

GEAR4MUSIC

CONSUMER DISCRETIONARY

25 June 2024

G4M.L

134p

Market Cap: £28.1m

SHARE PRICE (p)



12m high/low

166p/88p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£(7.3)m (at 31/03/24)
Enterprise value	£35.4m
Index/market	AIM
Next news	AGM - September
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

GEAR4MUSIC IS A RESEARCH CLIENT OF
PROGRESSIVE

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Moving onto the front foot to drive profitable sales growth

G4M's FY24 results were in line with the headlines delivered in the April trading update, with margin and profit recovery despite a top-line decline, and an impressive reduction in net debt. Alongside a number of board changes confirmed for 5 July, G4M has unveiled a refreshed and updated strategy to drive profitable sales growth over the medium term from the stabilised base and return to positive PBT achieved in FY24.

- FY24 – delivery in-line.** G4M duly delivered on its stated intention to focus on product margins, overhead cost reduction, and efficiency ahead of revenue growth, along with a further net debt reduction in FY24. Top-line revenues were 5% lower, despite which profit margins increased at all levels – EBITDA, operating profit and PBT – the latter moving back into positive territory after the small loss of FY23. Adjusted EBITDA increased by 34% to £9.9m, delivering a 210bps increase in EBITDA margin to 6.9%. Disciplined cost control and cash management resulted in a further £7m reduction in net debt, bringing the two-year reduction to £16m.
- A new board – with effect from 5 July.** The final element of the Board restructuring sees the appointment of Sharon Daly as a Non-Executive Director. As previously announced, founder and CEO Andrew Wass will move to the role of Executive Chair, with CCO Gareth Bevan taking over the CEO role. Andrew will continue to oversee G4M's growth strategy and to spearhead strategic initiatives.
- Strategy refresh – to deliver profitable growth for FY25 and beyond.** The most notable feature of the results announcement was the unveiling of an updated strategy to deliver profitable sales growth over the medium term. The strategy has four key pillars – bespoke platform, product offer, channels to market, and sales verticals – with a detailed plan in summary matrix form to develop, enhance, diversify and expand these four pillars.
- Forecasts – initiating FY26E.** The main change in our FY25E forecasts relates to the level of net debt, following the significantly better-than-expected reduction delivered in FY24. Otherwise, turnover and profit levels are broadly unchanged. Our newly initiated FY26E forecasts see further progress, including a projection of nudging over the border into positive year-end net cash territory.

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	-3.0	5.2	9.4	20.0
EV/Sales (x)	0.2x	0.2x	0.2x	0.2x	0.2x
EV/EBITDA (x)	3.2x	4.8x	3.6x	3.0x	2.7x
PER (x)	7.8x	N/A	26.0x	14.3x	6.7x

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.

Onwards with a strategy refresh

G4M’s FY24 results were in line with the figures outlined at the full-year trading update in April. They clearly successfully reflected and delivered on the group’s stated intention to focus on product margins, overhead cost reduction, and efficiency ahead of revenue growth, along with further net debt reduction, in FY24. The FY24 results also unveiled a refreshed and updated strategy to drive profitable growth in FY25, alongside the completion of the constitution of the new board following the retirement of longstanding directors Ken Ford and Dean Murray. Some of these changes had already been announced and are now completed with the appointment of Sharon Daly as a Non-Executive Director.

The constitution of the board of directors from 5 July will be as follows, with more detailed biographies available in the FY24 results presentation:

- Executive Chairman: Andrew Wass, moving from his previous CEO role
- CEO: Gareth Bevan, promoted from his previous role as Chief Commercial Officer
- CFO: Chris Scott – joined Gear4music in 2012
- Senior Independent Director: Neil Catto – new appointment
- Non-Executive Director: Harriet Williams – appointed in 2021
- Non-Executive Director: Sharon Daly – new appointment

The following chart summarises the refreshed strategy, which looks to propel the group forward from the stabilised base achieved with the return to a positive PBT position, with the core objective of driving profitable growth in FY25 and beyond.



Source: Gear4music

The strategy has four key pillars, which will see the group 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 has compiled 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, which can be seen in the following chart.

