

GEAR4MUSIC

CONSUMER DISCRETIONARY

23 June 2026

G4M.L

258p

Market Cap: £54m

SHARE PRICE (p)



12m high/low

323p/185p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£(5.0)m (at 31/03/26)
Enterprise value	£59m
Index/market	AIM
Next news	AGM, September
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

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A truly transformative year

G4M's full year results to 31 March 2026 were marginally ahead of the guidance in April's post close trading update. This rounds off a truly outstanding and transformative performance, marking a step change in the group's scale and operational efficiency. G4M has delivered profitable market share gains in both its home UK market as well as in its international markets, capitalising on market consolidation, competitor withdrawals, and a more benign pricing environment. G4M has delivered double digit revenue growth in FY27E year to date. It continues to invest for future growth, including its UK warehousing capacity ahead of FY27 peak trading.

- FY26 results – a transformative year.** The FY26 performance metrics are a long roll call of superlatives, underlining the upside benefits of operational gearing. A 30% increase in group revenue to £191m, enhanced by a 140bps expansion in gross margin and a well-controlled operating cost base, combined to deliver an 84% increase in EBITDA (£18.4m), just under a 250% increase in operating profit (£11.5m), and a 6.4x increase in PBT to £10.3m. Despite increased inventory investment and £3.1m of pre-payments relating to the new UK warehouse, net debt fell for the fourth consecutive year to £5.0m.
- Market consolidation – benefitting G4M.** The exit of two longstanding price aggressive competitors from the UK market (Guitar, Amp & Keyboard, and Play Music Today) gave rise to both an estimated £70m market share opportunity as well as an amelioration in market conditions. With a market share gain of around 300bps to 13.1% and a gross margin gain of 140bps to 28.4%, G4M has clearly taken advantage of the new market conditions. G4M also acquired some inventory from the administrators of both GAK and PMT, which generated £3.6m of revenue at a 54% gross margin. Even excluding the totality of those sales, G4M would have delivered a 28% revenue increase and a 90bps gross margin gain, highlighting the strength of underlying trading. European revenue growth of 37% suggests that G4M has turned a corner in that market.
- Forecasts unchanged – upside risk in our view.** The company has made no changes to its FY27E forecasts at this early stage of the year. We follow suit with no forecast changes but see forecast risk weighted to the upside given the strong start and more favourable market dynamics. However, this is not in our view reflected in a modest forward EV/EBITDA ratio of less than 4x, which looks low relative to peers and the wider AIM market.

FYE MAR (£M)	2024	2025	2026	2027E	2028E
Revenue	144.4	146.7	190.7	200.4	214.1
Adj EBITDA	9.9	10.0	18.4	16.0	17.5
Fully Adj PBT	1.1	1.6	10.3	6.0	6.1
Fully Adj EPS (p)	5.2	3.8	34.9	20.4	20.9
EV/Sales (x)	0.4x	0.4x	0.3x	0.3x	0.3x
EV/EBITDA (x)	6.0x	5.9x	3.2x	3.7x	3.4x
PER (x)	50.0x	67.9x	7.4x	12.6x	12.3x

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.

A masterful performance

G4M has enjoyed its most successful year since its FY21 annus mirabilis, when Covid- driven lockdowns prove to be a major catalyst for musical equipment and instruments. The fact that this has been achieved in more ordinary and less tumultuous times suggests meaningful shifts in both the market backdrop and indeed the group’s operational and commercial capabilities. The broader musical equipment market continues to shift relentlessly towards the online channel with more traditional bricks and mortar retailers facing increased pressures on their higher fixed cost operating models, compounded by lack of buying power and financial resources.

In contrast, the digital-first platform model of G4M, with its proprietary software and systems, offers several sources of sustainable competitive advantage as shown in the graphic below. The breadth and depth of offer, including more profitable own brand merchandise and complementary products such as audio visual, alongside the second-hand trade in facility, combine to deliver superior differentiation across many factors and criteria that are important to consumers.

G4M – sources of sustainable competitive advantage



Source: G4M

G4M does not however rest on its laurels and continuously strives to improve its business model and customer appeal. The strategic reset of 2024 to focus on profitable revenue growth delivered solid results in FY25, and has blossomed in FY26, helped by a process of market consolidation, which has seen the exit or rationalisation of some of the price disruptor retailers in both the UK and Europe. The exit of GAK and PMT in the UK created both a long-term market share opportunity and the short-term opportunistic chance to buy inventory at reduced prices and therefore significant gross margin upside.

In Europe, the Dutch retailer Bax Music filed for bankruptcy in March 2025. While the business was subsequently rescued by its founder, which saw its websites back online in June 2025 after a two-month offline hiatus, it is not the force it once was. G4M's performance in Europe has been somewhat lacklustre for several years, determined largely by the financial prudence of pricing disciplines, which disadvantaged it against more aggressive competitors. This patience appears to have paid off in FY26, with the international business, predominantly Europe, delivering 36% revenue growth.

FY26 progress on development of G4M's four strategic pillars

	Bespoke platform	Product offer	Channels to market	Customer experience
Develop	Purchasing & promotions tools <ul style="list-style-type: none"> New Forecasting & Purchasing system, being our largest development project to date, delivered Q4 FY26 Enhanced Promotions system rolled out during FY26 to deliver a unique proposition 	Second-hand product sales <ul style="list-style-type: none"> 20% growth to £3.6m Revenues in Year 3 with strong 40% product margins, capitalising on growing customer demand for value and sustainability £10m+ Medium-term revenue opportunity at 40%+ margin 	European marketplace integrations <ul style="list-style-type: none"> Accelerate own-brand growth in Europe through integrations with leading third-party marketplaces Recently launched on Bol.com, Fnac & Allegro with further platforms in the pipeline 	In-house courier service <ul style="list-style-type: none"> Establish an in-house courier operation to deliver a differentiated white-glove delivery and installation service. Drive growth in premium product sales by enhancing the customer experience, building on recent gains in average order value.
Enhance	Embed AI across the business to enhance scalable advantage <ul style="list-style-type: none"> AI-first approach to enhance operational efficiency and elevate the user experience Expand AI integration beyond current use in content creation, marketing, and customer service 	Own-brand product development <ul style="list-style-type: none"> £44m revenue in FY26 at >50% product margins, underscoring strong profitability Medium-term potential to exceed £70m+ revenue driven by accelerated investment in the product development team 	Unlock Growth through enhanced CRM <ul style="list-style-type: none"> New CRM platform launched H2 FY26 targeting improved customer retention and repeat revenue Upgraded reporting and data systems to boost marketing efficiency and support faster multi-channel growth 	Website experience <ul style="list-style-type: none"> Continuously enhance UX through iterative improvements, including AI-powered features such as chatbots and intelligent search Optimise customer interactions by automating key touchpoints and communications
Diversify	Development tools & 3rd party applications <ul style="list-style-type: none"> Focus internal development resources on high-value, differentiating enhancements Leverage specialist third-party applications to minimise in-house development costs and accelerate delivery 	Targeted brand acquisitions <ul style="list-style-type: none"> Studiospares, GAK, and S&T Audio brands acquired in FY25 & FY26 to strengthen category coverage Ongoing focus on acquiring complementary brands to drive growth, margin, and customer loyalty 	Diversify marketing channels to reduce PPC dependence <ul style="list-style-type: none"> PPC represented 84% (FY25: 88%) of total ad spend in FY26 representing concentration risk Strategic focus on channel diversification to drive more sustainable and cost-effective customer acquisition 	Sales Verticals <ul style="list-style-type: none"> AV.com positioned for further growth following strategic proposition redevelopment Adapt retail offering to effectively serve a broader customer base amid ongoing market consolidation
Expand	Second hand & digital download functionality <ul style="list-style-type: none"> Proprietary second-hand platform gaining strong traction in a global market worth \$8bn* Opportunity to expand digital software downloads, inspired by category specialists generating £20m+ in annual revenue 	Strategic brand partnerships <ul style="list-style-type: none"> Prioritise higher-margin products & optimise SKU ranges to streamline operations Deepen collaboration with key brand partners to unlock margin and promotional opportunities 	Scale Influencer, Affiliate & Social Channels <ul style="list-style-type: none"> Influencer partnerships delivering strong ROI, with plans in place to scale activity across key platforms UK affiliate programme performing well; refreshed European affiliate expansion underway 	Distribution capacity <ul style="list-style-type: none"> New UK-DC on-track for Phase 1 launch Autumn 2026 Evolving scalable infrastructure to ensure seamless delivery and service as volumes increase Enhancing customer experience through targeted operational efficiency improvements

