**960**	-
AV Distribution Ltd	**2,516**	-
	5,324	1,848

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 2022 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'.

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. Further to the acquisitions in the year the Group has considered its operational and commercial configuration at 31 March 2022 and concluded it has a single CGU to which all intangibles are allocated. The carrying value of these intangibles, the Bacup freehold acquired in the year, the right-of-use assets, and all other PPE was £33.8m. 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 2024 was used to provide cash-flow projections that have been discounted at a pre-tax discount rate of 9.55% (2021: 10.00%). 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:

- FY23-24 Revenue forecasts based on growth by geographical market, based on market size and estimate of opportunity, trends, and Management's experience and expectation.
- FY25-27 and into perpetuity revenue growth of 2%;
- Gross margins are forecast to be slightly behind FY22; 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 (2021: £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.

12 Inventories

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Finished goods	**45,516**	28,430

The cost of inventories recognised as an expense and included in cost of sales in the period amounted to £96.9m (2021: £101.5m).

Management has included a provision of £55,000 (31 March 2021: £143,000), 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.

13 Trade and other receivables

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Trade receivables	**1,772**	1,579
Prepayments	**2,069**	2,068
	3,841	3,647

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.

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 (2.4% of 2022 revenues; 1.3% of 2021 revenues).

Funds lodged with payment providers

Funds lodged with Amazon, Digital River, Klarna and V12 Retail Finance totalled £378,000 on 31 March 2022 (31 March 2021: £331,000) and are included in Trade debtors. Credit risk in relation to cash held with financial institutions is considered very low risk, given the credit rating of these organisations.

14 Cash and cash equivalents

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Cash and cash equivalents per balance sheet and cash flow statements	**3,903**	6,203

Cash-in-transit to the Group at 31 March 2022 was £336,000 (31 March 2021: nil) representing uncleared lodgements where money providers have notified transfers pre-year-end.

15 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 2022	Year ended 31 March

	£000	2021 £000
Non-current liabilities		
Bank loans	**28,000**	2,901
	28,000	2,901
Current liabilities		
Bank loans	**-**	575
	-	575
Total liabilities		
Bank loans	**28,000**	3,476
	28,000	3,476

Revolving Credit Facility

Bank loans are drawn loans under the Group's three-year £35m revolving credit facility with HSBC.

This facility expires in April 2024 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 liabilities from financing activities

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Opening balance	**3,476**	13,388
Changes from financing cash flows		
Proceeds from loans and borrowings	**28,000**	29
Repayment of borrowings	**(3,507)**	(9,948)
Total changes from financing cash flows	**24,493**	(9,919)
Other changes		
Interest expense (note 6)	**524**	196
Interest paid	**(413)**	(289)
Movement in interest accrual (included in accruals and deferred income - note 17)	**(111)**	93
Fair value movement on loans	**31**	7
Total other changes	**31**	7
Closing balance	**28,000**	3,476

Other bank facilities

Gear4music has a number of guarantees in relation to VAT, and issues letter of credits to its suppliers. At 31 March 2022 the Group had letters of credit of £317,000 (31 March 2021: £315,000) and guarantees of £1,011,000 in place (2021: £415,000).

16 Trade and other payables

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Current		
Trade payables	**9,472**	11,390
Accruals and deferred income	**3,164**	3,033
Deferred consideration	**424**	24
Government grants	**3**	7
Other taxation and social	**3,119**	4,484

security

	16,182	18,938
Non-current		
Accruals and deferred income	**25**	38
Deferred consideration	**39**	69
Government grants	**-**	3
	64	110

Accruals at 31 March 2022 include £24,000 (2021: £38,000) relating to the estimated cash bonuses accrued relating to the CSOP schemes (see note 21).

Government grants are being spread over the useful economic life of the associated asset, and relate to Regional Growth Fund and Leeds City Enterprise Partnership grants towards the acquisition of various capital items. Grant conditions exist and are linked to job creation, and these criteria have been satisfied.

The Directors consider the carrying amount of other 'trade and other payables' to approximate their fair value. The interest expense of £31,000 (2021: £10,000) in relation to the unwinding of the discount is disclosed in note 7.

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 2022 three instalments remain unpaid. These amounts are valued in the accounts at fair value and subsequently amortised.

