GEAR4MUSIC

CONSUMER DISCRETIONARY

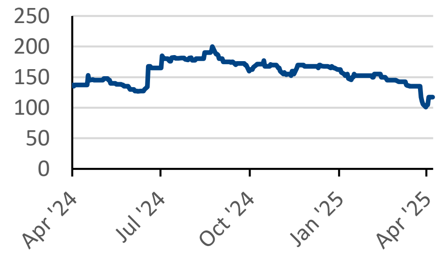
16 April 2025

G4M.L

118p

Market Cap: £24.6m

SHARE PRICE (p)



12m high/low	200p/101p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£(6.4)m *(at 31/03/25)*
Enterprise value	£31m
Index/market	AIM
Next news	Prelims, June
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

Double-digit sales growth and market consolidation

G4M has published a positive trading update for both its UK and European operations with recent double-digit like-for like (LFL) sales growth. With two significant price discounters in the UK and wider European markets going into insolvency recently, this should not only result in a more benign pricing environment but also other commercial upsides, including market share and gross margin gains, and opportunistic asset purchases.

- **GAK asset purchase – primarily a gross margin opportunity.** G4M has announced that it has purchased stock with a cost value of £1.8m and other intangible assets from The Guitar, Amp & Keyboard Centre Ltd (GAK) for a consideration of £0.6m. It should be noted that G4M is not acquiring any part of GAK's trading business and is not currently planning to use the GAK trading name. This represents primarily a gross margin opportunity, but it also marks the exit of a price-aggressive discounter from the UK market with annual turnover of around £20m. Other benefits could potentially accrue to G4M in a more benign pricing environment.
- **Trading momentum sustained – double-digit LFL sales growth.** G4M has started the FY26E year strongly, continuing the markedly stronger UK and European LFL sales growth reported for the latter half of March into the first two weeks of April. The last 30 days have therefore delivered double-digit LFL sales growth, a very welcome and strong performance.
- **Consolidation matters – for sales and margins.** In addition to the travails of GAK in the UK, a major European discount online retailer, BAX, based in the Netherlands, went into insolvency on 2 April, with its website currently not transactional. With group turnover of around £150m, of which we believe some £20m was in the UK, BAX's demise would represent a significant exit from the European market. This should not only lead to a more benign pricing environment in Europe but also market share gains, with greater buying power for the remaining players, especially larger market leaders such as G4M. Both sales and gross margins could benefit.
- **Improving outlook – next news at June prelims.** With the benefit in June of a more extended trading period, we can then re-appraise forecasts – especially if these stronger trends in current trading have been sustained.

FYE MAR (£M)	2022	2023	2024	2025E	2026E
Revenue	147.6	152.0	144.4	146.7	153.6
Adj EBITDA	11.2	7.4	9.9	10.0	10.8
Fully Adj PBT	5.0	-0.4	1.1	1.6	2.5
Fully Adj EPS (p)	17.3	-3.1	5.2	5.4	8.3
EV/Sales (x)	0.2x	0.2x	0.2x	0.2x	0.2x
EV/EBITDA (x)	2.8x	4.2x	3.1x	3.1x	2.9x
PER (x)	6.8x	N/A	22.8x	21.9x	14.1x

Source: Company Information and Progressive Equity Research estimates.

Financial Summary: Gear4music

Year end: March (£m unless shown)

