

GEAR4MUSIC

CONSUMER DISCRETIONARY

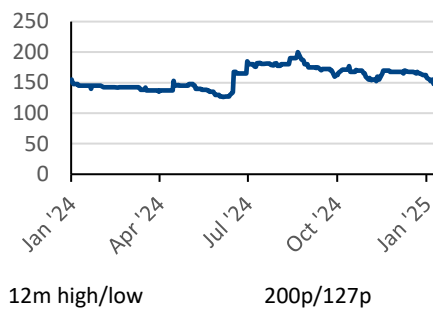
21 January 2025

G4M.L

146p

Market Cap: £30.5m

SHARE PRICE (p)



Source: LSE Data (priced as at prior close)

KEY DATA

| | |
|---------------------|------------------------|
| Net (debt)/cash | £(14.4)m (at 30/09/24) |
| Enterprise value | £44.9m |
| Index/market | AIM |
| Next news | FY update, April |
| 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

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A strong Christmas quarter underpins unchanged profit forecasts

G4M has achieved a very strong performance over its peak seasonal Q3 trading period to end-December 2024. Group revenues increased by 6% to £49.0m (vs £46.4m) despite the challenging consumer backdrop in many markets. This was achieved with a gross margin of 28.1% (28.2% Q3 FY24), an increase of 140bps over the margin achieved in H1 FY25. These results underline the good progress being made under the group's refreshed strategy focusing on profitable growth. On the back of this robust trading performance, the group says FY25E EBITDA remains in line with consensus expectations of £11.7m, with our forecasts therefore unchanged.

- Trading details – double-digit growth in UK.** G4M has delivered a very strong revenue and gross profit performance in its peak Q3 trading period. Group revenue grew by 6% over Q3 FY24, with momentum increasing from the 5% growth reported for Q3 to date within the interim results on 19 November. The UK was the star of the show with Q3 revenues some 13% higher than in the prior year. This represented a significant acceleration from the 3% growth achieved in H1 FY25. Europe and Rest of the World revenues fell 4% in Q3, though this too represents a significant improvement compared with the 15% decline in H1 FY25. While the late timing of Black Friday this year resulted in more subdued November revenues, this served to condense peak revenues into the three weeks before Christmas, as G4M had expected and planned for.
- Gross margin – robust performance.** The group's continued commitment to price discipline has been rewarded with a strong Q3 gross margin performance, which came in at 28.1%. We calculate the cumulative 9M gross margin to be 27.3%. While marginally below the 27.6% at the same point last year, we would not anticipate as large a fall-off in the Q4 gross margin as last year (down 190bps vs Q3) given the positive revenue momentum and weaker UK comparative.
- Unchanged forecasts – well positioned for FY26E.** January trading has continued in line with the Board's expectations, and G4M has reiterated that its performance is in line with consensus market profit expectations (EBITDA: £11.7m; PBT: £2.8m). We therefore leave our forecasts unchanged.

| 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 | -3.1 | 5.2 | 9.4 | 14.8 |
| EV/Sales (x) | 0.3x | 0.3x | 0.3x | 0.3x | 0.3x |
| EV/EBITDA (x) | 4.0x | 6.1x | 4.5x | 3.8x | 3.4x |
| PER (x) | 8.4x | N/A | 28.2x | 15.5x | 9.8x |

Source: Company Information and Progressive Equity Research estimates.

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Please refer to important disclosures at the end of the document.

Trading details by period – FY24 and FY25

The following table provides an overview of G4M's revenue and gross profit/margin performance for H1, Q3 and the cumulative nine-month (9M) periods for FY24 and FY25. The 9M revenue figures are calculated, being the sum of the H1 revenue figures and the Q3 trading update figures. For the 9M period, the gross profit and gross margin percentage figures have been calculated by Progressive.

H1, Q3 and 9M trading details – sales, gross profit and gross margin (%)

| | FY24 | | | FY25 | | |
|--|-------------|-------------|--------------|-------------|-------------|--------------|
| | H1 | Q3 | 9M | H1 | Q3 | 9M |
| Revenue (£m) | | | | | | |
| UK | 36.5 | 26.2 | 62.7 | 38.7 | 29.7 | 68.4 |
| International | 26.1 | 20.2 | 46.3 | 23.0 | 19.3 | 42.3 |
| Total | 62.6 | 46.4 | 109.0 | 61.7 | 49.0 | 110.7 |
| Change on prior year period (%) | | | | | | |
| UK | 3% | -1% | 2% | 3% | 13% | 9% |
| International | -15% | -14% | -15% | -15% | -4% | -9% |
| Total | -6% | -6% | -6% | 1% | 6% | 2% |
| Gross profit (£m) | 17.0 | 13.1 | 30.1 | 16.5 | 13.7 | 30.2 |
| Gross margin (%) | 27.1% | 28.2% | 27.6% | 26.7% | 28.1% | 27.3% |

Source: G4M, Progressive Equity Research

Given G4M's comments on FY25E performance remaining in line with market consensus expectations, we leave our forecasts unchanged. We have reviewed but not revised the shape of our forecasts, while noting that the group would require further sales growth momentum than that delivered in Q3 to deliver our full-year FY25E revenue forecast.

For reference, we include the following tables, which show our FY25E and FY26E forecasts in fuller detail.

