



create resonate
reinvent

Gear4music (Holdings) plc
Annual Report and Accounts 2023

our

purpose

Who we are

We are the largest UK-based retailer of musical instruments, music equipment and Audio-Visual ('AV') equipment. We have a track record of strong growth and delivering our strategic objectives.

As a dynamic e-commerce business, we are well positioned and well capitalised, to take maximum advantage of opportunities within the £4.3bn European market.

FOR MORE ABOUT GEAR4MUSIC GO TO:
WWW.GEAR4MUSICPLC.COM

Highlights

During FY23 we made good progress with our long-term objective of making musical instruments and equipment accessible and affordable for as many people as possible, delivering a wide range of customer-centric improvements throughout the business.

Progress has included improving our consumer finance proposition, upgrading our digital downloads sales platform, launching AV.com in Europe, alongside what has been our largest and most ambitious development project to date – our second-hand system.

With a new three-year banking facility agreed, we are confident in our strategic vision, making the most of recent acquisitions and new initiatives, alongside an emphasis on optimising inventory, product margins, and implementing efficiency and cost reduction strategies.

REVENUE £m

£152.0m

+3%

EBITDA £m

£7.4m

-34%

WEBSITE USERS m

26.5m

-8%

GROSS MARGIN %

25.7%

-220bps

NET DEBT £m

£(14.5m)

£9.7m

CONVERSION RATE %

3.95%

-11bps

Strategic Report

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At a glance

products that resonate

Gear4music is an online retailer of musical instruments, music equipment and Audio-Visual ('AV') equipment, including HiFi speakers and home cinema systems, operating 21 websites in 15 languages and 9 currencies.

Gear4music is the largest retailer of musical instruments and music equipment in the UK. Launched in 2003 by Chief Executive Officer Andrew Wass, revenue has grown from £24m in FY15 to £152m in FY23.

The Group operates from a Head Office in York, a software development office in Manchester, Distribution Centres in York, Bacup, Sweden, Germany, Ireland & Spain, and showrooms in York, Sweden & Germany.

Gear4music sells own-brand musical instruments and music equipment alongside well-known premium brands including Yamaha, Roland and Fender, to customers ranging from beginners, to musical enthusiasts and professionals. The Group has been selling into Europe since 2012 and the Rest of the World since 2017.

Gear4music continues to invest in developing its own bespoke e-commerce platform, with multilingual, multicurrency and fully responsive design websites localised to 19 countries, to rapidly expand the customer database, and build an increasing overseas presence.

The Group retails 64,200 'Stock-Keeping-Units' ('SKUs') across all major musical instrument and equipment categories, sourced from over 1,130 manufacturers, and ranging from £1 kazoo to digital pianos, drum kits and guitars costing thousands of pounds.

Revenue by Category

	% OF PRODUCT SALES		
	FY23	FY22	FY20
Guitars & Bass	29%	31%	27%
Keyboards & Pianos	16%	18%	22%
PA, DJ & Lighting	23%	19%	19%
Recording & Computers	11%	13%	13%
Drums & Percussion	11%	10%	11%
Woodwind, Brass & Strings	6%	6%	7%
Other	4%	3%	1%
	100%	100%	100%

Note to table: Categories totalling 5% or less of product revenue are included in 'Other'.

FY23 saw continued growth in live-sound categories such as PA, DJ and lighting as gigging and festivals returned, and growth normalised in some of the categories that saw rapid growth through Covid such as studio and recording and guitar products.

Leading brands

Gear4music All
Archer String Instruments: Violins, Cellos, Violas & Double Bass
Redsub Bass Guitar Amps & Pedals
SubZero Guitars, Amps, Mixers, Speakers & Audio Electronics
WHD Drum Kits
Rosedale Woodwind Instruments: Clarinets, Flutes, Oboes & Piccolos
Coppergate Brass Instruments: Trumpets, Trombones, Tubas & French Horns
Playlite Lightweight Instruments
Hartwood Guitars and Accessories
Eden Bass Amplification
Premier Drum Kits and Accessories
Olympic Value focused drum brand
G4M New premium brand featuring a wide range of products across all categories except for drums
Vision New range of affordable and ergonomic musical instruments focused designed for the beginner market.
AVCOM COMING SOON: New Home Audio-Visual focused brand featuring speakers, amps and TVs.

Websites

Website	Country	Currency	Languages
www.gear4music.com	UK	Pound Sterling	English
www.gear4music.ie	Ireland	Euro	English
www.gear4music.fr	France	Euro	French, English
www.gear4music.es	Spain	Euro	Spanish, English
www.gear4music.pt	Portugal	Euro	Portuguese, English
www.gear4music.de	Germany	Euro	German, English
www.gear4music.be	Belgium	Euro	Dutch, French, German, English
www.gear4music.nl	Netherlands	Euro	Dutch, English
www.gear4music.dk	Denmark	Danish Krone	Danish, English
www.gear4music.no	Norway	Norwegian Krone	Norwegian, English
www.gear4music.se	Sweden	Swedish Krona	Swedish, English
www.gear4music.fi	Finland	Euro	Finnish, English
www.gear4music.it	Italy	Euro	Italian, English
www.gear4music.ch	Switzerland	Swiss Franc	German, French, Italian, English
www.gear4music.at	Austria	Euro	German, English
www.gear4music.pl	Poland	New Zloty	Polish, English
www.gear4music.cz	Czech Republic	Czech Crown	Czech, English
www.gear4music.si	Slovenia	Euro	Slovenian, English
www.gear4music.sk	Slovakia	Euro	Slovak, English
www.gear4music.com/us	USA	US Dollar	English, Spanish
www.AV.com	UK, Germany	Pound Sterling & Euro	English, German

Our history

relive replay rewind

1995

CEO and founder Andrew Wass, was a sound recording engineer in 1995 when he identified an opportunity to supply small recording studios and educational establishments with personal computer-based digital recording solutions.

2003

Andrew began to research the potential to retail own-brand beginner level musical instruments, with the intention of opening up the market by selling at lower prices than traditional music shops. After visiting several international exhibitions in the USA and China, Andrew placed a bulk order for guitars and listed them for sale on the then new gear4music.com website. The website generated £0.7m of revenue in its first full year of trading.

2012

A private equity investor, Key Capital Partners, invested in the Group providing the funding to further develop the e-commerce platform.

2013

The Group relocated to its current UK-distribution centre in York adding significant distribution and storage capacity, and shortly after opened a 9,000 square foot showroom. A 10-year lease was entered into in 2018.

2015

The Group listed on the Alternative Investment Market (AIM) of the London Stock Exchange generating £4.4m of growth capital, and in 2016 the private equity house sold their final shareholding in Gear4music.

2017

The Group acquired a software development business which brought software development in-house, and later that year acquired a 50,000 square foot freehold office property in York and relocated the Head Office team to the new headquarters.

2016

The Group opened a Swedish distribution centre and followed this up in 2017 with the opening of a second European distribution centre in Germany.

2018

In response to continued Scandinavian growth, the Group relocated and expanded its Swedish distribution centre to add further capacity to meet demand over coming years.

2021 March/June

The Group acquired Eden, a Bass guitar amplification brand previously owned by Marshall Amplification, and followed this June 2021 with the acquisition of Premier, a Drums and Percussion brand with a rich musical heritage dating back to 1922.

2021 December

The Group acquired AV Distribution Ltd, an online retailer of Home Cinema and HiFi equipment and, separately the domain name 'AV.com'. This business has been transferred onto the Group's highly scalable e-commerce platform and rebranded to 'AV.com', marking Gear4music's entry into what Management believes is a £400m UK audio video market that is currently dominated by high street-based retailers, and significantly increases our addressable market size.

2021 September

The Group opened new distribution centres in Ireland and Spain to address lingering post-Brexit challenges, and significantly improve the Group's European delivery proposition and provide a platform for growth in our European markets.

Chairman's statement

rewind replay reinvent

The year ended 31 March 2023 was a difficult period for many retailers, with high levels of inflation and increasing interest rates impacting consumer confidence and disposable income. Whilst our drive for long-term growth remains unchanged, in response to these macro-economic challenges our focus has been on debt reduction and disciplined cost-management to provide the platform for the Group to return to profitable growth.

”

Having delivered several development-led growth initiatives in FY23 and markedly reduced net debt, the Board is confident that the Group's customer proposition, enhanced operational infrastructure and balance sheet will enable the Group to achieve its long-term business objectives, namely taking market share and delivering operational efficiencies providing the platform for profitable growth.

KEN FORD
CHAIRMAN

22 OCTOBER 2022

100th

ANNIVERSARY

SEE STRATEGY IN ACTION
ON PAGES 14 TO 15**Operational and Commercial progress**

Whilst the last 12 months have been challenging, the Group has increased its addressable market, and refocused on operational efficiency and the customer journey. Taking a longer-term view the Group has made significant progress and we believe we are well positioned to deliver our long-term profitable growth ambitions. Since FY20, the Group has:

- increased revenue by 26% to £152m, led by a 70bps increase in conversion and 7% increase in active customers;
- added three new distribution centres including operations in Spain and Ireland to further enhance our localised customer proposition in mainland Europe, creating an operational infrastructure capable of delivering revenue in excess of £250m;
- extended our target addressable market through strategic acquisitions in the AV-market, in particular, through the purchase of AV.com, opening up an estimated additional addressable market of £2.7bn;
- leveraged our significant software development capability to deliver several growth and efficiency focused projects, including various Brexit mitigations, the launch of AV.com and most recently the launch of our second-hand platform; and
- navigated periods of worldwide supply chain disruption, cost price inflation, and weakening consumer confidence, underlining the Group's resilience.

Having successfully reduced net debt by £9.7m to £14.5m at 31 March 2023, since the year-end, the Group has renewed its committed Revolving Capital Facility ('RCF') at £30m for a further three-year period, enabling the Group to plan into the medium term with certainty and take advantage of opportunities as and when they arise.

Environmental, Social and Governance

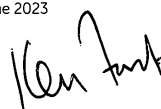
As a business and Board, we are committed to having a positive impact on our society, the environment, and our team. We acknowledge there is increasing interest from a wide range of stakeholders on the various positive impacts that the business has and what we are doing to improve outcomes. We will report under TCFD in the financial year ending 31 March 2024.

The launch of our second-hand platform in March 2023 is our timely advancement into recycling and the circular economy, offering customers the opportunity to sell their pre-loved musical instruments and equipment quickly and easily.

Outlook

Customer demand across our markets remains volatile and difficult to predict, reflecting the continuing impact of geo-political and macro-economic uncertainties affecting consumer confidence across Europe. Nevertheless, having delivered several development-led growth initiatives in FY23 and markedly reduced net debt, the Board is confident that the Group's customer proposition, enhanced operational infrastructure and balance sheet will enable the Group to achieve its long-term business objectives, namely taking market share and delivering operational efficiencies providing the platform for profitable growth.

Ken Ford
CHAIRMAN
19 June 2023



REVENUE

£152.0m**+3%**

EBITDA

£7.4m**-34%**

Investment case

five reasons to invest

Competitive Advantages and Barriers to Entry

Gear4music is well positioned to capitalise on the opportunities available within its markets, due to barriers to entry and our unique competitive advantages:

- We are an agile, predominantly online retailer, with a well-recognised brand
- We are the UK's largest retailer of musical instruments and music equipment
- Our bespoke e-commerce platform provides a high degree of operational flexibility and scalability which the Directors believe cannot easily be replicated
- A strong own-brand offering has been developed over 20 years, and has established a reputation for 'good' and 'better' quality products at affordable prices, whilst providing enhanced margin opportunities
- We have developed long-term relationships with the major branded musical instrument and music equipment manufacturers, placing us in a strong position during a period of retailer consolidation
- We have proven and scalable distribution capabilities
- The Directors and senior management have an intimate knowledge of the musical instrument and music equipment market

KEY STRENGTH

1. Track record of success - long-term revenue and market share growth

REASONS

- UK revenues trebled since FY16, from £26.0m to £82.1m in FY23
- European growth validates strategy and improving proposition
- Email database of 1.65m registered users, with 0.86m active customers

REGISTERED USERS
ON EMAIL DATA BASE

1.28m

KEY STRENGTH

2. Bespoke and proprietary e-commerce platform delivers competitive advantage

REASONS

- End-to-end solution encompassing all aspects of trading operations
- 84 in-house software developers providing cost-effective development
- Currently supports 21 websites, 15 languages and 9 currencies
- Ability to rapidly respond to changing customer behaviours and expectations
- Capability to expand into new territories and markets
- Capacity to handle significantly increased volumes and website traffic
- Additional functionality in continuous development

SEE STRATEGY IN ACTION
ON PAGES 30 TO 31

KEY STRENGTH

3. Specialist knowledge facilitates strong relationships with customers and suppliers

REASONS

- Strong, committed and experienced management team
- Employees with in-depth specialist knowledge
- Expertise means Gear4music is trusted by major musical instrument and music equipment brands
- Offers a wide range of choice to customers and provides specialist advice during and after the sales process

SEE STRATEGY IN ACTION
ON PAGES 18 TO 19

KEY STRENGTH

4. Well-developed product ranges

REASONS

- Over 64,200 products from over 1,130 brands
- Reputation for quality and value for money
- Over 4,900 own-brand SKUs, developed over a 20-year period
- Enhanced margin opportunities as volumes increase

SEE STRATEGY IN ACTION
ON PAGES 14 TO 15

KEY STRENGTH

5. Efficient logistics systems

REASONS

- Operates from six modern facilities with a combined 370,000 square feet footprint
- The most appropriate courier delivery services are automatically selected from more than 38,800 permutations depending on the weight, size, value and destination of the goods being purchased

COMBINED FOOTPRINT
OF SIX MODERN FACILITIES

370,000 sq ft

Chief Executive's statement

relive create
reimagine

Business review

During FY23 we made good progress with our long-term objective of making musical instruments and equipment accessible and affordable for as many people as possible, delivering a wide range of customer-centric improvements throughout the business.

Progress has included improving our consumer finance proposition, upgrading our digital downloads sales platform, launching AV.com in Europe, alongside what has been our largest and most ambitious development project to date – our second-hand system.

”

Anticipating the persistence of challenging market conditions throughout FY24, we continue to take proactive measures to ensure the business is well configured to withstand further economic headwinds and remain well positioned for the future.

With a new three-year banking facility agreed, we are confident in our strategic vision, making the most of recent acquisitions and new initiatives, alongside an emphasis on optimising inventory, product margins, and implementing efficiency and cost reduction strategies.

ANDREW WASS
CHIEF EXECUTIVE OFFICER

GROSS PROFIT

£39.0m

-5%

NET DEBT

£(14.5m)

£9.7m

WEBSITE USERS

26.5m

-8%

CONVERSION RATE

3.95%

-11bps

Our second-hand system simplifies the process for consumers of selling used musical instruments and equipment and provides value and peace of mind for our customers when buying second-hand products. It ensures the lifespan of products is maximised, whilst enabling enhanced margin opportunities for the business.

These new growth initiatives will strengthen our position as the UK's leading retailer of musical instruments and equipment. However, due to the current environment of squeezed discretionary consumer spending, FY23 proved to be a commercially challenging year for Gear4music and across the industry.

Strategy

Whilst FY23 was a period of rapid unwinding of inventory, our focus for FY24 will be to improve efficiency and product margins.

We intend to leverage our operational infrastructure to launch our second-hand system across Europe, increasing the number of markets we trade in, expanding the products available and launching the system on AV.com later in the year.

In addition to the second-hand system, we have a wide range of further initiatives planned to support product margins, including significant own-brand product launches, licencing agreements and system improvements.

Whilst we continue to develop and launch longer-term growth initiatives, our short-term focus will be on overhead cost reduction, efficiency, and improving productivity by adopting the latest technologies. Further net debt reduction will be targeted by optimising inventory, reducing development costs and limiting capital expenditure, as we diversify our sales and fulfilment channels.

Outlook

Anticipating the persistence of challenging market conditions throughout FY24, we continue to take proactive measures to ensure the business is well configured to withstand further economic headwinds and remain well positioned for the future.

With a new three-year banking facility agreed, we are confident in our strategic vision, making the most of recent acquisitions and new initiatives, alongside an emphasis on optimising inventory, product margins, and implementing efficiency and cost reduction strategies.

Andrew Wass
CHIEF EXECUTIVE OFFICER
19 June 2023



Financial KPIs

	FY23	FY22	FY20	Change on FY22	Change on FY20
Revenue ¹	£152.0m	£147.6m	£120.3m	+3%	+26%
UK Revenue ¹	£82.1m	£82.6m	£61.8m	-1%	+33%
International Revenue ¹	£70.0m	£65.0m	£58.5m	+8%	+20%
Gross margin	25.7%	27.9%	25.9%	-220bps	-20bps
Gross profit	£39.0m	£41.1m	£31.2m	-5%	+25%
Total Admin expenses ¹	£38.7m	£35.9m	£27.7m	+8%	+40%
European Admin expenses ¹	£5.0m	£4.6m	£2.5m	+9%	+100%
EBITDA	£7.4m	£11.2m	£7.8m	-34%	-5%
(Loss)/profit before tax	£(0.4m)	£5.0m	£3.1m	£(5.4m)	£(3.5m)
Net debt ²	£(14.5m)	£(24.2m)	£(5.5m)	£9.7m	£(9.0m)

¹ See Note 2 of the Financial Statements.

² See Notes 16 and 17 of the Financial Statements.

Commercial KPIs

	FY23	FY22	FY20	Change on FY22	Change on FY20
Website visitors	26.5m	28.8m	28.4m	-8%	-7%
Conversion rate	3.95%	4.06%	3.29%	-11bps	+66bps
Average order value	£150	£125	£117	+20%	+28%
Active customers	865,000	921,000	807,000	-6%	+7%
Products listed	64,200	62,400	54,200	+3%	+18%

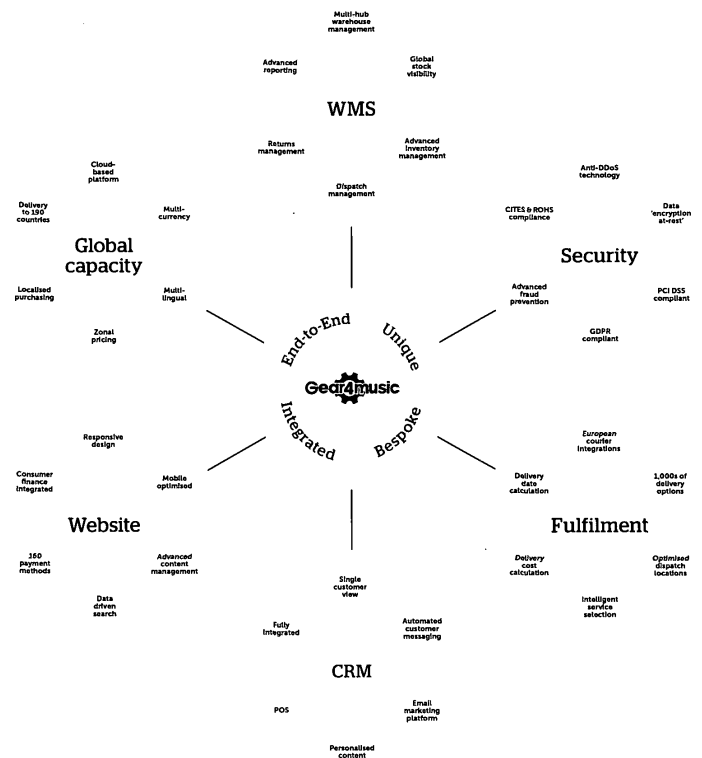
Note: Change on FY20, three years ago, compares current trading to the pre-pandemic period to give a better understanding of performance when compared to the growth and characteristics of trade which continued to be distorted by pandemic-related factors in FY22.

See page 23 for Commercial KPI definitions.

Platform features

bespoke end-to-end solution

Our bespoke platform provides an end-to-end solution encompassing the whole business. Having software development in-house enables us to quickly and cost-effectively develop new features and functionality.



Market overview

European Distribution Capacity Overview

Significant expansion capacity

UK Hubs, York & Bacup

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

Irish Hub, Dublin

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

Central European Hub, Mülheim

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

Northern European Hub, Stockholm

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

Southern European Hub, Barcelona

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

Musical Instruments and Equipment

In 2022 Music Trades estimated the global music products markets in 2021 to be \$19.2 billion.

The top 10 European retail markets for musical instruments and music equipment (including the UK) are worth an estimated £5.1 billion and are undergoing a shift towards online retail.

The Board believes that the dynamics of the UK competitive landscape presents a continuing consolidation opportunity. Whilst acquisitions of retail businesses do not form a core part of the current strategy, opportunities are reviewed on an ad hoc basis.

AV.com addressable market

Management estimates the addressable European market size to be £2.7 billion.

Overview

Gear4music is about making quality music gear more accessible and affordable for all musicians. Our mission is to become the best musical instrument and equipment retailer in Europe and we believe we can achieve this by leveraging technology to deliver an industry-leading customer experience, providing the products our customers want delivered to them quickly and efficiently.

Our specialist market knowledge has helped us to become the largest retailer of musical instruments and equipment in the UK, and we continue to make good progress in Europe. A bespoke e-commerce platform allows us to efficiently operate 21 websites (listed on page 3), in 15 languages and 9 currencies, and as we develop this platform further, widen our product ranges and increase our marketing reach and brand recognition, we strongly believe we can continue to grow our share of the £5.1bn European market and expand our reach beyond this.

In FY22 the Group entered the related Audio-Visual market and will leverage its key assets, skills and expertise to build market share.

performing in europe

UK MI & EQUIPMENT MARKET WORTH

£898m

EUROPEAN MI & EQUIPMENT MARKETS WORTH

£5.1bn

EUROPEAN AV MARKETS WORTH

£2.7bn

Strategy in action

Supply chain evolution

rewind

Premier - the Centenary

Premier celebrated its 100th anniversary on 22 October 2022. To commemorate this milestone, the brand unveiled four new ranges of acoustic drum kits, which featured special centennial editions. In addition, a limited-edition collector's snare drum was released, designed to evoke a sense of the company's 100-year history and heritage.

