Progressive EQUITY RESEARCH

GEAR4MUSIC

CONSUMER DISCRETIONARY

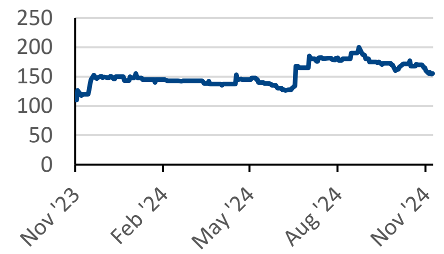
19 November 2024

G4M.L

155p

Market Cap: £32.5m

SHARE PRICE (p)



12m high/low	200p/118p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£(14.4)m *(at 30/09/24)*
Enterprise value	£46.9m
Index/market	AIM
Next news	Update, 21 January
Shares in issue (m)	21.0
Executive Chair	Andrew Wass
CEO	Gareth Bevan
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

David Jeary

+44 (0) 20 7781 5306

djeary@progressive-research.com

Rising revenue growth momentum

G4M's interim results were in line with last month's detailed trading update. More encouragingly and importantly, FY25E's sequential quarterly improvement in revenue growth continues, with 5% revenue growth achieved in Q3 to date. This has been delivered against the backdrop of a challenging consumer environment, most notably in G4M's European markets. With November and December typically accounting for around a quarter of annual revenues, this is propitious for the full-year outturn, which G4M says remains in line with consensus market expectations.

- **Interim results – duly delivered.** G4M's interim results underline the group's ability to manage its cost base to mitigate top-line and gross profit pressures. UK revenues rose 6% but were more than offset by the 12% decline in European and Rest of World revenues, resulting in a 1.4% group revenue decline. Group gross profit was 2.9% (£0.5m) lower, with gross margin down 40bps. These were, however, offset by a £0.5m reduction in underlying administrative expenses, such that adjusted EBITDA was flat year on year (YOY) at £2.9m. The adjusted pre-tax loss improved £0.2m to £1.2m. Reported YOY profit movements were some £0.5m better, given £0.5m of exceptional redundancy costs in H1 FY24. Period-end net debt improved by £3.7m to £14.4m compared with last year.
- **Growth initiatives – bearing early fruit.** The move to focus on growing higher-margin revenues is starting to bear fruit, albeit some initiatives are early stage with a modest revenue base. As an example, G4M quantified H1 FY25 revenues from its second-hand platform at £1.4m, representing a YOY increase of 286%. The FY25E turnover target for this revenue stream is £4m, with the objective of growing to be £10m+ within two years.
- **Budget impact – costs to be mitigated.** The additional employment costs resulting from the recent Budget, to be implemented from FY26, amount to an estimated £0.3m for G4M. The group is, however, confident that these can be largely mitigated by additional cost-saving measures.
- **Full-year outlook – forecasts unchanged.** Given the positive revenue momentum and with the inventory intake pulled forward to allow an undistracted focus on fulfilling customer orders over the peak Christmas trading period, G4M has stated that the FY25E full-year outlook remains in line with consensus market expectations (EBITDA of £11.7m and PBT of £2.8m). The group will issue its next trading update on 21 January 2025.

FYE MAR (£M)	2022	2023	2024	2025E	2026E
Revenue	147.6	152.0	144.4	154.9	159.1
Adj EBITDA	11.2	7.4	9.9	11.7	13.1
Fully Adj PBT	5.0	-0.4	1.1	2.8	4.4
Fully Adj EPS (p)	17.3	-3.1	5.2	9.4	14.8
EV/Sales (x)	0.3x	0.3x	0.3x	0.3x	0.3x
EV/EBITDA (x)	4.2x	6.4x	4.7x	4.0x	3.6x
PER (x)	9.0x	N/A	30.1x	16.5x	10.5x

Source: Company Information and Progressive Equity Research estimates.

Strategy reset moving forward

G4M moved to pivot its strategy earlier this year following the tactical move in FY24 to focus on product margins, overhead cost reduction and efficiency ahead of revenue growth (along with further net debt reduction). The strategy was reset to propel the group forward from the stabilised base achieved with the return to a positive PBT position in FY24, with the core objective of driving profitable growth in FY25 and beyond. Our note of 25 June 2024 (*Moving onto the front foot to drive profitable sales growth*) detailed the principal elements of the updated strategy.

The strategy has four key pillars, with G4M looking to enhance and leverage its proprietary and bespoke e-commerce platform and its product offering, alongside expanding its sales verticals and channels to market. G4M presented a detailed plan of action in a summary matrix form to develop, enhance, diversify and expand the four pillars, all with the ultimate goal of contributing to and driving profitable revenue growth.