Source: G4M

The chart above shows the matrix laying out the action points to develop, enhance, diversify and expand within G4M's four strategic pillars, together with examples of such activities to drive the business forward. These include commercial activities which we have discussed in previous notes including but not limited to:

- Second-hand product sales, which delivered growth of 20% to £3.6m at a 40.2% product margin, with 28% of customers choosing credit for future purchases rather than cash. This service is targeting £10m+ revenues on a two-year view.
- Audio visual products through the AV.com platform, which delivered a LFL sales increase of 14% to £8.3m in FY26.
- Ongoing development of own brands, with 771 new own brand stockkeeping units (SKUs) launched in FY26. G4M sees a medium-term potential to generate over £70m annual revenues from own brands. This target will be supported by accessing leading third party platforms in Europe, including FNAC in France.
- Digital software downloads, prompted by seeing the success of category specialists in this area.

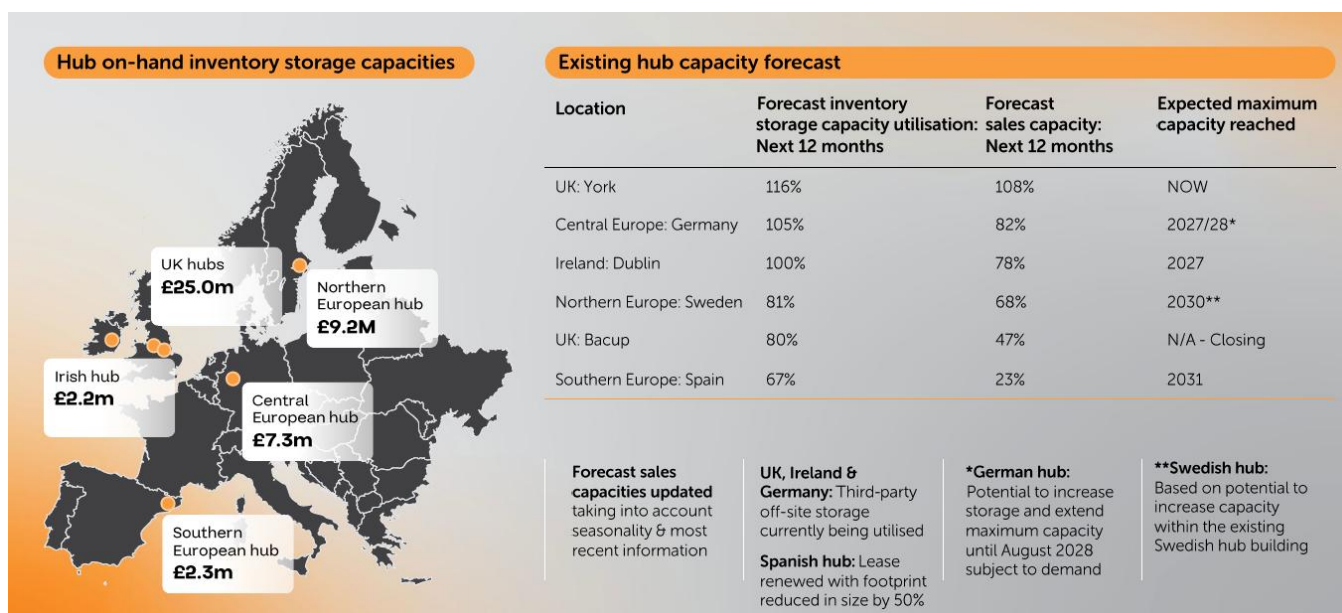
In addition, G4M is continuously developing its technology platform for both internal operational enhancement, such as for forecasting and promotions, including the introduction of Artificial Intelligence (AI) applications in many areas. This is currently focussed primarily in content creation, marketing and customer service. The latter has historically been an area of strength for traditional retailers, but G4M is also looking to innovate and compete in this area.

The group launched an in-house courier operation this month, which delivers a “white glove” delivery and installation service for high value premium products. This is a UK-wide service, using directly employed drivers with the requisite product training for installation of high-end products, which are often subject to supplier-mandated delivery and installation requirements. This has been launched initially with two G4M branded vans, with cost comparable to that of existing third party large-item delivery services. It can be quickly scaled up with relatively little investment, while enhancing the customer delivery experience and promoting the G4M brand.

Warehouse expansion

G4M’s current major project, in terms of size and financial resources, is the opening of a new automated UK distribution centre near York. This has been necessitated by the continuing growth of the UK business, which means that the existing York facility has reached both its storage capacity utilisation and sale capacity. This is on schedule for operational duties in Autumn 2026 in time for the peak Christmas trading period.

G4M existing warehouse storage network and capacity



Source: G4M

The group has secured a £45m revolving credit facility (RCF) to support both this warehouse expansion and other strategic growth opportunities. As previously guided, the group expects to invest some £10.2m in Phase One automation and fit-out throughout FY27. This will increase UK distribution capacity by 3,000 orders per day ahead of the FY27 peak trading period. Phase One covers 60% of SKUs, specifically small and medium sized products, with Phase Two slated for larger products. Phase Two capacity is estimated to be £8.8m with a completion date in FY28.

When completed, the capacity of the new warehouse will be up to 18,000 orders per day, some 2.5x higher than the current facility's capacity of around 7,200 orders per day. The Phase One expansion therefore represents a 40% increase above that current order capacity.

The retained space in York will provide extra capacity for showrooms, second-hand and returns, as well as consolidation of the current Bacup site, which will be closed down from FY28. This will save annual operating costs of £0.6m.

The new York warehouse operates on a 15-year lease with an annual lease cost of £1.1m, and two years rent free. Rent will be payable from FY29. Payback for the total warehouse project is expected to be between 3 and 5 years, with labour efficiency improvements delivering stronger operating leverage. There will be duplicated operating costs of up to £1.0m in FY27 and £0.5m in FY28.

FY26 results

The key highlights of the FY26 results had already been provided within the April trading update. The publication of figures for the fiscal year provides more detailed insight into group's performance, particularly with regard to the cash flow and balance sheet. The table below provides a summary of the FY26 results, focusing on the P&L performance, together with the change compared with FY25. The table includes historical results back to FY20, being the last comparable trading year before the Covid pandemic in FY21.