For ten decades, Premier has been a brand synonymous with drums and percussion. Since its inception in the Roaring Twenties, when founder Albert Della-Porta crafted his first drum kit in London, Premier has steadily evolved into an internationally renowned name in acoustic drum kits, marching drums and orchestral percussion.

22 OCTOBER 2022

100th
ANNIVERSARY

”

As Premier embarks on a new chapter in its history, the brand remains unwavering in its level of passion and commitment, staying true to the principles on which it was founded.

COLIN TENNANT
CREATIVE DIRECTOR, PREMIER

The centenary year presented an excellent opportunity to introduce new products, content, and reimagine the Premier brand. A fresh line-up of acoustic kits was launched, including the Elite, Genista, Artist, and Revolution series, offering a more competitive and focused product mix. As special edition variants commemorating the 100th anniversary, the Genista 100SE and Artist Club 100 products were introduced. Handcrafted in the UK, the Della-Porta 100 limited edition snare drum honoured the original shell building techniques and was limited to 100 pieces.

reimagine

A well-coordinated marketing campaign was implemented, featuring the launch of a new catalogue website with improved content, features, and functionality. Premier artists, including Ged Lynch (Peter Gabriel), Luke Harris (Brand New Heavies), and Rob Maxfield (Shed Seven), were enlisted to create product demonstration videos, showcasing the features and benefits of the new acoustic kit ranges. The brand also generated significant engagement through specialised content on social media before and after the launch.

As Premier embarks on a new chapter in its history, the brand remains unwavering in its level of passion and commitment, staying true to the principles on which it was founded.

Business model

accessible and affordable

HOW WE WORK

We believe a successful...

...e-commerce business requires a unique combination of talented staff, excellent products, efficient systems, robust physical operations and reliable delivery partners.

Staff

We have a strong, committed and experienced management team, working alongside passionate staff with in-depth knowledge of their specialist area of focus.

Products

Our own-brand product ranges have taken over 20 years to develop, working with some of the best manufacturers from around the world to ensure we build on our reputation for great quality at affordable prices. In addition, we have built strong relationships with the industry's biggest brand names, including Yamaha, Roland, Fender and many more.

Premises

The Group currently operates from 370,000 square feet of operational space - 160,000 square feet across two sites in the UK, 77,000 square feet in Sweden, 72,000 square feet in Germany, 46,000 square feet in Spain and 15,000 square feet in Ireland.

Our 50,000 square feet freehold Head office provides back-office facilities sufficient to support the business into the long term.

Systems

Our bespoke and proprietary e-commerce platform is an end-to-end solution covering all aspects of retail operations, including website content, inventory management, multi-currency pricing, logistics and dispatch, CRM, automated marketing, purchasing, customer receipts and management reporting.

We believe this platform is a cornerstone of our business and source of competitive advantage, delivering reliability, scalability and unique functionality, and we have an in-house team of dedicated programmers constantly improving our systems with new features and functionality.

Delivery

Reliable delivery with competitive pricing is fundamental to our proposition and success. Our e-commerce platform is configured to select the most cost-effective delivery options from 20 different delivery service providers, to provide our customers with a class-leading range of delivery options.

OUR SERVICE

We believe that achieving...

...a very high degree of customer satisfaction is fundamental to sustained long-term growth, and we are committed to continually improving the service experienced by our customers.

We leverage our technology and empower our specialist staff to ensure key touch points deliver a market-leading experience, and monitor our progress carefully using independent sources such as Trustpilot.

Specialist staff

In FY23 we employed 573 people (FY22: 558) across five countries, and many have first-hand musical instrument and equipment knowledge, playing in bands and producing their own music. Ongoing product training is routinely undertaken to ensure staff have relevant and up-to-date knowledge to enable them to advise customers.

Multilingual support for overseas customers in non-English speaking countries continues to be a key investment focus, and a pre-requisite for many of the Group's dealership agreements when selling outside the UK.

AVERAGE NUMBER
OF EMPLOYEES

573

ACROSS FIVE
COUNTRIES

OUR CUSTOMERS

Customer overview

Gear4music's customer base is primarily made up of private individuals (over 96%), from beginners and parents buying musical instruments and music equipment for their children, through to professional musicians. The Group supplies schools and other educational establishments and a small number of trade accounts.

1.65m

PEOPLE SUBSCRIBED ON
OUR EMAIL DATABASE

On 31 March 2023 we had 1.65m million people registered to receive our email communications, up 29% from 1.28m at 31 March 2022, and 0.98m at 31 March 2021.

Active customers of 0.86m (being customers who have purchased from Gear4music during the previous 12 months), are down 6% on FY22 (0.92m). The Group acquired a further 0.74m new customers in the period (FY22: 0.79m), and 0.17m customers returned to place at least one follow-up order (FY22: 0.17m).

Average order value of £150 was up on FY22 (£125) reflecting cost price inflation and as relatively more, higher priced other-branded products were sold.

Customer engagement

Effective communication with our customers is central to understanding their needs and wants, and developing our customer proposition. We monitor and respond to Trustpilot reviews, and look to learn from things that didn't meet the customer's expectation.

We invest significant resource in generating high-quality engaging content, in terms of product descriptions, and studio quality photographic and video content.

Improving customer experience is a key objective when designing and implementing software development projects.

OUR PRODUCTS

Product range

At the year-end we listed over 64,200 products from over 1,130 manufacturers.

Branded Products

Gear4music has developed long-term partnerships with many well-recognised brands within the music products industry, who rely on the specialist product knowledge of Gear4music's staff, the high standard of customer service that Gear4music provides, and the high standard of presentation both online and at the Gear4music showrooms.

Own-brand Products

Ongoing development of Gear4music's own-brand product range has been a focus since Gear4music.com was launched in 2003, and now covers a wide and varied range with over 4,900 products listed.

In 2021 Gear4music acquired the Eden and Premier brands respectively, and we continue to explore opportunities to acquire legacy brands.

64,200

PRODUCTS FROM OVER
1,130 MANUFACTURERS

4,900

OWN-BRAND
PRODUCTS LISTED

Strategy in action

Supply chain evolution

create

Own-brand products

Ongoing development of Gear4music's own-brand product range has been a focus since Gear4music.com was launched in 2003.

We continue to extend our product ranges with a focus on margin-enhancing opportunities, and leverage our international buying teams to widen our procurement options. Further development of our highly successful own-brand ranges remains a priority, dealing directly with factories and manufacturers to gain competitive advantage.

NUMBER OF PRODUCTS

4,900

+17%

OWN-BRAND REVENUE

£38.9m

+2%

resonate

”

Whilst only representing 8% of SKUs, own-brand product sales accounted for 26% of revenue.

GARETH BEVAN
CHIEF COMMERCIAL OFFICER

Our strategy

Gear4music's strategy is built around...

three pillars of growth

Our strategic priorities

1. E-commerce excellence

EVOLVE			IMPROVE	
JONATHAN MEAGER E-COMMERCE DIRECTOR	GROWTH STRATEGY		CONVERSION	TRUSTPILOT RATINGS
	EVOLVE	Continually evolve platform	3.95% -11BPS	4.7/5
	IMPROVE	Refine digital marketing		
	ACCELERATE	Build customer trust		
	ENHANCE	Improve efficiency and productivity		
Overview We continue to develop our proprietary e-commerce platform to drive website traffic, optimise conversion rates and maximise operational efficiencies. We use our bespoke technology, rich content and digital marketing initiatives to extend our reach into new and existing territories and markets, and build customer trust by delivering a first-rate customer experience. We have delivered some exciting new developments in FY23 and have more planned for FY24. Our websites are driven by our bespoke and proprietary e-commerce platform, designed to maximise opportunities and deliver competitive advantage in our niche market. It has the capacity to handle significantly increased volumes, and the capability to expand into new markets. Having software development in-house helps deliver the cost-effective investment in platform development required to take our business forward. Investment enables us to respond to changing customer behaviours and expectations, by rapidly developing new features and functionality to drive website traffic, increase conversion rates and maximise operational efficiencies and reliability.			PROGRESS With over 26 million website visitors in the year, conversion rates of 4%, 865,000 active customers, and 172,000 repeat customers, our e-commerce strategy continues to prove highly effective in what is currently a challenging market. Gear4music.com enjoys a Trust Pilot Rating of 4.7 from 119,000 reviews, and AV.com rates 4.8 from 1,900 reviews reflecting our 'customer first' approach, the incredible efforts our team makes, and the attention to detail that is required to build customer trust and loyalty. We will continue to learn from our customers, and use our significant technical resource to design the new solutions required to satisfy an evolving market. Paid-marketing activities are data driven and focused on return on investment, and investment continues to target higher-margin product groups. Marketing efficiency measured as marketing cost as a % of sales	
			decreased from 7.3% in FY22 to 7.0%, which compares to 7.7% in the more normal FY20 trading period. We continue to develop our social media presence and have 77,000 followers on Facebook, 27,400 on Instagram, and 22,300 on Twitter. Our YouTube channel has 84,600 subscribers and has had over 66 million views since its launch in 2007. Our bespoke e-commerce platform is the cornerstone of our success and a major competitor differentiator, and our development team of 84 (FY22: 90) have worked tirelessly to design and deploy updates and upgrades during the year. In 2022 we successfully re-platformed the acquired AV business and launched AV.com focused on retailing Home Cinema and HiFi equipment and accessories.	

2. Supply chain evolution

3. International expansion

ACCELERATE

ENHANCE

GARETH BEVAN
CHIEF
COMMERCIAL
OFFICER

GROWTH STRATEGY

EVOLVE

IMPROVE

ACCELERATE

ENHANCE

Continuous product range extension
Seek margin-enhancing opportunities
Own-brand development
Evolve logistics capability

Overview

We continue to extend our product ranges with a focus on margin-enhancing opportunities, and leverage our international buying teams to widen our procurement options. Further development of our highly successful own-brand ranges remains a priority, dealing directly with factories and manufacturers to gain competitive advantage. A highly specialised purchasing team, combined with our market-leading European distribution capability and bespoke e-commerce platform makes our business unique.

PROGRESS

At 31 March 2023 we have 64,200 products listed, a net 3% increase in 12 months, and there are opportunities to increase this.

Whilst only representing 8% of SKUs, own-brand product sales accounted for 26% of revenue, which is down on the 29% achieved in FY21, when demand for entry and beginner level instruments and equipment was high during Covid lockdowns.

In 2022 the Group added Eden, a bass guitar amplification brand previously owned by Marshall Amplification, and Premier, a drums and percussion brand with a rich musical heritage, to its own-brand stable.

SKUs LISTED

64,200

+3%

OWN-BRAND REVENUE

£38.1m

+2%

SEE STRATEGY IN ACTION
ON PAGES 14 TO 15 AND 18 TO 19

ROB NEWPORT
OPERATIONS
DIRECTOR

GROWTH STRATEGY

EVOLVE

IMPROVE

ACCELERATE

ENHANCE

Territory-specific websites
Regional procurement operation
Localised customer experience
Improved delivery options

Overview

We continue to develop and improve our customer proposition in each of the territories we operate. We will achieve this by further localising our websites to drive traffic and improve conversion, enhancing our multilingual customer service teams, expanding our international buying teams, and refining our delivery options to increase speed and convenience.

PROGRESS

With international sales of £70.0m in what is a \$19bn market, expanding internationally continues to be a significant opportunity and focus for the Group. Localising our websites and customer experience is at the core of our growth strategy, and during the year we have invested in translation, marketing and our multilingual customer service team, and improved our local delivery and payment options.

In FY22 we opened distribution centres in Ireland and Spain to reduce cross-border order fulfilment address post-Brexit, and further enhance our proposition in Ireland and Southern Europe.

We have well-established showrooms in Sweden and Germany to physically showcase our products, build our brand in the area, and create local buying opportunities.

Key performance indicators

measuring performance

Financial

REVENUE £m

£152.0m

+3%

GROSS MARGIN %

25.7%

-220bps

NET CASH/(DEBT) £m

£(14.5m)

£9.7m

We measure ourselves against a number of KPIs that reflect the key trading trends and are linked to our strategic pillars of growth.

Commercial

MARKETING RETURN
Marketing costs as % of total revenue
7.0%
-30bps

UNIQUE USERS ^m
26.5m
-8%

CONVERSION %
3.95%
-11bps

AVERAGE ORDER VALUE £
£150
+20%

SKUs LISTED
64,200
+3%

Customer

CUSTOMER EXPERIENCE
Trustpilot rating
4.7/5

NUMBER OF REPEAT CUSTOMERS
171,600
-1%

Definitions

Unique Users: a distinct person who visits a G4M site during a given period

Conversion: total number of online orders divided by the total number of unique users

Average Order Value: total revenue (gross of credit notes) divided by the total number of orders

Proportion of repeat customers: number of customers in the period who have placed more than one order

Active customers: customers who have placed at least one order in the last 12 months.

Financial review

strong growth initiatives

Overview

The financial year ended 31 March 2023 was a difficult period for many retailers of discretionary products, and against a backdrop of cost-led inflation and increasing interest rates it was important we delivered on our stated ambition of bringing down our net debt and taking a disciplined approach to cost management. Until the macro-economic climate and consumer confidence show sustained signs of recovery, cost control will continue to be a priority through FY24.

FY23 profitability was impacted by our active reduction in stock levels during a period of weak demand contributing to a lower than planned gross margin, and by cost-base inflation across marketing, labour and energy. Relative to FY20, the last normal trading period unaffected by the pandemic, our results show good revenue growth at a comparable gross margin, but lower operating profits and profitability reflecting the increased size and scale of the business reinforced by the aforementioned inflationary factors.

Since the year-end we have renewed our banking facilities with HSBC to provide a £30m committed facility to 2026, giving us certainty and confidence to plan into the medium term.

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Until the macro-economic climate and consumer confidence show sustained signs of recovery, cost control will continue to be a priority through FY24.

CHRIS SCOTT
CHIEF FINANCIAL OFFICER

Revenue

	FY23 £m	FY22 £m	FY20 £m
UK revenue	82.0	82.6	61.8
International revenue	70.0	65.0	58.5
Revenue	152.0	147.6	120.3

Revenue increased £4.4m (3%) on FY22 and £31.7m (26%) relative to a more normal trading period in FY20, equating to compound growth of 8.1% per annum.

UK revenue of £82.0m was £0.6m (1%) behind FY22 and £20.2m (33%) ahead of FY20, reflecting cost-of-living challenges impacting sales of discretionary products. This takes our estimated UK market share to 9.1% (FY22: 9.2%; FY20: 7.2%).

International revenues of £70.0m were £5.0m (8%) ahead of FY22 and £11.5m (20%) higher than FY20 reflecting the distribution centres we opened in Ireland and Spain last year becoming increasingly well-established and offering an improved localised customer proposition in those and adjacent markets.

Revenues from sales outside of Europe accounted for 2.0% of total revenue in FY23 compared to 1.4% in FY22 and 1.3% in FY20.

REVENUE

£152.0m
+3%

	FY23 £m	FY22 £m	FY20 £m
Other-brand product revenue	106.2	102.5	79.4
Own-brand product revenue	38.9	38.1	35.4
Carriage income	6.2	6.3	4.9
Other	0.7	0.7	0.6
Revenue	152.0	147.6	120.3

Own-brand revenue of £38.9m was up £0.8m (2%) on FY22 and £3.5m (10%) on FY20, and accounted for 25.6% of total revenue from 8% of total SKUs, which is a lower proportion than has historically been the case (FY20: 29.4%). This is in part due to a post-Covid slow-down in demand for entry-level products, and secondly due to increased competition from Far East manufacturers selling direct into Europe through Amazon. We have responded by increasing own-brand SKU count from 4,200 to 4,900 including revamped entry level and premium ranges, and the expansion of Premier branded-products.

Other brand revenue was £3.7m (4%) ahead of FY22 and £26.8m (34%) ahead of FY20.

Carriage income was broadly flat on FY22 and £1.3m ahead of FY20, representing 4.1%, 4.3% and 4.1% of sales in FY23, FY22 and FY20 respectively, reflecting the Group offering more localised, cheaper delivery options and less cross UK-EU border shipments in FY23 and FY22 than was possible in FY20.

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 FY23, FY22 and FY20.

OWN-BRAND REVENUE

£38.9m
+2%

Financial review continued

Gross profit

	FY23	FY22	FY20
Product sales (£m)	145.1	140.6	114.8
Product profit (£m)	43.6	45.2	35.1
Product margin	30.0%	32.1%	30.5%
Carriage costs (£m)	10.5	10.3	8.8
Carriage costs as % of sales	6.9%	7.0%	7.3%
Gross profit (£m)	39.0	41.1	31.2
Gross margin	25.7%	27.9%	25.9%

In FY22 we built-up a high level of stock for precautionary and opportunistic reasons. In FY23 with a return to reliable supply, higher interest rates and against a backdrop of weaker customer demand, our focus moved to reducing stock to a more appropriate level through resetting re-ordering levels and involved targeted price reductions. These factors contributed to a 210bps decrease in product margin to 30.0%.

In a similar vein to FY22, product margin in FY23 was impacted by sales mix with relatively lower sales of higher margin own-brand products (26% of total sales) than has historically been the case (FY20: 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 a point of differentiation. The Group purchases its own-brand products in US Dollars and product margin can be impacted by exchange rate fluctuations.

GROSS MARGIN

25.7%
-220bps

Administrative expenses and operating profit

	FY23 £m	FY22 £m	FY20 £m
UK Administrative expenses	(33.7)	(31.3)	(25.2)
European Administrative expenses	(5.0)	(4.6)	(2.5)
Total Administrative expenses	(38.7)	(35.9)	(27.7)
Other income	0.9	0.8	0.6
Operating profit	1.3	6.1	4.1
Depreciation and amortisation	6.1	5.1	3.7
EBITDA	7.4	11.2	7.8

Total administrative expenses increased by £2.8m (8%) on FY22 relative to a revenue increase of 3%, including a £1.3m (10%) increase in labour costs, £0.9m (18%) increase in depreciation and amortisation, and a £0.5m (24%) increase in card processing costs.

Administrative expenses have increased from 23.0% of sales in FY20 and 24.3% in FY22, to 25.5% in FY23.

Combined marketing and labour costs of £25.0m (FY22: £23.9m) accounted for 65% of total administrative expenses (FY22: 67%):

- Marketing expenditure decreased in FY23 to £10.6m (FY22: £10.8m) equating to 7.0% of revenue compared to 7.3% last year and 7.7% in FY20, as the business targeted a higher return on investment; and
- Labour costs increased 10% in FY23 to £14.4m (FY22: £13.1m) reflecting a 3% increase in average headcount. Labour costs accounted for 9.5% of revenue (FY22: 8.9%).

FY23 EBITDA of £7.4m was £3.8m lower than FY22 and £0.4m lower than FY20.

Other expenses and net profit

Financial expenses of £1.7m (FY22: £1.1m) include £1.1m bank interest (FY22: £0.5m) reflecting higher interest rates, £0.4m of IFRS16 lease interest (FY22: £0.4m), and a £0.2m net foreign exchange loss (FY22: £0.1m loss).

The Group reports a small loss before tax of £0.4m (FY22: profit before tax of £5.0m) that after tax translates into a basic and diluted loss per share of 3.1p (FY22: 17.8p basic profit per share, 17.3p diluted profit per share).

EBITDA

£7.4m
-34%

Cash flow

	FY23 £m	FY22 £m	FY20 £m
Opening cash	3.9	6.2	5.3
(Loss)/profit for the year	(0.6)	3.7	2.6
Movement in working capital	13.0	(16.2)	(0.9)
Depreciation and amortisation	6.0	5.1	3.7
Financial expense	1.7	1.1	1.0
Tax and Other operating adjustments	(0.4)	(1.3)	1.0
Net cash from/(used in) operating activities:	19.7	(7.6)	7.4
Net cash used in investing activities:	(6.7)	(16.5)	(3.9)
Net cash (used in)/from financing activities:	(12.4)	21.8	(1.0)
Increase/(decrease) in cash in the year	0.6	(2.3)	2.5
Closing cash	4.5	3.9	7.8

Post year-end 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 indebtedness decreased by £9.7m to £14.5m (40%) largely down to the deliberate and planned £11.1m reduction in stock. Net debt of £24.2m at 31 March 2022 was a peak year-end figure reflecting an £11.4m investment in acquisitions in FY22, and a £17.1m investment in stock that was largely unwound in FY23.

Reported net cash outflow in investing activities of £6.7m includes £5.3m of capitalised software development costs (FY22: £4.4m) and £1.0m property, plant and equipment additions (FY22: £1.8m). Depreciation and amortisation of £4.4m (FY22: £3.7m) is added back in 'net cash from operating activities' with respect to these asset categories.

Net cash outflow from financing activities of £12.4m (FY22: £21.8m inflow) represents a £9.0m lower RCF drawdown (FY22: £24.6m net inflow), £1.7m payment of lease liabilities (FY22: £1.9m), and £1.7m interest paid (FY22: £0.9m).

STOCK

£34.4m
-£11.1m

NET DEBT

£(14.5m)
+£9.7m

Balance sheet

	31 March 23 £m	31 March 22 £m	31 March 20 £m
Property, plant and equipment	11.9	13.0	11.2
Right-of-use assets	7.3	8.2	9.0
Software platform	12.8	10.5	7.1
Goodwill	5.3	5.3	1.8
Other intangible assets	3.9	4.0	0.2
Total non-current assets	41.2	41.0	29.3
Stock	34.4	45.5	22.0
Cash	4.5	3.9	7.8
Other current assets	4.5	3.9	2.5
Total current assets	43.4	53.3	32.3
Trade payables	(9.3)	(9.5)	(10.1)
Loans and Borrowings	–	–	(10.0)
Lease liabilities	(1.1)	(1.2)	(1.1)
Other current liabilities	(8.4)	(6.7)	(4.3)
Total current liabilities	(18.8)	(17.4)	(25.5)
Loans and Borrowings	(19.0)	(28.0)	(3.4)
Lease liabilities	(7.5)	(8.5)	(9.5)
Other non-current liabilities	(2.1)	(2.3)	(1.6)
Total non-current liabilities	(28.6)	(38.8)	(14.5)
Net assets	37.2	38.0	21.6

Capital expenditure on property, plant and equipment totalled £1.0m spread across all eight sites.

