

# GEAR4MUSIC

## CONSUMER DISCRETIONARY

19 October 2023

### G4M.L

135p

Market Cap: £28.3m

#### SHARE PRICE (p)



12m high/low

166p/83p

Source: LSE Data (priced as at prior close)

#### KEY DATA

Net (debt)/cash	£(18.1)m (at 30/09/23)
Enterprise value	£46.4m
Index/market	AIM
Next news	Interims - 14 Nov
Shares in issue (m)	21.0
Chairman	Ken Ford
CEO	Andrew Wass
CFO	Chris Scott

#### COMPANY DESCRIPTION

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

[www.gear4musicplc.com](http://www.gear4musicplc.com)

GEAR4MUSIC IS A RESEARCH CLIENT OF  
PROGRESSIVE

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## H1 trading prioritising gross margin and cost savings ahead of revenue growth

The shape of G4M's trading performance in H1 (to 30 September) clearly reflects the strategic prioritisation of gross margin and cost efficiencies over revenue growth in a challenging market. This strategy was clearly signposted at the FY23 results in June. While total revenue fell back 6% in the period (£62.6m vs £66.3m), an offsetting 80bps gross margin improvement holds the expected gross profit decline to 3% (£17.0m vs £17.4m). With H2 set to benefit from the £4m of annualised cash savings instigated in H1, G4M believes that the FY24E full-year outlook is in line with consensus market expectations.

- H1 trading – UK shines in challenging markets.** Discretionary consumer product markets remain tough. Despite this, supported by a good start for its second-hand platform, UK revenues rose 3% to £36.5m (H1 FY23: £35.5m). In contrast, European revenues fell 15% to £26.1m (H1 FY23: £30.8m) on lower consumer demand. The focus on gross margins has delivered an 80bps increase to 27.1%, with gross profit expected to be £17.0m in H1 (vs £17.4m in H1 FY23).
- Cost savings – reshaping as a lower-cost business.** The £4m of annualised cash savings identified relate primarily to salaries from a 20% headcount reduction compared with September 2022. This sees a £2.5m reduction in software development team salaries, £1.0m in other salaries and a £0.5m reduction in other administration expenses, with a one-off redundancy cost of £0.5m. With most software development costs capitalised, the £2.5m cash saving will not directly generate a significant P&L benefit.
- Net debt – £3.7m lower than for H1 FY23.** G4M has made further good progress with reducing its net debt position. This stood at £18.1m on 30 September, compared with £21.8m at end H1 FY23 and £24.2m at end H1 FY22. Net debt has increased since the FY23 year-end figure of £14.5m (31 March), reflecting normal seasonal inventory build into peak trading.
- Forecasts – full-year outlook in line with consensus market expectations.** G4M has stated that the full-year FY24E outlook is in line with consensus market expectations. These stand at EBITDA of £10.0m and PBT of £1.3m, in line with our unchanged forecasts. Group revenue consensus stands at £161.2m, an increase of 6% over FY23. With H1 group revenues declining by 6%, the shape of our forecasts may be recast when the more detailed interim results are published on 14 November.

FYE MAR (£M)	2021	2022	2023	2024E	2025E
Revenue	157.5	147.6	152.0	161.1	174.0
Adj EBITDA	19.8	11.2	7.4	10.0	12.0
Fully Adj PBT	14.6	5.0	-0.4	1.4	2.7
Fully Adj EPS (p)	59.7	17.3	-3.0	4.9	9.3
EV/Sales (x)	0.3x	0.3x	0.3x	0.3x	0.3x
EV/EBITDA (x)	2.3x	4.1x	6.3x	4.7x	3.9x
PER (x)	2.3x	7.8x	N/A	27.7x	14.5x

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.

## H1 trading update details

The following table details G4M's H1 trading performance, alongside the prior year performance. In addition, we have included the H1 FY20 performance for comparison, representing the last H1 performance ahead of the Covid pandemic, with its subsequent influence on trading – notably the substantial boost to G4M in FY21, and the subsequent unwinding of that Covid boost with a gradual return to more normalised trading patterns.

### H1 FY24E revenue and gross profit performance, with prior-year comparatives (£m unless otherwise stated)

Revenue:	H1 FY24E	H1 FY23E	H1 FY20	% change on H1 FY23	% change on H1 FY20	Four-year CAGR
UK sales	36.5	35.5	24.8	3%	47%	10.1%
Europe/RoW sales	26.1	30.8	24.6	(15%)	6%	1.5%
<b>Total sales</b>	<b>62.6</b>	<b>66.3</b>	<b>49.4</b>	<b>(6%)</b>	<b>27%</b>	<b>6.1%</b>
Gross profit:	17.0	17.4	12.5	(3%)	36%	8.0%
Gross margin (%)	27.1%	26.3%	25.2%	80bps	190bps	n.a.

Source: G4M, Progressive Equity Research

This table enables a comparison of the most recent H1 trading performance with the last pre-Covid H1 trading performance and shows the progress made over that period. The final column of the table shows the four-year compound annual growth rate (CAGR) achieved in terms of regional and total revenues, along with gross profit. The standout performances over this longer period are the progress made in UK sales, with a 10.1% CAGR, and gross profit, with an 8% CAGR, reflecting the 190bps increase in gross margin percentage achieved in H1 since H1 FY20.

Total sales CAGR for the H1 period over this timeframe comes in at a very solid 6.1%. This results primarily from the 15% decline in European and Rest of the World revenues delivered in H1 FY24E (over H1 FY23), which pulled back CAGR growth in non-UK revenues from 7.8% last year (for the three years to H1 FY23) to 1.5% over the four-year period up to H1 FY24E.