The table highlights the significant progress made in FY26 compared with the prior FY25 year, as well as the cumulative progress made since FY20. Total revenue has shown a very solid 6-year compound average growth rate (CAGR) of 8.0%, led by the UK's 10.8%. International sales bounced back strongly in FY26 to account for just over 40% of the group's revenue. There therefore remains substantial potential to build Europe's revenue mix participation in our view, compared with the peak of 50% achieved in FY21. While the group's own brand products are purchased in US dollars, G4M can source third party branded products in Swedish Krona and euros and receive this directly into its European distribution centres. This is a significant competitive advantage and eliminates exchange rate risks.

As stated earlier, with the FY26 results coming in marginally above the April trading update guidance, the performance metrics are a long roll call of superlatives. They serve to underline the upside benefits of operational gearing with a 30% increase in group revenue to £191m culminating in a 6.4x increase in PBT to £10.3m. Revenues increased strongly in every quarter, rising sequentially by 27%, 34%, 32% and 26% from Q1 to Q4. This equated to H1 revenue growth of 31% with 26% in H2.

Overview of FY26 and historical results (£m unless otherwise stated)

	FY20	FY21	FY22	FY23	FY24*	FY25	FY26	FY26 change on FY25 on FY25 (%)		FY26 change on FY20 on FY20 (%)	
UK sales	61.8	78.7	82.6	82.1	83.1	90.2	114.1	23.9	26%	52.3	85%
International sales	58.5	78.8	65.0	70.0	61.3	56.5	76.6	20.1	36%	18.1	31%
Total sales	120.3	157.5	147.6	152.0	144.4	146.7	190.7	44.0	30%	70.4	59%
Product sales	114.8	149.6	140.6	145.1	138.0	140.3	182.7	42.4	30%	67.9	59%
Product gross profit	35.1	50.9	45.2	43.6	43.2	43.8	58.5	14.7	34%	23.4	67%
Product gross margin	30.5%	34.1%	32.1%	30.0%	31.3%	31.2%	32.0%	+80bps		+150bps	
Gross profit	31.2	46.4	41.1	39.0	39.4	39.7	54.2	0.4	37%	23.0	74%
Gross margin	25.9%	29.4%	27.9%	25.7%	27.3%	27.0%	28.4%	+140bps		+250bps	
Operating costs :											
Marketing	(9.3)	(9.2)	(10.8)	(10.6)	(10.1)	(10.4)	(12.6)	(2.1)	21%	(3.3)	35%
Labour	(9.7)	(12.3)	(13.1)	(14.4)	(13.5)	(13.6)	(15.9)	(2.3)	17%	(6.2)	64%
Europe/other	(4.4)	(5.1)	(6.0)	(6.7)	(5.9)	(5.6)	(7.4)	(1.8)	32%	(3.0)	67%
Total opex	(23.4)	(26.6)	(29.9)	(31.7)	(29.5)	(29.6)	(35.8)	(6.2)	21%	(12.4)	53%
EBITDA	7.8	19.8	11.2	7.4	9.9	10.0	18.4	8.4	84%	10.6	136%
EBITDA margin	6.4%	12.6%	7.6%	4.8%	6.9%	6.8%	9.7%	+282bps		+325bps	
Total DA	(3.7)	(4.4)	(5.1)	(6.1)	(6.6)	(6.8)	(6.9)	(0.1)	1%	(3.2)	86%
Operating profit	4.1	15.4	6.1	1.3	3.3	3.2	11.5	8.3	247%	7.4	181%
Operating profit margin	3.4%	9.8%	4.1%	0.8%	2.3%	2.2%	6.0%	+384bps		+265bps	
Financial expenses	(1.0)	(0.8)	(1.1)	(1.7)	(2.2)	(1.7)	(1.2)	0.5		(0.2)	
Pre tax profit	3.1	14.6	5.0	(0.4)	1.1	1.6	10.3	8.8	562%	7.2	234%
Diluted EPS (p)	12.2	59.7	17.3	(3.1)	3.0	3.8	34.9	31.1		22.7	186%

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

Source: G4M, Progressive Equity Research

The following table shows a more detailed breakdown of all the components that constitute total group turnover. Product sales are complemented by three other sources, of which the largest by far is carriage income received from customers, which helps to offset the total costs of carriage and packaging (£11.4m in FY26), which are accounted for within the cost of goods sold. These increased 25% in FY26, lagging total revenue growth, reflecting both the increase in average order value (AOV) and lower average carriage costs. Net carriage and packaging costs decreased to 2.3% of turnover, down 50bps from 2.8% in FY25. In addition, the group receives some extended warranty income and finance commissions (on point of sale credit to retail customers), both of which showed strong increases over FY25.

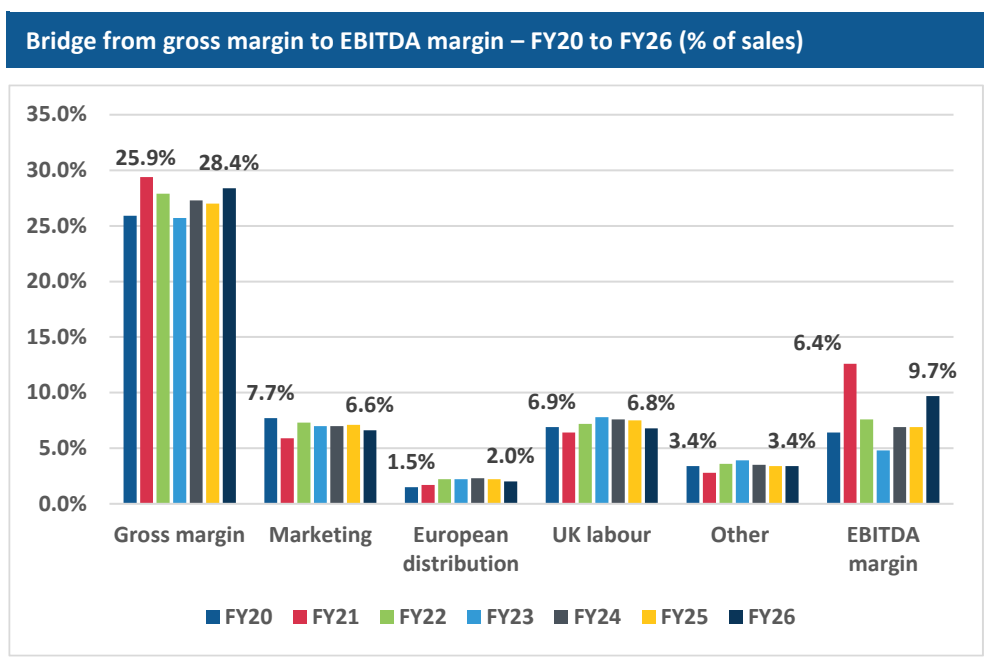
Breakdown of group turnover and product sales – FY20 to FY26 (£m)

	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Reported own brand sales	35.432	45.368	38.121	38.860	37.607	35.665	44.358
Reported third party brand sales	79.416	104.199	102.473	106.189	100.404	104.677	138.349
Reported product sales	114.848	149.567	140.594	145.049	138.011	140.342	182.707
Warranty income	0.337	0.545	0.483	0.452	0.411	0.412	0.538
Finance commissions	0.285	0.204	0.287	0.351	0.153	0.203	0.374
Carriage receipts	4.856	7.135	6.266	6.187	5.809	5.763	7.116
Total other income	5.478	7.884	7.036	6.990	6.373	6.378	8.028
Total turnover	120.326	157.451	147.630	152.039	144.384	146.720	190.735

Source: G4M, Progressive Equity Research

Product gross margin rose by 80bps to 32.0% in aggregate, with own brand margin up 360bps over FY25 to 50.3%. Other brand margin, including the benefit of opportunistic inventory purchases from the administrators of GAK and PMT, increased by 30 bps to 26.2%. Own brand revenues increased by 24% to £44.4m, with their sales mix of product sales dropping back 110bps to 24.3%. Other – or third party – brand sales increased by 32% to £138.3m, accounting for over 75% of product sales. The reported gross margin rose by 140bps to 28.4%, including the benefit of the favourable movement in net carriage costs. Gross profit therefore increased at a faster rate than turnover, adding £14.5m more gross profit than last year at £54.2m, up 37%.

