

GEAR4MUSIC

CONSUMER DISCRETIONARY

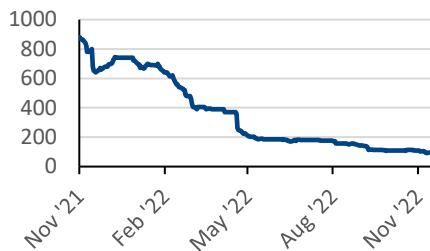
15 November 2022

G4M.L

96p

Market Cap: £20.1m

SHARE PRICE (p)



12m high/low

840p/93p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£(21.8)m (at 30/09/22)
Enterprise value	£41.9m
Index/market	AIM
Next news	Update - 19 Jan '23
Shares in Issue (m)	21.0
Chairman	Ken Ford
Chief Executive	Andrew Wass
CFO	Chris Scott

COMPANY DESCRIPTION

Gear4music is a leading international online retailer of musical instruments and equipment.

www.gear4musicplc.com

GEAR4MUSIC IS A RESEARCH CLIENT OF
PROGRESSIVE

ANALYSTS

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Interim results in-line, with clear focus on future platform evolution

G4M's interim results reflected the previously disclosed headline performance featured in last month's AGM trading update. The improved H2 trading momentum highlighted in the AGM statement has pleasingly continued into November, with the company reiterating confidence that the full-year FY23E outturn will be in line with consensus market expectations. Future platform developments will focus not only on enhancements to customer service and experience, but also on evolution of the platform to support multiple channels and verticals between suppliers and customers.

- Interim results – in line with trading update guidance.** As previously outlined, G4M delivered H1 sales growth of 2%, driven by a 10% increase in European sales. A combination of lower gross margin and increased operating costs resulted in a £2.1m decline in EBITDA to £2.7m, and a loss before tax of £1.0m. Website user numbers were down, but an increased mix of more committed prospective buyers resulted in both a higher conversion rate, at 4.9%, and average order value (AOV), up 19% at £151.
- New website features – with a full pipeline of platform developments.** G4M has introduced a host of new website features including customisation of product bundles and cables, an updated consumer finance offering and a digital downloads extension. A new dedicated website for Premier, its premium drums and percussion brand, was launched in September 2022. There has been substantial development of AV.com since its launch, with over 2,700 new lines listed and now boasting 140 brands online. G4M's substantial development pipeline includes the launch of multi-lingual European versions of AV.com in Europe, the launch of a second-hand platform, a third-party fulfilment platform and an agency sales platform slated for launch in FY25.
- Forecasts unchanged – H2 trading momentum maintained.** G4M has seen a continuation of the positive trading momentum outlined in last month's post-close trading update, underpinning its view of a return to the pre-Covid trading and profit seasonality, weighted to H2. There are no changes to forecasts therefore, with the full-year outlook in line with consensus market expectations. These stand at turnover of £155.1m, EBITDA of £8.9m and PBT of £1.1m. Stock on hand and net debt are expected to see further reductions into the financial year-end.

FYE MAR (£M)	2021	2022	2023E	2024E	2025E
Revenue	157.5	147.6	155.6	171.1	188.4
Adj EBITDA	19.8	11.2	8.9	11.9	14.6
Fully Adj PBT	14.6	5.0	1.1	3.3	5.4
Fully Adj EPS (p)	59.7	17.3	3.9	11.3	18.4
EV/Sales (x)	0.3x	0.3x	0.3x	0.2x	0.2x
EV/EBITDA (x)	2.1x	3.7x	4.7x	3.5x	2.9x
PER (x)	1.6x	5.6x	24.4x	8.5x	5.2x

Source: Company Information and Progressive Equity Research estimates.

This publication should not be seen as an inducement under MiFID II regulations.

Please refer to important disclosures at the end of the document.

Continuing evolution

G4M continues to evolve its business model and proprietary platform to both adapt to the changes and challenges of the recent past and to respond to the future needs of customers and suppliers alike. Over the longer term, the platform should evolve to support multiple channels and verticals between suppliers and customers. Developments with regard to third-party fulfilment and agency sales clearly point in this direction, and follow in the footsteps of other retailers looking to fully exploit and potentialise their operational capabilities and platforms. NEXT plc stands out as a great example in this context, in our view, having strengthened both its offer and appeal to consumers, and its commercial relationships with suppliers and third-party brands.