A key element within this was for the group to focus on growing higher-margin revenues. Some of the paths to realise this goal were the continuation of several more recent product and service initiatives, such as:

- Second-hand product sales – launched in 2023
- Own-brand development – both brands and individual lines
- Complementary brand acquisitions
- Digital software downloads

The interim results and accompanying presentation pack have provided further insight into, and examples of, these initiatives, most notably its second-hand platform and the recent acquisition of Studiospares.

Second-hand platform

G4M's second-hand platform has opened a channel into a substantial market, which the group estimates to be worth $8bn globally. It fits well into both G4M's product offering and area of expertise, as well as delivering a superior gross margin (of 37.4%) to the group average (30.7% product margin achieved in H1 FY25). It therefore fits perfectly with the focus on growing higher-margin revenues.

The platform launched in 2023 with 8,000 listings. This figure has now grown to over 19,000 listings, with an average sale value of £286. While cash is offered to customers on trade-in, a majority choose instead to take this sum as credit towards a future purchase from G4M, thereby enhancing customer loyalty.

G4M has previously stated its sales forecast for second-hand products to be £4m for FY25, with a two-year plus opportunity of over £10m. For the first time, G4M has revealed revenue from this channel with a figure of £1.4m for H1 FY25E. From an admittedly small base post launch, this equates to YOY growth of 286%.

The second-hand proposition is also now available on AV.com, having been launched within the past year.

Studiospares

G4M has made a number of acquisitions of both businesses and brands over the years to complement its product offering. Examples of such activity include the acquisition of brands Premier (premium drums and percussion) and Eden in 2022, which have been integrated into the group's own-brand offering, and the acquisition of AV Distribution Limited, giving it entry into the substantial audio-visual market, with an estimated addressable European market of £2.7bn.

The most recent acquisition was made in October 2024. G4M acquired the brand, IP (intellectual property) and certain other assets of Studiospares Europe Limited for £150k from the liquidator. This included £148k of inventory. Studiospares specialised in high-quality studio equipment and accessories, selling third-party brands as well as own brands. In its last reported financial year (2023), Studiospares achieved total turnover of £4.5m. A third of this, namely £1.5m, was from own-brand sales, which commanded a gross margin of 57%, delivering an own-brand gross profit of £0.8m.

This indicates the strong potential from another high-margin own-brand offering, which G4M will look to cultivate and grow. The brand acquisition will enhance G4M's credibility within the specialist studio market and broaden its own-brand product offer, with the additional benefit of improving product gross margin. To date, there are 100 stock-keeping units (SKUs) on the group's websites, with more than 300 further lines to be added. G4M has also welcomed two former employees of Studiospares to the group, bringing useful experience and knowledge of the studio sector into the group.

AV.com

The acquisition of AV Distribution Ltd, completed in early 2022, and the subsequent launch of AV.com in early 2023 marked G4M's entry into the substantial and competitive audio-visual market (or brown goods as it was previously known). This therefore increased the share of consumer wallet available to G4M and added a complementary product offering to the traditional musical instruments and equipment assortments.

AV.com now has 196 brands online, with just under 8,300 SKUs listed. AV has two showrooms, one at its Bacup warehouse site and another in Germany. Information on the performance of this category has been qualitative to date, but G4M has indicated that the audio-visual category delivered H1 revenues of £3.0m, with growth of 7.5% over last year, thereby outperforming the group revenue performance by around 900bps.

Commercial appointments

G4M has announced that it appointed a European Commercial Director in September, tasked with leading European purchasing activities and supporting the expansion of marketing channels across Europe. This is a welcome appointment, in our view, given the enigmatic performance of this geography in recent years. With many European markets suffering from weak consumer confidence and 'unusually price competitive situations for certain branded products', G4M has chosen to adopt and maintain a disciplined pricing stance, rather than be drawn into unprofitable sales. It should be pointed out that H1 FY25E also suffered a period of marketing under-investment in Europe during the transition onto the new AI (artificial intelligence) based marketing platform. This and other associated issues on the new marketing platform have now been resolved.

A second appointment in September was that of a new Marketing Director with significant experience in e-commerce. The appointee also has a proven track record in the broader development of marketing channels and reducing reliance on pay per click (PPC) acquisition of customers. This plays into G4M's stated ambition to reduce marketing spend as a percentage of sales, partly through improving its internal capabilities in organic and direct marketing, which are significantly cheaper than the PPC model. Lower levels of online traffic in a period of weak consumer confidence have served to drive up the cost per click (CPC), which remains high relative to historical levels.