Matrix of planned development activities for the four key strategic pillars

	Bespoke platform	Product offer	Channels to market	Sales verticals
Develop	Artificial intelligence across our business <ul style="list-style-type: none"> AI-First Approach: Integrate artificial intelligence; optimise efficiency & UX Build on AI already used in content creation, marketing & customer service 	Second-hand product sales <ul style="list-style-type: none"> YR1 Product margins of 37% on £1.1m revenues; >£4m FY25 forecast revenue based on current run-rate Medium term opportunity of £10m+ revenue @ 40% product margin 	European marketplace integrations <ul style="list-style-type: none"> Drive own-brand sales in Europe; integrate with more Marketplaces Marketplaces account for a large share of European e-commerce sales 	Additional European operations by 2025 <ul style="list-style-type: none"> Expand European footprint to support European growth Potential to establish low-cost own-brand focused mini-hubs from 2025
Enhance	User experience & backend systems <ul style="list-style-type: none"> Continuous rollout of UX upgrades (e.g. new 'site search' in May 2024) New Forecasting & Purchasing system currently in development 	Own-brand product development <ul style="list-style-type: none"> >45% FY24 Product margins on £38m revenue Medium term opportunity of £60m+ following accelerated investment into product development team 	Data, systems and reporting tools <ul style="list-style-type: none"> Enhanced data structures enable integration with AI & 3rd party tools Upgraded data systems improve marketing efficiency & accelerate channel expansion 	European purchasing, fulfilment & marketing <ul style="list-style-type: none"> New senior role to lead European purchasing, supported by expanded marketing channels Additional European Distributor integrations by FY26
Diversify	Development tools & 3rd party applications <ul style="list-style-type: none"> Drive Efficiency and Productivity through systems and data automation Integrate specialist 3rd party apps to reduce in-house development costs 	Explore additional brand acquisitions <ul style="list-style-type: none"> Premier brand acquired in 2022 is scaling up (FY24 sales: £1m) Potential for further legacy brand acquisitions 	Additional marketing channels to reduce reliance on PPC <ul style="list-style-type: none"> PPC accounted for 86% of advertising spend in FY24 Plan to increase number of marketing channels and reduce reliance on PPC 	Explore opportunities in USA, India, SE Asia <ul style="list-style-type: none"> Additional English speaking retail markets under evaluation Potential to extend own-brand Distribution and Licence agreements
Expand	Second hand & digital download functionality <ul style="list-style-type: none"> Unique Second-hand proposition demonstrating high growth in \$8bn* Global market Expand Digital software downloads; Specialist competitor generates £20m+ in download revenue 	Strategic brand partnerships <ul style="list-style-type: none"> Consolidate SKU ranges; focus on higher margin products Work closely with selected brand partners to maximise margin opportunities 	Influencers, affiliates, social & brand building <ul style="list-style-type: none"> Influencer model is showing early promise; plan in place to scale-up UK affiliate programme already in place, refreshed European affiliate roll-out underway 	Second-hand, digital downloads & AV.COM <ul style="list-style-type: none"> Second-hand revenue growing quickly; further investment will accelerate growth AV.com positioned for growth following rebuilding of the proposition

Source: Gear4music

A number of the planned actions represent the continuation of more recent product and service initiatives. These include, but are by no means limited to, the following examples:

- Second-hand product sales – launched in 2023
- AV.com – acquired in December 2021 (re-platformed to AV.com in January 2022)
- Own brand development – both brands and individual lines
- Complementary brand acquisitions - such as Premier and Eden
- Digital software downloads

There remains considerable scope to build on each of these activities from the solid bases already achieved, with some quantified by G4M. By way of examples, G4M has identified a medium-term opportunity to generate £60m+ from higher-margin own-brand products, compared with the £38m achieved in FY24. Similarly, G4M believes it can grow revenues of its second-hand proposition from the £1.1m achieved in FY24 to more than £4m in FY25 and more than £10m on a two-year view. As with own-brand products, the second-hand proposition yields margins well above the group average, thus yielding greater returns on each pound of incremental revenue generated. Thus, management is targeting higher-margin, high-growth sales channels, like second-hand, to drive superior shareholder returns.