The Group capitalised £5.3m (FY22: £4.4m) of software development costs relating to our bespoke e-commerce platform, including projects linked to AV.com, third-party fulfilment, and the launch of our second-hand platform. Platform amortisation in the year was £3.0m (FY22: £2.3m) taking net book value to £12.8m (31 March 2022: £10.5m).

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

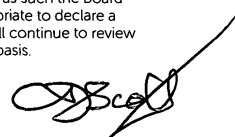
Stock of £34.4m is £11.1m (24%) lower than at 31 March 2022 reflecting planned reductions. The Board considers this to be a good level to take into FY24, providing breadth and depth across categories across our distribution centres.

The Group carried net debt of £14.5m at the year-end (31 March 2022 net debt: £24.2m), having reduced stock by £11.1m (24%) over FY23.

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
19 June 2023



Environmental, social and governance

social
responsibility

Overview We understand the importance that sustainable business practices have on our physical and social environments, and the role they will play in successfully growing over the longer term, and acknowledge there is increasing interest from a wide range of stakeholders in the various impacts that the business has. We will continue to develop and refine our framework and activities to plan to meet the reporting requirements prescribed under the Task Force on Climate-related Financial Disclosures (TCFD) in year ending 31 March 2024.	Gear4music's ESG Agenda				
	Environmental pillar		Social pillar		Governance pillar
	Climate change	Pollution and waste	Our products	Our people	Corporate behaviour
	Carbon emissions	Packaging material and waste	Product safety and quality	Health and safety	Board diversity and structure
	Product footprint	Electronic waste	Supply chain labour standards	Diversity and inclusion	Executive pay
				Wellbeing	Ethics and transparency
			Charities and community	Anti-corruption policies	
	We recognise our responsibility to reduce our environmental impact, and can achieve this through technology, continuous improvements in operational efficiency, and doing things in new ways		We are committed to retailing high-quality musical instruments, equipment and AV products, and adopting and improving practices that ensure there is no slavery or human trafficking in our supply chain	We recognise the success of our business is founded on the hard work of a team of talented and motivated individuals, and are committed to making Gear4music a great place to work	We are committed to conducting our business with integrity

As an e-commerce retailer of musical instruments, music equipment and AV-products, we believe that the areas in which we can make the biggest differences are:

Climate change

reducing the impact G4M has on the environment

Waste management

reducing levels of waste and increased, improved recycling

Impact of our products

retailing safe and high-quality products, produced in ethical supply chains

Our people

looking after our colleagues and ensuring G4M is a great place to work

We will form an ESG Committee making proposals and reporting on progress to our Operational Board.

Environmental

We recognise our responsibility to reduce our environmental impact, and can achieve this through technology, continuous improvements in operational efficiency, and doing things in new ways.

Climate Change

We target reduced energy consumption and seek out renewable energy options when contracts are up for renewal, and report on our carbon intensity. In 2021 we signed up to three-year energy contracts at our York head office, an electricity contract for 100% renewable energy and a 40% carbon offset gas product. We have not entered into any new contracts in FY23.

We routinely make energy-efficiency conscious decisions across our properties – for example using LED lighting across our properties, and adding electric vehicle charge points at our York and Bacup properties.

Our carbon intensity is reported in the Directors report on page 54, showing a 20% decrease in energy use.

At the Group's last AGM on 9 September 2022, resolutions were passed to move to paperless reporting and voting from this year.

Waste Management

We work to minimise the impact of our activities on the environment:

Packaging – We review and seek to improve packaging efficiency and reduced waste, and increase use of near 100% recycled materials; and

Waste – We separate and sell all our waste cardboard for recycling and actively seek ways to recycle more of our waste packaging materials such as plastic stretch wrap.

The durable nature of our products makes them prime for recycling, and the launch of our second-hand platform in FY23 marks our entry into and commitment to the circular economy across our product categories.

We promote safe and responsible recycling of end-of-life products.

SEE STRATEGY IN ACTION
ON PAGES 30 TO 31

Our Products

We have invested in the necessary equipment and resources to carry out rigorous compliance testing in our dedicated facility, including testing for substances that can be harmful to the environment or people and are banned under RoHS Regulations.

We operate a strict supplier code of conduct that all of our own-brand suppliers are signed up to, detailing our rigorous expectations and requirements in relation to:

- a. Labour
 - i. Child Labour
 - ii. Hours, Wages & Benefits
 - iii. Humane Treatment
 - iv. Slavery and Human-Trafficking
 - v. Discrimination
 - vi. Freedom of Association
- b. Health & Safety
- c. Environmental
- d. Anti-Corruption

Modern Slavery

We are committed to adopting and improving practices that ensure there is no slavery and human trafficking in our supply chains or any other part of our business. The products we sell are manufactured in many different countries, and we aim to ensure that these values are upheld across our supply chain.

To achieve this, we are committed to identifying and assessing areas of our business where there could be potential risks of modern slavery,

be that directly or indirectly within our supply chain. We seek to develop and implement effective systems and controls to review and monitor compliance with our policy.

We sell many well-known other-branded products and in the year ended 31 March 2023 third-party brands accounted for 73% of our product sales. We purchase these products predominantly from European-based suppliers, many of whom are part of larger global organisations. These organisations acknowledge and generally publish their commitment to anti-slavery practices.

Our own-branded products are sourced from manufacturers in several countries around the globe and are often manufactured to our specification and design. As of 31 March 2023, we had active relationships with over 95 manufacturers, predominantly in the Far East.

We conduct independent inspections of third-party facilities involved in the manufacture of our products. During these inspections we carry out extensive checks and produce written 'factory inspection' reports that are shared with the managers and/or owners of the facilities, and include formal recommendations to be actioned where appropriate. We will stop using any factories that fail to meet the standards that we set.

Since publication of our policy in September 2017 to Covid lockdown, we conducted 40 factory inspections. Since FY21 Covid and the associated international travel restrictions have impacted our ability to conduct inspections in person, and we adapted by conducting virtual tours of new factories that we have started working with, and being vigilant in gathering as much information on each new factory as possible. In May 2023 as travel restrictions eased, we were able to resume inspections and have conducted six inspections with more planned for later in the year. Responses to our factory inspections to date have been positive.

Strategy in action

E-commerce excellence

relive

Second-hand platform

The durable nature of our products makes them prime for recycling, and the launch of our proprietary second-hand trade-in system marks our entry into and commitment to the circular economy across our product categories.

”

Our second-hand system simplifies the process for consumers of selling used musical instruments and equipment and provides value and peace of mind for our customers when buying second-hand products. It ensures the lifespan of products is maximised, whilst enabling enhanced margin opportunities for the business.

ANDREW WASS
CHIEF EXECUTIVE OFFICER

NUMBER OF PRODUCTS

7,500

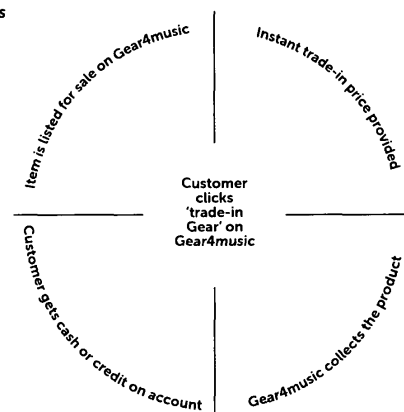
as of 03 April 2023

New proprietary second-hand trade-in system

Overview

- Proprietary second-hand trade-in system launched in March 2023
- Initially launched in the UK, European roll-out to follow during FY24 Q2
- AV.com to launch during FY24
- Unique positioning within the market, designed to simplify equipment trade-in
- 12,000 products currently available for trade-in

Process



Customer advantages

- Quick and simple process
 - No photography required
 - No postage or delivery required
 - No buyer communications
- Payment and delivery risks eliminated
- Increased value for credit on account
- Convenient way to recycle old equipment

Gear4music advantages

- Access to a wide range of equipment to sell
- Majority of customers choose credit on account
 - Leads to additional customer sales
- Better resale margins than 'other' brands
- More interesting website content
 - Increased search traffic
 - SEO benefits

replay

Environmental, social and governance continued

diverse passionate

Our diverse workforce is a great part of life at Gear4music: different cultures, knowledge and skills makes it a fantastic place to work, and many of our employees are musicians in their spare time.

We are proud of our passionate staff with in-depth knowledge of their specialist area of focus.

AVERAGE NUMBER OF EMPLOYEES

573

+3%

Our people

We strongly believe in growing our talent by recruiting only the best people, identifying individual strengths, and providing development opportunities with the scope for career progression as a result.

Our diverse workforce is a great part of life at Gear4music: different cultures, knowledge and skills makes it a fantastic place to work, and many of our employees are musicians in their spare time.

A business for musicians run by musicians
We are proud of our passionate staff with in-depth knowledge of their specialist area of focus.

We offer generous staff discounts on musical products and equipment, and estimate the majority of our team have made a relevant purchase.

Recruitment and Retention

We need to attract talent into our business to support our growth plans and offer competitive salaries and a range of benefits to help attract and retain great people (<https://www.gear4music.com/careers/why-gear>).

As at 31 March 2023, 35 employees are participating in Group share option plans in recognition of their contribution to the continuing success of the business.

We continue to create job opportunities in our communities, and in FY23 our average headcount increased by 3% from 558 to 573, and our retention levels are good.

Mental Health

Gear4music is signed up to the Charter for Employers Positive about Mental Health meaning we are committed to creating a supportive and open culture where colleagues feel able to talk about mental health confidently, and aspire to appropriately support the mental wellbeing of all staff – we are proud to be a 'Mindful Employer'.

We have 30 certified Mental Health First Aiders ('MHFAs') across our business providing all Managers across our sites with tools, resources and knowledge to support their people better. Our MHFAs meet up on a quarterly basis to review the support we are providing across the business and suggest new ideas and initiatives. We also now offer our employees the opportunity to complete a Level 1 Award in Mental Health Awareness Course and become a 'Mental Health Champion'. By making this training accessible across more teams and departments our aim is to strengthen the support network we can offer to everyone.

Our Employee Assistance Programme remains a highly utilised support tool, providing all employees with access to online resources, 24/7 helpline and counselling services. We continue to support our employee's wellbeing with our Mental Health and Wellbeing Policies.

Gear4music Community

Our intranet continues to be a great tool for communication and supporting our Gear4music community. Additional resources have been added which include sections for health & wellbeing, charity & fundraising, and financial wellbeing support. In addition, our regular social events provide an opportunity for people to connect and unwind together.

Equality, Diversity & Inclusion

We are committed to supporting equality, diversity, and inclusion across the business. In 2023 a new and refreshed Equality, Diversity and Inclusion Policy has been communicated, along with new online training on this important subject.

Gender Pay Gap Report

As of April 2022, our mean gender pay gap was 17.5% (2021: 11.8%).

- Women's hourly rate is 17.5% lower (mean) and 5.0% lower (median)
- Women's bonus pay is 25.7% lower (mean) and 16.8% lower (median)
- Top salary quartile has 84.5% men and 15.5% women
- Upper middle salary quartile has 77.7% men and 22.3% women
- Lower middle salary quartile has 63.1% men and 36.9% women
- Lower salary quartile has 85.4% men and 14.6% women
- 5% of men and 7.5% of women received bonus pay

The mean reflects the fact that the top three highest paid employees are male; the median reflects that there are proportionally more females in the upper middle quartile and less in the bottom quartile.

Environmental, social and governance continued

charitable partnerships

Girls Rock London

'Girls Rock London' is an award-winning charity based in Hackney providing high-quality music programming for young and adult women, trans, and non-binary people, with a specific focus on increasing access for people who face barriers to participation.

Their vision is of a world where girls, women, trans, and non-binary people are powerful and can achieve their potential. Their mission is to amplify their voices through music-making and community-building. Their programmes are aimed at complete beginners as well as experienced musicians, and they work closely with community partners to respond to the needs of young people experiencing multiple and intersecting disadvantage. They aim to demystify music-making, challenge gender inequality in the music industry and wider society, and provide safe, nurturing and joyful environments in which people can develop musically, personally and socially.

Sunflowers in York

'Sunflowers in York' helps Ukrainian refugee children and families to settle and thrive in York by providing emotional health and wellbeing activities and support.

Their team of experienced Ukrainian teachers and psychologists believes that children's emotional health is essential to their education, quality of life and ability to process change and trauma.

Jessie's Fund

It is now nearly three years since the relationship between Jessie's Fund and Gear4music began and GNCH remain so appreciative of the ongoing support for their work: bringing music to the lives of children with a range of additional needs or illness. This year has seen many projects return to, or surpass, pre-pandemic levels of engagement with children and young people.

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I would like to say a huge thank you to all at Jessie's fund for your support of GNCH and the development of a music therapy service. Without your initial approach and support for the idea, it is not something we would have realised within GNCH. Claire has made an enormous impact on our patients and has been a great addition to the multidisciplinary team and we hope the service will continue to develop and grow.

JULIE ANDERSON
RESEARCH AND INNOVATION MANAGER, GNCH

Jessie's Fund's work in Children's hospitals is ongoing, with the role at the Great North Children's Hospital ('GNCH') in Newcastle being taken over by the hospital charity to become a permanent fixture. They have been so pleased by the impact they have even increased the number of days from two to three so that more children can access therapeutic music in times of health crisis.

We continue to support Children's hospices with funding as needed, particularly those who are struggling with the increasing running costs. Our next hospice project is bespoke training for a hospice for 0–5-year-olds near Middlesbrough, which we hope will be the start of their journey in bringing therapeutic music to their very young children with life-limiting illnesses.

Our work in schools is flourishing, with five one-year staff development projects currently running at schools from as far as East Sussex to North Tyneside, alongside five-day projects in the North-West, Yorkshire and the Midlands. We have also started our exciting new project with the Royal Northern College of music, where eight of their students have attended training, led by our specialist musician, and will

be shadowing across four schools' projects in Manchester this term. We are hoped this will become a regular project, and will support the development of the music workforce so more music leaders are trained to deliver the level of specialist work that is so needed for children with additional needs, across a range of settings.

We have seen an increase in requests this year for our grant funding for individual music therapy, which allows children who do not have access to music therapy through their school or other settings to be able to have a block of sessions in the community. Many parents are hearing about the myriad benefits of music therapy for improving communication and wellbeing for children and are applying themselves for support. The fee for a block of sessions is beyond the reach of many families with children with additional needs, who already incur more costs than most, and have been hardest hit by the cost-of-living crisis. This vital funding stream means that these children do not miss out on their opportunity to communicate and develop through music.

The regular support and security offered by Gear4music allows us to plan ahead and ensure our work continues to reach as many children and young people as possible in the UK, so thank you again for helping us to bring the power of music to them.

The Bank of Dreams & Nightmares

The Bank of Dreams & Nightmares is all about nurturing creativity in kids.

Founded by 'Hitchhikers Guide to the Galaxy' Director Nick Goldsmith and inspired by a place called 826 Valencia, set up by the author Dave Eggers, the charity aims to give Children of all ages the ability to access resources and professional tutoring in areas such as Creative writing, Podcasting and Filmmaking. They are building a truly wonderful mixed-use space in Bridport, Dorset, called The Bank of Dreams and Nightmares:

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Imagine a real bank except we deal in the currency of words and our vaults are filled with all kinds of dreams and nightmares; precious stories written by children. Anyone can open an account with us, and explore the Bank itself, but if you know where to look you will find a secret door that leads you to where the real magic happens. Hidden within the bank is the story writing workshop overseen by the mysterious Bank Manager who is never seen but likes to make themselves heard! Here we offer free creative writing workshops to children developed with industry professionals with real world outcomes, to show children just how far their writing can take them!

Risk and uncertainties

identification evaluation management

FOR MORE INFORMATION
WWW.GEAR4MUSIC.COM

The Board recognises that certain risks and uncertainties can have significant rewards for the prospects of the business, and as such require careful identification, evaluation, and management.

The Board takes overall responsibility for risk management, with a focus on evaluating the nature and extent of significant risks, and formulating mitigations around the risks required to be taken in order to deliver the strategic objectives. The Audit Committee has responsibility for overseeing the effectiveness of appropriate risk management processes and internal control systems. More detail of these processes is set out in the governance section.

This section focuses on the principal risks and uncertainties to our business model that could impact on our achieving our strategic objectives, and our future performance.

OPERATIONS

Risk	Description	Mitigation
Macroeconomic and Geopolitical developments	Macroeconomic and geopolitical changes such as the war in Ukraine can impact consumer confidence and demand for our products, with factors including higher inflation, interest and energy costs reducing consumer demand for discretionary purchases. Countries we ship into could also experience restrictions or sanctions preventing inbound sales. Similarly global freight forwarding could be disrupted by geopolitical factors, such as conflict or pandemic, that would limit inbound delivery of products for resale. A significant proportion of the Group's own-brand product range is manufactured in China, and the Taiwan situation continues to be monitored.	The Operational Board continues to monitor macroeconomic trends and geopolitical developments, and respond appropriately. Gear4music monitors performance and evaluates prospects through the year, and makes any necessary commercial, operational or financial decisions at that time. The Group's own-brand buy-team routinely explores new supply options across different territories to reduce over-dependence on any single country. The logistics team assess and explore alternative shipping routes (rail and air as well as sea) in case of restrictions on certain routes. In the long term second-hand products have potential to become a meaningful sourcing opportunity.

OPERATIONS CONTINUED

Risk	Description	Mitigation
Climate Risks & Sustainability	The transition to a lower carbon economy could impact our business in a number of ways including: (1) Customer risk – The risk of market disruption, changes in consumer preference trends and demand projections; (2) Market risk – The risk of market disruption, cost of capital and valuation changes as investors prioritise returns from low carbon companies; and (3) Policy risk – The risk of legislation enacted by national and local governments to price and penalise GHG emissions. Physical risks of climate change bring risks of acute perils (such as flood, wind and extreme rainfall) and chronic perils (such as drought, heat stress and water stress) that could impact our facilities, and access to and cost of products.	We are committed to reducing the Group's impact on the environment and can achieve this through technology, continuous improvements in operational efficiency, and doing things in new ways. Environmental impact is a consideration in all relevant significant decisions made – product sourcing, packaging and waste, distribution, and premises and energy-use. We regularly assess our operating facilities to ensure they are fit for purpose and invest in appropriate mitigations, for instance snow and ice clearance contracts and air conditioning.
	UK outside the EU Increased time and cost of moving products across the UK-EU border, makes it difficult for Gear4music to viably move products across border to customers and/or between distribution centres. Card charges borne by UK retailers on European sales have significantly increased. Controls on the freedom of movement of people may impact the availability of European workers in the UK. UK-Irish-European tensions could escalate as Northern Ireland protocols are worked through. Movement of personnel between Gear4music operating locations could be further restricted. Requirements for locally resident Board level management could be introduced which could add cost and complexity to the management structure.	In FY22 Gear4music opened two new Distribution Centres ('DCs') in Spain and Ireland to further reduce cross-border activity, with European DCs fulfilling a higher proportion of European demand (FY23: European DCs fulfilled 38% of sales; FY22: 35%; FY21: 31%). Competitor activity and offerings are regularly reviewed to remain abreast of market developments and identify risks and opportunities. Fluctuating exchange rates are regularly reviewed and operational and financial mitigations considered. Buying products and incurring proportionally more other costs in Euros and Krona provides a natural hedge and partly mitigates currency risk. Senior managers are being cultivated in European locations who may be able to represent the business if required.

Risk and uncertainties continued

OPERATIONS CONTINUED

Risk	Description	Mitigation
Change Management	Operations – Operations and practices adopted at earlier stages of the Group's development may be inappropriate for a business of an increased size, scale and complexity. The Group may need to expand and enhance its infrastructure and technology and improve its operational and financial systems and procedures and controls. The Group will need to expand, train and manage its growing employee base. Growth through acquisition is dependent on identifying appropriate targets, negotiating and delivering transactions, and the successful integration of businesses – in FY22 the Group invested £11.5m in M&A.	The Plc and Operational Boards actively monitor and respond to developments, so as to maintain systems and practices that are appropriate for the operations and scale of the Group. The Group continues to allocate a high proportion of senior management time and software development resource to improving internal processes and controls, and overall Group resilience. The Group operates a rigorous recruitment process and continues to recruit into key management positions. Prior to any such major developments Management extensively researches the opportunity and routinely takes appropriate professional advice. Any future advances will continue to be in a measured, capital and cost-efficient manner.
	Regulatory and Compliance – Operating in geographical markets and/or sectors could expose the Group to a variety of new risks and requirements.	The Group has established local subsidiaries in multiple European countries, and recruited local management familiar with local laws and regulations. In our two largest international markets, Sweden and Germany, we have native leaders who have been with the business for some years and have established strong local working relationships. The Group has specialist teams with relevant expertise and experience, and relationships with external advisors.
	Technological – Unless the Group is able to respond to technological advances it may not be able to effectively build and/or maintain a competitive advantage. This includes the changing nature of e-commerce marketing investment following recent technical changes in online visibility as well as data protection regulations at a national and supra-national level.	The Group continues to allocate a significant annual budget to software development: £5.3m in FY23 (FY22: £4.4m). Software development is in-house enabling the Group to assert greater control and drive cost efficiency to help mitigate such risks. As a pure-play e-commerce business the Group has experience in responding to technical changes which impact the Group's ability to effectively trade.