FY24 will build on recent acquisitions and growth-orientated platform deployments, with a focus on efficiency and productivity, as will H2 of FY23. G4M has launched a range of initiatives that will respond to consumer needs and wishes. These include a number of 'customer builder' functions around both product bundles and cables, which have been released just ahead of the peak Christmas trading period. The launch of a second-hand platform later in FY23 will also add another valuable service to customers, and provide another revenue stream to G4M with margins similar to those achieved on own-brand ranges.

There has also been a digital download upgrade and an upgraded customer finance proposition, along with several other initiatives. G4M invested £2.8m in its e-commerce platform in H1 compared with £2.0m in the equivalent period last year, with cumulative capitalisation to date standing at £22.5m. While the company points to annualised costs starting to reduce from now, it will continue to invest in new developments and deployments on behalf of its customers and its shareholders.

Interim results

The following table gives an overview of G4M's H1 financial performance over the past four years. We continue to include the FY20 results to cover the most recent pre-pandemic trading period, thereby enabling investors to compare subsequent periods with a base year unaffected by the positive trading benefits seen in FY21 and the subsequent unwinding of said benefits in FY22. We have presented the change in performance both to the prior-year period (FY22) and to the most recent pre-pandemic period (FY20).

The headline results reflect the performance outlined in last month's AGM trading statement covering the H1 period, and as summarised on the front page of this note.

Overview of G4M H1 FY23 results against prior periods (£m unless otherwise stated)

	H1	H1	H1	H1	FY23 change		FY23 change	
	FY20	FY21	FY22	FY23	on FY22	on FY22 (%)	on FY20	on FY20 (%)
UK sales	24.8	36.7	36.7	35.5	(1.2)	(3%)	10.7	43%
International sales	24.6	33.5	28.0	30.8	2.8	10%	6.2	25%
Total sales	49.4	70.2	64.7	66.3	1.6	2%	16.9	34%
Product sales	47.2	66.8	61.6	63.3	1.7	3%	16.1	34%
Product gross profit	14.0	21.9	19.7	19.5	(0.2)	(1%)	5.5	39%
<i>Product gross margin</i>	<i>29.6%</i>	<i>32.8%</i>	<i>32.0%</i>	<i>30.9%</i>	<i>-110bps</i>		<i>+130bps</i>	
Gross profit	12.5	20.1	18.1	17.4	(0.7)	(4%)	4.9	39%
<i>Gross margin</i>	<i>25.2%</i>	<i>28.6%</i>	<i>28.0%</i>	<i>26.3%</i>	<i>-170bps</i>		<i>+110bps</i>	
Operating costs :								
Marketing	(3.9)	(3.7)	(4.4)	(4.6)	(0.2)	3%	(0.7)	18%
Labour	(4.7)	(5.5)	(6.1)	(7.0)	(0.9)	14%	(2.3)	49%
Europe/other	(1.9)	(2.4)	(2.8)	(3.0)	(0.2)	7%	(1.1)	58%
Total opex	(10.5)	(11.6)	(13.3)	(14.6)	(1.3)	10%	(4.1)	39%
EBITDA	2.0	8.5	4.8	2.7	(2.1)	(44%)	0.7	35%
<i>EBITDA margin</i>	<i>4.0%</i>	<i>12.1%</i>	<i>7.4%</i>	<i>4.1%</i>	<i>-330bps</i>		<i>+10bps</i>	
Total DA	1.8	2.1	2.4	3.0	0.6	22%	1.2	67%
Operating profit	0.2	6.4	2.4	(0.3)	(2.7)		(0.5)	
<i>Operating profit margin</i>	<i>0.5%</i>	<i>9.1%</i>	<i>3.7%</i>	<i>(0.4%)</i>	<i>-410bps</i>		<i>-90bps</i>	
Financial expenses	(0.5)	(0.7)	(0.5)	(0.8)	(0.3)		(0.3)	
Pre tax profit	(0.3)	5.8	1.9	(1.0)	(2.9)		(0.7)	
Diluted EPS (p)	(0.7)	23.4	5.1	(5.3)	(10.4)		(4.6)	

Source: G4M, Progressive Equity Research

Further detail is provided in these full interim results with regard to product sales, the product margin and the main components of operating costs. The reported gross profit and gross margin percentage is stated after net carriage costs (income received minus total carriage costs) are deducted from the product gross profit achieved on product sales (ie excluding other income, including carriage income from customers).