The potential for growth from various of the avenues G4M is to explore to drive future revenues is summarised in the following chart. The upside potential is shown as a percentage of top-line revenues, albeit without a specific time horizon to achieve these goals. It should be remembered that there is considerable crossover between the categories and that the designated categories are therefore not mutually exclusive. To give a simple example, own-brand products (with a target sales mix participation of 33%) are sold in International markets (with a target to regain the 50% sales mix participation achieved in FY21). Given the growth potential in other channels, and operating primarily as an online retailer (albeit with a small number of showrooms), G4M has no current plans to roll out physical stores, hence the decline signalled in the future target share of revenues to 1.4% from the 2.5% achieved in FY24.

Illustrative sales mix projections based on refreshed strategy implementation

	FY23 % of revenues	FY24 % of revenues	Future target % of revenues	Change Target
Own-brand products	25.6%	26.0%	33.0%	+7.0bps
International	46.0%	42.4%	50.0%	+7.6bps
AV.com	4.3%	4.6%	6.0%	+1.4bps
Showrooms	2.1%	2.5%	1.4%	-0.9bps
Second-hand	-	0.8%	5.0%	+4.2bps
Digital products & supplier fulfilment	0.6%	0.9%	3.0%	+2.1bps

Source: Gear4music

There are also a significant number of initiatives that are either totally new or represent variations from past activity. We highlight some, which we found particularly interesting:

- Adoption of an Artificial Intelligence (AI) first approach for its business platform.
- Integration of specialist third-party apps to reduce in-house development costs.
- Consolidation of ranges to focus on higher-margin products – with FY24 seeing the first decline in total SKUs (stockkeeping units) for many years.
- Reduction of reliance on PPC (pay per click) marketing, which accounted for 86% of marketing spend in FY24, including greater use of the influencer model.

- Adding to the European network, potentially with the establishment of low-cost, own-brand focused hubs from 2025.
- Evaluation of additional English-speaking markets to explore opportunities in the USA, India and SE Asia.

While the proof of the pudding will be in the eating, we believe G4M is to be commended for stepping up to the plate to pursue higher levels of revenues and profitability against what remains a challenging backdrop for discretionary spending in many of its markets. This said, some of its planned expansion plays into this backdrop, such as notably the push into second-hand. The newly constituted team has much to do, but has the strategic framework and plans to deliver.

FY24 results

The key highlights and figures for the FY24 results had already been given at the time of the April trading update. This said, the full publication of figures for the fiscal year gives more detailed insight into group's performance, particularly with regard to the cash flow and balance sheet.

Overview of FY24 results, compared with FY23, FY22, FY21 and FY20 (£m unless otherwise stated)

	FY20	FY21	FY22	FY23	FY24*	FY24 change		FY24 change	
						on FY23	on FY23 (%)	on FY20	on FY20 (%)
UK sales	61.8	78.7	82.6	82.1	83.1	1.0	1%	21.3	34%
International sales	58.5	78.8	65.0	70.0	61.3	(8.7)	(12%)	2.8	5%
Total sales	120.3	157.5	147.6	152.0	144.4	(7.6)	(5%)	24.1	20%
Product sales	114.8	149.6	140.6	145.1	138.0	(7.1)	(5%)	23.2	20%
Product gross profit	35.1	50.9	45.2	43.6	43.2	(0.4)	(1%)	8.1	23%
<i>Product gross margin</i>	<i>30.5%</i>	<i>34.1%</i>	<i>32.1%</i>	<i>30.0%</i>	<i>31.3%</i>	<i>+130bps</i>		<i>+80bps</i>	
Gross profit	31.2	46.4	41.1	39.0	39.4	0.4	1%	8.2	26%
<i>Gross margin</i>	<i>25.9%</i>	<i>29.4%</i>	<i>27.9%</i>	<i>25.7%</i>	<i>27.3%</i>	<i>+160bps</i>		<i>+140bps</i>	
Operating costs :									
Marketing	(9.3)	(9.2)	(10.8)	(10.6)	(10.1)	0.5	(5%)	(0.8)	9%
Labour	(9.7)	(12.3)	(13.1)	(14.4)	(13.5)	0.9	(6%)	(3.8)	39%
Europe/other	(4.4)	(5.1)	(6.0)	(6.7)	(5.9)	0.8	(12%)	(1.5)	34%
Total opex	(23.4)	(26.6)	(29.9)	(31.7)	(29.5)	2.2	(7%)	(6.1)	26%
EBITDA	7.8	19.8	11.2	7.4	9.9	2.5	34%	2.1	27%
<i>EBITDA margin</i>	<i>6.4%</i>	<i>12.6%</i>	<i>7.6%</i>	<i>4.8%</i>	<i>6.9%</i>	<i>+210bps</i>		<i>+50bps</i>	
Total DA	(3.7)	(4.4)	(5.1)	(6.1)	(6.6)	(0.5)	9%	(2.9)	78%
Operating profit	4.1	15.4	6.1	1.3	3.3	2.0		(0.9)	
<i>Operating profit margin</i>	<i>3.4%</i>	<i>9.8%</i>	<i>4.1%</i>	<i>0.8%</i>	<i>2.3%</i>	<i>+140bps</i>		<i>-110bps</i>	
Financial expenses	(1.0)	(0.8)	(1.1)	(1.7)	(2.2)	(0.5)		(1.2)	
Pre tax profit	3.1	14.6	5.0	(0.4)	1.1	1.5		(2.0)	(65%)
Diluted EPS (p)	12.2	59.7	17.3	(3.1)	3.0	6.1		(9.2)	(75%)

