

# GEAR4MUSIC

## CONSUMER DISCRETIONARY

24 April 2024

### G4M.L

137p

Market Cap: £28.7m

#### 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	£36m
Index/market	AIM
Next news	Prelims - June
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

#### ANALYSTS

David Jeary

+44 (0) 20 7781 5306

djeary@progressive-research.com



## FY24 trading in-line and debt reduction ahead of market expectations

At its FY23 results in June 2023, G4M announced its 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 year-end trading update confirms G4M has delivered on these rebalanced priorities, with gross margin rising and net debt almost halving compared with FY23. Cost savings achieved in FY24 and the continued development of higher-margin categories should deliver further upside in FY25E.

- Full-year trading update – in line with expectations.** The pattern of both Q4 and full-year trading has continued in line with that seen over previous quarters, namely with growth delivered in the UK market and tougher economic conditions resulting in sales declines in Europe and Rest of the World markets. FY24 saw UK revenue rise 1% to £83.1m, while revenue in Europe and Rest of the World declined by 12% to £61.3m. Total group revenue therefore declined by 5% to £144.4m. G4M's prioritisation of gross margin and profitability over revenues bore fruit with a 160bps improvement in gross margin percentage to 27.3%. G4M has indicated that adjusted profitability measures (EBITDA and PBT) will be in line with consensus market expectations, namely £9.8m and £1.3m, respectively.
- Net debt almost halved to £7.3m.** While full-year trading in terms of revenues and profitability has delivered in line with consensus market expectations, the prioritisation of cash generation has resulted in net debt almost halving in FY24 to £7.3m at 31 March 2024 (from £14.5m at 31 March 2023). This is over £4m better than consensus market expectations of £11.6m at the year-end. These figures are stated on a pre-IFRS16 basis, excluding balance sheet property lease liabilities. Net bank debt has therefore been reduced by almost £17m or 70% over the past two years, having stood at £24.2m on 31 March 2022.
- Board succession update – changes in July.** G4M has also announced changes to its board structure from July. These will see current CEO and group founder Andrew Wass becoming Executive Chairman, with current Chief Commercial Officer Gareth Bevan moving into the CEO role. Neil Catto, former CFO at boohoo plc and current CFO at Revolution Beauty Group plc, is joining the board as Senior Independent Director, and brings significant e-commerce and City experience to the group.

FYE MAR (£M)	2021	2022	2023	2024E	2025E
Revenue	157.5	147.6	152.0	144.0	155.0
Adj EBITDA	19.8	11.2	7.4	10.0	12.0
Fully Adj PBT	14.6	5.0	-0.4	1.4	2.8
Fully Adj EPS (p)	59.7	17.3	-3.0	4.8	9.6
EV/Sales (x)	0.2x	0.2x	0.2x	0.3x	0.2x
EV/EBITDA (x)	1.8x	3.2x	4.9x	3.6x	3.0x
PER (x)	2.3x	7.9x	N/A	28.8x	14.3x

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 more profitable operating model

G4M has successfully adapted its business model to cope with the more challenging trading conditions seen in FY23, and which have continued in FY24, most notably in its non-domestic markets. While group revenue has fallen by some 5% in FY24, profitability at adjusted EBITDA level (pre-FY24 H1 redundancy costs) will have improved by over 30% on delivery of market consensus expectation of £9.8m (with G4M commenting that FY24 EBITDA is expected to be in line with this).

We anticipate more detailed commentary in June, alongside the full-year results, on the contributory factors, though one has already been quantified in this year-end trading update. Gross margin percentage is expected to be 27.3%, representing a 160bps improvement over FY23's figure of 25.7%. The delivery of higher gross margins results primarily from a focus on higher-margin product categories and brands. This has been complemented by other factors, including the roll-out of the second-hand platform and service offer.

Margin enhancement has been complemented by cost savings and efficiencies to deliver a more profitable operating model, as shown by improved FY24 profitability at both EBITDA and PBT levels. Management clearly sees more upside from these cost savings, which it believes will deliver further full-year benefits in FY25E.

G4M has also successfully delivered on its net debt reduction objective. While the consensus market expectation was for a reduction of £2.9m from FY23's figure (£14.5m) to £11.6m for FY24, the group has actually almost halved FY23's year-end net debt position to £7.3m for FY24 – a reduction of £7.2m, some £4.3m ahead of consensus forecasts.

For reference, G4M believes current consensus market expectations for FY24 stand at group revenue of £144.1m, adjusted EBITDA of £9.8m, adjusted PBT of £1.3m, and pre-IFRS net debt of £11.6m.