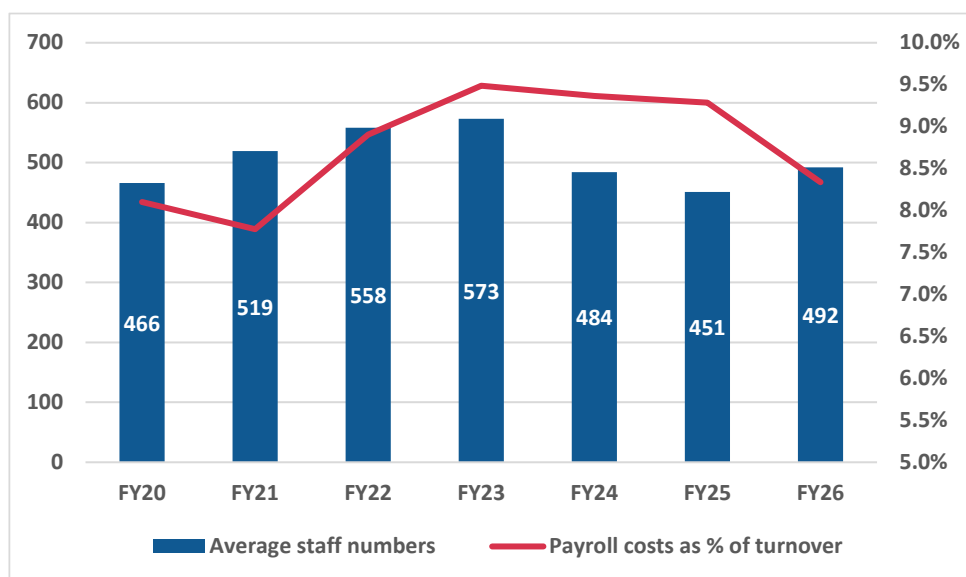
As always, operating costs, excluding depreciation and amortisation, were tightly managed in a disciplined way, increasing by just 17%, and falling as a percentage of turnover. Depreciation and amortisation was broadly flat at £6.9m vs £6.8m in FY25. This resulted in a 280bps improvement in the EBITDA margin to 9.7%, as can be seen in the bridge chart below from gross margin to EBITDA margin.



Source: G4M, Progressive Equity Research

The major cost components are marketing and labour costs, accounting for almost two thirds of administrative costs. Combined these rose by 19% to £28.5m (vs £23.9m), with marketing increasing by 21% to £12.6m and total labour costs rising 17% to £15.9m.

Average staff numbers and payroll as % of turnover



Source: G4M, Progressive Equity Research

The labour cost increase resulted from a 9% increase in average headcount to 492 and a 7% increase in average pay. Total labour costs therefore accounted for 8.3% of revenue, a 100bps reduction from FY25's figure of 9.3%. UK labour costs were £13.0m, accounting for 6.8% of turnover, a improvement of 70bps over FY25's figure of 7.5%.

Marketing as a proportion of revenue improved to 6.6% compared with 7.1% in FY25, underpinned by improved efficiency from bringing the management of pay-per-click (PPC) back in-house, an enhanced marketing team, and improved market conditions.

Net financial expenses were £0.5m to £1.2m. Bank interest was £0.1m lower at £1.0m as a result of lower average net debt levels combined with lower interest rates. Lease interest was also £0.1m lower, with a £0.1m foreign exchange gain reversing a £0.2m loss last year.

In terms of cash flow and balance sheet items, G4M achieved another reduction in net debt in FY25 to £5.0m, compared with £6.4m at the end of FY25. The decrease in net debt was achieved despite £3.1m of prepayments relating to capex and contract works on the new UK warehouse, which will unwind in H1 FY27. Net bank debt now equates to 0.3x EBITDA, half last year's ratio and is secured by two freehold properties valued at £6.7m.

Total capex amounted to £3.6m, some £0.4m lower than FY25. This comprised principally capitalisation of £3.3m of software development costs (vs £3.6m in FY25). The amortisation charge relating to software development increased to £4.2m from £4.1m, resulting in a net book value of £11.5m, down from £12.3m in the prior year.

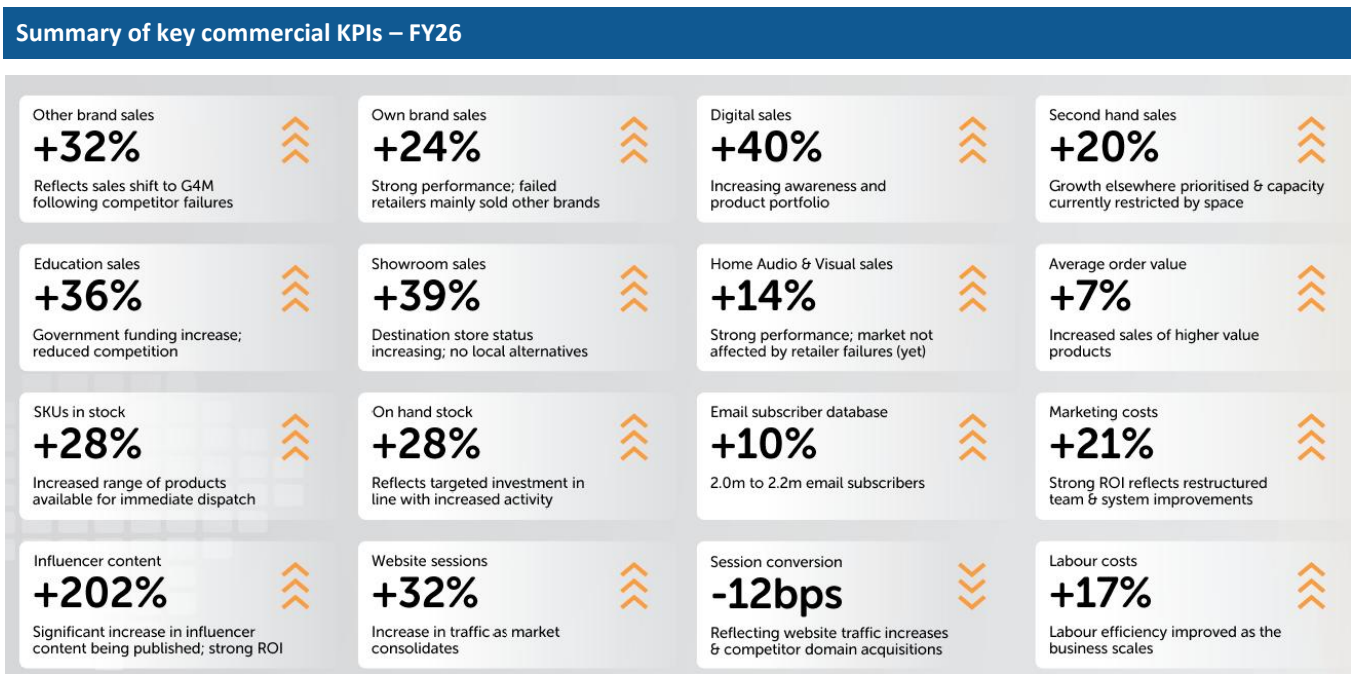
Inventories rose by £8.6m to £42.8m, an increase of 25%, broadly in line with increased commercial activities. This was partially offset by a £2.5m increase in trade payables.