* = FY24 figures are adjusted to exclude a £0.5m exceptional cost, with the exception of diluted EPS

Source: Gear4music, Progressive Equity Research

The table above presents a more detailed summary overview of the results. As previously, we include figures for historical years back to FY20, this being the last year before Covid and its impacts on the wider economy. G4M was one of the minority of commercial enterprises to have been a beneficiary on Covid and its accompanying lockdowns, as can be seen most notably in FY21. For this reason, we compare the FY24 results both to the prior FY23 year and to FY20, representing the conditions prevailing in pre-pandemic trading. The comparison with FY20 provides a picture of broader progress therefore on a four-year view.

It should be noted that the FY24 summary has been presented on a pre-exceptional basis, ie the figures have been adjusted to exclude the £0.5m charge relating to the redundancy costs associated with headcount reduction. The average number of employees decreased from 573 in FY23 to 484 in FY24, a decline of 16%, primarily affecting software development for the group's proprietary e-commerce platform. The diluted EPS figure came in at 3.0p on a reported (and therefore unadjusted) basis.

G4M delivered turnover, gross margin, (adjusted) EBITDA and net debt in line with the information given in the April trading update. The group's stated goal of focusing on margins and profitability rather than revenue growth has clearly been achieved. Product gross margin rose by 130bps to 31.3%, with total gross margin's increase of 160bps to 27.3% benefitting from a reduction in carriage & packaging costs as a proportion of sales to 6.6% (from 7.1% in FY23), reflecting a higher proportion of cheaper UK deliveries and the small increase in Average Order Value (AOV) to £153 (from £150 in FY23).

Own-brand revenues fell back 3% to £37.6m, with other brand revenues declining 5% to £100.4m. Own-brand margin increased by 380bps to 45.3%, with other brand margin also rising by a more modest 30bps to 26.1%. Own-brand sales accounted for 27.2% of product sales, compared with 27.1% in FY23.

Group turnover and product sales – FY19 to FY24 (£m)