Interim results

Turning now to the interim results, the following table summarises the elements. It should be noted that the table focuses on the reported results. This is highlighted due to exceptional costs of £0.5m relating to redundancies incurred in the prior-year comparable period of H1 FY24. To facilitate a like-for-like comparison, we have presented adjusted figures for three profit measures in the bottom section of the table. As stated previously, the headline results were in line with the details published in last month's trading update.

G4M – Summary of H1 results (£m)

	H1 FY24	H1 FY25	FY25 change on FY24 (£m)	on FY24 (%)
UK sales	36.5	38.7	2.2	3%
International sales	26.1	23.0	(3.1)	(15%)
Total sales	**62.6**	**61.7**	**(0.9)**	**(1%)**
Product sales	59.9	59.3	(0.6)	(1%)
Product gross profit	18.5	18.3	(0.2)	(1%)
Product gross margin	*30.9%*	*30.9%*	*0bps*	
Gross profit	**17.0**	**16.5**	**(0.5)**	**(3%)**
Gross margin	*27.1%*	*26.7%*	*-40bps*	
Operating costs :				
Marketing	(4.3)	(4.5)	(0.2)	5%
Labour	(6.9)	(6.4)	0.5	(7%)
Europe/other	(3.4)	(2.7)	0.7	(20%)
Total opex	**(14.6)**	**(13.6)**	**1.0**	**(7%)**
Reported EBITDA	**2.4**	**2.9**	**0.5**	**21%**
Reported EBITDA margin	*3.8%*	*4.7%*	*+90bps*	
Total DA	(3.3)	(3.4)	(0.1)	2%
Reported operating profit	**(0.9)**	**(0.5)**	**0.4**	
Operating profit margin	(1.5%)	(0.8%)	*+70bps*	
Financial expenses	(1.0)	(0.7)	0.3	
Reported pre tax profit	**(1.9)**	**(1.2)**	**0.7**	
Diluted EPS (p)	**(7.4)**	**(5.9)**	**1.5**	
Exceptionals	**(0.5)**			
Adjusted pre tax profit	**(1.4)**	**(1.2)**	**0.2**	
Adjusted EBITDA	**2.9**	**2.9**	**(0.0)**	
Adjusted operating profit	**(0.4)**	**(0.5)**	**(0.1)**	

Source: G4M, Progressive Equity Research

We note a minor adjustment relating to period-end net debt. This stood at £14.4m on 30 September 2024, a small improvement on the £14.5m cited in the trading update.

We now highlight some of the features pertaining to key elements of the financial performance in H1 FY25E.

Revenues

The star of the show in H1, as last year, was the home UK market, which delivered a 6% increase in revenues to £38.7m. Since the last H1 trading period pre-Covid in the FY20 financial year to 31 March 2020, the UK market has delivered a five-year compound annual growth rate (CAGR) of 9.3% in terms of revenue growth. Indeed, the £38.7m reported for H1 FY25E exceeds the £36.7m achieved in both H1 FY21 and H1 FY22 when G4M was benefitting from the tailwinds of Covid.

Group H1 revenue has seen a five-year CAGR since FY20 of 4.5%, notwithstanding the weaker performance of Europe and Rest of the World, with a five-year CAGR decline of 1.3%. International sales registered a fall of 11.8% in the half to £23.0m. This reflects both a disciplined approach to pricing in some highly competitive European markets and some marketing under-investment arising from the transition onto the new marketing platform.

Gross profit

Gross profit fell back by 2.9% (£0.5m) to £16.5m, equating to a gross margin decline of 40bps to 26.7%. This comprises two key elements, namely product margin and net carriage and packaging costs. Product margin was flat at 30.9%, though this covers several moving parts. Own-brand margin increased by 320bps to 47.4%, but own-brand sales were 8.3% down, decreasing as a percentage of total sales by 170bps to 22.6%. Other brand margin decreased by 50bps to 25.9%, but revenue growth of 1.5% saw their proportion of total sales increase by 210bps to 73.4%. The flat product margin was offset by an increase in net carriage and packaging costs, reflecting both a lower AOV (average order value) and carrier inflationary costs. The latter are expected to be partially mitigated by new carrier deals ahead of the peak Christmas trading period. These higher shipping costs therefore accounted for the totality of the adverse 40bps impact at the group gross margin level.

Gross margin percentage is traditionally higher in H2, with the group expecting a continuation of that trend in FY25E.

Operating costs

Total underlying administrative costs (excluding the impact of exceptional costs) fell for a second consecutive H1 trading period, underlining the group's strong financial discipline. These declined by 2.7% to £17.4m (from £17.8m). Within this total, marketing costs increased by £0.2m (5.2%) to £4.5m, increasing as a percentage of sales by 40bps to 7.3%.