OPERATIONS CONTINUED

Risk	Description	Mitigation
IT and Cyber Security	Cyber Security – The cyber security landscape continues to evolve, with more sophisticated threats. The Group relies heavily on its IT infrastructure and e-commerce system and if any one or more part(s) were to fail or be damaged, this could impact the Group's ability to trade. If the Group's IT and data security systems do not function properly there could be website slowdown or unavailability, loss of data, a failure by the Group to protect the confidential information of its customers from security breaches, delays in transaction processing, or the inability to accept and fulfil customer orders, which could affect the Group's business.	The Group seeks to mitigate this risk by investing in IT infrastructure including robust cloud-based backup systems. The Group has a disaster recovery plan in place which has been designed to minimise the impact of data loss or corruption from hardware failure, human error, hacking or malware. Increased homeworking through and beyond Covid was facilitated by multi-factor authentication, and strong virus and threat protection.
	Changes to search engines algorithms or terms of service could cause the Group's websites to be excluded from or ranked lower in natural search results. Search engines frequently modify their algorithms and ranking criteria which could impair the Group's 'Search Engine Optimisation' ('SEO') activities. If the Group is unable to recognise and adapt quickly to such modifications in search engine algorithms, the Group could suffer a significant decrease in traffic and revenue.	The Group continues to operate search engine optimisation activities that adhere to search engine guidelines. Brand strength and prominence, and email remarketing, encourage visitors to come directly to Gear4music sites.
	Paid media price inflation: In FY23 the Group spent £10.6m (FY22: £10.8m) on marketing, of which over 90% was 'Pay-Per-Click' ('PPC') related. High paid media price inflation could adversely impact the Group's results.	The Group has an experienced Paid-Marketing team and invests in PPC and PPC-supporting technology.

Risk and uncertainties continued

OPERATIONS CONTINUED

Risk	Description	Mitigation
Warehousing and Distribution	Distribution Centres – Disruption to a DCs operation may have an effect on the Group's business. DCs may suffer prolonged power or equipment failures, failures in their information technology systems or networks or damage from fires, floods, or other unforeseen events which may not be covered by or may exceed the Group's insurance coverage. Logistics – The supply of product to customers in a timely manner is critical to the success of the Group. The Group operates its own warehouses, run by senior management that have significant experience in the sector. The Group may experience interruptions to the operation of its logistics partners networks that could prevent the timely or proper delivery of products, which could damage the Group's reputation and deter prospective customers. These risks are amplified during peak trading periods.	The Group operates from six DCs mitigating the risk of over-dependence on any single location. The Group, in conjunction with its insurance broker, ensures sufficient and appropriate insurance cover is in place. This includes Business Interruption cover. The Group has a formal disaster recovery plan in place that details actions in specific situations. There are regular reviews of capacity and courier configurations across locations and plans developed to fulfil an increasing number of orders from the existing sites, and identify step-changes for consideration as and when required. The Group operates from six DCs, each with their own local logistics relationships, thereby reducing the dependency on any single site or local network. The Group maintains multiple delivery service providers to reduce the dependency on any single provider, and tracks service level agreements on an ongoing basis. This provides system flexibility to switch providers within a matter of days if required, and was live tested during December 2022 when several UK couriers stumbled.
Global Pandemics	Supply chains and product availability could be adversely impacted during lockdowns. Operational capability and capacity would be impacted if one or more DCs were forced to close. In the longer-term pandemics are likely to have a significant and enduring impact on people, societies, business and national economies.	The safety of our employees is our top priority. By effectively adapting our working practices, all of our DCs largely remained open through Covid, and the lessons learnt should serve us well going forward. We adapted by adding capacity and increasing stock levels to maintain good availability across our ranges. Gear4music is financially robust and well placed to benefit from the transition to a new normal. Office staff are now able to work effectively and productively from home if required.

BRAND AND PROPOSITION

Risk	Description	Mitigation
Brand	Developing and maintaining the reputation of the Group's brands is important to the ongoing success of the Group. Brand identity is an important factor in retaining existing and attracting new customers. A failure by the Group to offer high-quality products across a range of instruments, manufacturers and price points, excellent customer service and efficient and reliable delivery could damage its reputation and brands and could result in the loss of customer confidence. Unfavourable publicity concerning the Group could damage the Group's brands and its business. In FY22 the Group acquired the Eden and Premier brands, and launched AV.com.	Rigorous monitoring of customer feedback helps ensure issues are identified and rectified on a timely basis. Own-brand products are carefully selected and rigorously tested prior to initial order. All returned items and items submitted for trade-in are tested for performance and safety before being offered for resale. Financial PR advisors assist in external communications.
Competition	The UK and European retail market for musical instruments and music equipment is competitive. Competitors in certain markets may compete aggressively on price for a period of time. Competitors may have financial resources greater than those of the Group. Amazon sells musical instruments and music equipment. Amazon as a direct competitor is lower risk given their focus on the lower average order value accessory end of the market and, as they do not have showrooms or specialist customer support, on open, generalist product. Amazon Marketplace is an enabler for Chinese manufacturers to sell direct into European markets. In FY22 Gear4music launched AV.com increasing its presence and ambition in the Audio-Visual market.	The Group has a track record of successfully competing on a wide range of factors including quality and range of products, price, product availability, product information, convenience, delivery options and service. The Group continues to invest in enhancing its proposition in these areas, such as improved video content, more responsive delivery services and enhanced ranges of quality own-brand products at all price points.

Risk and uncertainties continued

RESOURCES AND RELATIONSHIPS

Risk	Description	Mitigation
Supply chain	Third-party brands – The Group's business depends on its ability to source a range of products from well-recognised third-party brands on commercially viable terms. Relationships are generally based on annual contracts that the Group seeks to renew each year. Third-party brand owners may stop supplying the Group on terms acceptable to it, fail to deliver sufficient quantities of products in a timely manner, or terminate their relationship with the Group. Any disruption to the availability or supply of products to the Group or any deterioration to the terms on which products are supplied to the Group could affect its business. Own-brands – Reliance on sub-contract manufacturers – The Group sub-contracts manufacture of its Own-brand musical instruments and equipment to independent third-party businesses in China. Any disruption to supply or issues such as poor product quality could have an adverse impact on the Group's reputation. The impact of any issues arising with sub-contractors' products is exacerbated by the lead times involved (12–16 weeks).	The Directors do not consider the Group to be significantly reliant on any one or more major brand. The Directors believe that the size of the Group, its purchase volumes and the strength of its relationship with the brand owners, built over a prolonged period in many cases, make it unlikely that any such arrangements would be terminated. The Group has been successfully importing for over 20 years and has relationships with over 120 manufacturers providing re-sourcing options. The Board believes that the Group has robust take-on and ongoing monitoring procedures covering areas such as quality control and delivery performance for new and existing manufacturers that the Group seeks to adhere to rigidly. The Group are continually exploring additional sub-contract manufacturers in existing and new geographic locations.
Financial risk	The Group relies on bank debt to fund its working capital cycle. A material prolonged deterioration in trading performance could impact on covenants and the availability of banking facilities. A significant and sustained increase in UK interest rates may have an impact on the Group's cash flow. Certain suppliers may obtain credit insurance in respect of Gear4music balances. As a global retailer trading in nine currencies whilst recognising revenues and purchases in GBP, there is a foreign exchange exposure.	The Group has a three-year committed £30m RCF to June 2026. Detailed budgeting and rolling reforecasting ensure working capital is managed well within available facilities, and enables prompt response to adverse performance. The Group has a natural currency hedge as more of its costs are incurred in Euros and Swedish Krona, better reflecting the sales income profile by currency. The Finance function reviews the hedging policy at least once a year.
ESG	Failing to deliver on our ESG policy may result in our losing the trust and support of our stakeholders.	Gear4music is committed to reducing the Group's impact on the environment, making positive improvements in its social commitments, whilst maintaining good corporate governance and behaviour.

developing maintaining

Developing and maintaining the reputation of the Group's brands is important to the ongoing success of the Group. Brand identity is an important factor in retaining existing and attracting new customers.

Section 172: Duty to promote the success of the Company

resonate

with

stakeholders

The Board of Directors consider, both individually and together, that they have acted in the way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in s.172 (a-f of the Companies Act) in the decisions taken during the year. Our plan is designed to have a long-term beneficial impact on the Company and its stakeholders.

Engaging with our stakeholders and acting in a way that promotes the long-term success of the Company, while taking into account the impacts of our business decisions on our stakeholders, are central to our strategic thinking and our statutory duties in accordance with Section 172(1) of the Companies Act 2006 (s.172). The content in this section constitutes our s.172 Statement, as required under the Companies (Miscellaneous Reporting) Regulations 2018.

Our impacts on, and engagement with, our key stakeholder groups are considered within the implementation of our Group strategy. The stakeholder groups are: employees, customers, our suppliers, our community, the environment and our shareholders. How we engage with these groups is covered throughout the report.

OUR STAKEHOLDERS ARE AT THE HEART OF OUR MODEL

Stakeholder	How we engage
Employee engagement	We know that the foundations of a successful business are built on the hard work of a team of talented and motivated individuals. We strongly believe in growing our talent by recruiting only the best people, identifying individual strengths, and providing development opportunities with the scope for career progression as a result. The wellbeing of our colleagues is of paramount importance, and we continue to invest in our facilities to make our office a great place to work and collaborate as we return to predominantly office-based working. Our intranet allows us to quickly and easily share information about Company news including policy updates, new starter welcomes, and internal promotions and changes. Every department has its own dedicated page for resources, helping support cross-departmental working. An organisational chart and structure help our colleagues better understand 'who is who' as the business grows in size.
Customer engagement	Effective communication with our customers is central to understanding their needs and wants, and developing our customer proposition. We monitor and respond to Trustpilot reviews, and look to learn from things that didn't meet the customer's expectation. We invest significant resource in generating high-quality engaging content, in terms of product descriptions, and studio quality photographic and video assets. Improving customer experience is one of the key objectives when designing and implementing software development projects.

OUR STAKEHOLDERS ARE AT THE HEART OF OUR MODEL

Stakeholder	How we engage
Supplier engagement	We work closely with our suppliers in a transparent way, operating on shared values and high standards, enabling our suppliers to participate in our success as we grow. We pay our suppliers to agreed terms to give them the certainty they require.
Community engagement	We have contributed to and worked with a number of charities through the year, and we have three such charitable partner case studies on pages 34 and 35.
The environment	We recognise the importance of sustainable business practices and our progress is detailed on page 29.
Shareholder engagement	The Group seeks to maintain a regular dialogue with both existing and potential investors to ensure that its strategy, business model and performance are clearly understood. Understanding what investors and analysts think and helping these audiences understand our business, is an important part of taking our business forward. The Chief Executive Officer and Chief Financial Officer regularly meet with investors and analysts to provide them with updates on the Group's business and to obtain feedback regarding the market's expectations of the Group. The Group's NOMAD and public relations advisor provide written feedback after these presentations and meetings, and this feedback is shared with the Board. The Group invites all shareholders to attend its Annual General Meeting ('AGM') where they can meet and question the Directors, and express ideas or concerns. The Notice of the Meeting is sent to shareholders at least 21 days before the meeting and the chairs of the Board and all Committees together with all other Directors, routinely attend the AGM and are available to answer questions raised by shareholders. Where voting decisions are not in line with the Group's expectations the Board will engage with those shareholders to understand and address any issues. The Board receives copies of all articles relating to the Group that are published in the financial press, via its public relations advisors. The Annual Report & Accounts is published on the Company's investor website and can be accessed by shareholders.

The Strategic Report on pages 1 to 45 was approved by the Board on 19 June 2023 and signed on its behalf:

Andrew Wass
DIRECTOR
19 June 2023



Chris Scott
DIRECTOR
19 June 2023



Board of Directors

leadership guidance

Eric (Ken) Ford
Chairman and
Non-Executive Director

*At 31 March 2023 Ken was a
member of the Remuneration
and Audit Committees.*

Ken was previously Chief Executive of the quoted investment bank Teather & Greenwood. Ken brings over 39 years of City experience and a strong understanding of shareholder value, strategic planning and corporate transactions. Ken is a former Chairman of the Quoted Companies Alliance (QCA) and is a Fellow of the Chartered Securities Institute.

Ken is currently Non-Executive Chairman of AIM-quoted companies SDI Group plc and CMO Group PLC, and Non-Executive Chairman of Chaleit Holdings Limited.

Andrew Wass
Chief Executive Officer

Andrew has over 26 years' business management experience, having founded Gear4music Limited (then called Soundpro Limited) in 1995. In 1998 he began selling IT systems for the audio recording market before launching 'Gear4music' in 2003. Since then, Andrew has retained overall responsibility for driving the Group's growth.

Between 1992 and 1998, Andrew set up and ran his own recording studio business, having studied Popular Music and Sound Recording at the University of Salford. Andrew is a keen pianist.

Christopher (Chris) Scott
Chief Financial Officer
and Company Secretary

Before joining Gear4music in October 2012, Chris was the Finance Director at Officers Club, overseeing the sale of the business to Blue Inc. Chris joined KPMG LLP in Leeds in 1997, qualified as a Chartered Accountant in 2000 and went on to spend a further nine years in their advisory practice including a year on secondment at Barclays Bank. He holds an Executive Masters in Business Administration.

Gareth Bevan
Chief Commercial Officer

Gareth joined Gear4music in July 2012. He was previously at DV247, the largest UK-based musical equipment retailer at that time, where he was responsible for purchasing, sales and marketing. He has over 22 years' experience in musical equipment retail.

Dean Murray
Non-Executive Director

Dean joined the Board of Gear4music in March 2012 as a Non-Executive Director and originally as chairman. Dean is a Chartered Accountant.

Dean is currently CEO of CMO Group PLC, Chairman of BHID Group Limited, and is a Director of M.S. Team Limited.

At 31 March 2023 Dean was chairman of the Audit Committee and a member of the Remuneration Committee.

Dean's previous roles include former Chief Financial Officer and Chief Operating Officer of Myriad Childrenswear Group, and was recently Chairman of French Connection Group plc and the Neville Johnson Group.

Harriet Williams
Non-Executive Director

Harriet has spent the last 20 years working in the retail sector for some of the world's leading consumer brands, where she has led e-commerce and omnichannel sales, marketing, strategy and business development initiatives in the UK and internationally.

she played an integral role in the sale of the business in 2017 by L'Oreal to Natura. Harriet's other previous roles include working at Gucci, Debenhams and strategy consultants Marakon Associates.

At 31 March 2023 Harriet was Chair of the Remuneration Committee.

Between 2015 and 2018, Harriet was Chief Digital Officer at The Body Shop, where

Harriet is currently Vice President Global E-commerce at the LEGO Group and Non-Executive Director of Stockmann Group.

Corporate governance report

chairman's introduction

Quoted Companies Alliance

Corporate Governance Code

The Directors apply the Quoted Companies Alliance Corporate Governance Code (the 'QCA Code'), a proportionate, principles-based approach constructed around ten broad principles with accompanying guidance, and this section outlines how the Group operates in each of these key areas. The Group's application of the code is detailed on its website at <https://www.gear4musicplc.com/investors/corporate-governance/>.

By following the QCA code, my Board colleagues and I seek to ensure that the Group operates efficiently and effectively and communicates well, to promote confidence and trust in the Group's Board and management. The Board aims to balance the interests and expectations of the Group's many shareholders and stakeholders by observing a transparent set of rules, practices and processes. I believe that by adhering to this clear set of guidelines, the Group is well placed to deliver medium and long-term success.

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It is the Board's responsibility to ensure that Gear4music is managed for the long-term benefit of all shareholders. A corporate governance framework that is effective whilst dynamic is one of the foundations of a sustainable growth strategy and identifying, evaluating and managing risks and opportunities will underpin long-term value creation.

KEN FORD
CHAIRMAN

The Board of Directors and Committees of the Board of Directors

The Board, which is headed by the Chairman, comprises six Directors of which three are Executive and three are Non-Executive, providing a broad range of relevant skills and experiences. The Board considers Ken Ford, Dean Murray and Harriet Williams to be 'independent' Non-Executives under the criteria identified in the code. Directors' profiles are detailed on pages 46 to 47.

The Board met regularly throughout the year with ad hoc meetings held when required.

The Role of the Board

The role of the Board is to provide leadership to the Group and to ensure the obligations of being a public company are adhered to. The Board bears collective responsibility for delivering ongoing success through the development of appropriate strategies that are aligned with the Group's objectives, and deliverable with due consideration of risk and the resources available. The Board is also responsible for ensuring that a framework of effective controls is in place.

The Group is controlled by the Board of Directors. The Board is headed by the Chairman, comprises six Directors, of which three are Executive and three are Non-Executive, meeting the QCA code's guidance that a board should have at least two independent Non-Executive Directors ('NEDs'). It is recognised that the CEO, being a major shareholder, risks individual dominance of the Board but the Board's view is that the independent NEDs and committees mitigate this risk.

The Board is satisfied that the six Directors collectively provide a broad range of relevant skills and experiences, and that the composition strikes a good balance between independence and knowledge of the business, to enable it to effectively discharge its duties and responsibilities.

The division of responsibilities between the Chairman and the Chief Executive Officer is clearly defined. The Chairman is responsible for ensuring the effectiveness of the Board and setting its agenda. The Chairman is not involved in the day-to-day running of the business. The Chief Executive Officer has direct charge of the Group on a day-to-day basis, and the Executive team has collective responsibility for the implementation of the Group's strategies and is accountable to the Board for the financial and operational performance of the Group.

There are certain matters that are reserved for the Board's consideration and these include, but are not limited to matters of strategy, key commercial developments, risk management, the consideration and approval of budgets, significant capital expenditure and recruitment, acquisitions and disposals, and the approval of financial statements.

The formal Board agenda includes an Executive report detailing the commercial, operational and financial performance of the Group. Further to formal Board meetings, the Board receives weekly key trend information covering all trading aspects of the business.

The Board determines the fees paid to Non-Executive Directors.

The performance of the Board is evaluated informally on an ongoing basis with reference to all aspects of its operation including, but not limited, to the appropriateness of its skill level, the way its meetings are conducted and administered (including the content of those meetings), the effectiveness of the various Committees, whether Corporate Governance issues are handled in a satisfactory manner, and whether there is a clear strategy and objectives.

A new Director, on appointment, is briefed on the activities of the Group. Professional induction training is also given as appropriate. The Chairman briefs Non-Executive Directors on issues arising at Board meetings if required, and Non-Executive Directors have access to the Chairman at any time. Ongoing training is provided as needed. Directors are continually updated on the Group's business and on insurance and on issues covering pensions, social, ethical, environmental and health and safety by means of Board reports.

In the furtherance of his duties or in relation to acts carried out by the Board or the Group, each Director has been informed that he is entitled to seek independent professional advice at the expense of the Group. The Group maintains appropriate cover under a Directors and Officers insurance policy in the event of legal action being taken against any Director.

Each Director is appraised through the normal appraisal process. The Chief Executive Officer is appraised by the Chairman, the Chairman and Executive Board members by the Chief Executive Officer, and the Non-Executive Board members by the Chairman. Each Director has access to the services of the Company Secretary if required.

The Non-Executive Directors are considered by the Board to be independent of management and are free to exercise independence of judgement. They receive no other remuneration from the Group other than the directors' fees and their shareholdings as disclosed.

The Board is supported by two committees – an Audit Committee and a Remuneration Committee.

Corporate governance report continued

The table below shows the number of Board meetings and Audit Committee and the Remuneration Committee meetings held in the period from 1 April 2022 to the date of approval of the Annual Report and Accounts. The table also shows the attendance of each Director:

Re-election

At each Annual General Meeting one third (or whole number less than one third) of the Directors retires by rotation, and in September 2022 this was Dean Murray, Harriet Williams and Andrew Wass.

In addition, Directors are subject to re-election at the Annual General Meeting following their appointment

Shareholder communications

The Group seeks to maintain a regular dialogue with both existing and potential investors to ensure that its strategy, business model and performance are clearly understood. Understanding what investors and analysts think and helping these audiences understand our business is an important part of taking our business forward.

The Chief Executive Officer and Chief Financial Officer regularly meet with investors and analysts to provide them with updates on the Group's business and to obtain feedback regarding the market's expectations of the Group. The Group's NOMAD and public relations advisor provide written feedback after these presentations and meetings, and this feedback is shared with the Board.

The Group invites all shareholders to attend its Annual General Meeting where they can meet and question the Directors, and express ideas or concerns. The Notice of the Meeting is sent to shareholders at least 21 days before the meeting and the chairs of the Board and all committees together with all other Directors, routinely attend the AGM and are available to answer questions raised by shareholders.

Where voting decisions are not in line with the Group's expectations the Board will engage with those shareholders to understand and address any issues.

The Board receives copies of all articles relating to the Group that are published in the financial press, via its public relations advisors.

The Annual Report and Accounts is published on the Company's investor website and can be accessed by shareholders.

Internal controls

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group highlights potential financial and non-financial risks which may impact on the business as part of the monthly management reporting procedures. The Board receives these monthly management reports and monitors the position at Board meetings.

An Operational Board comprising the three Executive Directors and the four further directors of the trading subsidiary, meets regularly to analyse and discuss operational and commercial matters, and identifies any material matters to escalate to the Plc Board. The Operational Board formally met ten times in the financial year.

The Board confirms that there are ongoing processes for identifying, evaluating and mitigating the significant risks faced by the Group.

The Group's internal financial control and monitoring procedures include:

- clear responsibility on the part of line and financial management for the maintenance of good financial controls and the production of accurate and timely financial management information;
- the control of key financial risks through appropriate authorisation levels and segregation of accounting duties;
- a comprehensive budgeting process completed once a year that is reviewed and approved by the Plc Board;
- detailed monthly reporting of trading results including detailed profit and loss accounts, balance sheets and cash flows, with supporting variance analysis;
- reporting on any non-compliance with internal financial controls and procedures; and
- review of reports issued by the external auditor.

There is no internal audit department.

The Audit Committee on behalf of the Board reviews reports from the external auditor together with management's response regarding proposed actions. In this manner they have reviewed the effectiveness of the system of internal controls for the period covered by the accounts.