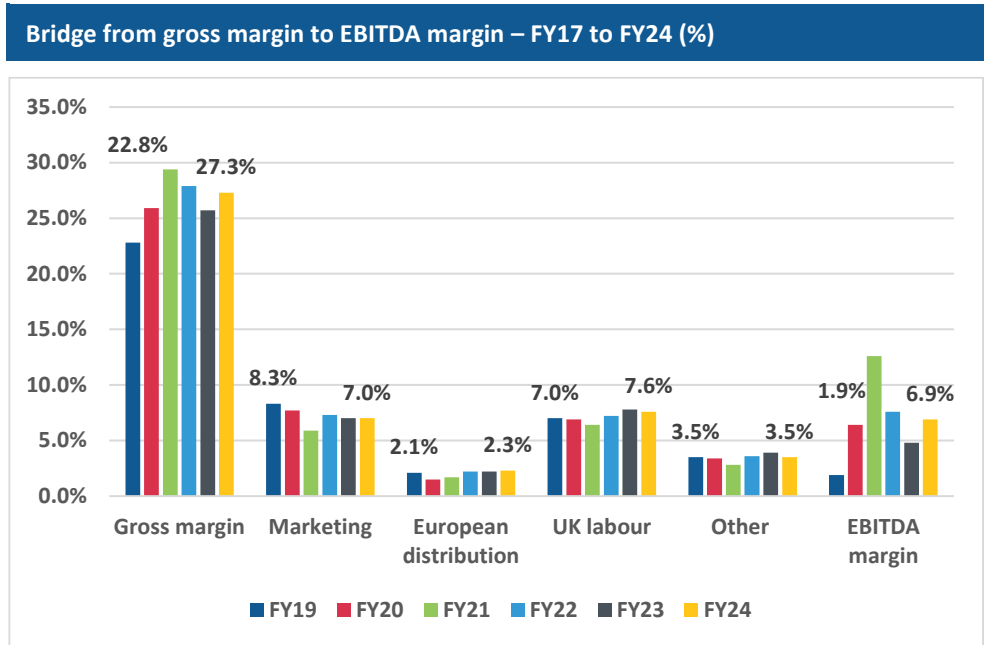
	FY19	FY20	FY21	FY22	FY23	FY24
Reported own brand sales	31.289	35.432	45.368	38.121	38.860	37.607
Reported third party brand sales	82.125	79.416	104.199	102.473	106.189	100.404
Reported product sales	113.414	114.848	149.567	140.594	145.049	138.011
Warranty income	0.296	0.337	0.545	0.483	0.452	0.411
Finance commissions	0.240	0.285	0.204	0.287	0.351	0.153
Carriage receipts	4.205	4.856	7.135	6.266	6.187	5.809
Total other income	4.741	5.478	7.884	7.036	6.990	6.373
Total turnover	118.155	120.326	157.451	147.630	152.039	144.384

Source: Gear4music, Progressive Equity Research

Operating costs were tightly managed throughout the year, with adjusted EBITDA of £9.9m (vs FY23's £7.4m) equating to a margin of 6.9%, some 210bps ahead of the FY23 figure of 4.8%. Marketing costs were flat as a percentage of sales at 7.0%, while UK labour costs fell back from 7.8% to 7.6% of sales. European distribution costs nudged up as a percentage of sales, while other costs fell back 0.4% to 3.5%.

The chart below shows the bridge from gross margin down to EBITDA margin from FY19 to FY24. This clearly shows the impact of the record year of FY21 in terms of gross and EBITDA margins, together with leveraged cost ratio efficiencies. It also shows the reset to focus on profitable growth rather than just top-line growth, made after FY19 trading period, which was reiterated ahead of FY24.

Product gross margin in FY24 of 31.3% was up 130bps on FY23, and is some 80bps above the level achieved in FY20. With the renewed emphasis on own-brand products, which command a higher gross margin percentage, we believe the product gross margin (and overall gross margin) should see further improvement in FY25E.



Source: Gear4music, Progressive Equity Research

The other notable and laudable achievement of FY24 was the further significant reduction in net debt from £14.5m to £7.3m. This has been successfully reduced by just under £17m over the past two years. Net bank debt now equates to just 0.7x adjusted EBITDA, where it is secured by freehold property valued at £7.6m.

There was a working capital inflow of £4.7m in the course of the year, with year-end inventory falling to £25.6m as at 31 March 2024 from £34.4m as at 31 March 2023.

Capital expenditure was reined back in a planned decline in the year, moving to £3.9m from £6.3m in FY23. Of the FY24 capex, £3.7m came from capitalisation of software development costs. This was split £2.4m in H1 and £1.3m in H2, reflecting the downsizing of the software team going forward.

Key performance indicators (KPIs) and metrics

The following sections provide an overview of G4M’s KPIs and other operating metrics.

Website users and conversion rates

The number of unique website users fell back again in FY24, with declines in both UK and international users of 9% and 8%, respectively. The total number of pages viewed registered a decrease of 7% to 171m.

Conversion rates have nudged back marginally in aggregate and across channels. This said, the overall conversion rate of 3.95% is still some 64bps higher than the figure achieved in FY20.

While there has been a decline in mobile user traffic, there has been a 900bps increase in organic/direct traffic to the platform, which is more profitable for G4M.