Our forecasts remain unchanged at this stage ahead of the full-year results in June, although the material improvement to net debt is duly noted.

## Further trading details

The following table presents further details of G4M's trading over recent years, in terms of revenues and gross margin, both on a full-year basis and for Q4. Our January [note](#) provided details on both a Q3 and 9M basis for reference.

We note that at this stage last year, a worse-than-expected Q4 trading performance, notably in February and March, resulted in downgrades to market expectations. In contrast, while the derived performance of Q4 24 shows a 2% revenue decline on a year-on-year basis, G4M expects to achieve a full-year trading performance in line with consensus market expectations – delivering a higher level of gross margin and overall profitability. As stated previously, this shows the success management has had in recalibrating its operating model to deliver greater profitability.

We can also calculate the four-year growth delivered over FY20, which was the last year of normal trading patterns pre-Covid. These show the UK has delivered a 34% increase over that period, with European and the Rest of World sales up 5%, giving a group increase of some 20%, equating to a four-year compound annual growth rate (CAGR) of 4.7%. The CAGRs for UK and Europe & Rest of World sales over that period are 7.7% and 1.2%, respectively. The domestic UK market has therefore been more resilient over this timeframe compared to Europe & Rest of World, where trading has been far less consistent, with a challenging FY24 bringing down the overall CAGR in this geography.

**Trading update details and prior-year comparisons – full year and Q4**

Sales (£m)	FY24	FY23	FY22	FY21	FY20	Q4 FY24	Q4 FY23	Q4 FY22	Q4 FY21	Q4 FY20
UK	83.1	82.0	82.6	78.7	61.8	20.4	20.5	19.9	19.0	16.1
International	61.3	70.0	65.0	78.8	58.5	15.0	15.7	15.8	16.1	14.5
<b>Total</b>	<b>144.4</b>	<b>152.0</b>	<b>147.6</b>	<b>157.5</b>	<b>120.3</b>	<b>35.4</b>	<b>36.2</b>	<b>35.7</b>	<b>35.1</b>	<b>30.6</b>
Change on prior year period (%)	FY24	FY23	FY22	FY21	FY20	Q4 FY23	Q4 FY23	Q4 FY22	Q4 FY21	Q4 FY20
UK	1%	-1%	5%	27%	n.a.	0%	3%	5%	18%	n.a.
International	-12%	8%	-18%	35%	n.a.	-4%	-1%	-2%	11%	n.a.
<b>Total</b>	<b>-5%</b>	<b>3%</b>	<b>-6%</b>	<b>31%</b>	<b>n.a.</b>	<b>-2%</b>	<b>1%</b>	<b>2%</b>	<b>15%</b>	<b>n.a.</b>
Change over FY20 period (%)	FY24	FY23	FY22	FY21	FY20	Q4 FY23	Q4 FY23	Q4 FY22	Q4 FY21	Q4 FY20
UK	34%	33%	34%	27%	n.a.	27%	27%	24%	18%	n.a.
International	5%	20%	11%	35%	n.a.	3%	8%	9%	11%	n.a.
<b>Total</b>	<b>20%</b>	<b>26%</b>	<b>23%</b>	<b>31%</b>	<b>n.a.</b>	<b>16%</b>	<b>18%</b>	<b>17%</b>	<b>15%</b>	<b>n.a.</b>
Gross margin (%)	27.3%	25.7%	27.8%	29.5%	25.9%	n.a.	n.a.	n.a.	n.a.	n.a.

Source: G4M, Progressive Equity Research

Year-end FY24 gross margin of 27.3% compares with our derived 9M gross margin calculation of 27.6% (and 26.0% in FY23), implying an estimated gross margin of around 26.5% in Q4 24 (compared with around 25.0% in Q4 23), reflecting post-Christmas sales and stock clearance in the normal course of business.