Director	Role	Board meetings	Audit Committee meetings	Remuneration Committee meetings
Ken Ford	Non-Executive Chairman	11/11	3/3	2/2
Dean Murray	NED	11/11	3/3	2/2
Harriet Williams	NED	11/11		2/2
Andrew Wass	CEO	11/11		
Chris Scott	CFO	11/11	3/3	2/2
Gareth Bevan	CCO	10/11		

Audit Committee report

DEAN MURRAY
CHAIR OF AUDIT COMMITTEE

Overview

The Audit Committee ('Committee') is established by and is responsible to the Board. It has formally delegated duties and responsibilities and has written terms of reference. Its main responsibilities are:

- to monitor and be satisfied with the truth and fairness of the Group's Financial Statements before submission to the Board for approval, ensuring their compliance with the appropriate accounting standards, the law, and the AIM Rules;
- to monitor and review the effectiveness of the Group's system of internal control;
- to make recommendations to the Board in relation to the appointment of the external auditor and their remuneration, following appointment by the shareholders in general meeting, and to review and be satisfied with the auditor's independence, objectivity and effectiveness on an ongoing basis; and
- to implement the policy relating to any non-audit services performed by the external auditor.

Membership of the Audit Committee

Dean Murray is the Chairperson of the Committee and the other member is Ken Ford, both of whom are Non-Executive Directors and have wide experience in regulatory and risk issues.

Role and Operation of the Audit Committee

The Committee is authorised by the Board to seek and obtain any information it requires from any officer or employee of the Group, and to obtain external legal or other independent professional advice as is deemed necessary by it.

Meetings of the Committee are held at least twice per year and the auditor is invited to these meetings. The Committee meets early in the financial year to discuss and agree the scope for the forthcoming external audit, and again to review the findings of the external audit in relation to internal control and the Financial Statements. At this meeting, the Committee carries out a review of the year-end Financial Statements and of the audit, using as a basis the Report to the Audit Committee prepared by the external auditor and taking into account any significant accounting policies, any changes to them and any significant estimates or judgements. Questions are asked of management of any significant or unusual transactions where the accounting treatment could be open to different interpretations.

The Committee receives reports from management on the effectiveness of the system of internal controls. It also receives from the external auditor a report of matters arising during the course of the audit which the auditor deems to be of significance for the Committee's attention. The statement on internal controls and the management of risk, which is included in the Annual Report, is approved by the Committee.

The 1998 Public Interest Disclosure Act and the 2013 Enterprise and Regulatory Reform Act (together 'the Acts') aim to promote greater openness in the workplace and ensure 'whistle blowers' are protected. The Group maintains a policy in accordance with the Acts which allows employees to raise concerns on a confidential basis if they have reasonable grounds in believing that there is serious malpractice within the Group. The policy is designed to deal with concerns, which must be raised without malice and in good faith, in relation to specific issues which are in the public interest and which fall outside the scope of other Group policies and procedures. There is a specific complaints procedure laid down and action will be taken in those cases where the complaint is shown to be justified. The individual making the disclosure will be informed of what action is to be taken and a formal written record will be kept of each stage of the procedure.

The external auditor is required to give the Committee information about policies and processes for maintaining their independence and compliance regarding the rotation of audit partners and staff. The Committee considers all relationships between the external auditor and the Group to ensure that they do not compromise the auditors' judgement or independence particularly with the provision of non-audit services.

External auditor and Non-audit services

Fees in relation to services provided by the external auditor, Grant Thornton UK LLP, in FY23 and FY22 were:

	FY23 £000	FY22 £000
Audit fee	139	139
Non-audit fees: Other		
audit related services	5	5
Total fees	144	144

The Committee is satisfied with the independence and objectivity of the auditors.

Remuneration Committee report

HARRIET WILLIAMS CHAIR OF REMUNERATION COMMITTEE

As an AIM listed Company, Gear4music (Holdings) plc is not required to comply with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

Membership of the Remuneration Committee

During the year, the Remuneration Committee comprised Harriet Williams, Ken Ford and Dean Murray. They have no personal financial interest in the Group except for fees in relation to their holding of office and their shareholding as disclosed, with no potential conflict of interests and no day-to-day involvement of the Group. On 27 April 2022 Harriet Williams replaced Ken Ford as Remuneration Committee Chair.

The Remuneration Committee reviews the performance of the Executive Directors and makes recommendations to the Board on matters relating to remuneration, terms of service, granting of share options and other equity incentives.

The Remuneration Committee meets at least twice a year.

Remuneration policy

The remuneration policy is designed to attract, retain and motivate high-calibre executives to ensure the Group is managed successfully to the benefit of shareholders.

Share ownership is encouraged and all the executives are interested in the share capital.

In setting remuneration levels, the Committee takes into consideration remuneration levels and practices in other companies of a similar size and in similar sectors.

Non-Executive Directors

Remuneration of the Non-Executive Directors is determined by the Executive Directors. Non-Executive Directors are not entitled to pensions beyond the required statutory minimums, annual bonuses or employee benefits, nor are they entitled to participate in share option arrangements relating to the Company's shares.

Each of the Non-Executive Directors has a letter of appointment noting their appointment may be terminated with one month's notice.

Their fees are reviewed annually and set in line with prevailing market conditions and at a level which will attract and retain individuals with the necessary experience and expertise to make a significant contribution to the Group's affairs.

Directors' interests

Details of the Directors' shareholdings are included in the Directors' report on page 53.

Directors' share options

Executive	Scheme	1 April 2022	Lapsed during the period	31 March 2023	Date granted
Andrew Wass	LTIP (2018)	39,150	6,300	32,850	Nov 2018
	LTIP (2021)	75,420	–	75,420	Oct 2021
Gareth Bevan	LTIP (2018)	45,675	7,350	38,325	Nov 2018
	LTIP (2021)	113,130	–	113,130	Oct 2021
Chris Scott	LTIP (2018)	39,150	6,300	32,850	Nov 2018
	LTIP (2021)	37,710	–	37,710	Oct 2021

Directors' remuneration

The normal remuneration arrangements for Executive Directors consist of basic salary and private medical insurance. Four Directors including the CEO are enrolled in the Group workplace pension scheme.

All Executive Directors have service agreements terminable by the Company with six months' notice.

The remuneration of each of the Directors for the year ended 31 March 2023 is set out below:

	Basic salary £000	Benefits £000	Pensions £000	Total FY23 £000	Total FY22 £000
Executive					
Andrew Wass	221	2	9	232	229
Gareth Bevan	181	2	12	195	178
Chris Scott	181	2	7	190	182
Non-Executive					
Ken Ford	44	–	–	44	36
Dean Murray	42	–	1	43	35
Harriet Williams	43	–	2	45	41
TOTAL:	712	6	31	749	701

Life cover policies with families as beneficiaries are in place in relation to Andrew Wass, Chris Scott and Gareth Bevan.

Harriet Williams
NON-EXECUTIVE DIRECTOR
19 June 2023

LTIP (2018)

On 31 July 2022 and further to confirmation the performance conditions relating to the conditional share awards granted under the Plan were not met, awards of 7,350 shares to Gareth Bevan, 6,300 shares to Andrew Wass and 6,300 shares to Chris Scott lapsed.

Directors' report

The Directors present their report and the audited Financial Statements for the year ended 31 March 2023.

Principal activity

The principal activity of the Group is the retail of musical instruments and equipment, through 20 Gear4music branded websites and AV.com, and showrooms in York, Bacup, Sweden and Germany. It retails own and other branded products.

Items covered in the Strategic Report

This report includes sections on strategy and markets and considers key risks and key performance indicators.

A review of the Group's current operations and future developments is covered in the Chief Executive Officer's report and the Financial Review.

Financial results

Details of the Group's financial results and position are set out in the Consolidated Statement of Profit and Loss and other comprehensive income, other primary statements and notes to the accounts on pages 65 to 92.

Dividends

The Directors do not recommend the payment of a dividend (FY22: nil).

Going concern

After making appropriate enquiries, the Directors have confidence that the Group has adequate resources to continue in operational existence for the foreseeable future, and continue to adopt the going concern basis in preparing the Annual Report and Accounts. This is described in more detail in Note 1.

Directors

The Directors who served on the Board and on Board Committees during the year are set out on pages 46 to 47 and pages 51 to 52. One-third of the Directors are required to retire at the Annual General Meeting and can offer themselves for re-election.

Information on Directors' remuneration and share option rights is given in the Remuneration Committee report on pages 52.

Significant shareholders

The Company is informed that at 28 April 2023, individual registered shareholdings of more than 3% of the Company's issued share capital were as follows:

	Number of shares	% of issued share capital
Andrew Wass	4,776,993	22.8%
Liontrust Investment Partners LLP	3,370,133	16.1%
Amati Global Partners	1,911,289	9.1%
FIL Limited	1,527,714	7.3%
Canaccord Genuity Group Inc	864,699	4.1%
AXA Investment Mgrs S A	840,913	4.0%

Directors' shareholdings

The beneficial interests of the Directors in the share capital of the Company at 1 April 2022 and 31 March 2023 were as follows:

	1 April 2022 Number of shares	31 March 2023 Number of shares	31 March 2023 % of issued share capital
Executive Directors			
Andrew Wass	4,701,993	4,776,993	22.8%
Gareth Bevan	91,585	91,585	0.4%
Chris Scott	80,690	80,690	0.4%
Non-Executive Directors			
Dean Murray	167,520	167,520	0.8%
Ken Ford	42,000	40,000	0.2%

On 16 May 2022 and 17 November 2022 Andrew Wass purchased a further 50,000 shares and 25,000 shares respectively, taking his shareholding to 4,776,993 (22.8% of issued share capital).

The middle market price of the Company's Ordinary shares on 31 March 2023 was 86.0 pence (31 March 2022: 390.0 pence), and the range in the year was 84.0 pence to 390.0 pence, with an average of 150.0 pence.

Research and development

The Group capitalised £5.3m of software development costs during the year (FY22: £4.4m) and expensed £0.28m of R&D costs (FY22: £0.23m) relating to the in-house e-commerce software platform.

Amortisation of the software platform totalled £3.1m in the year (FY22: £2.3m).

Directors' report continued

Financial instruments

The Group's policy and exposure to financial instruments is set out in Note 20.

Qualifying third-party indemnity

The Company has provided an indemnity for the benefit of its current Directors which is a qualifying third-party indemnity provision for the purpose of the Companies Act 2006.

Employee involvement

It is the Group's policy to involve employees in its progress, development and performance. Applications for employment by disabled persons are fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. The Group is a committed equal opportunities employer and has engaged employees with broad backgrounds and skills. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who is fortunate enough not to suffer from a disability. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues.

See pages 33 and 44 for more information on employee engagement matters.

Donations

During the year ended 31 March 2023 the Group made charitable donations totalling £7,500 (FY22: £6,000).

Supplier payment policy and practice

The Group does not operate a standard code in respect of payments to suppliers. The Group agrees terms of payment with suppliers at the start of business and then makes payments in accordance with contractual and other legal obligations.

The number of creditor days outstanding at 31 March 2023 was 27 days (31 March 2022: 29 days). This is a weighted average by invoice value, with reference to actual invoice and payment dates.

Greenhouse Gas emissions

The disclosures required under 'Streamlined Energy and Reporting' ('SECR') for the Group and Gear4music Limited are included below, and insight into initiatives to reduce the direct environmental impact of the Group are detailed on page 29.

	Year ended 31 March 2023	Year ended 31 March 2022	Year ended 31 March 2021
Scope 1 – Combustion of fuel and operation of facilities (kWh)	32,461	16,617	7,629
Scope 2 – Electricity, heat, steam, and cooling purchased for own use (kWh)	3,579,630	4,508,780	3,869,024
Total energy use (kWh)	3,612,091	4,525,397	3,876,653
CO₂e equivalent (kg CO₂e)	922,684	1,156,402	990,740
Intensity measurement – kg CO ₂ e per customer order	0.78	0.91	0.68

Energy use in the year ended 31 March 2023 represents a full-year of operations from our Bacup, Irish and Spanish distribution centres, and a significant temporary reduction in energy use from our German distribution centre. Energy use in the year ended 31 March 2022 was impacted by a phased return to the office post-Covid, and the addition of three new distribution centres during a period when order numbers were down.

Note: These emissions were calculated using the methodology set out in HM Government's 'Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance' (March 2019), and applied the conversion factors from Defra. This information has been prepared consistent with the guiding principles of the 'Climate Disclosure Standards Board' protocol. This information has not been independently audited. As required, only the impact of the Group's direct activities have been included. All material sources of emissions are reported.

Corporate governance

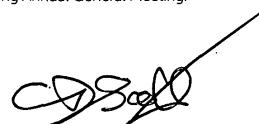
Details regarding the Group's corporate governance arrangements are detailed in the Governance section included in this Annual Report.

Auditor

A resolution for the reappointment of Grant Thornton UK LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Chris Scott
CHIEF FINANCIAL OFFICER
19 June 2023



Registered office:
Holgate Park Drive,
York,
YO26 4GN

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have to prepare the Group financial statements in accordance with UK-adopted International Accounting Standards and they have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- for the Group financial statements, state whether applicable UK-adopted International Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- for the Parent Company financial statements, state whether applicable UK Generally Accepted Accounting Practice has been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

To the best of our knowledge:

- the Group financial statements, prepared in accordance with UK-adopted International Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Andrew Wass

DIRECTOR

Dated: 19 June 2023



Chris Scott

DIRECTOR

Dated: 19 June 2023



Independent auditor's report to the members of Gear4music (Holdings) plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Gear4music (Holdings) plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2023, which comprise the Consolidated Statement of Profit and Loss and Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the notes to the consolidated financial statements including a summary of significant accounting policies, the Company Balance Sheet, the Company Statement of Changes in Equity and notes to the Company financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation of the Group financial statements is applicable law and UK-adopted International Accounting Standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2023 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.

A description of our evaluation of management's assessment of the ability to continue to adopt the going concern basis of accounting, and the key observations arising with respect to that evaluation, is included in the Key Audit Matters section of our report.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

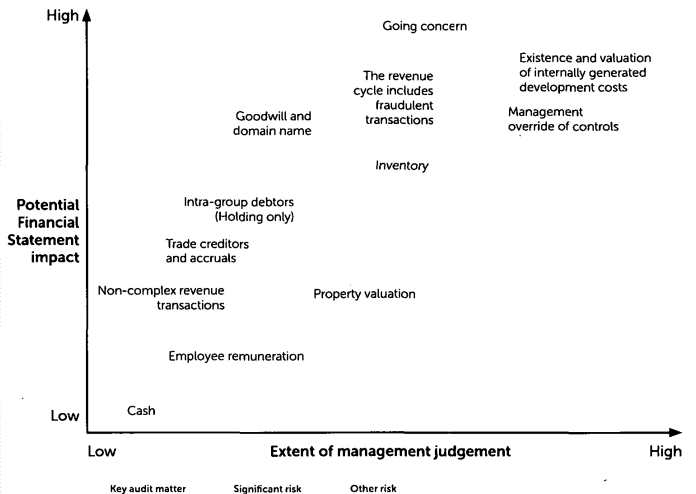
Our approach to the audit

Overview of our audit approach	
	Overall materiality: Group: £465,000, which represents 0.3% of the Group's revenue.
	Parent Company: £291,000, which represents 2% of the Parent Company's total assets.
	Key audit matters were identified as: • Going concern (same as previous year); • The revenue cycle includes fraudulent transactions (same as previous year); and • Existence and valuation of internally generated development costs (same as previous year). Our auditor's report for the year ended 31 March 2022 included one key audit matter that has not been reported as a key audit matter in our current year audit report. This relates to the completeness and valuation of acquired intangibles in respect of the prior year AV Distribution Limited acquisition. This is not relevant to the current year given the transaction fully completed in the prior year. We have performed the following audit work: • An audit of the financial information of the component using component materiality (full scope audit) of the financial statements of the main trading entity (Gear4music Limited) using component materiality; and • Analytical procedures at Group level (analytical procedures) on the Parent Company and all other Group components. In total, our full scope audit procedures covered 99% of the Group's revenue and 88% of the Group's total assets. In the prior year, specific-scope audit procedures were performed on the Parent Company however in the current year this component was not identified as significant in the context of the Group so was assessed via analytical procedures.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.



Independent auditor's report to the members of Gear4music (Holdings) plc continued

Key Audit Matter – Group

Going concern

We identified the going concern assumption as one of the most significant assessed risks of material misstatement due to error as a result of the judgement required to conclude whether there is a material uncertainty related to going concern.

In the current macro-economic environment, significant judgement is applied in developing cashflow forecasts. The Directors have concluded, based on the various scenarios that they developed, that the Group has sufficient resources available during their assessment period to meet liabilities as they fall due and have concluded that there are no material uncertainties around the going concern assumption.

In our evaluation of the Directors' conclusions, we considered the inherent risks associated with the Group's and the Parent Company's business model including effects arising from current levels of inflation which are impacting many businesses and resulting in higher costs than budgeted or experienced in previous years. The impacts of such uncertainties are ongoing, and could adversely impact the future trading performance of the Group, leading to increased uncertainty in cash flows which results in an increased level of judgement required from management in respect of the forward-looking assessment.

How our scope addressed the matter – Group

In responding to the key audit matter, we performed the following audit procedures:

- Understood and assessed the business processes and the design and implementation of relevant controls associated with the going concern of the Group and individual entities;
- Obtained management's going concern assessment, including management's base case and reverse stress test covering the period to 30 June 2024, and assessed their integrity and suitability as a basis for management to assess going concern;
- Validated the mathematical accuracy of management's forecasts;
- Evaluated the key assumptions within the cash flow forecasts, including the quantum and timing of cash outflows and inflows, and determined whether these have been applied appropriately. We also considered whether the assumptions were consistent with our understanding of the business, and with the expected wider economic uncertainties. The significant assumptions were revenue growth, gross margin, EBITDA margin, and working capital;
- Assessed whether the forecasts used for going concern are consistent with those used in other areas of the audit, including the impairment review;
- Assessed the accuracy of management's past forecasting by comparing management's forecasts for the prior two financial periods to the actual results for those periods and considered the impact on the cash flow forecast;

Key Audit Matter – Group

How our scope addressed the matter – Group

- Corroborated the existence of the Group's loan facilities including obtaining the renewed facility agreement, and related covenant requirements, being leverage, minimum interest cover and capital expenditure, to ensure no breaches were forecast in the going concern period;
- Compared post year end results achieved to those forecasted to determine if these results are in line with forecast;
- Evaluated management's reverse stress test, assessed that this appropriately considers the current and potential future impact of economic uncertainties on the Group's financial performance, and determined the result as implausible; and
- Assessed the adequacy of the going concern disclosures included within the Annual Report and Financial Statements.

Relevant disclosures in the Annual Report and Financial Statements 2023

The Group's accounting policies on the Going Concern assumption are shown in Note 1.3 to the Financial Statements.

Additional disclosure is included in the Directors report on page 53.

Our results

We have nothing to report in addition to that stated in the 'Conclusions related to going concern' section of our report.

Key Audit Matter – Group

The revenue cycle includes fraudulent transactions

We identified the possibility that the revenue cycle includes fraudulent transactions as one of the most significant assessed risks of material misstatement due to fraud.

Revenue is the most significant item in the Consolidated Statement of Profit and Loss and Other Comprehensive Income (£152 million) and impacts a number of the Group's key performance indicators set out in the Annual Report and Financial Statements.

Revenue is recognised in accordance with International Financial Reporting Standard (IFRS) 15 'Revenue from Contracts with Customers' and requires management judgement and estimation uncertainty where adjustments are made. We determined that the significant risk in revenue relates to entries falling outside the expected transaction flow, as identified using data analytic techniques, and in the year-end adjustments (including adjustments in respect of the sales cut off, warranty income provision and credit notes).

How our scope addressed the matter – Group

In responding to the key audit matter, we performed the following audit procedures:

- Evaluated the relevant processes and controls in place over revenue recognition, including those related to the posting and reconciliation of revenue, and confirmed they were implemented as designed by performing a walkthrough;
- Assessed the relevant accounting policies for consistency and appropriateness with the financial reporting framework, including IFRS 15;
- Utilised data analytic techniques to identify unusual postings to the revenue balance by interrogating the revenue population, including analysing revenue postings from inception to cash, to identify unexpected ledger postings, which we then agreed to supporting documentation. We tested the operating effectiveness of controls over the bank reconciliation process to support this analysis;
- Challenged and corroborated the judgements and assumptions used in management's cut-off adjustment calculation and agreed a sample of dispatches made close to the year end to proof of delivery to confirm the cut-off was appropriate;
- Performed substantive analytical procedures on the cut-off adjustment by reference to the provision recognised in the prior year and the value of revenue transactions around the year end;

Key Audit Matter – Group

How our scope addressed the matter – Group

- Recalculated the warranty income recognised in the year, challenged management on inputs into the model, including the expected timing that the related performance obligation will be satisfied, and performed a substantive analytical review on the amount of warranty income recognised in the year;
- Performed substantive analytical procedures on the credit note adjustment with reference to the average value of returns per month and the value of revenue around the year end; and
- Selected a sample of post year end credit notes to test the completeness and accuracy of the credit note adjustment at the year end.