Net assets increased by £7m to £46.3m.

Key performance indicators (KPIs)

The following sections provide our regular overview of G4M’s KPIs and other pertinent operating metrics. We provide several years of data points to provide historical context and facilitate observation of directional trends. It should however be noted that the shift from user-based to session-based metrics for various website KPIs means that some historical metrics can no longer be followed. Session-based data does however provide a more reliable and robust measure of website activity given the effects of cookie consent requirements and guest checkout usage.

Before looking at our regular KPI categories, the table below from the company’s results presentation pack summarises a broad raft of commercial KPIs. This covers a number of elements already discussed or to be featured later in our note, but also highlights the progress made in some newer developments, such as leveraging influencer content to drive higher levels of customer engagement. Similarly, the 40% increase in digital downloads results from higher customer awareness and widening product portfolio. The combination of a government funding increase and reduced competition has seen a 36% increase in education sales.



Source: G4M

Website utilisation

As outlined above, the basis on which website utilisation is measured has moved from user-based to session-based metrics. The FY24 data has been compiled from Google Analytics v3 (GA3) and the FY25 figures using Google Analytics v4 (GA4).

Website utilisation and conversion rates

	FY24	FY25	FY26	Change
Total unique sessions (m)	49.9	62.2	82.4	32%
UK sessions (m)	28.7	39.4	50.5	28%
European sessions (m)	21.2	22.8	31.9	40%
Total pages viewed (m)	171	194	237	22%
Mobile sessions as % of total	58%	53%	48%	-500bps
UK session conversion rate (%)	1.82%	1.41%	1.31%	-10bps
European session conversion rate (%)	1.94%	1.69%	1.51%	-18bps

Source: G4M, Progressive Equity Research

Session growth of 32% in FY26 has broadly mirrored the group's turnover growth, with Europe (+40%) outpacing the UK (+28%). Similarly, the European session conversion rate at 1.51% is higher than the 1.31% achieved in the UK. The conversion rate fell back in both territories by 18bps and 10bps respectively. Mobile sessions have been declining as a percentage of total sessions.

Total pages viewed rose by 22% to 237 million.

The company's objective to reduce its reliance on PPC, which fell back to 84% of marketing spend from 88% in FY25, has seen it looking to scale up more cost-effective influencer, affiliate and social channels, both to attract new customers and to deliver content to drive customer engagement and increase brand awareness. Total influencer engagements grew 900% to 3.9m (vs 400K in FY25), with content views up 765% to 58.8m, with and 89bps increase in the engagement rate to 6.6%, well above the industry benchmark of 5%.

Customer metrics

Given the overall group performance, it is unsurprising that customer metrics have all been positive. The number of customers served rose 22% to over one million for the first time since FY21. The increase in new customers was similar, rising 23% to 877,000, with repeat customers increasing by 20% to just over 200,000, also for the first time since FY21. The email subscriber base continues to grow, rising 10% to 2.22m in the year.

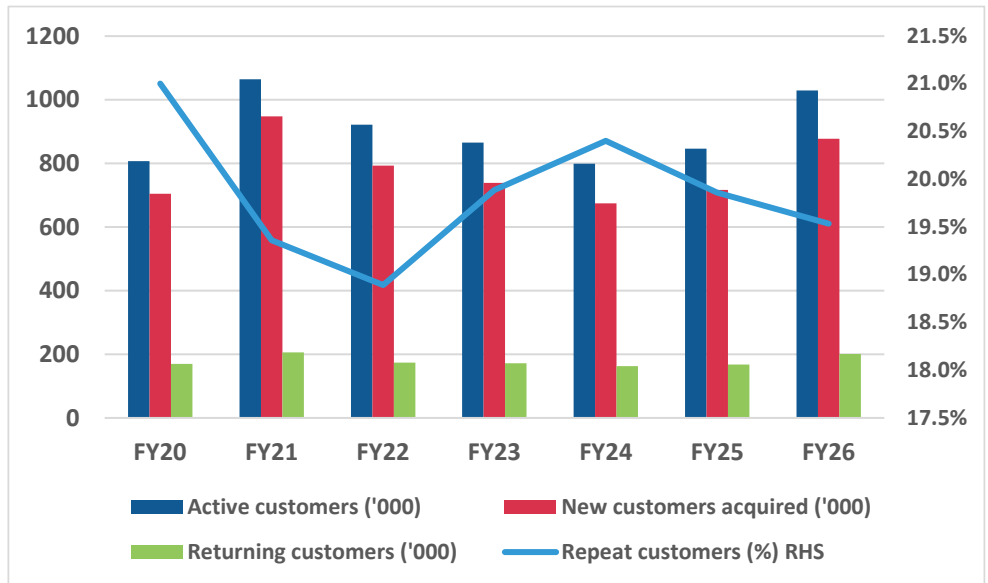
Customer metrics

	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY26 % change	
								on FY25	on FY20
Customers served ('000)	807	1,064	921	865	799	846	1,029	22%	28%
New customers ('000)	704	947	793	738	674	716	877	23%	25%
Repeat customers	170	206	174	172	163	168	201	20%	18%
Email subscriber database ('000)	650	980	1,280	1,650	1,830	2,020	2,220	10%	242%
Average order value	£117	£116	£125	£150	£153	£147	£158	7%	35%

Source: G4M, Progressive Equity Research

The chart below shows the trend in customers numbers since FY20, including the ratio of repeat customers to total customers served in the year.

Analysis of customer numbers – FY20 – FY26 ('000)

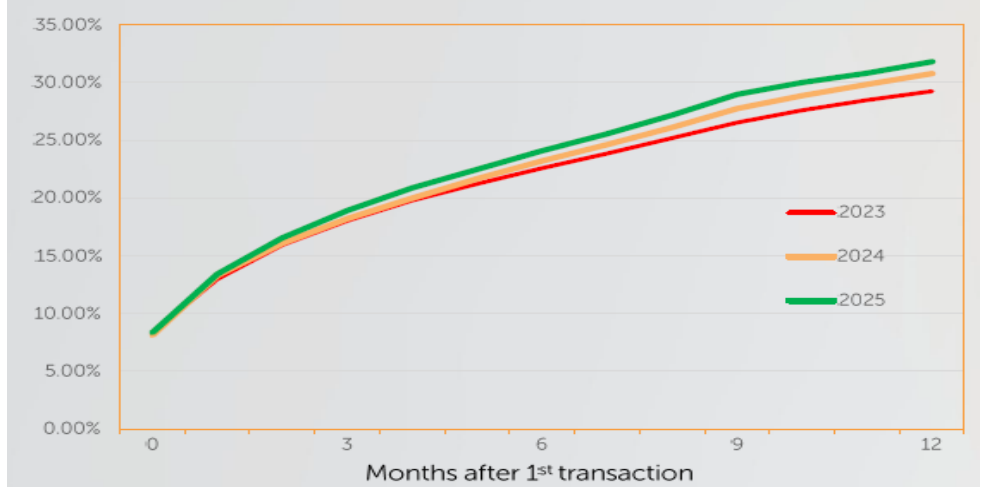


Source: G4M, Progressive Equity Research

Given the nature of its product range and relatively low frequency of purchase, the group is heavily dependent on attracting new customers. This said, customer retention and encouraging second and subsequent purchases is very important to G4M and to future sales. One way in which the group measures customer retention is looking at what proportion of customers make subsequent purchases and after what period of time.