Reflecting the redundancies made last year, labour costs were some 7.4% lower at £6.4m, translating into a 70bps reduction as a percentage of sales to 10.3%. Average headcount in the period came to 414. This is 71 (9%) lower than in H1 FY24. Average cost per head was 8% higher than in the comparable period last year. European admin expenses came in £0.1m lower than last year at £2.4m.

The combined amortisation and depreciation charges nudged up by just under 2% to £3.4m. Amortisation of the group's bespoke e-commerce platform increased by £0.2m to £2.0m.

Finance charges

Net financial charges decreased by just under £0.3m to £0.7m, primarily due to a decrease in net bank interest reflecting the lower level of debt.

Profit measures

On a reported basis, profitability improved at EBITDA, operating profit and profit before tax levels, largely reflecting the £0.5m exceptional costs charged to profits in the comparable period. On an underlying or adjusted basis, EBITDA was flat at £2.9m, operating loss was £0.1m higher at £0.5m, and the pre-tax loss improved by £0.2m to £1.2m.

Cash flow and balance sheet

Net debt improved in the period by £3.7m to £14.4m.

Reported inventory was £1.1m higher at £40.1m compared with the H1 period-end last year. This included £7.6m of stock in transit versus £4.4m last year. This reflects the company using its warehousing capacity to bring forward stock intake, with a view to providing certainty of product availability and reducing pressure over the peak period to enable a clear focus on fulfilling customer orders.

There was a £6.7m working capital outflow in the half-year, driven by the £14.4m increase in inventories, offset by a £7.7m increase in trade payables.

Capitalised software development costs were £0.8m lower than last year at £1.6m. This compared with the amortisation charge of £2.0m, resulting in a £0.4m decrease in net book value since the beginning of the FY25E financial year.

Capital expenditure relating to PPE (property, plant and equipment) amounted to £123k in H1, compared with £36k in H1 FY24, and related primarily to solar panels at Head Office.

Website and customer base

The nature of G4M’s product offering, combined with its lower levels of repeat purchasing, means that new customers are significantly more important to the group compared with retailers in more frequently purchased categories such as clothing or food. For this reason, it is of paramount importance for G4M to be profitable from its first customer purchase, as indeed it is. In H1, the customer acquisition cost was unchanged at £16. The gross profit achieved on the lower AOV of £153 (-5%) was £35, thus more than covering the cost of acquisition to deliver immediate profitability. The sales lifetime value of the 12-month cohort fell back by just over 2% to £325 compared with H1 last year (£333).

Website utilisation and conversion rates

	H1 FY20	H1 FY21	H1 FY22	H1 FY23	H1 FY24	H1 FY25	FY25 % change on FY24	on FY20
Unique website users (m)	13.4	15.2	13.5	9.1	9.8	9.3	(5%)	(31%)
UK users (m)	5.0	5.9	5.6	4.1	5.1	5.6	10%	12%
International users (m)	8.4	9.3	7.9	5.0	4.7	3.7	(19%)	(56%)
Total pages viewed (m)	90.6	75.1	59.6	50.8	55.6	58.3	5%	(36%)
Mobile traffic mix	*65%*	*58%*	*65%*	*72%*	*68%*	*75%*	*+700bps*	*+1000bps*
Organic/direct traffic	*38.0%*	*42.0%*	*38.0%*	*46.0%*	*51.0%*	*59.0%*	*+800bps*	*+2100bps*
Conversion rates:								
UK	*4.78%*	*6.11%*	*6.39%*	*5.82%*	*4.37%*	*4.15%*	*-22bps*	*-63bps*
Europe	*2.08%*	*2.60%*	*2.41%*	*4.22%*	*3.55%*	*3.84%*	*+29bps*	*+176bps*
Mobile	*1.96%*	*2.64%*	*2.30%*	*2.81%*	*2.37%*	*2.50%*	*+13bps*	*+54bps*
Total	*3.02%*	*3.90%*	*4.00%*	*4.90%*	*4.00%*	*4.00%*	*0bps*	*+98bps*

Source: G4M, Progressive Equity Research

The table above shows some of the key performance indicators (KPIs) relating to web utilisation and conversion. Aggregate website user numbers declined by 5% to 9.3m. This, however, was the net effect of two very different movements, with UK traffic increasing by 10% and international traffic declining by 19%. The latter partly reflects PPC under-investment in European markets during the transitional phase of the new AI-based marketing platform. Notwithstanding the lower user numbers, total pages viewed increased by 5%.

There was notable success in driving user numbers from direct and organic sources as part of the longer-term goal of reducing marketing spend as a proportion of revenues. This increased to 59% (from 51% in H1 FY24). In H1 FY22, this figure stood at just 38%. G4M was also pleased with the initial impact of its own-brand influencer marketing initiative, albeit with no further detail at this stage.