Independent auditor's report to the members of Gear4music (Holdings) plc continued

Key Audit Matter – Group	How our scope addressed the matter – Group	Key Audit Matter – Group	How our scope addressed the matter – Group
Relevant disclosures in the Annual Report and Financial Statements 2023 The Group's accounting policy on revenue recognition is shown in Note 1.15 to the Financial Statements. Related disclosures are included in Note 2.	Our results Based on our audit work, we did not identify any material misstatements in the revenue recognised in the year to 31 March 2023.	Relevant disclosures in the Annual Report and Financial Statements 2023 The Group's accounting policy on the capitalisation of internally generated costs is shown in Note 1.10 to the Financial Statements. Related disclosures are included in Note 11.	Our results Based on our audit work, we have identified that the capitalisation of internally generated development costs has been accounted for in accordance with the Group's accounting policies. We have not identified any material misstatements with respect to capitalisation of these costs.
Existence and valuation of internally generated development costs We identified the capitalisation of internally generated development costs relating to the Group's bespoke e-commerce platform as one of the most significant assessed risks of material misstatement due to error. There are significant judgements made by management in respect of capitalising internally generated costs and as such there is a risk that the specific requirements under International Accounting Standards (IAS) 38 'Intangible Assets' regarding capitalisation of internally generated intangible assets are not met.	In responding to the key audit matter, we performed the following audit procedures: • Evaluated the relevant processes and controls in place over the capitalisation of internally generated development costs and confirmed they were implemented as designed by performing a walkthrough; • Challenged management's capitalisation policy for intangible assets to ensure it is reasonable and in accordance with IAS 38; • Assessed whether the nature of the expenditure met the criteria for capitalisation set out in IAS 38 and challenged management on the quantum of the costs that were capitalised in the year; • Performed a substantive analytical procedure to gain assurance over the total capitalised value with reference to the increase in the number of employees, the average capitalised salary, and the total capitalised employee costs as per the payroll data; • Selected a sample of employees, and agreed their capitalised value and role to underlying data including employment contracts and payroll records to confirm the existence and accuracy of amounts capitalised; and • Selected a sample of the development projects capitalised in the year and assessed the nature of the project against the criteria of IAS 38.	We did not identify any key audit matters relating to the audit of the Financial Statements of the Parent Company, except for Going Concern, our procedures on which are covered above.	

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the Financial Statements and in forming the opinion in the auditor's report.

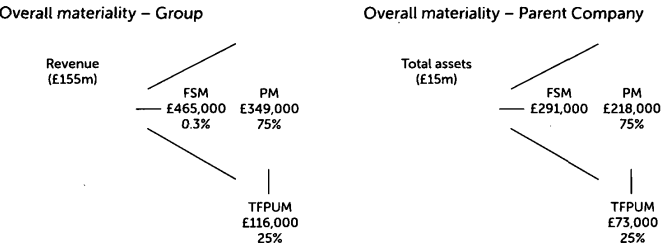
Materiality was determined as follows:

Materiality measure	Group	Parent Company
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the Financial Statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these Financial Statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	£465,000 which is 0.3% of Group revenue.	£291,000, which is 2% of Parent Company total assets
Significant judgements made by auditor in determining materiality	In determining materiality, we made the following significant judgements: - the selection of an appropriate benchmark; - the selection of an appropriate percentage to apply to that benchmark; and - the consideration of other qualitative factors. We determined that revenue was the most appropriate benchmark for the Group due to it being a key performance indicator for the Group's stakeholders and it being less volatile than earnings for the Group. The benchmark and percentage used for the year ended 31 March 2023 are the same as those used for the year ended 31 March 2022. Materiality is higher than the level determined for the year ended 31 March 2022, to reflect the increase in revenue generated.	In determining materiality, we made the following significant judgements: - the selection of an appropriate benchmark; - the selection of an appropriate percentage to apply to that benchmark; and - the consideration of other qualitative factors. We determined that Parent Company total assets was the most appropriate benchmark given the Parent Company is primarily being a holding company and its major activities relate to fixed assets included in the Financial Statements. The benchmark and percentage used for the year ended 31 March 2023 are the same as those used for the year ended 31 March 2022. Materiality is the same as the amount determined for the year ended 31 March 2022.

Materiality measure	Group	Parent Company
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the Financial Statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the Financial Statements as a whole.	
Performance materiality threshold	£349,000 which is 75% of Financial Statement materiality.	£218,000, which is 75% of Financial Statement materiality.
Significant judgements made by auditor in determining performance materiality	In determining materiality, we made the following significant judgements: - assessment of the effectiveness of the control environment of the Group and the entities within it; - consideration of control findings and misstatements from the prior year audit; and - assessment of the effectiveness of the information systems used for key business processes and reporting.	Performance materiality for the Parent Company has been calculated by making the same significant judgements as for the Group.
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the Financial Statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.	
Specific materiality	We determined a lower level of materiality for the following areas: - Directors' Remuneration - Related party transactions outside of the normal course of business.	We determined a lower level of materiality for the following areas: - Directors' Remuneration - Related party transactions outside of the normal course of business.
Communication of misstatements to the Audit committee	We determine a threshold for reporting unadjusted differences to the Audit Committee.	
Threshold for communication	£23,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£14,600 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Independent auditor’s report
to the members of Gear4music (Holdings) plc continued

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.



FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the Group’s and Parent Company’s business, its environment and risk profile and included:

Understanding the Group, its components, and their environments, including Group-wide controls

- Obtaining an understanding of the Group and its environment, including Group-wide controls, and assessed the risks of material misstatement at the Group level.
- Obtaining and documenting an understanding of the design of relevant controls that management have put in place over the process for evaluating the areas of significant risk and performed walkthroughs to assess their implementation.

Identifying significant components

- Evaluating the identified components to assess their significance and determining the planned audit response based on a measure of materiality. Significance was determined by reference to each component’s contribution to the Group’s total revenue, loss before tax and total assets.

Type of work to be performed on financial information of Parent and other components (including how it addressed the key audit matters)

- Performing full scope audit on the financial information of Gear4music Limited. This entity contributes 99% of total revenue and 88% of total assets. These procedures included a combination of test of details and substantive analytical procedures.
- Performing analytical procedures for Gear4music (Holdings) plc and each of the remaining components, that were not judged to be individually significant to the Group.

Audit approach	Number of components	% coverage of revenue	% coverage of total assets
Full scope audit	1	99	88
Analytical procedures	6	1	12
Total	7	100	100

Performance of our audit

- Our key audit matters were addressed through our full-scope audit procedures.
- We attended year-end stock counts for each of the distribution centres in York, Bacup, Sweden, Germany, Spain and Ireland. Grant Thornton member firms were engaged to attend the overseas counts as part of the Group audit team.
- The engagement team undertook all work and the majority of the work was performed in person at the client site.

Changes in approach from previous year

- In the current year, the Parent Company was removed from specific procedures scope due to not being identified as significant in the context of the Group.

Other information

The other information comprises the information included in the Annual Report and Financial Statements, other than the Financial Statements and our auditor’s report thereon. The directors are responsible for the other information contained within the Annual Report and Financial Statements. Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements, set out on page 55, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Group and Parent Company, and the industry in which they operate. We determined that the most significant are applicable law and UK-adopted international accounting standards (for the Group), United Kingdom Generally Accepted Accounting Practice (for the Parent Company) and relevant tax regulations.
- We identified the relevant legal and regulatory frameworks and understood how the Parent Company and the Group are complying with those legal and regulatory frameworks by making inquiries of management and those responsible for legal and compliance procedures. We corroborated our inquiries through inspection of Board minutes.
- We enquired of management whether there were any known or suspected instances of non-compliance with laws and regulations or fraud that could have a material impact on the financial statements. We corroborated the results of our enquiries to supporting documentation such as Board minute reviews and papers provided to the Audit Committee.
- To assess the potential risks of material misstatement, we obtained an understanding of:
 - the Group's operations, including the nature of its revenue sources, expected financial statement disclosures and business risks that may result in risk of material misstatement; and
 - the Group's control environment including the adequacy of procedures for authorisation of transactions.
- We assessed the susceptibility of the Group's Financial Statements to material misstatement, including how fraud might occur by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls.
- Audit procedures performed by the engagement team included:
 - evaluating the processes and controls established to address the risks related to irregularities and fraud;
 - journal entry testing, in particular journals determined to have a large impact on profit or that are indicative of unusual transactions based on our understanding of the business; and
 - challenging assumptions and judgements made by management in its significant accounting estimates, including the suitability of the discount rate and growth rates used in impairment assessments, and consulting with our internal valuations experts to review the fair value of the Holgate Property which was revalued in the year.
- The above audit procedures were designed to provide reasonable assurance that the Financial Statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

Independent auditor's report to the members of Gear4music (Holdings) plc continued

- The engagement partner's assessment of the appropriateness of the collective competence and capabilities of the engagement team, including consideration of the engagement team's knowledge and understanding of the industry in which the client operates in, and their practical experience through training and participation with audit engagements of a similar nature.
- Team communications in respect of potential non-compliance with laws and regulations and fraud included the potential for fraud in revenue recognition and areas of significant management judgement, including those related to the capitalisation of internally generated development costs. This is also reported as a key audit matter in the key audit matter section of our report where the matter and the specific procedures we performed in response to the matter are described in more detail;

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Mark Overfield BSc FCA
SENIOR STATUTORY AUDITOR
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Leeds
19 June 2023

Consolidated statement of profit and loss and other comprehensive income

	Note	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Revenue		152,039	147,630
Cost of sales		(112,996)	(106,500)
Gross profit		39,043	41,130
Administrative expenses	3,4,5	(38,705)	(35,881)
Other income	3	949	820
Operating profit		1,287	6,069
Financial expenses	7	(1,694)	(1,055)
(Loss)/profit before tax		(407)	5,014
Taxation	8	(237)	(1,291)
(Loss)/profit for the year		(644)	3,723
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Revaluation of property, plant and equipment	9	(550)	-
Deferred tax movements	13	147	(109)
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation differences – foreign operations		-	(23)
Total comprehensive (loss)/income for the year		(1,047)	3,591
Basic (loss)/profit per share	6	(3.1p)	17.8p
Diluted (loss)/profit per share	6	(3.1p)	17.3p

The accompanying notes form an integral part of the Financial Statements.

Consolidated statement of financial position

	Note	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Non-current assets			
Property, plant and equipment	9	11,934	12,958
Right-of-use assets	10	7,288	8,235
Intangible assets	11	22,049	19,812
		41,271	41,005
Current assets			
Inventories	14	34,381	45,516
Trade and other receivables	15	3,434	3,409
Corporation tax receivable		1,066	432
Cash and cash equivalents	16	4,460	3,903
		43,341	53,260
Total assets		84,612	94,265
Current liabilities			
Trade and other payables	18	(17,647)	(16,183)
Lease liabilities	19	(1,130)	(1,229)
		(18,777)	(17,412)
Non-current liabilities			
Interest-bearing loans and borrowings	17	(19,000)	(28,000)
Other payables	18	(83)	(64)
Lease liabilities	19	(7,470)	(8,455)
Deferred tax liability	13	(2,048)	(2,298)
		(28,601)	(38,817)
Total liabilities		(47,378)	(56,229)
Net assets		37,234	38,036
Equity			
Share capital	21	2,098	2,098
Share premium	21	13,286	13,286
Foreign currency translation reserve	21	(74)	(74)
Revaluation reserve	21	1,203	1,606
Retained earnings	21	20,721	21,120
Total equity		37,234	38,036

The Notes 1 to 23 form part of these Financial Statements.

These Financial Statements were approved by the Board of Directors on 19 June 2023 and were signed on its behalf by:

Andrew Wass
DIRECTOR
19 June 2023

Chris Scott
DIRECTOR
19 June 2023

Company registered number: 07786708

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 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
Comprehensive loss for the year						
Loss for the year	-	-	-	-	(644)	(644)
Other comprehensive income	-	-	-	-	-	-
Freehold property revaluation	-	-	-	(550)	-	(550)
Deferred tax impact of revaluation	-	-	-	147	-	147
Share-based payments charge	-	-	-	-	245	245
Total comprehensive loss for the year	-	-	-	(403)	(399)	(802)
Transactions with owners						
Issue of shares	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	-	-
Balance at 31 March 2023	2,098	13,286	(74)	1,203	20,721	37,234

The accompanying notes form an integral part of the Financial Statements.

Consolidated statement of cash flows

	Note	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Cash flows from operating activities			
(Loss)/profit for the year		(644)	3,723
<i>Adjustments for:</i>			
Depreciation and amortisation	3	6,081	5,138
Financial expenses	7	1,694	1,055
Loss/(profit) on sale of property, plant and equipment		17	(12)
Share-based payment charge		282	55
Taxation	8	(208)	1,243
		7,222	11,202
Decrease in trade and other receivables	15	14	302
Decrease/(increase) in inventories	14	11,135	(14,195)
Increase/(decrease) in trade and other payables	18	1,865	(2,187)
		20,236	(4,878)
Tax paid	8	(530)	(2,709)
Net cash from operating activities		19,706	(7,587)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		31	95
Acquisition of property, plant and equipment	9	(989)	(1,773)
Capitalised development expenditure	11	(5,319)	(4,439)
Acquisition of a business, net of cash acquired	11	–	(7,360)
Business combinations: Deferred consideration	11	(419)	–
Acquisition of domains	11	(8)	(3,023)
Net cash from investing activities		(6,704)	(16,500)
Cash flows from financing activities			
Cash from share issue		–	124
Proceeds from new borrowings	17	–	28,000
Interest paid		(1,694)	(917)
Repayment of borrowings	17	(9,000)	(3,445)
Payment of lease liabilities	19	(1,713)	(1,952)
Net cash from financing activities		(12,407)	21,810
Net increase/(decrease) in cash and cash equivalents		595	(2,277)
Cash at beginning of year		3,903	6,203
Foreign exchange movement		(38)	(23)
Cash at end of year	16	4,460	3,903

The accompanying notes form an integral part of the Financial Statements.

Notes to the consolidated Financial Statements (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 Parent Company Financial Statements present information about the Company as a separate entity and not about its 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), Cagney Limited (dormant subsidiary; company number: 04493300), and AV Distribution Ltd (dormant subsidiary; company number: 05385699) 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.

1 Accounting policies

1.1 Basis of preparation

The Financial Statements have been prepared in accordance with the AIM rules for Companies, and apply the recognition, measurement and disclosure requirements of UK-adopted International Accounting Standards. The Company has elected to prepare its Parent Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (FRS 102); these are presented on pages 93 to 99.

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

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

Subjective judgements made by the Directors in the application of these accounting policies that could have significant effect on the financial statements are considered in section 1.19 below.

Accounting period

The Financial Statements presented cover the years ended 31 March 2023 and 31 March 2022.

Measurement convention

The Financial Statements have been prepared on the historical cost basis except for land and buildings that are stated at their fair value.

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 2023, and the impact was not material:

- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 16: Property, Plant and Equipment
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets

1.3 Going concern presumption for the period to 30 June 2024

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

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 FY22 the Group secured a £35m three-year committed Revolving Credit Facility ('RCF') 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.

As supply chain pressures eased in FY23, the Group focused on reducing its investment in stock, thereby significantly reducing its net debt by £9.7m to £14.5m at 31 March 2023. On 15 June 2023, and well ahead of the renewal date, 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.

The Group has conducted reverse stress tests where revenue was assumed to decrease 21% on a six-month basis and 13% 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, reaffirming 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 2024 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 2023 the Group had net debt of £14.5m (31 March 2022: £24.2m), with £4.5m cash (31 March 2022: £3.9m 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.

Notes to the consolidated Financial Statements continued

(forming part of the Financial Statements)

1 Accounting policies continued

1.4 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated.

1.5 Foreign currency

International transactions that are denominated in foreign currencies are recorded in the respective foreign currencies, and translated into the functional currency of the Group, Sterling, at the exchange rate ruling at the date of the transaction. Translational accounting gains and losses are recognised in the income statement in the period they arise.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve.

Functional currency

The consolidated financial statements are presented in Sterling which is the Group's functional currency.

1.6 Classification of financial instruments issued by the Group

In accordance with IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in this financial information for called up share capital and share premium account exclude amounts in relation to those shares.

1.7 Non-derivative financial instruments

Non-derivative financial instruments comprise investments, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at transaction price. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any expected credit losses. The Directors have concluded that any such credit losses are immaterial.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributed transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

1.8 Property, plant and equipment

Freehold land and Buildings are stated at fair value.

All other classes of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on either a straight-line basis or a reducing balance basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- Plant and equipment 4–5 years' straight line
- Fixtures and fittings 20–25% on reducing balance
- Motor vehicles 25% on reducing balance
- Computer equipment 3–5 years' straight line
- Freehold land and buildings 50-years straight line

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Assets held under lease are depreciated over their expected useful lives on the same basis as owned assets.

Revaluation of Land and Buildings

Revaluations are frequently made with reference to independent, third-party professional inspection of the site. Independent valuations will be sought on a regular basis such that the carrying value does not materially differ from its fair value.

Surpluses which arise from the revaluation exercise are included within other comprehensive income (in the revaluation reserve) unless they are reversing a revaluation adjustment which has been recognised in the income statement previously; in which case an amount equal to a maximum of that recognised in the income statement previously is recognised in income.

Where the revaluation exercise gives rise to a deficit, this is reflected directly within the income statement, unless it is reversing a previous revaluation surplus against the same asset; in which case an amount equal to the maximum of the revaluation surplus is recognised within other comprehensive income (in the revaluation reserve).

1.9 Business combinations

All business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Costs related to the acquisition are expensed as incurred.

1.10 Intangible assets

Software platform

Computer software development costs that generate economic benefits beyond one year and meet the development asset recognition criteria as laid out in IAS 38 'Intangible Assets', are capitalised as Intangible assets.

These costs include the payroll costs of employees directly associated with the development of the software platform, capitalised attributable borrowing costs, and other direct external material and service costs. Costs are capitalised only where there is an identifiable development that will bring future economic benefit. All other website and maintenance costs are expensed in the statement of comprehensive income.

Capitalised software development costs are amortised over their estimated useful lives and charged to administrative expenses in the statement of comprehensive income.

Other intangible assets

Expenditure on internally generated Goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

An intangible asset is regarded as having an indefinite useful life when, based on all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. The AV.com domain is deemed to have an indefinite useful life as, based on all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

Other-wise amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The estimated useful lives are as follows:

- Brand and Other Intangible assets 10 years; and
- Software Platform 3–8 years

1.11 Inventories

Inventories are stated at the lower of cost and net realisable value ('NRV'). Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and other costs in bringing them to their existing location and condition. Stock is neither fashionable nor perishable.

A provision is made in respect of inventories as follows:

- 100% against returns stock 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 for the expected product loss on dealing with returns stock.

1.12 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes to the consolidated Financial Statements continued

(forming part of the Financial Statements)

1 Accounting policies continued

1.12 Impairment excluding inventories and deferred tax assets continued

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For Goodwill, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash-generating unit'). The Goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ('CGU'). Subject to an operating segment ceiling test, for the purposes of Goodwill impairment testing, CGUs to which Goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which Goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss would be recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. No impairments have been recognised in the periods presented.

1.13 Employee benefits

Defined contribution plans

A defined contribution pension plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Share-based payment transactions

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using the Black Scholes model or a Monte-Carlo simulation model, taking into account the terms and conditions upon which the options were granted. LTIP awards are accounted for on a graded vesting basis.

For share-based payments with non-market-based vesting conditions, the amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Share-based payment transactions in which the Group receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Group's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

1.14 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.15 Revenue

Product sales and carriage income

To determine whether to recognise revenue, the Group follows a five-step process:

- 1 Identifying the contract with a customer
- 2 Identifying the performance obligations
- 3 Determining the transaction price
- 4 Allocating the transaction price to the performance obligations
- 5 Recognising revenue when/as performance obligation(s) are satisfied

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods to its customers.

Revenue from the sale of goods and carriage income are recognised when the customer receives the goods ordered at which point title and risk passes to third parties and revenue can be reliably measured. Judgement is exercised when determining the amount of revenue to be deferred, and this is considered further in Note 1.19.

Revenue is measured at the fair value of the consideration received, including freight charges, non-recoverable import charges, duty where applicable, excluding discounts, rebates, VAT and other sales taxes or duty. Returns are dealt with on receipt of the product into the warehouse which triggers an automatic credit, and an estimate for returns is provided for at the year-end. This balance is held within accruals and deferred income (Note 18). The value of inventory for sales returns is included in inventory at the year-end (Note 14).

Other revenue

The Group offers customers extended paid-for warranties on a two-to-ten years basis (FY22: two-to-ten-years), depending on the product. Warranty income is recognised 'over time' under IFRS 15, by assuming an inputs method that measures progress by reference to costs incurred towards satisfying that performance obligation as compared to the total expected costs. A contract liability is recognised for consideration received in respect of unsatisfied performance obligations as deferred income in the statement of financial position (Note 18).

The Group offers retail point of sale credit on orders over £250, through agreements with external credit providers. The Group does not retain any credit risk and commissions are recognised within revenue on recognition of the credit sale. In the year ended 31 March 2023 this income totalled £139,000 (FY22: £284,000). No discount is offered on any sales made through these credit providers.

1.16 Expenses and other income**Finance lease payments**

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Government and other forms of grant

Government and other grants from third parties are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as a reduction in the costs incurred, on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed. Where the grant relates to an asset, it is recognised on a systematic basis over the UEL of the related asset.

Financing income and expenses

Financing expenses comprise interest payable and leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Financing income comprises interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Other income

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

1.17 Taxation

Tax on the profit or loss for the period comprises current and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A temporary difference on the initial recognition of goodwill is not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.18 Segmental Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The Group's Chief Operating Decision Maker has been identified as the Executive Directors. The Group has determined there is one operating segment.

1.19 Accounting estimates and judgements

The preparation of consolidated financial information in conformity with UK-adopted International Accounting Standards, requires Management to make judgements, estimates and assumptions concerning the future, that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These judgements are based on historical experience and Management's best knowledge at the time and the actual results may ultimately differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The estimates and assumptions that have significant risk of causing a material adjustment to the carrying value of assets and liabilities are discussed below:

Judgements

- In determining the number of reportable Cash Generating Units ('CGU's) Management considers the internal reporting information and management structures with the Group, and has deemed the Group to have a single CGU on the basis that all cash inflows are derived from the same platform interface.
- Direct software development costs are capitalised as intangible assets. Judgement is applied in assessing the flow of future economic benefit, and in identifying which costs are capitalised and which are written off as an expense. Alternative judgement could result in certain costs being expensed or capitalised.
- The Directors have determined that cash-in-transit received from electronic transfer balances, which the Group have received notification of transfer being made pre-year end, are appropriate to be included in cash and cash equivalents. The value of these balances is included in Note 16.