Customer retention by months after initial transaction

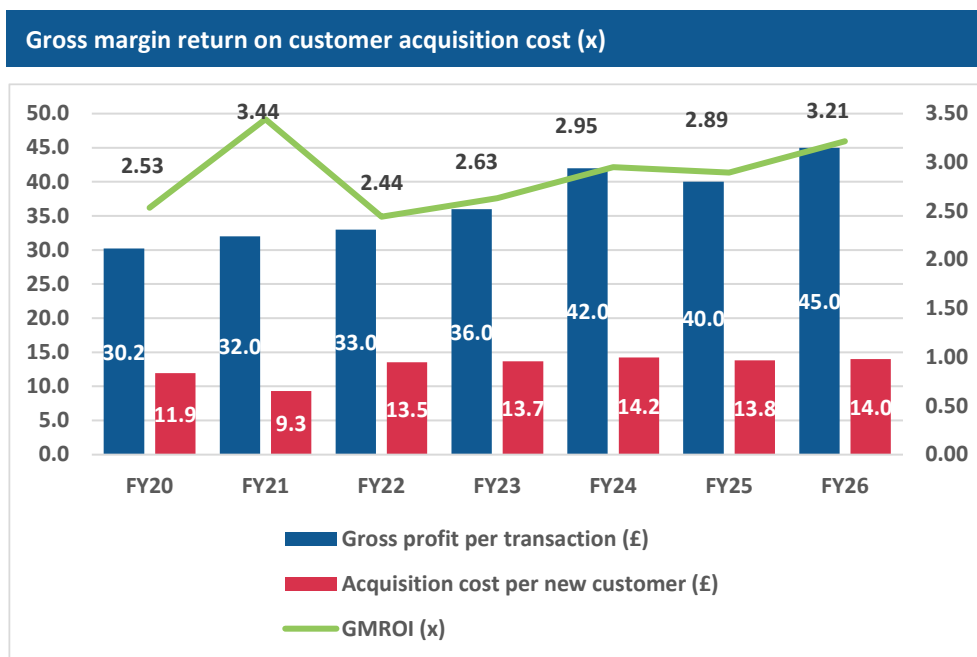
Retention rates	FY26	FY25	FY24
3-month	19.7%	18.9%	18.2%
6-month	26.4%	25.1%	24.1%
12-month	32.1%	31.7%	30.2%



Source: G4M

As can be seen in the chart above, the past three years have shown YOY improvements in customer retention rates at the 3-month, 6-month and 12-month stages.

The reliance on new customers makes it imperative that customers are profitable from the first transaction. The average gross profit per transaction is typically 2.5x to 3.5x the acquisition cost per new customer, representing a strong return on marketing investment.



Source: G4M, Progressive Equity Research

With the cost of customer acquisition declining and the average order value and gross profit margin both increasing, FY26 saw a very pleasing increase in what we term the gross margin return on investment (GMROI). This rose from 2.89x last year to 3.21x in FY26.

Product range

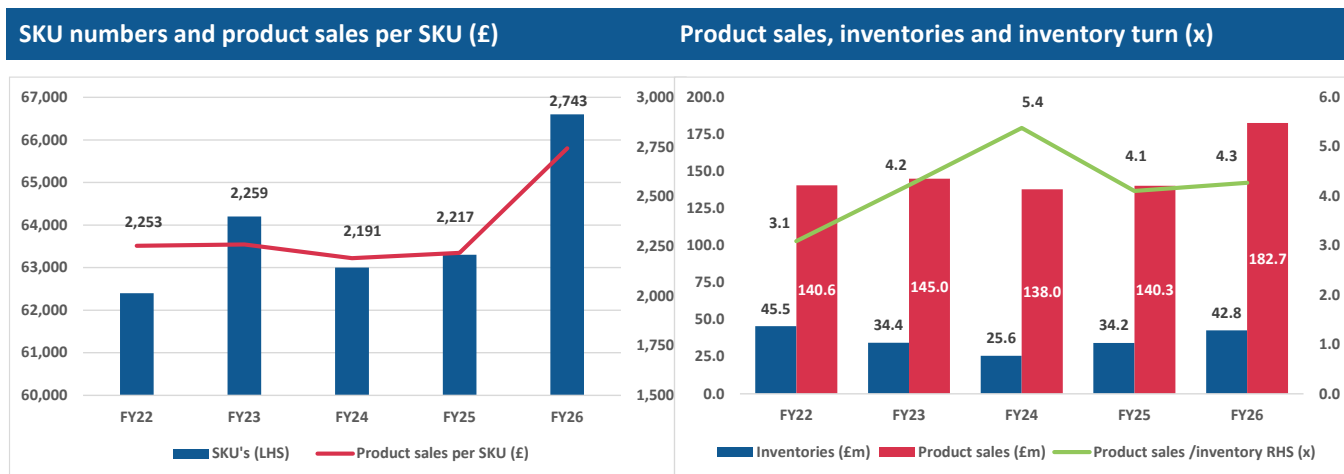
After four years of broad stability in terms of the total number of lines (or SKUs), FY26 saw a 5% increase to 66,600 SKUs. This increase included the launch of a record number of 771 new own-brand products. The development of a significant own-brand offering is a source of competitive advantage for the group, which differentiates G4M from its competitors, offers broader customer choice and underpins the group’s value credentials, while delivering superior margins. G4M is targeting the launch of more than 850 new own brand SKUs in FY27.

Product range development – total and own-brand

	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY26 % change	
								on FY25	on FY20
Total number of SKU's	54,200	57,900	62,400	64,200	63,000	63,300	66,600	5%	23%
Brands listed	880	900	1,080	1,130	1,096	1,122	1,123	0%	28%
Own brand performance :									
Own brand SKU's	3,400	3,800	4,200	4,900	5,350	5,550	5,870	6%	73%
Own brand SKU mix	6.27%	6.6%	6.7%	7.6%	8.49%	8.77%	8.81%	+4bps	+254bps
Own brand sales mix (total sales)	29.4%	28.8%	25.8%	25.6%	26.1%	24.31%	23.26%	-105bps	-614bps
Own brand sales mix (product sales)	30.9%	30.3%	27.1%	26.8%	27.3%	25.41%	24.28%	-113bps	-657bps