Website utilisation and conversion rates							
	FY20	FY21	FY22	FY23	FY24	FY24 % change	
						on FY23	on FY20
Unique website users (m)	28.4	36.0	28.8	26.5	23.7	(11%)	(17%)
Total pages viewed (m)	150	170	181	183	171	(7%)	14%
UK users (m)	11.0	14.4	13.1	12.5	11.7	(6%)	6%
International users (m)	16.6	20.8	15.1	13.7	12.0	(12%)	(28%)
Mobile user mix	56.0%	55.0%	53.0%	72.0%	58.0%	-1400bps	+200bps
Organic/direct traffic	39.0%	42.0%	49.0%	47.0%	56.0%	+900bps	+1700bps
Conversion rates:							
UK	4.8%	5.5%	5.5%	4.5%	4.4%	-9bps	-36bps
Europe	2.4%	2.6%	2.9%	3.5%	3.4%	-8bps	+104bps
Mobile	2.4%	2.7%	3.2%	2.7%	2.5%	-17bps	+13bps
Total	3.3%	3.7%	4.1%	4.0%	3.9%	-2bps	+64bps

Source: Gear4music, Progressive Equity Research

Customer metrics

The number of customers served fell by 8% in FY24 to 799,000, and has dropped back to a level slightly behind the FY20 figure of 807,000. A similar pattern can be seen with regard to new customer numbers. These fell by 9% to 674,000 in FY24 and are now some 4% lower than the FY20 figure. The number of repeat customers decreased by 5% in FY24 to 163,000, thereby showing a 4% decrease over the FY20 figure. In contrast, the email subscriber database increased by 11% to 1.83m, almost three times more than the database held in FY20.

Customer metrics							
	FY20	FY21	FY22	FY23	FY24	FY24 % change	
						on FY23	on FY20
Customers served ('000)	807	1,064	921	865	799	(8%)	(1%)
New customers ('000)	704	947	793	738	674	(9%)	(4%)
Repeat customers	170	206	174	172	163	(5%)	(4%)
Email subscriber database ('000)	650	980	1,280	1,650	1,830	11%	182%
Average order value	£117	£116	£125	£150	£153	2%	31%

Source: Gear4music, Progressive Equity Research

More positively, especially in conjunction with the higher gross margin achieved, the average order value (AOV) has increased by 2% to stand at £153. The AOV now stands some 31% higher than in FY20. With a gross profit per transaction of £42 (vs £36 in FY23), G4M is profitable from the first customer transaction in comparison with the customer acquisition cost of £15 (FY23: £14).

The sales lifetime value of a customer has increased to £322 from £302 in FY23.

Product range

FY24 saw a minor reversal in terms of the trend relating to the product range, with the total number of SKUs declining by 2% to 63,000. Similarly, the number of brands listed fell by 3%.

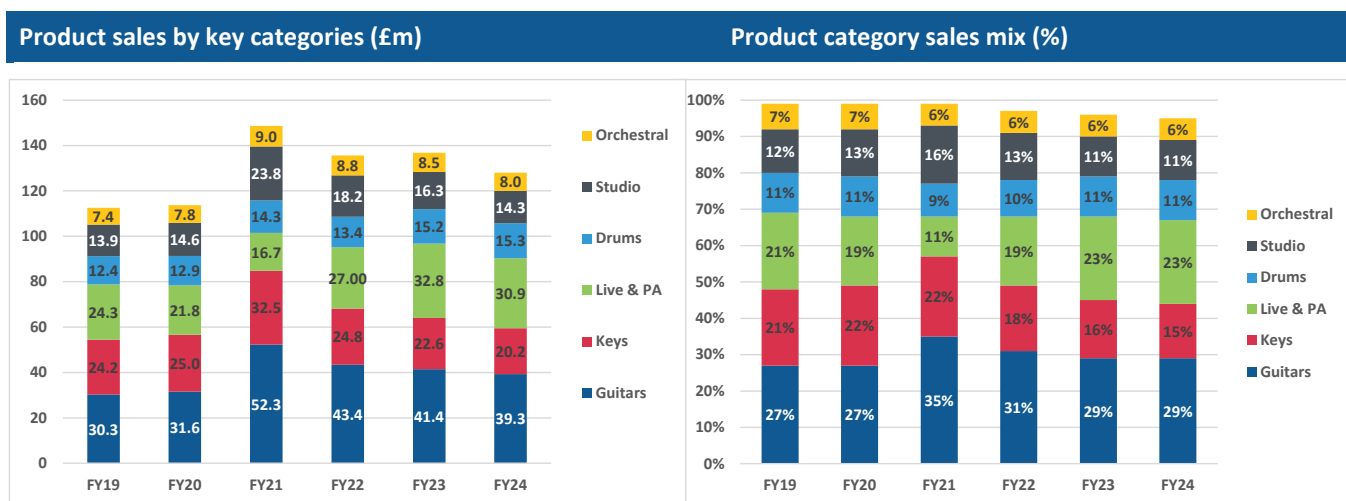
Own-brand SKUs, which are inherently more profitable than third-party brands, increased by around 9% to account for 8.5% of the total SKU mix, yet delivering just under a 50bps increase in mix participation in relation to total and product sales at 26.1% and 27.3%, respectively. The expansion of the in-house product design team enabled G4M to launch 485 new own-brand products in FY24. G4M launched a new own brand, 'G4M', in June 2023, offering great value premium music gear. This now has 164 live products, delivering a FY24 gross margin of 46.5%, with a £1m+ sales forecast for FY25 and a £3m+ sales revenue opportunity in a two-year plus timeframe.