The blended product gross margin declined by 110bps to 30.9%, within which the own-brand margin moved back 180bps to 43.9%, and the other-brand margin fell back 60bps to 26.9%. The reported gross margin was 170bps lower at 26.3%, though 90bps higher than the FY20 figure. The lower margins resulted partly from a decision to make targeted reductions in some slower-moving stock lines. Inventory has decreased by £2.1m across the period from 31 March 2022 to £43.4m at the period-end, though were some £5.9m (16%) higher than at the H1 period-end last year. Given this higher level of inventory, the usual increase in inventory in September to support the peak Christmas trading period has not been required. It is planned to see further inventory level reductions by the end of H2 FY23, with expectations of around £35.8m.

On the cost front, marketing costs showed a small increase but were well managed to remain constant at 6.9% as a percentage of revenue. Total labour costs rose 14% to £7.0m and to 10.5% of revenue (from 9.4%). This reflected an estimated 6% average salary increase, along with new heads, including the full-year effect of FY22 recruits. European distribution centre (DC) administrative costs rose by £0.4m to £2.4m, reflecting the two additional DCs added in H2 FY22.

A small loss was reported at both the operating profit and profit before tax levels, at £0.3m and £1.0m, respectively, with financial expenses increasing to £0.8m from £0.5m last year.

As disclosed, net debt stood at £21.8m, leaving £13.2m headroom relative to G4M's banking facilities of £35m (at what is historically a low point in the annual cash cycle).

Website data

The financial performance delivered by online retailers is the net result of a number of moving parts, including website visitors, pages viewed, conversion rate from browsing to actual purchase, customer acquisition costs, number of purchases and order value. This is also the case for G4M, although the nature of its offering and lower levels of repeat purchasing means that new customers are more important to the company, compared with retailers in more frequently purchased categories such as clothing or food. This is why it is important for G4M to be profitable from its first customer purchase, as indeed it is. In H1, the customer acquisition cost rose to £15 (from £13 last year), but the £40 gross profit achieved on the increased average order of £151 delivered immediate profitability. The sales life-time value of the 12-month cohort also rose by 27% to £298 compared with H1 last year.

Website utilisation and conversion rates

	H1	H1	H1	H1	FY23 % change	
	FY20	FY21	FY22	FY23	on FY22	on FY20
Unique website users (m)	13.4	15.2	13.5	9.1	(32%)	(32%)
UK users (m)	5.0	5.9	5.6	4.1	(26%)	(18%)
International users (m)	8.4	9.3	7.9	5.0	(37%)	(40%)
Total pages viewed (m)	90.6	75.1	59.6	50.8	(15%)	(44%)
Mobile traffic mix	65%	58%	65%	72%	+700bps	700bps
Organic/direct traffic	38.0%	42.0%	38.0%	46.0%	+800bps	+800bps
Conversion rates:						
UK	4.78%	6.11%	6.39%	5.82%	-57bps	+104bps
Europe	2.08%	2.60%	2.41%	4.22%	+181bps	+214bps
Mobile	1.96%	2.64%	2.30%	2.81%	+51bps	+85bps
Total	3.02%	3.90%	4.00%	4.90%	+90bps	+188bps

Source: G4M, Progressive Equity Research

G4M saw a 32% decrease in unique website users, as the high number of low intent to purchase prospective customers (or put another way, browsers with lower commitment to purchase) fell away to a smaller core cohort of more committed browsers and purchasers. That translated into a 90bps increase in the overall conversion rate to an impressive 4.9%. The increases were most marked for Europe (+181bps to 4.2%) and for mobile users (+51bps to 2.8%). The new European distribution centres being better stocked and offering more competitive carriage costs has contributed to the higher European conversion rate. With the mobile traffic mix continuing to rise, standing at 72% in H1, it is important that the customer experience and purchase process with a mobile device is not a deterrent to purchasing. An increasing conversion rate clearly suggests that G4M is making good progress on this front.

While conversion in the UK fell to 5.8% from 6.4% last year, this remains some 104bps higher than the pre-pandemic rate achieved in H1 FY20. It is some 160bps higher than the conversion rate achieved in Europe, pointing to the upside from further improvement in the European conversion rates.