Mobile traffic continued its seemingly inexorable rise, to now stand at 75%.

Overall conversion rates were flat YOY at 4.0%, being the net result of small increases in Europe (+29bps) and mobile (+13bps), and a 22bps decline in UK conversion to the still-highest conversion figure of 4.15%.

Despite the 5% decline in unique visitors, the number of customers served increased by 2% to 348,000, some 6% higher than in the last pre-pandemic H1 period in FY20. New customers also increased by 2% to 275,000.

Customer metrics

	H1 FY20	H1 FY21	H1 FY22	H1 FY23	H1 FY24	H1 FY25	FY25 % change on FY24	on FY20
Customers served ('000)	328	482	404	384	341	348	2%	6%
New customers ('000)	265	403	328	310	270	275	2%	4%
Proportion of repeat customers	*26.9%*	*24.9%*	*24.4%*	*26.5%*	*26.3%*	*26.6%*	*+30bps*	*-30bps*
Email subscriber database ('000)	717	708	725	1408	1720	1919	12%	167%
Average order value	£120	£117	£128	£151	£161	£153	(5%)	28%
Sales lifetime value	£214	£211	£234	£298	£333	£325	(2%)	

Source: G4M, Progressive Equity Research

The email subscriber base, a valuable resource for helping to drive direct and organic traffic, increased by 12% to just over 1.9m subscribers.

The proportion of repeat customers grew by 30bps to 26.6%.

Range development and gross margins

The total number of SKUs declined slightly to 63,300, although this figure is 20% higher than the figure in FY20. The number of brands carried also registered a small decline to 1,111, a figure some 25% higher than in FY20.

Within this, and in line with the pursuit of growing higher-margin revenues, the number of higher-margin own-brand SKUs was 6% higher at 5,510, a 67% increase over the equivalent figure in FY20. The own-brand range participation rose by 56bps YOY to 8.7%, delivering 23.6% of product sales (£14.0m). This constituted a 100bps decline on the comparable period in FY24, given the 8% decline of own-brand product sales.

As outlined above, own-brand product margin increased strongly by 320bps to 47.3%, with other (third party) brand product margin decreasing by 50bps to 25.9%. Given the shift in sales mix between own and other brands, own-brand product gross profit decreased by just under 2% to £6.6m, with its share of total product gross profit falling by around 30bps to 36.0%.

Evolution of total range and own-brand products

	H1 FY20	H1 FY21	H1 FY22	H1 FY23	H1 FY24	H1 FY25	FY25 % change on FY24	FY25 % change on FY20
Total number of SKU's	52,700	55,200	60,500	62,500	63,900	63,300	-1%	20%
Brands listed	889	894	951	1109	1134	1111	-2%	25%
Own brand performance :								
Own brand SKU's	3,300	3,600	3,900	4,250	5,200	5,510	6%	67%
Own brand SKU mix	*6.26%*	*6.5%*	*6.4%*	*6.8%*	*8.14%*	*8.70%*	*+56bps*	*+244bps*
Own brand sales mix (product sales)	*27.3%*	*27.5%*	*24.9%*	*23.7%*	*25.4%*	*24.9%*	*-50bps*	*-240bps*

Source: G4M, Progressive Equity Research

The value of own-brand products to overall profit development is manifest from these figures and underpins the rationale for the continued development and acquisition of unique own brands within the G4M product portfolio and customer offering.

Profit group revenue mix

The following table shows the evolution of revenue by key product groups in H1 over the past four 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	FY24	FY25	FY21	FY22	FY23	FY24	FY25
Guitars	22.7	19.8	17.9	16.7	16.5	34%	32%	28%	28%	28%
Keys	13.8	10.3	9.1	8.3	7.8	21%	17%	14%	14%	13%
Live & PA	8.3	12.0	16.2	15.3	14.9	12%	20%	26%	26%	25%
Drums	5.9	5.3	6.1	6.2	6.4	9%	9%	10%	10%	11%
Studio	11.3	9.0	7.3	6.1	6.8	17%	15%	12%	10%	11%
Orchestral	3.9	3.8	3.7	3.4	3.3	6%	6%	6%	6%	6%
Audio Visual					3.0					6%
Second-hand					1.4					2%

Source: G4M, Progressive Equity Research

Of the six core product groups traditionally reported, the most noteworthy categories are Studio and Drums, being the only categories to have delivered YOY revenue growth, by 10.4% and 2.9%, respectively.

G4M has, as described above, also given some incremental data relating to two other categories, namely Audio Visual and Second-hand, which delivered YOY growth of 7.5% and 286%, respectively. Second-hand applies across all categories and should not therefore be counted as a separate or incremental product category.