Notes to the consolidated Financial Statements continued

(forming part of the Financial Statements)

1 Accounting policies continued

1.19 Accounting estimates and judgements continued

Estimates

Revenue

- An adjustment to revenue is calculated based on the expected delivery date for items delivered around the year end. This estimate is based on historical delivery dates with reference to courier statistics around the year end. At 31 March 2023 this resulted in £1,117,000 of orders-in-transit (31 March 2022: £1,230,000) being deducted from revenue and included in deferred income.
- Warranty income is recognised 'over time' under IFRS 15, by assuming an inputs method that measures progress by reference to costs incurred towards satisfying that performance obligation as compared to the total expected costs. The proportion of costs compared to total expected costs in an estimate based on historical data for this performance obligation.

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 31 March 2023 £000	Year ended 31 March 2022 £000
UK	82,084	82,639
Europe	66,967	62,843
Rest of the World	2,988	2,148
	152,039	147,630

Administrative expenses by Geography

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
UK	33,678	31,253
Europe	5,027	4,628
	38,705	35,881

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 2023: £3.5m; 31 March 2022: £4.0m), Germany (31 March 2023: £2.3m; 31 March 2022: £2.2m), Ireland (31 March 2023: £0.6m; 31 March 2022: £0.7m) and Spain (31 March 2023: £1.5m; 31 March 2022: £1.7m).

Revenue by Product category

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Other-brand products	106,189	102,473
Own-brand products	38,860	38,121
Carriage income	6,187	6,266
Warranty income	452	483
Other	351	287
	152,039	147,630

3 Expenses and other income

Included in profit/loss are the following:

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Expenses		
Rentals – short-term rentals of plant & machinery	41	21
Equity-settled share-based payment charges	208	55
Depreciation of property, plant and equipment	1,414	1,254
Depreciation of right-of-use assets	1,577	1,466
Amortisation of intangible assets	3,090	2,385
Amortisation of government grants	3	7
Loss/(profit) on disposal of property, plant and equipment	17	(12)
R&D expenditure recognised as an expense	280	230
Auditor remuneration – audit of these financial statements	65	65
Auditor remuneration – this year's audit of financial statements of subsidiaries	74	74
Auditor remuneration – non-audit fees – Other audit related services	5	5

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Other income		
RDEC tax credits	445	365
Rental income	239	247
Other	265	208
	949	820

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

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

	Year ended 31 March 2023 Number	Year ended 31 March 2022 Number
Administration	255	242
Selling and Distribution	318	316
	573	558

5 Staff costs

The aggregate payroll costs of these persons were as follows:

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Wages and salaries	11,840	10,982
Social security costs	1,474	1,236
Contributions to defined contribution plans	1,111	928
	14,425	13,146

Wages and salaries, social security costs, and staff pension costs of £5,205,000 (2022: £4,400,000) relating to software developers are capitalised and not included in the figures above.

Directors' remuneration

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Directors' emoluments	717	680

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 £232,000 during the year (2022: £229,000), including company pension contributions of £9,000 (2022: £8,000) that were made to a money purchase scheme on their behalf.

There are five Directors (2022: five) for whom retirement benefits are accruing under a money purchase pension scheme.

On 3 August 2021 and further to confirmation all performance conditions relating to the conditional share awards granted under the Long-Term Incentive Plan ('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.

Directors' remuneration is detailed in the Remuneration report on page 52 which forms part of these Financial Statements.

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 (see Note 22) into Ordinary shares. In FY23 the diluted loss per share has been restricted to the basic loss per share to prevent having an anti-dilutive effect.

	Year ended 31 March 2023	Year ended 31 March 2022
(Loss)/profit attributable to equity shareholders of the Parent (£'000)	(644)	3,723
Basic weighted average number of shares	20,976,938	20,967,831
Dilutive potential Ordinary shares	549,269	570,440
Diluted weighted average number of shares	21,526,207	21,538,271
Basic (loss)/profit per share	(3.1p)	17.8p
Diluted (loss)/profit per share	(3.1p)	17.3p

Notes to the consolidated Financial Statements continued

(forming part of the Financial Statements)

7 Finance expenses

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Bank interest	1,127	524
IFRS16 lease interest	375	403
Net foreign exchange loss	190	97
Unwinding of discount on deferred consideration	2	31
Total finance expense	1,694	1,055

8 Taxation

Recognised in the income statement

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Current tax expense		
UK Corporation tax	–	574
Overseas Corporation tax	66	55
Adjustments for prior periods	277	7
Current tax expense	342	636
Deferred tax expense		
Origination and reversal of temporary differences	(79)	326
Deferred tax rate change impact	–	345
Adjustments for prior periods	(26)	(16)
Deferred tax expense	(105)	655
Total tax expense	237	1,291

The corporation tax rate applicable to the Company was 19% for the year ended 31 March 2023, and 19% for the period ended 31 March 2022. 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 2023 have been calculated based on that rate.

Reconciliation of effective tax rate

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
(Loss)/profit for the year	(644)	3,723
Total tax charge	237	1,291
(Loss)/profit before taxation	(407)	5,014
Current tax at 19% (2022: 19.0%)		
Tax using the UK corporation tax rate for the relevant period:	(61)	943
Non-deductible expenses	120	(73)
Deferred tax rate change impact	–	345
Adjustments relating to prior year – deferred tax	36	(16)
Adjustments relating to prior year – current tax	214	7
Impact of overseas tax rate	1	2
Deferred tax assets not recognised	1	1
R&D credit	(11)	12
Difference between current and deferred tax rates	(19)	100
Impact of capital allowances super deduction	(44)	(31)
Total tax charge	237	1,291

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 2021	1,847	5,699	30	1,094	7,500	16,170
Additions	460	1,101	–	212	–	1,773
Additions through business combinations	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
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
Depreciation and impairment						
At 1 April 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
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
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
Net book value as at 31 March 2021	625	2,879	11	325	7,350	11,190

Notes to the consolidated Financial Statements continued

(forming part of the Financial Statements)

9 Tangible fixed assets continued

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 compared to a book value at 31 March 2023 of £7.05m, and market value at 31 March 2020 of £7.5m.

If the property had not been revalued the net book value would have been £5.0m.

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. 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 2023 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.

10 Right-of-use assets

Leasehold properties

The Group has six leased properties comprising distribution centres and showrooms in York, Sweden and Germany, distribution centres in Ireland and Spain, and a software development office in Manchester.

In September 2022 the Group vacated the previous software development office and moved into a smaller office on flexible terms.

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

	Short leasehold properties £000
Cost	
At 1 April 2021	10,305
Additions	1,830
Balance at 31 March 2022	12,135
Modifications	567
Additions	63
Balance at 31 March 2023	12,765
Depreciation	
At 1 April 2021	2,434
Depreciation charge for the year	1,466
Balance at 31 March 2022	3,900
Depreciation charge for the year	1,577
Balance at 31 March 2023	5,477
Net book value as at 31 March 2023	7,288
Net book value as at 31 March 2022	8,235
Net book value as at 31 March 2021	7,871

11 Intangible assets

FY23 Software platform additions comprise £5,205,000 of internally developed additions being 95% of software developer wages and salaries, £87,000 of capitalised interest, and £27,000 of software licences for tools used in development.

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

	Goodwill £000	Software platform £000	Brand £000	Domains £000	Other Intangibles £000	Total £000
Cost						
At 1 April 2021	1,848	15,247	657	–	–	17,752
Additions	–	4,439	–	3,023	–	7,462
Additions through business combinations	3,476	–	715	–	149	4,340
Balance at 31 March 2022	5,324	19,686	1,372	3,023	149	29,554
Additions	–	5,319	–	8	–	5,327
Balance at 31 March 2023	5,324	25,005	1,372	3,031	149	34,881
Amortisation						
At 1 April 2021	–	6,846	511	–	–	7,357
Amortisation for the year	–	2,321	52	–	12	2,385
Balance at 31 March 2022	–	9,167	563	–	12	9,742
Amortisation for the year	–	3,050	–	3	37	3,090
Balance at 31 March 2023	–	12,217	563	3	49	12,832
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	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

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 entire share capital of AV Distribution Ltd 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).

Notes to the consolidated Financial Statements continued

(forming part of the Financial Statements)

11 Intangible assets continued

Goodwill balances are denominated in Sterling:

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Gear4music Limited	417	417
Software development business	1,431	1,431
Premier business	960	960
AV Distribution Ltd	2,516	2,516
	5,324	5,324

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 2023 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 2023 and concluded it has a single CGU to which all intangibles are allocated. The carrying value of these intangibles, the Bacup freehold, the right-of-use assets, and all other PPE was £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 2025 was used to provide cash-flow projections that have been discounted at a pre-tax discount rate of 13.22% (2022: 9.55%). 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:

- FY24–26 annual forecast revenue growth of 7% based on growth by geographical market, based on market size and estimate of opportunity, trends, and Management's experience and expectation;
- FY27–28 and into perpetuity revenue growth of 2%;
- Gross margins are forecast to improve on FY23; 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 (2022: £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 Investments in subsidiaries

The Company has the following investments in subsidiaries which are included in the consolidated results of the Group:

Subsidiaries	Registered office address	Registered number	Class of shares held	Ownership
Gear4music Limited	Holgate Park Drive, York, YO26 4GN	03113256	Ordinary	100%
Cagney Limited	Holgate Park Drive, York, YO26 4GN	C4493300	Ordinary	100% via G4M Ltd
Gear4music Sweden AB	Metallvägen 45a, 195 72 Rosersberg, Stockholm County, Sweden	559070-4762	Ordinary	100% via G4M Ltd
Gear4music GmbH	Lahnstraße 27, 45478 Mülheim an der Ruhr, Germany	HRB 29067	Ordinary	100% via G4M Ltd
Gear4music Norway AS	PO Box 2734, Solli, 0204 Oslo, Norway	917 313 210	Ordinary	100% via G4M Ltd
Gear4music Europe Limited (formerly known as Gear4music Ireland Limited)	Block 7 Jamestown Business Park, Finglas, Co. Dublin, D11 X59D, Ireland	693113	Ordinary	100% via G4M Ltd
Gear4music Spain SL	Carrer Número 21 del Parc Logistic, nº 12–14 08040 Barcelona, Spain	21097476	Ordinary	100% via G4M Ltd
AV Distribution Ltd	Holgate Park Drive, York, YO26 4GN	05385699	Ordinary	100% via G4M Ltd

Investments in share capital are £4,550 in Sweden, £21,660 in Germany, £2,806 in Norway, £85 in Ireland and £2,539 in Spain.

All Group companies have 31 March financial year-ends.

Cagney Limited, Gear4music Norway AS, and AV Distribution Ltd are dormant companies. Gear4music Norway AS and AV Distribution Ltd are in the process of being dissolved.

13 Deferred tax assets and liabilities

Movement in deferred tax during the year

	At 1 April 2022 £000	Recognised in other comprehensive income £000	Recognised in profit or loss £000	At 31 March 2023 £000
Property, plant and equipment	(2,340)	146	(415)	(2,609)
Deferred tax on acquisition – Property, plant and equipment	(48)	–	48	–
Short-term timing differences	–	–	557	557
Share-based payments	90	–	(85)	5
	(2,298)	146	105	(2,048)

Movement in deferred tax during the prior year

	At 1 April 2021 £000	Recognised in other comprehensive income £000	Recognised in profit or loss £000	Recognised on acquisition £000	At 31 March 2022 £000
Property, plant and equipment	(1,550)	(109)	(681)	–	(2,340)
Deferred tax on acquisition – Property, plant and equipment	–	–	–	(48)	(48)
Share-based payments	64	–	26	–	90
	(1,486)	(109)	(655)	(48)	(2,298)

A deferred tax asset has been recognised in respect of tax losses carried forward in Gear4music Limited. Losses of £1,805,000 are carried forward at 31 March 2023, equating to a deferred tax asset of £451,000.

A deferred tax asset has been recognised in respect of tax losses carried forward in Gear4music (Holdings) plc. Losses of £422,000 are carried forward at 31 March 2023, equating to a deferred tax asset of £106,000.

A deferred tax asset is not recognised with respect to certain historic losses in Gear4music (Holdings) plc (consistent basis to prior years) as not expected to result in future benefit. Losses of £760,000 are carried forward at 31 March 2023, equating to an unrecognised asset of £190,000.

14 Inventories

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Finished goods	34,381	45,516

The cost of inventories recognised as an expense and included in cost of sales in the period amounted to £102.6m (2022: £96.9m).

Management has included a provision of £50,000 (31 March 2022: £55,000), 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.

15 Trade and other receivables

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Trade receivables	1,243	1,772
Social security and other taxes	260	122
Prepayments	1,931	1,515
	3,434	3,409

Corporation tax asset of £1,066,000 (31 March 2022: £432,000) 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.

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 (2.9% of 2023 revenues; 2.4% of 2022 revenues).

Funds lodged with payment providers

Funds lodged with Amazon, Digital River, Klarna and V12 Retail Finance totalled £581,000 on 31 March 2023 (31 March 2022: £378,000) 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.

Notes to the consolidated Financial Statements continued

(forming part of the Financial Statements)

16 Cash and cash equivalents

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Cash and cash equivalents	4,460	3,903

Cash-in-transit to the Group at 31 March 2023 was £354,000 (31 March 2022: £336,000) and is included above, representing uncleared lodgements where money providers have notified transfers pre-year-end.

17 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 2023 £000	Year ended 31 March 2022 £000
Non-current and Total liabilities		
Bank loans	19,000	28,000
	19,000	28,000

Revolving Credit Facility

At 31 March 2023 bank loans were drawn loans under the Group's three-year £35m Revolving Credit Facility ('RCF') with HSBC. This facility was due to expire in April 2024 and is secured by a debenture over the Group's assets.

On 15 June 2023 the Group renewed its banking facilities entering into a three-year £30m 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 2023 £000	Year ended 31 March 2022 £000
Opening balance	28,000	3,476
Changes from financing cash flows		
Proceeds from loans and borrowings	–	28,000
Repayment of borrowings	(9,000)	(3,507)
Total changes from financing cash flows	(9,000)	24,493
Other changes		
Interest expense (Note 7)	1,127	524
Interest paid	(1,080)	(413)
Movement in interest accrual (included in accruals and deferred income – Note 18)	(49)	(111)
Fair value movement on loans	2	31
Total other changes	–	31
Closing balance	19,000	28,000

Other bank facilities

Gear4music has a number of guarantees in relation to VAT, and issues letter of credits to its suppliers. At 31 March 2023 the Group had guarantees of £654,000 in place (31 March 2022: £1,011,000) and letters of credit of £63,000 (31 March 2022: £317,000).

18 Trade and other payables

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Current		
Trade payables	9,300	9,472
Accruals and deferred income	5,099	3,164
Deferred consideration	23	424
Government grants	–	3
Other taxation and social security	3,225	3,119
	17,647	16,182
Non-current		
Accruals and deferred income	61	25
Deferred consideration	22	39
	83	64

Year-end accruals and deferred income included:

- £1,907,000 (31 March 2022: £710,000) relating to customer prepayments; and
- £61,000 (31 March 2022: £24,000) relating to the estimated cash bonuses accrued relating to the CSOP schemes (see Note 22).

The Directors consider the carrying amount of other 'trade and other payables' to approximate their fair value. The interest expense of £2,000 (2022: £31,000) 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 2023 two 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 on a cash-free debt-free basis of which £400,000 was deferred for six months whilst final tax matters were resolved. On 1 June 2022, £388,000 was paid in full and final settlement.

19 Lease liabilities

Short-term leases and leases of low value of £41,000 (31 March 2022: £21,000) are included in administrative expenses.

The Group has leases for motor vehicles, and six properties (31 March 2022: 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	6	8 to 65-months	45-months	–	–	1
Motor vehicles	2	7 to 18-months	13-months	–	2	–

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
Lease payments	2,093	7,634	117
Finance charge	(223)	(1,021)	–
Net present value	1,870	6,613	117

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 2023 £000	31 March 2022 £000
Current	1,130	1,229
Non-current	7,470	8,455
Total	8,600	9,684

Changes in lease liabilities:

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Opening balance	9,684	9,414
Cash flow lease payments	(1,713)	(1,952)
New leases	63	1,812
Modifications	566	410
Total changes	(1,084)	270
Closing balance	8,600	9,684

Notes to the consolidated Financial Statements continued

(forming part of the Financial Statements)

20 Financial instruments

Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's policies on the management of liquidity, credit, interest rate and foreign currency risks are set out below.

The main purpose of the Group's financial instruments which comprise term loans, hire purchase, leases, cash and liquid resources and various items arising directly from its operations, such as trade receivables and trade payables, is to finance the Group's operations.

Risk management framework

Regular reviews of strategic risks are performed by the Board.

Exposure to foreign currency exchange rates is considered during the budgeting and forecasting processes, and throughout the year.

General commercial risk is considered at an annual insurance review in conjunction with an independent broker, and the appropriate insurance policies put in place.

(a) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's policy is to ensure that it has sufficient and appropriately structured facilities to cover its future funding requirements. Flexibility is available through a committed Revolving Credit Facility with HSBC that was renewed on 15 June 2023 at £30m, committed to 15 June 2026. The carrying amounts are the amounts due if settled at the period end date. The contractual undiscounted cash flows include estimated interest payments over the life of these facilities.

At 31 March 2023 the Group had £4.5m of cash and bank balances (31 March 2022: £3.9m), and net debt of £14.5m (31 March 2022 net debt: £24.2m).

	Effective interest rate %	Carrying amount Year ended 31 March 2023 £000	Face value Year ended 31 March 2023 £000	Contractual cash-flows			
				Within 1 year £000	1-2 years £000	2-5 years £000	Over 5 years £000
Bank borrowings	3.55	19,000	19,675	–	19,675	–	–
Trade payables	–	9,300	9,300	9,300	–	–	–
Accruals	–	1,556	1,556	1,556	–	–	–
		29,856	30,531	10,856	19,675	–	–

	Effective interest rate %	Carrying amount Year ended 31 March 2022 £000	Face value Year ended 31 March 2022 £000	Contractual cash-flows			
				Within 1 year £000	1-2 years £000	2-5 years £000	Over 5 years £000
Bank borrowings	1.71	28,000	28,966	–	–	28,966	–
Trade payables	–	9,472	9,472	9,472	–	–	–
Accruals	–	846	846	846	–	–	–
		38,318	39,284	10,318	–	28,966	–

(b) Credit risk

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 Group faces low credit risk as customers typically pay for their orders in full on shipment of the product. There are a small number of education accounts with schools and colleges that have 30-day terms (2.9% of 2023 revenues; 2.4% of 2022 revenues).

Funds lodged with Amazon, Digital River, Klarna and V12 Retail Finance totalled £581,000 on 31 March 2023 (31 March 2022: £378,000) and are included in Trade debtors. Credit risk in relation to cash held with financial institutions is considered low risk, given the credit rating of these organisations.

(c) Interest rate risk

The Group's bank borrowings incur interest at variable rates linked to SONIA, with a margin non-utilisation fee, which exposes the Group to interest rate risk. Loans are with UK-based institutions and denominated in Sterling.

At 31 March 2023, the Group had cash reserves of £4.5m and could utilise these funds to part settle debts and mitigate any associated interest risk.

The Group's policy, with regard to interest rate risk, is to monitor actual and anticipated changes in base rates, and if deemed appropriate seek out alternative financing proposals to ensure retaining a competitive rate.

Profile

At the balance sheet date, the interest rate profile of the Group's interest-bearing financial instruments was:

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Variable rate instruments		
Cash	(4,460)	(3,903)
Bank loans	19,000	28,000
	14,540	24,097
Fixed rate instruments		
Other bank borrowings	–	70
Total net financial liabilities	14,540	24,167

Notes to the consolidated Financial Statements continued

(forming part of the Financial Statements)

20 Financial instruments continued

Sensitivity analysis

The calculations below assume that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date. This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates.

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Impact on Closing equity/Profit and Loss	Impact on Closing equity/Profit and Loss	
Increase of 100 basis points	(190)	(280)
Increase of 50 basis points	(95)	(140)
Decrease of 50 basis points	95	140
Decrease of 100 basis points	190	280

d) Foreign Exchange Risk

All borrowings are denominated in Sterling.

The Group's trading subsidiary Gear4music Limited sells into Europe and the Rest of the World in nine currencies including Sterling, Euros and US Dollars. In the year ended 31 March 2023, 48% (2022: 42%) of total revenues were in non-Sterling currencies, of which 41% (2022: 36%) were in Euros. Where costs (including local tax liabilities) are incurred in these respective currencies, currency balances are retained and payments made in these currencies, thereby mitigating any associated currency loss. The scaling up of the Group's operations in Sweden and Germany has increased the proportion of liabilities denominated in Swedish Krona and Euros (see Note 2), further extending the natural hedge. Surplus foreign currency holdings are reviewed on a weekly basis and balances in excess of known liabilities are converted into Sterling, restricting the period between the transaction and the point of conversion, thereby reducing the transactional risk.

The Group purchases own-branded instruments and equipment from the Far East, transacting in US Dollars. The lead time from committed order to receipt of stock is typically 12–16 weeks, during which time the Group bears currency risk. The Group has the trading platform ability and sufficient price flexibility to be able to pass on some adverse currency variances should it choose, and the Group generates enhanced margins on these products such that a proportion of these losses could be absorbed. The Group do not currently enter into forward contracts but reviews the situation and would consider committing to such a position should it make commercial sense to do so.

The strength of the US Dollar impacts on stock intake prices of the Group, directly on own-branded products and indirectly on other-branded products as whilst the majority of stock had been purchased in Sterling, the branded manufacturers faced similar price inflation. The Group looks to mitigate such events by renegotiating orders and investing in larger volumes to leverage increasing purchasing economies of scale.