Product range development – total and own brand

	FY20	FY21	FY22	FY23	FY24	FY24 % change	
						on FY23	on FY20
Total number of SKU's	54,200	57,900	62,400	64,200	63,000	(2%)	16%
Brands listed	880	900	1,080	1,130	1,096	(3%)	25%
Own brand performance :							
Own brand SKU's	3,400	3,800	4,200	4,900	5,350	9%	57%
Own brand SKU mix	6.27%	6.6%	6.7%	7.6%	8.5%	+86bps	+222bps
Own brand sales mix (total sales)	29.4%	28.8%	25.8%	25.6%	26.1%	+49bps	-335bps
Own brand sales mix (product sales)	30.9%	30.3%	27.1%	26.8%	27.3%	+46bps	-360bps

Source: Gear4music, Progressive Equity Research

The chart below shows the absolute sales value and sale mix participation of the major categories sold by G4M. The impact of Covid can clearly be seen in the mix participation (and implicit directional sales movement) of various categories. In FY21, people spending more time at home taking up new pastimes and hobbies, or revisiting old ones, resulted in substantial growth of categories such as guitars and studio, mirrored by a substantial decline in the Live & PA category. Subsequently, with the advent of more normal living and social conditions in FY22, there was some unwinding of the most marked movements seen in FY21.



Source: Gear4music, Progressive Equity Research

Against the backdrop of an overall decline of 5% in product sales, only one category increased absolute sales in FY24. Drums advanced the category sales line with growth of 0.8%, with all other categories falling back by between 5.1% (guitars) and 12.0% (studio).

Forecasts

The following table summarises our forecasts, which now include the newly initiated FY26E figures. We have also included a column showing the two-year CAGR growth rate, which shows leveraged growth rates for profitability as one goes down the P&L account.

We did not revise our forecasts at the time of the April update, where the biggest variance to our FY24 estimates came in the net debt figure, which was significantly better than we and consensus expected. This improved base therefore has a knock-on effect into a better FY25E year-end net debt forecast of £4.9m, compared with our previous net debt forecast of £9.0m.

Forecast summary and two-year CAGR to FY26E

	FY22	FY23	FY24	FY25E	FY26E	2-yr CAGR
Revenue	147.6	152.0	144.4	154.9	159.1	3.3%
Gross profit	41.1	39.0	39.4	42.6	44.1	3.8%
Gross margin (%)	27.9%	25.7%	27.3%	27.5%	27.7%	
Operating costs (exc DA)	29.9	31.7	30.0	30.9	30.9	1%
Opex as % of turnover	20.3%	20.8%	20.8%	19.9%	19.4%	
EBITDA	11.2	7.4	9.4	11.7	13.1	11.8%
EBITDA margin (%)	7.6%	4.8%	6.5%	7.6%	8.3%	
Operating profit	6.1	1.3	2.8	4.6	5.9	28.9%
Operating margin (%)	4.1%	0.8%	1.9%	3.0%	3.7%	
Adjusted pre-tax profit	5.0	(0.4)	1.1	2.8	4.4	
Adjusted diluted EPS (p)	17.3	(3.0)	5.2	9.4	20.0	
Net cash/(debt)	(24.2)	(14.5)	(7.3)	(4.9)	0.1	

Source: Gear4music, Progressive Equity Research estimates

Our FY25E forecasts are otherwise broadly unchanged, with a minor trimming at EBITDA and operating profit level, but with an unchanged PBT forecast of £2.8m.