The increase in organic/direct traffic to the website is also an important and positive development and will continue to be so into the future. Sales derived from organic/direct traffic are inherently more profitable than purchases garnered from the pay per click (PPC) channel. Currently, costs per click have been increasing as competitors vie for less advertising space and traffic in the more subdued prevailing economic climate. G4M's disciplined approach to the PPC channel has resulted in marketing costs remaining flat as a percentage of turnover at 6.9% in the period. The company has also employed two senior managers to support its plans to enhance its own organic and direct marketing capabilities, with a view to reducing marketing as a percentage of turnover over the longer term.

Customer base

While the number of unique visitors fell by almost a third, the number of customers served declined by only 5% to 384,000, a level some 17% higher than in the last pre-pandemic H1 period in FY20.

Customer metrics						
	H1 FY20	H1 FY21	H1 FY22	H1 FY23	FY23 % change	
					on FY22	on FY20
Customers served ('000)	328	482	404	384	(5%)	17%
New customers ('000)	265	403	328	310	(5%)	17%
Proportion of repeat customers	26.9%	24.9%	24.4%	26.5%	+210bps	-40bps
Email subscriber database ('000)	717	708	725	1408	94%	96%
Average order value	£120	£117	£128	£151	18%	26%

Source: G4M, Progressive Equity Research

The proportion of repeat customers increased from 24.4% to 26.5%, with the email subscriber database almost doubling compared with last year to 1.4m. This represents an increase of 128K subscribers from the end of FY22.

The AOV increased by 18% to £151, reflecting primarily inflationary price increases and the lower mix of own-brand sales, which typically command lower prices compared with other-brand (third-party) sales.

Product range evolution

The growth in G4M's product portfolio has continued in terms of the total number of stockkeeping units (SKUs), own-brand SKUs and brands listed. This is an important driver of customer interest, giving greater consumer choice and an opportunity for add-on sales and/or selling up for G4M.

Evolution of total range and own brand products						
	H1 FY20	H1 FY21	H1 FY22	H1 FY23	FY23 % change	
					on FY22	on FY20
Total number of SKU's	52,700	55,200	60,500	62,500	3%	19%
Brands listed	889	894	951	1109	17%	25%
Own brand performance :						
Own brand SKU's	3,300	3,600	3,900	4,250	9%	29%
Own brand SKU mix	6.3%	6.5%	6.4%	6.8%	+35bps	+54bps
Own brand sales mix	27.3%	27.5%	24.9%	23.7%	-120bps	-363bps

Source: G4M, Progressive Equity Research

When new product categories are added, as with the acquisition of what now trades as AV.com, G4M expands the quantum of its market appeal and can gain a further share of customers' disposable income. Since its launch in January, over 2,700 SKUs have been added to AV.com, taking its total assortment to some 7,500 lines. The range includes own-brand items alongside established brands such as Panasonic, Loewe, LG and Samsung. Management estimates the addressable European market for AV's product offering is around £2.7bn, compared with just over £5bn for the major European music markets.

G4M's own brand offering remains highly productive and profitable, despite the own-brand sales mix declining over the past two years. This can be largely ascribed to the decline in entry price point products, which proved extremely popular within the lockdown environment of the pandemic. It is important to note, however, that G4M is evolving its own-brand strategy with a two-pronged approach of value-focused brands and more premium brands, with an increased focus on the latter in FY23 and FY24.

In H1 FY23, own-brand SKUs increased by 9% to 4,250 lines. Despite representing just 6.8% of total group SKUs, these own-brand products delivered just under 24% of total product sales, achieving a product gross margin of 43.9% (down 180bps over H1 last year), compared with a gross margin of 26.9% for other brands (down 60bps over last year, and reflecting heightened competition in the market in Q1).

Product revenues and mix

The following table shows the evolution of sales revenue by key product groups in H1 over the past three years, together with their respective mix participations.

Revenues and revenue mix by product group (£m and %)

	Revenue by product group (£m)			Revenue mix by product group (%)		
	FY21	FY22	FY23	FY21	FY22	FY23
Guitars	22.7	19.8	17.9	34%	32%	28%
Keys	13.8	10.3	9.1	21%	17%	14%
Live & PA	8.3	12.0	16.2	12%	20%	26%
Drums	5.9	5.3	6.1	9%	9%	10%
Studio	11.3	9.0	7.3	17%	15%	12%
Orchestral	3.9	3.8	3.7	6%	6%	6%

Source: G4M, Progressive Equity Research

The greatest change within the categories in H1 FY23 was the uplift delivered in the Live and PA product group, which delivered a 34% increase in revenues, driving a 600bps increase in its revenue mix participation to 26%. This results directly from the continued opening up of society as it learns to live with Covid, supported by the vaccination roll-out and booster programmes. Consequently, there has been a substantial increase in the number of live events and concerts, driving increased demand in this category. Drums was the only other category to achieve increased sales and participation, with all other categories seeing a range of declines in revenues and mix participation. G4M's new dedicated Premier website, supported by newly designed ranges, which started arriving last month, should result in further growth from the Drums category.