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Trade and Other receivables		
Sterling	692	684
US Dollar	154	724
Euro	88	63
Other European currencies	309	301
	1,243	1,772
Cash and cash equivalents		
Sterling	2,526	2,521
US Dollar	57	61
Euro	945	673
Other European currencies	932	648
	4,460	3,903
Trade payables		
Sterling	6,332	6,567
US Dollar	980	978
Euro	1,151	1,090
Other European currencies	837	837
	9,300	9,472
Local sales tax		
Sterling	370	1,156
Euro	(260)	(122)
Other European currencies	749	1,046
	859	2,080

The Group's cash and cash equivalents are not sensitive to foreign exchange variations as currencies held are held to the extent that they are required to settle a liability in that currency, or they are converted into Sterling.

Non-Sterling trade receivables include cash lodged with payment providers that is promptly settled. International trade debtors represent an immaterial amount such that the Group is not sensitive to associated foreign exchange variations.

Euro funds are retained to settle Euro denominated payables. US dollar denominated trade payables are not currently bought forward against, but only represent a small exposure that can be otherwise managed, and the Group sells in US Dollars.

e) Debt and Capital Management

The Group's objective when managing capital, which is deemed to be share capital, is to maximise the return on net invested capital while maintaining its ongoing ability to operate and guarantee adequate returns for shareholders and benefits for other stakeholders, within a sustainable financial structure.

The Group monitors its gearing ratio on a regular basis and makes appropriate decisions in light of the current economic conditions and strategic objectives of the Group.

There were no changes in the Group's approach to capital management during the period. The Group does not have any externally imposed capital requirements. The funding requirements of the Group are met by cash generation from trading, the utilisation of external borrowings, and the cash raised on placing of Ordinary shares.

Fair values and carrying values of financial instruments

A comparison by category of the book values and fair values of the financial assets and liabilities of the Group at 31 March 2023 and 31 March 2022:

	31 March 2023		31 March 2022	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Trade and other receivables	4,500	4,500	3,841	3,841
Cash and cash equivalents	4,460	4,460	3,903	3,903
Bank loans	(19,000)	(19,000)	(28,000)	(28,000)
Trade and other payables	(17,624)	(17,624)	(15,758)	(15,758)
Deferred consideration	(50)	(45)	(475)	(463)
	(27,714)	(27,709)	(36,489)	(36,477)

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Trade and other payables and receivables

The fair values of these items are considered to be their carrying value as the impact of discounting future cash flows has been assessed as not material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. The fair value of short-term deposits is considered to be the carrying value as the balances are held in floating rate accounts where the interest rate is reset to market rates.

Long-term and short-term borrowings

Bank loans are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

Derivative financial instruments

The Group does not routinely enter into forward exchange contracts. The fair value of any material forward exchange contracts held would be calculated by Management based on external valuations received from the Group's bankers.

Deferred consideration

The deferred consideration is assumed to be 100% payable. The consideration has been discounted to present value at 2.7% being equivalent to the prevailing market rate of interest for a similar financial instrument.

Fair value hierarchy

The table opposite analyses financial instruments into a fair value hierarchy based on the valuation techniques used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the consolidated Financial Statements continued

(forming part of the Financial Statements)

20 Financial instruments continued

	Level 1 £000	Level 2 £000	Level 3 £000
31 March 2023			
Deferred consideration	–	(45)	–
31 March 2022			
Deferred consideration	–	(463)	–

Reconciliation of Level 2 fair value:

	At 1 April 2022 £000	Movement £000	At 31 March 2023 £000
Deferred consideration	(463)	418	(45)

21 Share capital and reserves

Share capital	Year ended 31 March 2023 Number	Year ended 31 March 2022 Number
<i>Authorised, called up and fully paid:</i>		
Ordinary shares of 10p each	20,976,938	20,976,938

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 2023 £'000	Year ended 31 March 2022 £'000
Opening	13,286	13,165
Issue of shares	–	121
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 2023 £'000	Year ended 31 March 2022 £'000
Opening	(74)	(51)
Translation loss	–	(23)
Closing	(74)	(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 2023 £'000	Year ended 31 March 2022 £'000
Opening	1,606	1,640
Freehold revaluation	(550)	–
Deferred tax	147	–
Depreciation transfer	–	(34)
Closing	1,203	1,606

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 2023 £'000	Year ended 31 March 2022 £'000
Opening	21,120	17,463
Share-based payment charge	245	55
Deferred tax	–	(155)
Depreciation transfer	–	34
(Loss)/profit for the year	(644)	3,723
Closing	20,721	21,120

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

22 Share-based payments

The Group operates share option plans for qualifying employees of the Group. Options in the plans are settled in equity in the Company and are subject to vesting conditions. The exercise price for each option is equal to the nominal value of the share.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2023	Number of options 2023	Weighted average exercise price 2022	Number of options 2022
Outstanding at the beginning of the year	–	570,440	–	218,033
Forfeited during the period	–	(105)	–	(579)
Exercised during the period	–	–	–	(32,612)
Granted during the period	–	8,334	–	385,598
Lapsed during the period	–	(29,400)	–	–
Outstanding at the end of the year	–	549,269	–	570,440
Exercisable at the end of the year	–	–	–	–

Developments in the current year

In the year ending 31 March 2023:

- **CSOP 2022** – options awarded

On 3 August 2022 options over 8,334 shares were awarded.

- **LTIP 2018** (as amended 13 October 2020) – options lapsed

On 31 July 2022, further to confirmation of not meeting the performance conditions, options over 29,400 shares lapsed.

In the previous year ending 31 March 2022:

- **CSOP 2018 Employee Plan** – options exercised and settled in full

On 30 July 2021 awards over 5,312 shares under this plan were satisfied by the issue of new shares and the Company paid a cash bonus to option holders, the net value of which was equivalent to the income tax, employee national insurance and the exercise price arising in relation to the awards. All options have been exercised in full.

- **CSOP 2021** – options awarded

On 6 August 2021 options over 8,498 shares were awarded.

- **LTIP 2018** (as amended 13 October 2020) – options exercised

On 3 August 2021, further to confirmation of fully meeting the performance conditions, options over 27,300 shares were settled of which 21,450 were satisfied with the issue of new shares, and options over 5,850 shares were settled in cash.

- **LTIP 2021** – options awarded

On 14 October 2021 a new long-term management incentive plan to incentivise senior employees in a manner that aligns with the interests of the Company's shareholders was put in place. This 'shares in subsidiary' plan involved issuing 377,100 'D-shares' in Gear4music Limited capable of being exchanged on a one for one basis for shares in the Company, subject to achieving minimum specified fully diluted earnings per share target – see below for full details.

At 31 March 2023 there were three incentive schemes in place:

- a CSOP Employees scheme;
- an LTIP (2018) relevant to six senior employees including Andrew Wass, Gareth Bevan and Chris Scott; and
- an LTIP (2021) relevant to six senior employees including Andrew Wass, Gareth Bevan and Chris Scott.

All equity-settled share options have an exercise price equal to the nominal value of the shares (10p) that the Company will subsidise by way of a bonus provided there are sufficient distributable reserves and, subject to certain conditions, will vest on a specified anniversary of the date of grant.

The fair value of the cash-settled liability is remeasured at each balance sheet date and settlement date.

CSOP

The Board has responsibility for matters relating to Employee members of the Plan and may grant share options over shares to eligible employees. Eligible employees will generally have been employed by the Group for more than three years at the time of award but could be a shorter period at the discretion of the Board. The Board has discretion to select participants from eligible employees of the Group.

Employee awards under the CSOP plan awards are only subject to service conditions.

Subject to continued employment, awards will normally be deemed to have been exercised at the end of the relevant three-year vesting period.

Awards will be satisfied by the issue of new shares. The Company will grant a cash bonus to option holders in the month of exercise, the net value of which will be equivalent to the income tax, employee national insurance and the exercise price arising in relation to the awards.

At 31 March 2023 the total number of shares under option under the CSOP scheme was 18,869 (31 March 2022: 10,640).

Notes to the consolidated Financial Statements continued

(forming part of the Financial Statements)

22 Share-based payments continued

LTIP (2018)

In November 2018 a long-term management incentive plan to incentivise senior employees was set-up, in a manner aligned with the interests of the Company's shareholders. The plan involved the issue of 210,000 'B' Ordinary shares in Gear4music Limited, a subsidiary of the Company. These 'B' shares vest from 2021–26 and can be exchanged on a one-for-one basis for new Ordinary Company shares subject to meeting specified criteria, including reaching a specified target share price for 80% of the award, and pre-determined revenue and profitability targets for 20%. The 'B' shares were non-voting, non-dividend restricted shares. The initial subscription cost was paid by way of a cash bonus that was expensed in FY19.

In October 2020, and following publication of the Group's FY20 results and consultation with certain of its major institutional shareholders, the Board's Remuneration Committee re-based the share price hurdles to ensure that the LTIP continued to provide appropriate incentivisation as follows:

Award vesting date:	Previous hurdle price	Amended hurdle price	Maximum number of shares vesting
July 2021 – Vested	£13.00	£8.00	27,300
July 2022 – Lapsed	£16.00	£9.50	29,400
July 2023	£20.00	£11.00	33,600
July 2024	£24.00	£13.00	35,700
July 2025	£29.00	£15.00	39,900
July 2026	£35.00	£17.00	44,100

The share price hurdle being the average closing mid-price in the 30-day period following announcement of preliminary results.

The 210,000 'B' Ordinary shares were replaced with 210,000 non-voting, non-dividend restricted 'C' Ordinary shares. All other aspects of the scheme remain unchanged.

Assuming that the awards vest in full, the maximum implied dilution over the six-year life of the LTIP would equal 1% of the Company's then issued share capital.

The Remuneration Committee has responsibility for matters relating to members of the Plan. The Executive Directors of Gear4music Limited at the time of setting up the Plan are the participants in the Plan.

On 31 July 2022 and further to confirmation that the performance conditions relating to the conditional share awards granted under the Plan were not met, options over 29,400 lapsed.

On 3 August 2021 and further to confirmation all performance conditions relating to the conditional share awards granted under the Plan were fully met, options over 27,300 shares were settled of which 21,450 were satisfied by the issue of new Company shares, and options over 5,850 shares were settled by way of cash equivalent (£55,575).

LTIP (2021)

On 14 October 2021 and having consulted with certain of its major institutional shareholders, a new long-term management incentive plan was put in place to incentivise senior employees in a manner that aligns with the interests of the Company's shareholders.

The Plan involves 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 as set out below:

Financial year ending:	Vesting date:	Fully diluted eps target:	Number of D shares vesting
31 March 2023	31 July 2023	46p	75,420
31 March 2024	31 July 2024	53p	75,420
31 March 2025	31 July 2025	61p	75,420
31 March 2026	31 July 2026	68p	75,420
31 March 2027	31 July 2027	76p	75,420
			377,100

The 'D' shares are non-voting, non-dividend restricted shares. The initial subscription cost is paid by way of a cash bonus. Assuming that awards fully vest, the maximum implied dilution over the life of the Plan would represent 1.8% of the Company's then issued share capital.

The fair values of the awards were calculated with reference to a Monte-Carlo simulation model, supported by an independent accountants' valuation report.

The terms and conditions of specific awards are as follows:

Grant date / employees entitled	Method of settlement accounting	Number of Instruments	Vesting conditions	Contractual life of options
<i>LTIP 2018</i> – Equity-settled award to the six directors of Gear4music Limited as at November 2018	Equity	210,000 initially granted and at 31 March 2021 153,300 at 31 March 2023	80% linked to share price 20% linked to revenue and profitability improvements All subject to continued employment	From August 2023 to August 2026
<i>Employee CSOP Award 2020</i> – Equity-settled award to 4 employees granted by parent on 1 September 2020	Equity	2,352 granted 2,352 at 31 March 2023	Continued employment	1 September 2023
<i>Employee CSOP Award 2021</i> – Equity-settled award to 31 employees granted by parent on 6 August 2021	Equity	8,498 granted 8,183 at 31 March 2023	Continued employment	6 August 2024
<i>LTIP 2021</i> – Equity-settled award to the six members of the Group's Senior Management team, on 14 October 2021	Equity	377,100 initially granted and at 31 March 2023	100% linked to fully diluted eps All subject to continued employment	From July 2023 to July 2027
<i>Employee CSOP Award 2022</i> – Equity-settled award to 2 employees granted by parent on 3 August 2022	Equity	8,334 granted and at 31 March 2023	Continued employment	3 August 2025

The options outstanding at the year-end have a nil exercise price and a weighted average contractual life of 2.21 years (31 March 2022: 3.06 years).

The fair values of employee share option awards under the CSOP were calculated using a Black-Scholes model and awards under the LTIP on a Monte-Carlo simulation model, based on the assumptions detailed below:

Date of grant	Share price on date of grant (pence)	Exercise price (pence)	Volatility (%)	Vesting period (years)	Dividend yield (%)	Risk-free rate of interest (%)	Fair value (pence)
30 June 2018	719.5	0.0	30.6%	3	0%	0.73%	719.5
8 November 2018	563.0	0.0	44.5%	2–7	0%	0.92%	555.0
1 September 2020	575.0	0.0	65.9%	3	0%	0.11%	575.0
6 August 2021	955.0	0.0	36.8%	3	0%	0.21%	955.0
14 October 2021	850.0	0.0	37.6%	2–7	0%	0.59%	850.0
3 August 2022	180.0	0.0	44.3%	3	0%	1.74%	180.0

The expected volatility is wholly based on the historic volatility (calculated based on the weighted average remaining life of the share options).

Notes to the consolidated Financial Statements continued

(forming part of the Financial Statements)

23 Related parties

Transactions with key management personnel

The compensation of key management personnel is as follows:

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Key management emoluments including social security costs	711	674
Short-term employee benefits	6	6
Company contributions to money purchase pension plans	31	21
	748	701

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 (2022: five).

Compensation includes share-based payments of £110,000 (2022: £118,000) in relation to the two LTIPs.

Share-based payments

LTIP (2018)

On 31 July 2022 and further to confirmation the performance conditions relating to the conditional share awards granted under the Plan were not met, awards of 7,350 shares to Gareth Bevan, 6,300 shares to Andrew Wass and 6,300 shares to Chris Scott lapsed.

Company balance sheet

	Notes	Year ended 31 March 2023		Year ended 31 March 2022	
		£000	£000	£000	£000
Fixed assets					
Investments	4		5,319		4,787
Current assets					
Cash in hand and at bank	6	14		47	
Debtors (including £9.22m (2022: £9.67m) due after more than one year)	5	9,254		9,722	
		9,268		9,769	
Creditors: amounts falling due within one year	7	(74)		(108)	
Net current assets			9,194		9,661
Total assets less current liabilities			14,513		14,448
Net assets			14,513		14,448
Capital and reserves					
Called up share capital	8		2,098		2,098
Share premium account	8		13,286		13,286
Profit and loss account b/f	8		(936)		(729)
Profit/(loss) in the year			65		(207)
Shareholders' funds			14,513		14,448

The Notes 1 to 9 form part of these Financial Statements.

These Financial Statements were approved by the Board of Directors on 19 June 2023 and were signed on its behalf by:

Andrew Wass
DIRECTOR
19 June 2023

Chris Scott
DIRECTOR
19 June 2023

Company registered number: 07786708

Company statement of changes in equity

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 31 March 2021	2,095	13,165	(729)	14,531
Loss for the year	–	–	(262)	(262)
Issue of shares net of expenses	3	121	–	124
Share-based payments charge	–	–	55	55
Total changes in equity	3	121	(207)	(83)
Balance at 31 March 2022	2,098	13,286	(936)	14,448
Loss for the year	–	–	(180)	(180)
Share-based payments charge	–	–	245	245
Total changes in equity	–	–	65	65
Balance at 31 March 2023	2,098	13,286	(871)	14,513

The accompanying notes form an integral part of the Financial Statements.

Notes to the Company Financial Statements

1 Accounting policies

The Company's principal activity is to act as the holding company for the Group, whose principal activity is as a retailer of musical instruments and equipment.

1.1 Basis of preparation

These Financial Statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) as issued in March 2018. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these Financial Statements is Sterling. All amounts in the Financial Statements have been rounded to the nearest £1,000.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

In these Financial Statements, the Company is considered to be a qualifying entity for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key management personnel compensation.

As the consolidated Financial Statements of the Company include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 Share-based Payments; and
- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The Company proposed to continue to adopt the reduced disclosure framework FRS102 in future periods.

Accounting period

The Financial Statements presented cover the years ended 31 March 2023 and 31 March 2022.

Measurement convention

The Financial Statements have been prepared on the historical cost basis.

Functional currency

The Financial Statements are presented in Sterling which is the Company's functional currency.

1.2 Going concern

These Financial Statements are prepared on a going concern basis as explained on page 69.

1.3 Investment in subsidiaries

These are separate Financial Statements of the Company. Investments in subsidiaries are carried at cost less impairments.

1.4 Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in this financial information for called up share capital and share premium account exclude amounts in relation to those shares.

1.5 Basic financial instruments

Basic financial instruments comprise investments, other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other debtors

Other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributed transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

Inter-company loans

Amounts owed by Group undertakings are initially recognised at fair value. Subsequently, they are measured at amortised cost using the effective interest rate method less provision for impairment. If the arrangement constitutes a financing transaction, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

Notes to the Company Financial Statements continued

1 Accounting policies continued

1.6 Impairment

Financial assets (including debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows. The effect of discounting is not material. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash-generating unit').

An impairment loss would be recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. No impairments have been recognised in the periods presented.

1.7 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.8 Employee benefits

Defined contribution plans

A defined contribution pension plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Share-based payment transactions

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using the Black Scholes model or a Monte-Carlo simulation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Share-based payment transactions in which the Company receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Company's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Share-based payment costs which are borne by the Parent Company on behalf of employees employed by the subsidiary entity are recharged through the inter-company.

1.9 Financial income and expenses

Financing expenses comprise interest payable and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Financing income comprises interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Dividend income is recognised in profit and loss on the date the Company's right to receive payment is established.

1.10 Taxation

Tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the timing difference can be utilised.

2 Expenses

Included in profit/loss are the following:

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Auditor remuneration – audit of Financial Statements	65	65

3 Directors' remuneration

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Directors' remuneration	717	680
Company contributions to money purchase pension schemes	31	22
	748	702

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 £232,000 during the year (2022: £229,000), including company pension contributions of £9,000 (2022: £8,000) that were made to a money purchase scheme on their behalf.

There are five Directors (2022: 5) for whom retirement benefits are accruing under a money purchase pension scheme.

4 Fixed asset investments

	Subsidiary undertakings £000
Cost	
At 1 April 2022	4,787
Capital contribution	532
At 31 March 2023	5,319

Capital contribution represents interest charged and waived and treated as a capital contribution.

The Company has the following investments in subsidiaries:

Subsidiaries	Registered office address	Registered number	Class of shares held	Ownership
Gear4music Limited	Holgate Park Drive, York, YO26 4GN	03113256	Ordinary	100%
Cagney Limited	Holgate Park Drive, York, YO26 4GN	04493300	Ordinary	100% via G4M Ltd
Gear4music Sweden AB	Metallvägen 45a, 195 72 Rosersberg, Stockholm County, Sweden	559070-4762	Ordinary	100% via G4M Ltd
Gear4music GmbH	Lahnstraße 27, 45478 Mülheim an der Ruhr, Germany	HRB 29067	Ordinary	100% via G4M Ltd
Gear4music Norway AS	PO Box 2734, Solli, 0204 Oslo, Norway	917 313 210	Ordinary	100% via G4M Ltd
Gear4music Europe Limited (formerly known as Gear4music Ireland Limited)	Block 7 Jamestown Business Park, Finglas, Co. Dublin, D11 X59D, Ireland	693113	Ordinary	100% via G4M Ltd
Gear4music Spain SL	Carrer Número 21 del Parc Logistic, n° 12-14 08040 Barcelona, Spain	21097476	Ordinary	100% via G4M Ltd
AV Distribution Ltd	Holgate Park Drive, York, YO26 4GN	05385699	Ordinary	100% via G4M Ltd

Cagney Limited, Gear4music Norway AS, and AV Distribution Ltd are dormant companies. Gear4music Norway AS and AV Distribution Ltd are in the process of being dissolved.

Notes to the Company Financial Statements continued

5 Debtors

Due within one year:

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Other debtors	32	51
	32	51

Due after more than one year:

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Amounts owed by Group undertakings	9,222	9,670
	9,222	9,670

The loan to Group undertakings is repayable in 12 months and 1 day from the year end. Interest charged has been waived and treated as a capital contribution.

As at 31 March 2023, receivables from subsidiary undertakings were unimpaired and considered by management to be fully recoverable.

6 Cash and cash equivalents

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Cash and cash equivalents per balance sheet	14	47

7 Creditors: amounts falling due within one year

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Trade creditors	3	59
Accruals and deferred income	71	49
	74	108

8 Share capital and reserves

Share capital

	Year ended 31 March 2023 Number	Year ended 31 March 2022 Number
<i>Authorised, called up and fully paid:</i>		
Opening Ordinary shares of 10p each	20,976,938	20,950,176
Issue of shares	–	26,762
Closing Ordinary shares of 10p each	20,976,938	20,976,938

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.

Movements in previous year

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 to Group accounts). 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 LTIP (2018) (see Note 22 to Group accounts). This took the number of Ordinary shares in issue from 20,955,488 to 20,976,938, representing dilution of 0.10%.

Share premium

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Opening	13,286	13,165
Issue of shares	–	121
Closing	13,286	13,286

Retained earnings

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Opening	(936)	(729)
Share-based payment charge	245	55
Loss for the year	(180)	(262)
Closing	(871)	(936)

9 Related parties

Share-based payments – LTIP (2018)

On 31 July 2022 and further to confirmation the performance conditions relating to the conditional share awards granted under the Plan were not met, awards of 7,350 shares to Gareth Bevan, 6,300 shares to Andrew Wass and 6,300 shares to Chris Scott lapsed.

Notes

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