Source: G4M, Progressive Equity Research

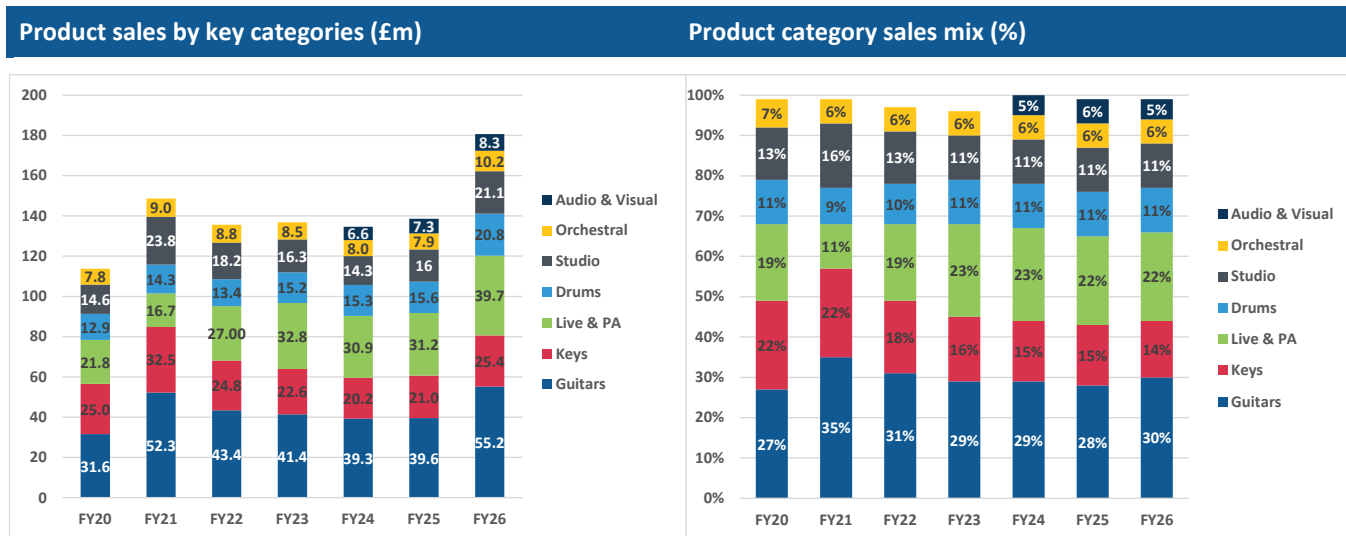
These own-brand lines represented some 8.8% of total SKUs but accounted for 23.3% of total sales and 24.3% of product sales. With a gross margin of 50.3%, compared with 26.2% for other third-party brands, own-brand products accounted for 38.1% of total product margin, the same level as achieved in FY25.



Source: G4M, Progressive Equity Research

Inventory represents a significant and strategic investment by the group. As with any investment, monitoring the returns on investment is an important part of managing the group and its resources. This can be done in a number of ways, as shown in the two charts above. The chart on the left looks at the level of product sales per SKU, using year end SKU figures rather than an average figure. This shows a significant increase of around 24% in product sales per SKU from a broadly flat level over the prior four years. The right hand chart compares product sales with year-end inventory, and a ratio of product sales to inventory, which increased to 4.3x in FY26 (vs 4.1x in FY25).

The charts below shows the absolute sales value and sale mix participation of the major categories sold by G4M. The impact of Covid is visible in the mix participation (and implicit directional sales movement) of various categories in FY21. Then, people used the fact they were spending more time at home in lockdowns to take up new pastimes and hobbies, or revisit old ones. This resulted in substantial growth in categories such as guitars and studio, mirrored by an equivalent decline in the Live & PA category, as audience participation events all but vanished.



Source: G4M, Progressive Equity Research

The subsequent phased return to more normal living, working and social conditions from FY22 started to see the unwinding of the most marked mix movements seen in FY21, most notably the return of Live & PA products. Guitars have broadly reverted to norm, while the mix participation of keyboards has declined by around a third to 14% compared with FY20 and FY21. Orchestral’s mix participation has been steady at 6% for the past six years.

The biggest percentage growth categories in FY 26 were Guitars (+39%), Drums (+33%) and Studio (+31%). The lowest growth was seen in Audio & Visual (+14%)..

Forecasts

Our forecasts remain unchanged at this early stage of the year in line with the group’s guidance. G4M has a long track record of prudence with regard to guidance. FY26 was characterised by forecasts moving up with the release of every trading update. This cannot and should not of course be viewed as a precedent for FY27E. However, with trading to date seeing double-digit revenue growth against strong comparatives, risk would appear to be weighted to the upside in our view.

Our fully 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 (£m unless otherwise stated)

Profit and loss account						
Year to March	FY23	FY24	FY25	FY26	FY27E	FY28E
Revenue	152.0	144.4	146.7	190.7	200.4	214.1
Cost of sales	(113.0)	(104.9)	(107.1)	(136.5)	(144.7)	(154.6)
Gross profit	39.0	39.4	39.7	54.2	55.7	59.5
<i>Gross margin (GM) (%)</i>	<i>25.7%</i>	<i>27.3%</i>	<i>27.0%</i>	<i>28.4%</i>	<i>27.8%</i>	<i>27.8%</i>
Operating costs	(37.8)	(36.7)	(36.4)	(42.7)	(47.5)	(50.7)
Reported operating profit	1.3	2.8	3.2	11.5	8.2	8.8
<i>Operating profit margin (%)</i>	<i>0.8%</i>	<i>1.9%</i>	<i>2.2%</i>	<i>6.0%</i>	<i>4.1%</i>	<i>4.1%</i>
Depreciation and amortisation	(6.1)	(6.6)	(6.8)	(6.9)	(7.8)	(8.6)
Reported EBITDA	7.4	9.4	10.0	18.4	16.0	17.5
<i>EBITDA margin (%)</i>	<i>4.8%</i>	<i>6.5%</i>	<i>6.8%</i>	<i>9.7%</i>	<i>8.0%</i>	<i>8.1%</i>
Interest charge	(1.7)	(2.2)	(1.7)	(1.2)	(2.2)	(2.7)
Reported PBT	(0.4)	0.6	1.6	10.3	6.0	6.1
Exceptional charges	0.0	(0.5)	0.0	0.0	0.0	0.0
Adjusted EBITDA	7.4	9.9	10.0	18.4	16.0	17.5
<i>Adjusted EBITDA margin (%)</i>	<i>4.8%</i>	<i>6.9%</i>	<i>6.8%</i>	<i>9.7%</i>	<i>8.0%</i>	<i>8.1%</i>
Adjusted operating profit	1.3	3.3	3.2	11.5	8.2	8.8
<i>Adjusted operating margin (%)</i>	<i>0.8%</i>	<i>2.3%</i>	<i>2.2%</i>	<i>6.0%</i>	<i>4.1%</i>	<i>4.1%</i>
Adjusted PBT	(0.4)	1.1	1.6	10.3	6.0	6.1
Adjusted diluted EPS (p)	(3.1)	5.2	3.8	34.9	20.4	20.9
Reported diluted EPS (p)	(3.1)	3.0	3.8	34.9	20.4	20.9
Dividend (p)	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow						
Year to March	FY23	FY24	FY25	FY26	FY27E	FY28E
Operating profit (unadjusted)	1.3	2.3	3.2	11.5	8.2	8.8
Depreciation and amortisation	6.1	6.6	6.8	6.9	7.8	8.6
Inventory (increase)/decrease	11.1	8.7	(8.6)	(8.6)	0.7	0.3
Debtors (increase)/decrease	0.0	0.4	0.5	(3.6)	2.0	(0.4)
Creditors increase/(decrease)	1.9	(4.4)	6.5	5.0	(3.0)	(0.6)
Other	(0.2)	(0.2)	0.4	(0.3)	0.0	0.0
Operating cash flow	20.2	13.5	8.9	10.9	15.7	16.8
Interest	(1.7)	(2.1)	(1.7)	(1.2)	(2.2)	(2.7)
Tax	(0.5)	0.7	(0.7)	(3.0)	(1.5)	(1.5)
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	(6.3)	(3.9)	(3.9)	(3.7)	(14.0)	(12.0)
Trading cash flow	11.6	8.2	2.5	3.0	(2.0)	0.6
Acquisition of businesses	(0.4)	(0.0)	0.0	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	(1.6)	(0.9)	(1.6)	(1.6)	(1.7)	(1.8)
Net cash inflow/(outflow)	9.6	7.2	0.9	1.4	(3.7)	(1.2)
Net (debt)/cash	(14.5)	(7.3)	(6.4)	(5.0)	(8.7)	(9.9)