**Financial Summary: Gear4music**

Year end: March (£m unless shown)

<b>PROFIT &amp; LOSS</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>
Revenue	157.5	147.6	152.0	144.0	155.0
Adj EBITDA	19.8	11.2	7.4	10.0	12.0
Adj EBIT	15.5	6.1	1.3	3.1	4.7
Reported PBT	14.6	5.0	(0.4)	0.9	2.8
Fully Adj PBT	14.6	5.0	(0.4)	1.4	2.8
NOPAT	13.4	4.6	2.0	2.3	3.4
Reported EPS (p)	59.7	17.3	(3.0)	3.1	9.6
Fully Adj EPS (p)	59.7	17.3	(3.0)	4.8	9.6
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
<b>CASH FLOW &amp; BALANCE SHEET</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>
Operating cash flow	15.0	(4.1)	20.2	12.5	10.7
Free Cash flow	9.8	(14.1)	11.6	4.7	4.0
FCF per share (p)	46.8	(67.2)	55.4	22.4	19.1
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	3.1	2.4
Overdrafts / borrowings	(3.5)	(28.0)	(19.0)	(15.5)	(12.0)
Cash & equivalents	6.2	3.9	4.5	4.1	3.0
Net (Debt)/Cash	2.7	(24.2)	(14.5)	(11.4)	(9.0)
<b>NAV AND RETURNS</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>
Net asset value	34.3	38.0	37.2	36.3	36.8
NAV/share (p)	163.8	181.5	177.5	173.0	175.3
Net Tangible Asset Value	23.9	18.2	15.2	13.8	15.4
NTAV/share (p)	114.2	87.0	72.4	65.9	73.5
Average equity	28.0	36.2	37.6	37.6	38.9
Post-tax ROE (%)	52.4%	13.9%	(1.1%)	3.7%	7.2%
<b>METRICS</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>
Revenue growth		(6.2%)	3.0%	(5.3%)	7.7%
Adj EBITDA growth		(43.3%)	(34.3%)	35.3%	20.4%
Adj EBIT growth		(60.3%)	(79.0%)	143.9%	48.1%
Adj PBT growth		(65.8%)	(108.1%)	(441.4%)	101.6%
Adj EPS growth		(71.1%)	(117.3%)	(259.3%)	101.6%
Dividend growth		N/A	N/A	N/A	N/A
Adj EBIT margins		4.2%	0.8%	2.2%	3.0%
<b>VALUATION</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>
EV/Sales (x)	0.2	0.2	0.2	0.3	0.2
EV/EBITDA (x)	1.8	3.2	4.9	3.6	3.0
EV/NOPAT (x)	2.7	7.9	17.7	15.5	10.5
PER (x)	2.3	7.9	N/A	28.8	14.3
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	34.1%	(49.0%)	40.4%	16.4%	13.9%

Source: Company information and Progressive Equity Research estimates

**Disclaimers and Disclosures**

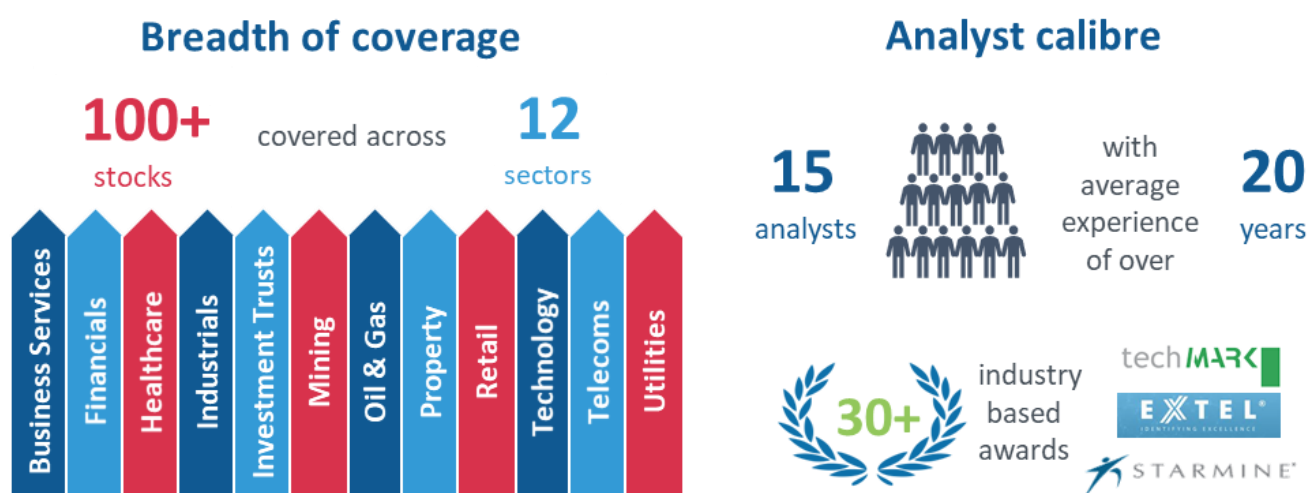
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To arrange a meeting with the management team, or for further information about Progressive, please contact us at:  
+44 (0) 20 7781 5300  
info@progressive-research.com