Forecasts

We make no changes to our forecasts in light of G4M expecting the full-year outturn to be in line with market consensus expectations, which it believes to be group revenues of £154.7m, EBITDA of £11.7m and PBT of £2.8m. The group will need further momentum in sales revenue growth across H2 from the current 5% level to meet the top-line consensus figure.

We will review the shape of our forecasts after the next scheduled trading update on 21 January 2025.

Gear4music – Summary of profit & loss account and cash flow forecasts, FY20-26E (£m)

Profit and loss account							
Year to March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Revenue	**120.3**	**157.5**	**147.6**	**152.0**	**144.4**	**154.9**	**159.1**
Cost of sales	(89.2)	(111.1)	(106.5)	(113.0)	(104.9)	(112.3)	(115.0)
Gross profit	31.2	46.4	41.1	39.0	39.4	42.6	44.1
Gross margin (GM) (%)	*25.9%*	*29.4%*	*27.9%*	*25.7%*	*27.3%*	*27.5%*	*27.7%*
Operating costs	(27.1)	(30.9)	(35.1)	(37.8)	(36.7)	(38.0)	(38.2)
Reported operating profit	**4.1**	**15.4**	**6.1**	**1.3**	**2.8**	**4.6**	**5.9**
Operating profit margin (%)	*3.4%*	*9.8%*	*4.1%*	*0.8%*	*1.9%*	*3.0%*	*3.7%*
Depreciation and amortisation	(3.7)	(4.4)	(5.1)	(6.1)	(6.6)	(7.1)	(7.2)
Reported EBITDA	**7.8**	**19.8**	**11.2**	**7.4**	**9.4**	**11.7**	**13.1**
EBITDA margin (%)	*6.4%*	*12.6%*	*7.6%*	*4.8%*	*6.5%*	*7.6%*	*8.3%*
Interest charge	(1.0)	(0.8)	(1.1)	(1.7)	(2.2)	(1.9)	(1.5)
Reported PBT	**3.1**	**14.6**	**5.0**	**(0.4)**	**0.6**	**2.8**	**4.4**
Exceptional charges	0.0	0.0	0.0	0.0	(0.5)	0.0	0.0
Adjusted EBITDA	**7.8**	**19.8**	**11.2**	**7.4**	**9.9**	**11.7**	**13.1**
Adjusted EBITDA margin (%)	*6.4%*	*12.6%*	*7.6%*	*4.8%*	*6.9%*	*7.6%*	*8.3%*
Adjusted operating profit	**4.1**	**15.4**	**6.1**	**1.3**	**3.3**	**4.6**	**5.9**
Adjusted operating margin (%)	*3.4%*	*9.8%*	*4.1%*	*0.8%*	*2.3%*	*3.0%*	*3.7%*
Adjusted PBT	**3.1**	**14.6**	**5.0**	**(0.4)**	**1.1**	**2.8**	**4.4**
Adjusted diluted EPS (p)	**12.2**	**59.7**	**17.3**	**(3.1)**	**5.2**	**9.4**	**14.8**
Reported diluted EPS (p)	12.2	59.7	17.3	(3.1)	3.0	9.4	14.8
Dividend (p)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow							
Year to March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Operating profit (unadjusted)	4.1	15.4	6.1	1.3	2.3	4.6	5.9
Depreciation and amortisation	3.7	4.4	5.1	6.1	6.6	7.1	7.2
Inventory (increase)/decrease	(3.4)	(6.4)	(14.2)	11.1	8.7	(0.7)	(0.4)
Debtors (increase)/decrease	(0.8)	(1.2)	0.3	0.0	0.4	(0.5)	0.4
Creditors increase/(decrease)	3.3	2.7	(2.2)	1.9	(4.4)	0.2	0.9
Other	0.4	0.1	0.8	(0.2)	(0.2)	0.0	0.0
Operating cash flow	**7.2**	**15.0**	**(4.1)**	**20.2**	**13.5**	**10.8**	**14.0**
Interest	(0.8)	(0.8)	(1.1)	(1.7)	(2.1)	(1.9)	(1.5)
Tax	0.5	(0.0)	(2.7)	(0.5)	0.7	(0.7)	(1.1)
Dividends	0.0	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	0.0
Capital expenditure	(3.6)	(4.4)	(6.2)	(6.3)	(3.9)	(4.0)	(4.5)
Trading cash flow	**3.3**	**9.8**	**(14.1)**	**11.6**	**8.2**	**4.2**	**6.9**
Acquisition of businesses	(0.4)	(0.2)	(10.4)	(0.4)	(0.0)	0.0	0.0
Disposal of businesses	0.0	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	0.0
Currency effects, other	(1.0)	(1.3)	(2.4)	(1.6)	(0.9)	(1.8)	(1.8)
Net cash inflow/(outflow)	**2.0**	**8.3**	**(26.9)**	**9.6**	**7.2**	**2.4**	**5.0**
Net (debt)/cash	**(5.5)**	**2.7**	**(24.2)**	**(14.5)**	**(7.3)**	**(4.9)**	**0.1**