Source: G4M, Progressive Equity Research

Gear4music – Summary of balance sheet forecasts (£m)

Balance sheet						
Year to March	FY23	FY24	FY25	FY26	FY27E	FY28E
Tangible fixed assets	19.2	19.0	16.6	14.2	33.1	41.5
Intangible fixed assets	22.0	22.0	21.6	20.8	19.8	18.9
Investments and other	0.0	0.0	0.0	0.0	0.0	0.0
Total fixed assets	41.3	41.0	38.2	34.9	53.0	60.3
Stock	34.4	25.6	34.2	42.8	42.1	41.8
Trade and other debtors	4.5	3.8	3.4	7.0	5.0	5.4
Deferred tax	0.0	0.0	0.0	0.0	0.0	0.0
Cash and short term deposits	4.5	4.7	5.6	8.0	4.3	3.1
Current assets	43.3	34.2	43.2	57.8	51.4	50.2
Total assets	84.6	75.2	81.4	92.7	104.4	110.6
Trade and other payables	(17.6)	(13.5)	(19.9)	(22.2)	(21.9)	(21.3)
Borrowings	0.0	0.0	0.0	0.0	0.0	0.0
Other current liabilities	(1.1)	(1.8)	(1.9)	(4.6)	(1.9)	(1.9)
Current liabilities	(18.8)	(15.3)	(21.8)	(26.8)	(23.8)	(23.2)
Borrowings	(19.0)	(12.0)	(12.0)	(13.0)	(13.0)	(13.0)
Other non-current liabilities	(9.6)	(9.6)	(8.3)	(6.7)	(16.7)	(19.1)
Non-current liabilities	(28.6)	(21.6)	(20.3)	(19.7)	(29.7)	(32.1)
Total liabilities	(47.4)	(36.8)	(42.1)	(46.4)	(53.5)	(55.2)
Net assets	37.2	38.4	39.3	46.3	50.9	55.4

Source: G4M, Progressive Equity Research

Financial Summary: Gear4music

Year end: March (£m unless shown)

PROFIT & LOSS	2024	2025	2026	2027E	2028E
Revenue	144.4	146.7	190.7	200.4	214.1
Adj EBITDA	9.9	10.0	18.4	16.0	17.5
Adj EBIT	3.3	3.2	11.5	8.2	8.8
Reported PBT	0.6	1.6	10.3	6.0	6.1
Fully Adj PBT	1.1	1.6	10.3	6.0	6.1
NOPAT	3.1	1.7	8.2	6.2	8.8
Reported EPS (p)	3.0	3.8	34.9	20.4	20.9
Fully Adj EPS (p)	5.2	3.8	34.9	20.4	20.9
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET	2024	2025	2026	2027E	2028E
Operating cash flow	13.5	8.9	10.9	15.7	16.8
Free Cash flow	8.2	2.5	3.0	(2.0)	0.6
FCF per share (p)	39.1	12.0	14.5	(9.4)	2.6
Acquisitions	0.0	0.0	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	7.2	0.9	1.4	(3.7)	(1.2)
Overdrafts / borrowings	(12.0)	(12.0)	(13.0)	(13.0)	(13.0)
Cash & equivalents	4.7	5.6	8.0	4.3	3.1
Net (Debt)/Cash	(7.3)	(6.4)	(5.0)	(8.7)	(9.9)
NAV AND RETURNS	2024	2025	2026	2027E	2028E
Net asset value	38.4	39.3	46.3	50.9	55.4
NAV/share (p)	182.9	187.4	220.7	242.7	263.9
Net Tangible Asset Value	16.3	17.7	25.5	31.1	36.5
NTAV/share (p)	77.8	84.4	121.7	148.2	173.8
Average equity	37.8	38.8	42.8	48.6	53.1
Post-tax ROE (%)	2.8%	4.0%	24.2%	12.4%	11.6%
METRICS	2024	2025	2026	2027E	2028E
Revenue growth	(5.0%)	1.6%	30.0%	5.1%	6.8%
Adj EBITDA growth	34.3%	1.5%	83.5%	(13.2%)	9.2%
Adj EBIT growth	152.5%	(0.4%)	256.2%	(28.8%)	7.6%
Adj PBT growth	(363.1%)	45.8%	562.2%	(41.8%)	2.1%
Adj EPS growth	(266.3%)	(26.5%)	819.3%	(41.3%)	2.1%
Dividend growth	N/A	N/A	N/A	N/A	N/A
Adj EBIT margins	2.3%	2.2%	6.0%	4.1%	4.1%
VALUATION	2024	2025	2026	2027E	2028E
EV/Sales (x)	0.4	0.4	0.3	0.3	0.3
EV/EBITDA (x)	6.0	5.9	3.2	3.7	3.4
EV/NOPAT (x)	19.2	34.2	7.2	9.6	6.7
PER (x)	50.0	67.9	7.4	12.6	12.3
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	15.2%	4.7%	5.6%	(3.7%)	1.0%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

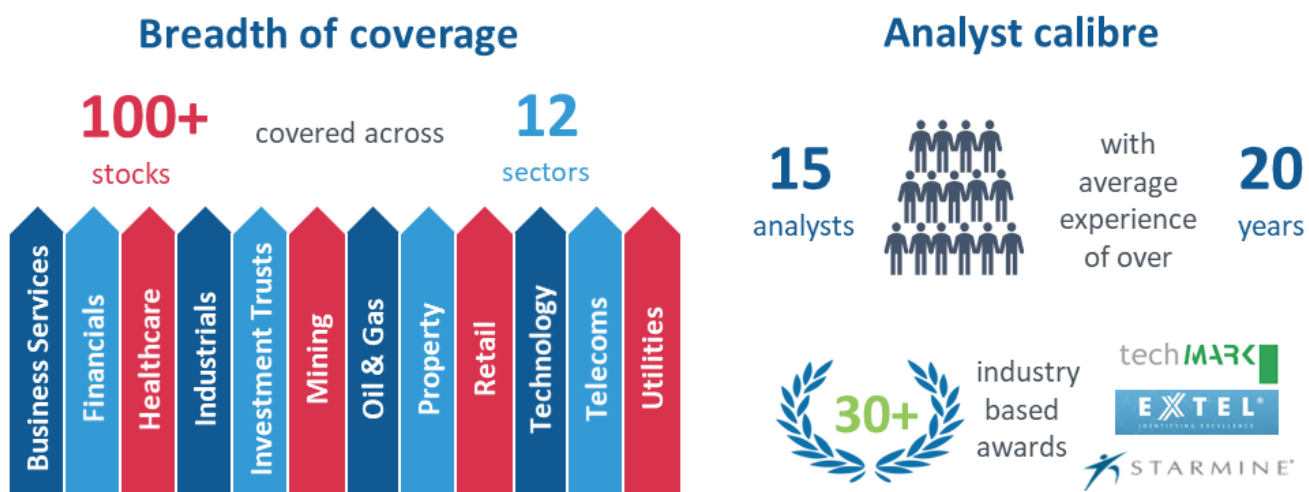
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