PROFIT & LOSS	**2022**	**2023**	**2024**	**2025E**	**2026E**
Revenue	147.6	152.0	144.4	146.7	153.6
Adj EBITDA	11.2	7.4	9.9	10.0	10.8
Adj EBIT	6.1	1.3	3.3	3.3	3.7
Reported PBT	5.0	(0.4)	0.6	1.6	2.5
Fully Adj PBT	5.0	(0.4)	1.1	1.6	2.5
NOPAT	4.6	2.0	3.1	2.4	2.7
Reported EPS (p)	17.3	(3.1)	3.0	5.4	8.3
Fully Adj EPS (p)	17.3	(3.1)	5.2	5.4	8.3
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	8.8	11.5
Free Cash flow	(14.1)	11.6	8.2	2.7	5.1
FCF per share (p)	(67.2)	55.4	39.1	13.1	24.3
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	0.9	3.3
Overdrafts / borrowings	(28.0)	(19.0)	(12.0)	(8.5)	(8.0)
Cash & equivalents	3.9	4.5	4.7	2.1	4.9
Net (Debt)/Cash	(24.2)	(14.5)	(7.3)	(6.4)	(3.1)
NAV AND RETURNS	**2022**	**2023**	**2024**	**2025E**	**2026E**
Net asset value	38.0	37.2	38.4	37.7	37.7
NAV/share (p)	181.5	177.5	182.9	179.8	179.9
Net Tangible Asset Value	18.2	15.2	16.3	15.9	16.3
NTAV/share (p)	87.0	72.4	77.8	75.7	77.8
Average equity	36.2	37.6	37.8	39.0	40.5
Post-tax ROE (%)	13.9%	(1.1%)	2.8%	4.1%	6.1%
METRICS	**2022**	**2023**	**2024**	**2025E**	**2026E**
Revenue growth	(6.2%)	3.0%	(5.0%)	1.6%	4.7%
Adj EBITDA growth	(43.3%)	(34.3%)	34.3%	1.1%	8.0%
Adj EBIT growth	(60.3%)	(78.8%)	152.5%	0.9%	12.3%
Adj PBT growth	(65.8%)	(108.1%)	(363.1%)	49.4%	55.2%
Adj EPS growth	(71.1%)	(117.9%)	(266.3%)	4.0%	55.2%
Dividend growth	N/A	N/A	N/A	N/A	N/A
Adj EBIT margins	4.2%	0.8%	2.3%	2.2%	2.4%
VALUATION	**2022**	**2023**	**2024**	**2025E**	**2026E**
EV/Sales (x)	0.2	0.2	0.2	0.2	0.2
EV/EBITDA (x)	2.8	4.2	3.1	3.1	2.9
EV/NOPAT (x)	6.8	15.2	10.1	12.8	11.4
PER (x)	6.8	N/A	22.8	21.9	14.1
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(57.2%)	47.1%	33.2%	11.1%	20.7%

Source: Company information and Progressive Equity Research estimates

16 April 2025

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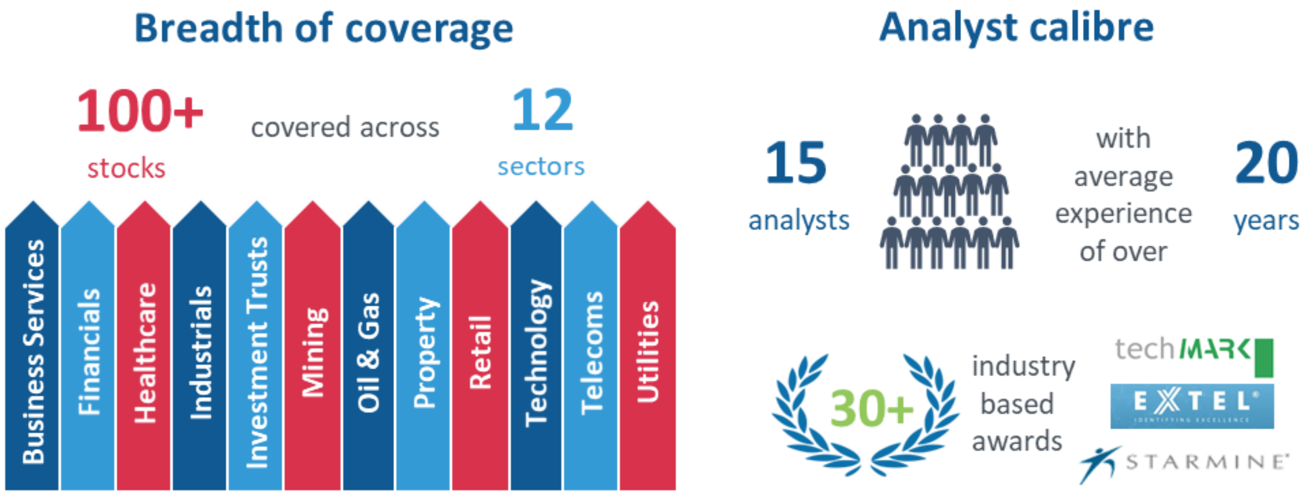

To arrange a meeting with the management team, or for further information about Progressive, please contact us at:
+44 (0) 20 7781 5300
info@progressive-research.com