Forecasts

We are making no changes to our forecasts in light of the company's comments on the full-year outturn being in line with market expectations.

For reference, we include the following table, which summarises our forecasts for the next three years and gives the three-year compound annual growth rate (CAGR) for the key elements.

Forecast summary and 3-year CAGR to FY25E (£m unless stated)					
	FY22	FY23E	FY24E	FY25E	3-yr CAGR
Revenue	147.6	155.6	171.1	188.4	8.5%
Gross profit	41.1	41.5	47.0	52.6	8.5%
Gross margin (%)	27.9%	26.7%	27.5%	27.9%	
Operating costs (exc DA)	29.9	32.6	35.2	37.9	8.2%
Opex as % of turnover	20.3%	21.0%	20.6%	20.1%	
EBITDA	11.2	8.9	11.9	14.6	9.3%
EBITDA margin (%)	7.6%	5.7%	6.9%	7.8%	
Operating profit	6.1	2.6	4.8	6.9	4.3%
Operating margin (%)	4.1%	1.7%	2.8%	3.7%	
Adjusted pre-tax profit	5.0	1.1	3.3	5.4	2.4%
Adjusted diluted EPS (p)	17.3	3.9	11.3	18.4	2.2%
Net cash/(debt)	(24.2)	(17.9)	(17.0)	(12.1)	

Source: G4M, Progressive Equity Research

This shows a CAGR of 9.3% at the EBITDA level, underlining the cash-generating capabilities of the group. To that point, we have also included our forecasts regarding the group's net cash/(debt) position. The medium-term diminution of the net debt reflects forecast profit growth and disciplined financial management. In FY23E, the consensus EBITDA forecast of £8.9m implies an H2 EBITDA of £6.2m. Combined with the anticipated further reduction in inventory levels, this points to a further reduction in net debt by the year-end from the £21.8m reported at the end of H1.

The following tables at the end of this note give fuller details of our forecasts.

Next news

The next newsflow will be the Christmas trading update on 19 January 2023.

Summary forecasts – P&L account and cash flow (£m unless otherwise stated)