With G4M's clearly stated focus on delivering profitable growth, to be achieved in FY24E through the combination of gross margin improvements, cost savings and operational efficiencies, it is not inconceivable that CAGR growth rates for revenues might fall back over H2.

The more important factor for investors should be that the strategic prioritisation of, and focus on, gross margin enhancement and cost savings in a challenging market sees the company return to profitability in H2 FY24E. With the benefit of cost savings implemented in H1 FY24E coming through in H2 FY24E, and G4M stating that the full-year outlook is in line with consensus market expectations (with EBITDA of £10.0m and PBT of £1.3m), this should indeed be the case.

G4M will report its interim results on 14 November.

**Financial Summary: Gear4music**

Year end: March (£m unless shown)

	2021	2022	2023	2024E	2025E
<b>PROFIT &amp; LOSS</b>					
Revenue	157.5	147.6	152.0	161.1	174.0
Adj EBITDA	19.8	11.2	7.4	10.0	12.0
Adj EBIT	15.5	6.1	1.3	3.0	4.3
Reported PBT	14.6	5.0	(0.4)	1.4	2.7
Fully Adj PBT	14.6	5.0	(0.4)	1.4	2.7
NOPAT	13.4	4.6	2.1	2.2	3.2
Reported EPS (p)	59.7	17.3	(3.0)	4.9	9.3
Fully Adj EPS (p)	59.7	17.3	(3.0)	4.9	9.3
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
<b>CASH FLOW &amp; BALANCE SHEET</b>					
Operating cash flow	15.0	(4.1)	20.2	12.5	11.9
Free Cash flow	9.8	(14.1)	11.6	3.6	3.1
FCF per share (p)	46.8	(67.2)	55.4	17.3	15.0
Acquisitions	(0.2)	(10.4)	(0.4)	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)	9.6	2.0	1.6
Overdrafts / borrowings	(3.5)	(28.0)	(19.0)	(15.5)	(15.0)
Cash & equivalents	6.2	3.9	4.5	3.0	4.0
Net (Debt)/Cash	2.7	(24.2)	(14.5)	(12.5)	(11.0)
<b>NAV AND RETURNS</b>					
Net asset value	34.3	38.0	37.2	36.7	37.1
NAV/share (p)	163.8	181.5	177.5	174.9	176.9
Net Tangible Asset Value	23.9	18.2	15.2	13.2	12.7
NTAV/share (p)	114.2	87.0	72.4	63.0	60.8
Average equity	28.0	36.2	37.6	37.8	39.3
Post-tax ROE (%)	17.9%	(1.1%)	3.8%	7.2%	0.0%
<b>METRICS</b>					
Revenue growth		(6.2%)	3.0%	6.0%	8.0%
Adj EBITDA growth		(43.3%)	(34.3%)	35.1%	20.1%
Adj EBIT growth		(60.3%)	(78.4%)	123.2%	43.9%
Adj PBT growth		(65.8%)	(108.1%)	(449.3%)	91.4%
Adj EPS growth		(71.1%)	(117.3%)	(263.0%)	91.4%
Dividend growth		N/A	N/A	N/A	N/A
Adj EBIT margins		4.2%	0.9%	1.8%	2.4%
<b>VALUATION</b>					
EV/Sales (x)	0.3	0.3	0.3	0.3	0.3
EV/EBITDA (x)	2.3	4.1	6.3	4.7	3.9
EV/NOPAT (x)	3.5	10.2	22.1	21.2	14.7
PER (x)	2.3	7.8	N/A	27.7	14.5
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	34.6%	(49.8%)	41.0%	12.8%	11.1%

Source: Company information and Progressive Equity Research estimates

**Disclaimers and Disclosures**

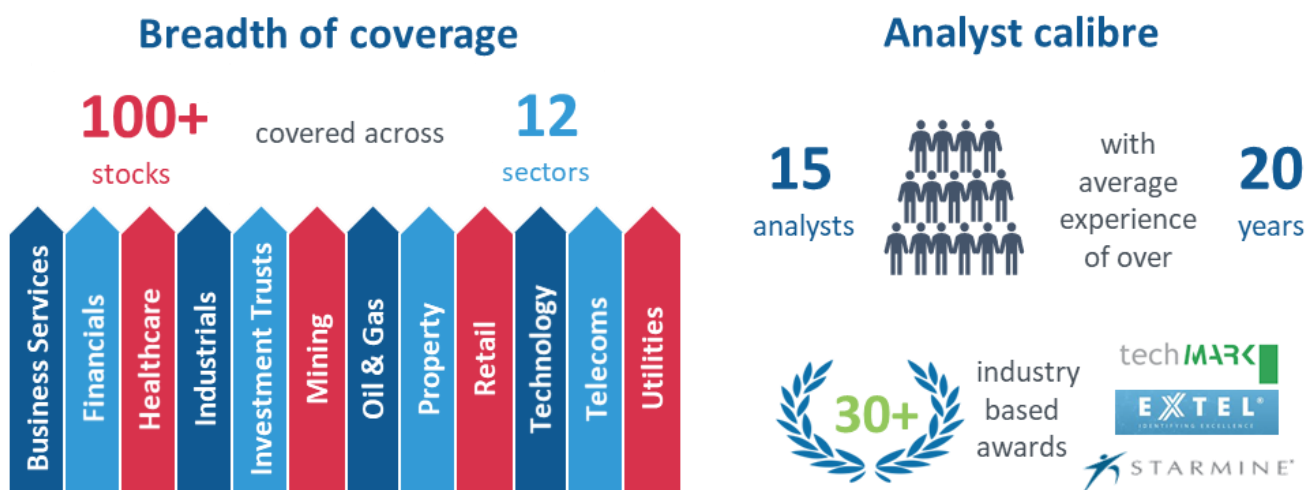
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