Our FY26E forecasts show further growth in top-line revenue, with a further improvement in gross margin.

More detailed forecasts for P&L, cash flow and balance sheet are shown in the following tables.

Gear4music – Summary of profit & loss account and cash flow forecasts

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)
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)
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 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	(3.0)	5.2	9.4	20.0
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: Gear4music, Progressive Equity Research estimates

Gear4music – Summary of balance sheet forecasts

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: Gear4music, Progressive Equity Research estimates

Financial Summary: Gear4music

Year end: March (£m unless shown)

	2022	2023	2024	2025E	2026E
PROFIT & LOSS					
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	5.9
Reported EPS (p)	17.3	(3.1)	3.0	9.4	14.8
Fully Adj EPS (p)	17.3	(3.0)	5.2	9.4	20.0
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
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					
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					
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%)	(79.0%)	152.5%	43.0%	27.4%
Adj PBT growth	(65.8%)	(108.1%)	(363.1%)	161.2%	58.0%
Adj EPS growth	(71.1%)	(117.3%)	(272.3%)	81.9%	113.5%
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					
EV/Sales (x)	0.2	0.2	0.2	0.2	0.2
EV/EBITDA (x)	3.2	4.8	3.6	3.0	2.7
EV/NOPAT (x)	7.8	17.4	11.5	10.3	6.0
PER (x)	7.8	N/A	26.0	14.3	6.7
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(50.1%)	41.3%	29.2%	14.9%	24.5%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

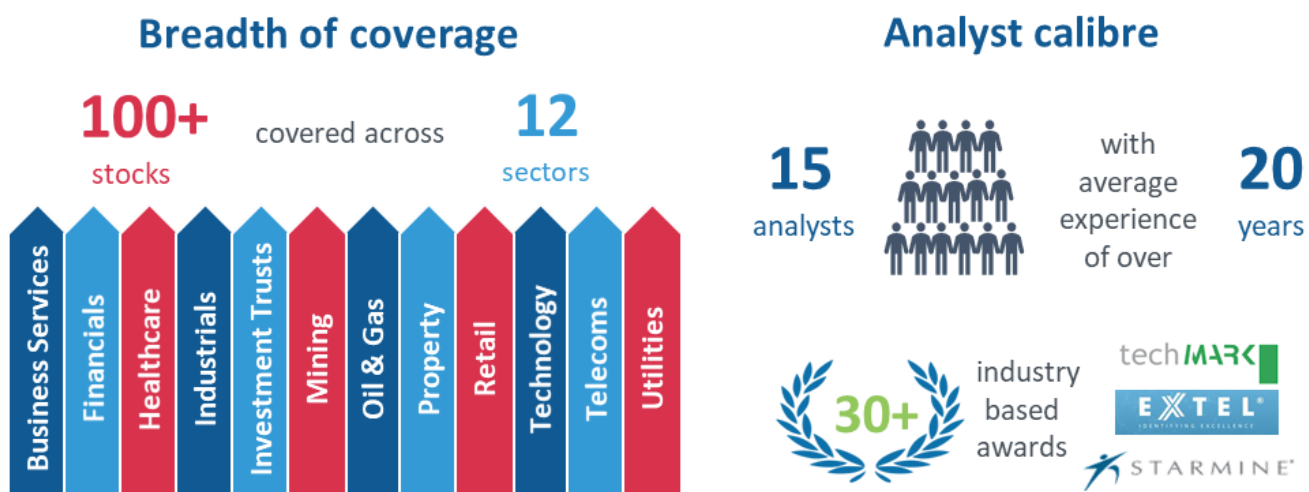
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