Source: G4M, Progressive Equity Research

Gear4music – Summary of balance sheet forecasts, FY20-26E (£m)

Balance sheet							
Year to March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Tangible fixed assets	20.2	19.1	21.2	19.2	19.0	16.2	14.0
Intangible fixed assets	9.1	10.4	19.8	22.0	22.0	21.7	21.2
Investments and other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total fixed assets	**29.3**	**29.5**	**41.0**	**41.3**	**41.0**	**37.9**	**35.2**
Stock	22.0	28.4	45.5	34.4	25.6	26.3	26.7
Trade and other debtors	2.5	3.6	3.8	4.5	3.8	4.3	4.0
Deferred tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash and short term deposits	7.8	6.2	3.9	4.5	4.7	3.6	8.1
Current assets	**32.4**	**38.3**	**53.3**	**43.3**	**34.2**	**34.2**	**38.8**
Total assets	**61.6**	**67.7**	**94.3**	**84.6**	**75.2**	**72.2**	**74.0**
Trade and other payables	(14.4)	(18.9)	(16.2)	(17.6)	(13.5)	(13.7)	(14.6)
Borrowings	(9.9)	(0.6)	0.0	0.0	0.0	0.0	0.0
Other current liabilities	(1.1)	(1.1)	(1.2)	(1.1)	(1.8)	(1.8)	(1.8)
Current liabilities	**(25.5)**	**(20.6)**	**(17.4)**	**(18.8)**	**(15.3)**	**(15.5)**	**(16.4)**
Borrowings	(3.4)	(2.9)	(28.0)	(19.0)	(12.0)	(8.5)	(8.0)
Other non-current liabilities	(11.0)	(9.9)	(10.8)	(9.6)	(9.6)	(9.6)	(9.6)
Non-current liabilities	**(14.5)**	**(12.8)**	**(38.9)**	**(28.6)**	**(21.6)**	**(18.1)**	**(17.6)**
Total liabilities	**(40.0)**	**(33.4)**	**(56.3)**	**(47.4)**	**(36.8)**	**(33.6)**	**(34.0)**
Net assets	**21.6**	**34.3**	**38.0**	**37.2**	**38.4**	**38.6**	**40.0**

Source: G4M, Progressive Equity Research

Financial Summary: Gear4music

Year end: March (£m unless shown)

PROFIT & LOSS	**2022**	**2023**	**2024**	**2025E**	**2026E**
Revenue	147.6	152.0	144.4	154.9	159.1
Adj EBITDA	11.2	7.4	9.9	11.7	13.1
Adj EBIT	6.1	1.3	3.3	4.6	5.9
Reported PBT	5.0	(0.4)	0.6	2.8	4.4
Fully Adj PBT	5.0	(0.4)	1.1	2.8	4.4
NOPAT	4.6	2.0	3.1	3.4	4.4
Reported EPS (p)	17.3	(3.1)	3.0	9.4	14.8
Fully Adj EPS (p)	17.3	(3.1)	5.2	9.4	14.8
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET	**2022**	**2023**	**2024**	**2025E**	**2026E**
Operating cash flow	(4.1)	20.2	13.5	10.8	14.0
Free Cash flow	(14.1)	11.6	8.2	4.2	6.9
FCF per share (p)	(67.2)	55.4	39.1	20.0	32.8
Acquisitions	(10.4)	(0.4)	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	(26.9)	9.6	7.2	2.4	5.0
Overdrafts / borrowings	(28.0)	(19.0)	(12.0)	(8.5)	(8.0)
Cash & equivalents	3.9	4.5	4.7	3.6	8.1
Net (Debt)/Cash	(24.2)	(14.5)	(7.3)	(4.9)	0.1
NAV AND RETURNS	**2022**	**2023**	**2024**	**2025E**	**2026E**
Net asset value	38.0	37.2	38.4	38.6	40.0
NAV/share (p)	181.5	177.5	182.9	184.0	190.9
Net Tangible Asset Value	18.2	15.2	16.3	16.9	18.8
NTAV/share (p)	87.0	72.4	77.8	80.6	89.8
Average equity	36.2	37.6	37.8	39.4	42.1
Post-tax ROE (%)	13.9%	(1.1%)	2.8%	7.1%	10.5%
METRICS	**2022**	**2023**	**2024**	**2025E**	**2026E**
Revenue growth	(6.2%)	3.0%	(5.0%)	7.3%	2.7%
Adj EBITDA growth	(43.3%)	(34.3%)	34.3%	18.4%	12.1%
Adj EBIT growth	(60.3%)	(78.8%)	152.5%	43.0%	27.4%
Adj PBT growth	(65.8%)	(108.1%)	(363.1%)	161.2%	58.0%
Adj EPS growth	(71.1%)	(117.9%)	(266.3%)	81.9%	58.0%
Dividend growth	N/A	N/A	N/A	N/A	N/A
Adj EBIT margins	4.2%	0.8%	2.3%	3.0%	3.7%
VALUATION	**2022**	**2023**	**2024**	**2025E**	**2026E**
EV/Sales (x)	0.3	0.3	0.3	0.3	0.3
EV/EBITDA (x)	4.2	6.4	4.7	4.0	3.6
EV/NOPAT (x)	10.3	23.0	15.2	13.6	10.7
PER (x)	9.0	N/A	30.1	16.5	10.5
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(43.3%)	35.7%	25.2%	12.9%	21.1%