Profit and loss account	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16
Year to March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	120.3	157.5	147.6	155.6	171.1	188.4
Cost of sales	(89.2)	(111.1)	(106.5)	(114.1)	(124.0)	(135.8)
Gross profit	31.2	46.4	41.1	41.5	47.0	52.6
<i>Gross margin (GM) (%)</i>	<i>25.9%</i>	<i>29.4%</i>	<i>27.9%</i>	<i>26.7%</i>	<i>27.5%</i>	<i>27.9%</i>
Operating costs	(27.1)	(30.9)	(35.1)	(38.9)	(42.3)	(45.7)
Operating profit	4.1	15.4	6.1	2.6	4.8	6.9
<i>Operating profit margin (%)</i>	<i>3.4%</i>	<i>9.8%</i>	<i>4.1%</i>	<i>1.7%</i>	<i>2.8%</i>	<i>3.7%</i>
Depreciation and amortisation	(3.7)	(4.4)	(5.1)	(6.3)	(7.1)	(7.8)
EBITDA	7.8	19.8	11.2	8.9	11.9	14.6
<i>EBITDA margin (%)</i>	<i>6.4%</i>	<i>12.6%</i>	<i>7.6%</i>	<i>5.7%</i>	<i>6.9%</i>	<i>7.8%</i>
Interest charge	(1.0)	(0.8)	(1.1)	(1.5)	(1.5)	(1.5)
Adjusted PBT	3.1	14.6	5.0	1.1	3.3	5.4
Exceptional charges	0.0	0.0	0.0	0.0	0.0	0.0
Profit before tax	3.1	14.6	5.0	1.1	3.3	5.4
Adjusted diluted EPS (p)	12.2	59.7	17.3	3.9	11.3	18.4
Diluted EPS (p)	12.2	59.7	17.3	3.9	11.3	18.4
Dividend (p)	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow	FY20	FY21	FY22	FY23E	FY24E	FY25E
Operating profit	4.1	15.4	6.1	2.6	4.8	6.9
Depreciation and amortisation	3.7	4.4	5.1	6.3	7.1	7.8
Inventory (increase)/decrease	(3.4)	(6.4)	(14.2)	9.7	0.4	(1.3)
Debtors (increase)/decrease	(0.8)	(1.2)	0.3	(0.5)	(0.4)	0.1
Creditors increase/(decrease)	3.3	2.7	(2.2)	(1.6)	(0.1)	2.4
Other	0.4	0.1	0.8	0.0	0.0	0.0
Operating cash flow	7.2	15.0	(4.1)	16.6	11.7	15.8
Interest	(0.8)	(0.8)	(1.1)	(1.5)	(1.5)	(1.5)
Tax	0.5	(0.0)	(2.7)	(0.3)	(0.9)	(1.4)
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Deferred tax	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	(3.6)	(4.4)	(6.2)	(7.0)	(7.0)	(6.5)
Trading cash flow	3.3	9.8	(14.1)	7.8	2.4	6.4
Acquisition of businesses	(0.4)	(0.2)	(10.4)	0.0	0.0	0.0
Disposal of businesses	0.0	0.0	0.0	0.0	0.0	0.0
Share issues	0.0	0.0	0.0	0.0	0.0	0.0
Currency effects, other	(1.0)	(1.3)	(2.4)	(1.5)	(1.5)	(1.5)
Net cash inflow/(outflow)	2.0	8.3	(26.9)	6.3	0.8	4.9
Net (debt)/cash	(5.5)	2.7	(24.2)	(17.9)	(17.0)	(12.1)

Source: G4M, Progressive Equity Research

Summary forecasts – Balance sheet (£m unless otherwise stated)

Balance sheet	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16
Year to March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Tangible fixed assets	20.2	19.1	21.2	20.0	18.6	16.5
Intangible fixed assets	9.1	10.4	19.8	21.7	23.0	23.9
Investments and other	0.0	0.0	0.0	0.0	0.0	0.0
Total fixed assets	29.3	29.5	41.0	41.7	41.7	40.4
Stock	22.0	28.4	45.5	35.8	35.4	36.7
Trade and other debtors	2.5	3.6	3.8	4.4	4.8	4.7
Deferred tax	0.0	0.0	0.0	0.0	0.0	0.0
Cash and short term deposits	7.8	6.2	3.9	6.7	4.0	8.4
Current assets	32.4	38.3	53.3	46.8	44.2	49.8
Total assets	61.6	67.7	94.3	88.5	85.9	90.2
Trade and other payables	(14.4)	(18.9)	(16.2)	(14.6)	(14.5)	(17.0)
Borrowings	(9.9)	(0.6)	0.0	0.0	0.0	0.0
Other current liabilities	(1.1)	(1.1)	(1.2)	(1.2)	(1.2)	(1.2)
Current liabilities	(25.5)	(20.6)	(17.4)	(15.9)	(15.8)	(18.2)
Borrowings	(3.4)	(2.9)	(28.0)	(24.5)	(21.0)	(20.5)
Other non-current liabilities	(11.0)	(9.9)	(10.8)	(10.8)	(10.8)	(10.8)
Non-current liabilities	(14.5)	(12.8)	(38.9)	(35.4)	(31.9)	(31.4)
Total liabilities	(40.0)	(33.4)	(56.3)	(51.2)	(47.6)	(49.5)
Net assets	21.6	34.3	38.0	37.4	38.3	40.7

Source: G4M, Progressive Equity Research

Financial Summary: Gear4music

Year end: March (£m unless shown)