Gear4music – Summary of profit and 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 |
| <i>Gross margin (GM) (%)</i> | <i>25.9%</i> | <i>29.4%</i> | <i>27.9%</i> | <i>25.7%</i> | <i>27.3%</i> | <i>27.5%</i> | <i>27.7%</i> |
| Operating costs | (27.1) | (30.9) | (35.1) | (37.8) | (36.7) | (38.0) | (38.2) |
| Reported operating profit | 4.1 | 15.4 | 6.1 | 1.3 | 2.8 | 4.6 | 5.9 |
| <i>Operating profit margin (%)</i> | <i>3.4%</i> | <i>9.8%</i> | <i>4.1%</i> | <i>0.8%</i> | <i>1.9%</i> | <i>3.0%</i> | <i>3.7%</i> |
| Depreciation and amortisation | (3.7) | (4.4) | (5.1) | (6.1) | (6.6) | (7.1) | (7.2) |
| Reported EBITDA | 7.8 | 19.8 | 11.2 | 7.4 | 9.4 | 11.7 | 13.1 |
| <i>EBITDA margin (%)</i> | <i>6.4%</i> | <i>12.6%</i> | <i>7.6%</i> | <i>4.8%</i> | <i>6.5%</i> | <i>7.6%</i> | <i>8.3%</i> |
| 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 EBITDA | 7.8 | 19.8 | 11.2 | 7.4 | 9.9 | 11.7 | 13.1 |
| <i>Adjusted EBITDA margin (%)</i> | <i>6.4%</i> | <i>12.6%</i> | <i>7.6%</i> | <i>4.8%</i> | <i>6.9%</i> | <i>7.6%</i> | <i>8.3%</i> |
| Adjusted operating profit | 4.1 | 15.4 | 6.1 | 1.3 | 3.3 | 4.6 | 5.9 |
| <i>Adjusted operating margin (%)</i> | <i>3.4%</i> | <i>9.8%</i> | <i>4.1%</i> | <i>0.8%</i> | <i>2.3%</i> | <i>3.0%</i> | <i>3.7%</i> |
| 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 | (3.1) | 5.2 | 9.4 | 14.8 |
| 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: G4M, Progressive Equity Research

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: G4M, Progressive Equity Research

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 | 4.4 |
| Reported EPS (p) | 17.3 | (3.1) | 3.0 | 9.4 | 14.8 |
| Fully Adj EPS (p) | 17.3 | (3.1) | 5.2 | 9.4 | 14.8 |
| 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%) | (78.8%) | 152.5% | 43.0% | 27.4% |
| Adj PBT growth | (65.8%) | (108.1%) | (363.1%) | 161.2% | 58.0% |
| Adj EPS growth | (71.1%) | (117.9%) | (266.3%) | 81.9% | 58.0% |
| 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) | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| EV/EBITDA (x) | 4.0 | 6.1 | 4.5 | 3.8 | 3.4 |
| EV/NOPAT (x) | 9.9 | 22.1 | 14.6 | 13.1 | 10.3 |
| PER (x) | 8.4 | N/A | 28.2 | 15.5 | 9.8 |
| Dividend yield | N/A | N/A | N/A | N/A | N/A |
| FCF yield | (46.2%) | 38.1% | 26.8% | 13.7% | 22.5% |

Source: Company information and Progressive Equity Research estimates

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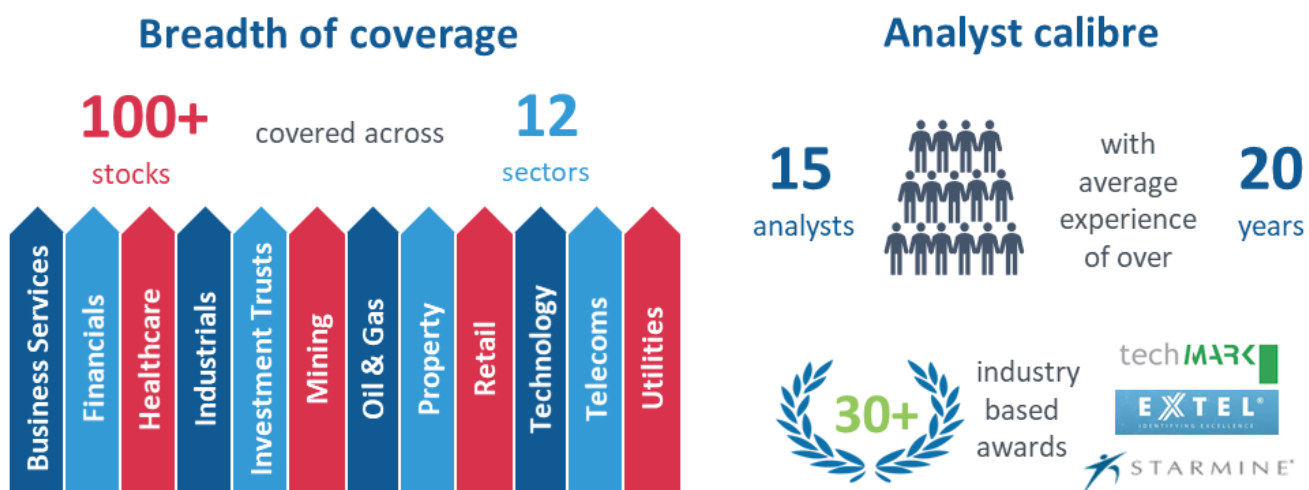
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