In December 2022 the Group acquired AV Distribution Ltd for £6,050,000 cash-free debt-free of which £400,000 was deferred for six months whilst final tax matters were resolved, and £388,000 was paid on 1 June 2022 in full and final settlement.

17 Lease liabilities

Short-term leases and leases of low value are included in administrative expenses.

The Group has leases for plant and machinery, motor vehicles, and six properties (2021: four). 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	**6**	**6mths - 6yrs**	**4.5yrs**	**-**	**-**	**1**
Plant and equipment	**4**	**2mths - 9mths**	**6mths**	**-**	**4**	**-**
Motor vehicles	**2**	**19mths - 30mnths**	**25mths**	**-**	**2**	**-**

Future minimum lease payments due at 31 March 2022 were as follows:

	Within 1 year £000	1-5 years £000	More than 5 years £000
Lease payments	2,102	7,926	1,178
Finance charge	(435)	(1,056)	(31)
Net present value	**1,667**	**6,870**	**1,147**

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

	31 March 2022 £000	31 March 2021 £000
Current	**1,229**	1,099
Non-current	**8,455**	8,315
Total	**9,684**	9,414

Changes in lease liabilities:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Opening balance	**9,414**	10,667
Cash flow lease payments	**(1,952)**	(1,379)
New leases	**1,812**	-
Other items	**410**	126
Total changes	**270**	(1,253)
Closing balance	**9,684**	9,414

18 Share capital and reserves

Share capital	**Year ended 31 March 2022 Number**	**Year ended 31 March 2021 Number**
Authorised, called up and fully paid:		
Ordinary shares of 10p each	**20,976,938**	20,950,176

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.

On 30 July 2021, the Company issued and allotted 5,312 new Ordinary shares of 10p each on exercise of options under the Company's 2018 CSOP Scheme (see note 22). This took the number of Ordinary shares in issue from 20,950,176 to 20,955,488, representing dilution of 0.03%.

On 3 August 2021, the Company issued and allotted 21,450 new Ordinary shares of 10p each on exercise of options under the Company's Long Term Incentive Plan (see note 22). This took the number of Ordinary shares in issue from 20,955,488 to 20,976,938, representing dilution of 0.1%.

Share premium

	Year ended 31 March 2022 £'000	**Year ended 31 March 2021 £'000**
Opening	**13,165**	13,152
Issue of shares	**121**	13
Closing	**13,286**	13,165

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	**Year ended**

	2022 £'000	31 March 2021 £'000
Opening	**(51)**	(34)
Translation loss	**(23)**	(17)
Closing	**(74)**	(51)

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 2022 £'000	Year ended 31 March 2021 £'000
Opening	**1,640**	1,674
Depreciation transfer	**(34)**	(34)
Closing	**1,606**	1,640

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

Retained earnings

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Opening	**17,463**	4,722
Share based payment charge	**55**	64
Deferred tax	**(155)**	2
Depreciation transfer	**34**	34
Profit for the year	**3,723**	12,641
Closing	**21,120**	17,463

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

19 Related parties

Transactions with key management personnel

The compensation of key management personnel is as follows:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Key management emoluments including social security costs	**606**	597
Company contributions to money purchase pension plans	**20**	18
	626	615

Key management personnel comprise the Chairman, CEO, CFO and CCO. 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 (2021: four).

Share based payments

LTIP (2018)

On 3 August 2021 and further to confirmation all performance conditions relating to the conditional share awards granted under the Plan were fully met, Gareth Bevan received 6,825 shares, Chris Scott received 5,850 shares, and Andrew Wass received a £55,575 cash equivalent.

LTIP (2021)

On 14 October 2021 a new long-term incentive plan involving Andrew Wass, Chris Scott, and Gareth Bevan was put in place and involved the issue of 377,100 'D' Ordinary shares in Gear4music Limited, a subsidiary of the Company. The D Shares are capable of vesting between 2023 and 2027 and can be exchanged on a one-for-one basis for new ordinary shares of ten pence each in the capital of the Company, subject to achieving minimum specified fully diluted earnings per share targets (see page 103).

Gareth Bevan, Andrew Wass and Chris Scott are participants in the scheme, with 113,130, 75,420 and 37,710 D-shares respectively.

The initial subscription cost was covered by way of bonus and Gareth Bevan, Andrew Wass, and Chris Scott received bonuses of £21,345, £14,230 and £7,115 respectively.

END

FR SELEFSEESELM