Source: Company information and Progressive Equity Research estimates

19 November 2024

Disclaimers and Disclosures

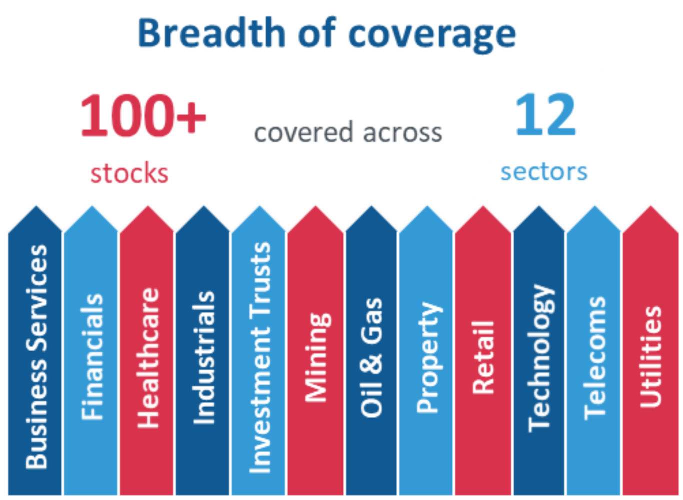
 Progressive's research is commissioned by the subject company under contract and is freely available to the public and all institutional investors. Progressive does not offer investors the ability to trade securities. Our publications should not, therefore, be considered an inducement under MiFID II regulations. PERL provides professional equity research services, and the companies researched pay a fee in order for this research to be made available. This report has been commissioned by the subject company and prepared and issued by PERL for publication in the United Kingdom only. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable; however, PERL does not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of PERL at the time of publication, and any estimates are those of PERL and not of the companies concerned unless specifically sourced otherwise. PERL is authorised and regulated by the Financial Conduct Authority (FCA) of the United Kingdom (registration number 697355).

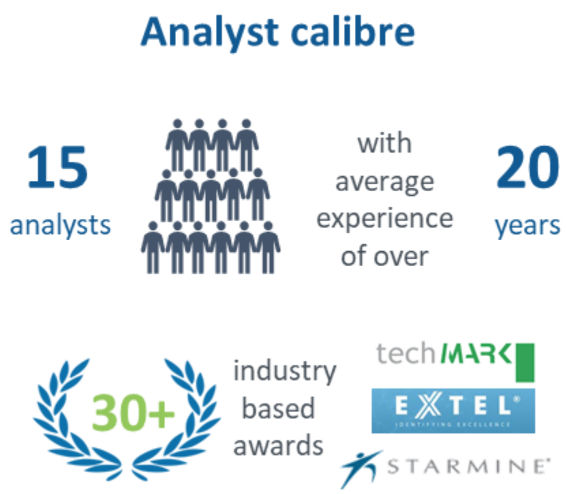
This document is provided for information purposes only, and is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. Investors should seek advice from an Independent Financial Adviser or regulated stockbroker before making any investment decisions. PERL does not make investment recommendations. Any valuation given in a research note is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. PERL does not undertake to provide updates to any opinions or views expressed in this document.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research.

PERL does not hold any positions in the securities mentioned in this report. However, PERL's directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. PERL or its affiliates may perform services or solicit business from any of the companies mentioned in this report.

The value of securities mentioned in this report can fall as well as rise and may be subject to large and sudden swings. In addition, the level of marketability of the shares mentioned in this report may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. It may be difficult to obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance.





To arrange a meeting with the management team, or for further information about Progressive, please contact us at:
+44 (0) 20 7781 5300
info@progressive-research.com