	2021	2022	2023E	2024E	2025E
PROFIT & LOSS					
Revenue	157.5	147.6	155.6	171.1	188.4
Adj EBITDA	19.8	11.2	8.9	11.9	14.6
Adj EBIT	15.5	6.1	2.8	4.9	7.0
Reported PBT	14.6	5.0	1.1	3.3	5.4
Fully Adj PBT	14.6	5.0	1.1	3.3	5.4
NOPAT	13.4	4.6	2.1	3.6	5.2
Reported EPS (p)	59.7	17.3	3.9	11.3	18.4
Fully Adj EPS (p)	59.7	17.3	3.9	11.3	18.4
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	15.0	(4.1)	16.6	11.7	15.8
Free Cash flow	9.8	(14.1)	7.8	2.4	6.4
FCF per share (p)	46.8	(67.2)	37.2	11.2	30.5
Acquisitions	(0.2)	(10.4)	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	0.0	0.0	0.0	0.0	0.0
Net cash flow	8.3	(26.9)	6.3	0.8	4.9
Overdrafts / borrowings	(3.5)	(28.0)	(24.5)	(21.0)	(20.5)
Cash & equivalents	6.2	3.9	6.7	4.0	8.4
Net (Debt)/Cash	2.7	(24.2)	(17.9)	(17.0)	(12.1)
NAV AND RETURNS					
Net asset value	34.3	38.0	37.4	38.3	40.7
NAV/share (p)	163.8	181.5	178.2	182.6	194.3
Net Tangible Asset Value	23.9	18.2	15.7	15.2	16.9
NTAV/share (p)	114.2	87.0	74.8	72.7	80.4
Average equity	28.0	36.2	38.5	40.1	43.3
Post-tax ROE (%)	17.9%	3.2%	8.6%	13.4%	0.0%
METRICS					
Revenue growth		(6.2%)	5.4%	9.9%	10.1%
Adj EBITDA growth		(43.3%)	(20.2%)	32.6%	23.4%
Adj EBIT growth		(60.3%)	(54.6%)	77.1%	42.4%
Adj PBT growth		(65.8%)	(77.2%)	187.2%	63.4%
Adj EPS growth		(71.1%)	(77.3%)	187.2%	63.4%
Dividend growth		N/A	N/A	N/A	N/A
Adj EBIT margins		4.2%	1.8%	2.9%	3.7%
VALUATION					
EV/Sales (x)	0.3	0.3	0.3	0.2	0.2
EV/EBITDA (x)	2.1	3.7	4.7	3.5	2.9
EV/NOPAT (x)	3.1	9.2	20.4	11.5	8.1
PER (x)	1.6	5.6	24.4	8.5	5.2
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	48.7%	(70.0%)	38.7%	11.7%	31.8%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

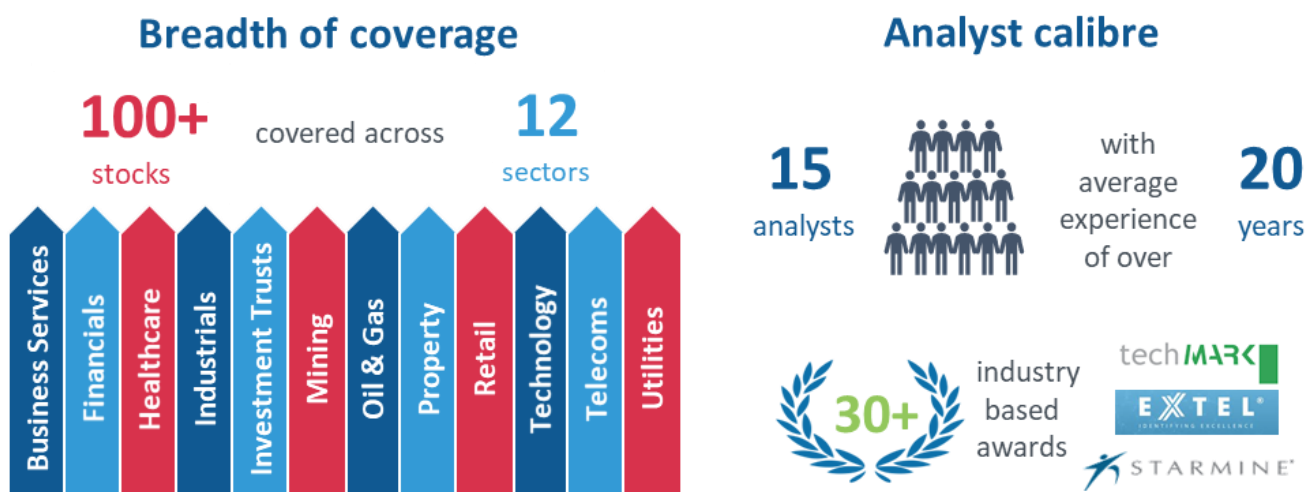
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