

GEAR4MUSIC

CONSUMER DISCRETIONARY

21 June 2022

G4M.L

170p

Market Cap: £35.6m

SHARE PRICE (p)



12m high/low 1,010p/170p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£(24.2)m (at 31/03/22)
Enterprise value	£59.8m
Index/market	AIM
Next news	AGM update - TBC
Shares in Issue (m)	21.0
Chairman	Ken Ford
Chief Executive	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

ANALYSTS

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A tougher gig in FY22; strong growth over FY20

G4M delivered FY22 results slightly ahead of guidance in the April post-close trading update, with EBITDA some £0.2m better at £11.2m. FY22 results were down on the exceptional FY21 but show strong progress over FY20, better reflecting the underlying growth trajectory. In light of recent acquisitions, planned enhancements and service additions to its proprietary trading platform, and its prescient investment in inventory ahead of inflationary pressures, G4M's business model is set fair to deliver further progress over the longer term, despite shorter-term macroeconomic risks.

- Full-year results – better viewed against FY20.** FY22's results were adversely shaped by the exceptional sales performance of FY21, with profits magnified further by positive operational leverage. More pertinently, in our view, they show significant progress against the more representative FY20 results, with revenue, EBITDA and PBT ahead by 23%, 44% and 61%, respectively. Operating metrics and other Key Performance Indicators (KPIs) also show strong improvements over FY20.
- Progress and acquisitions – with a strong pipeline of initiatives for FY23.** G4M strengthened its operational capabilities with the addition of two more European distribution hubs in Spain and Ireland. The addition of a £35m borrowing facility enabled G4M's prescient investment in stock ahead of inflationary pressures, and the acquisition of AV Distribution, which sees G4M entering the Home Audio Visual market. FY23E will see extended customer reach through the European launch of AV.com, new own brands and the launch of a second-hand platform.
- Net debt and RCF – comfortable headroom against short-term scenarios.** Acquisition spend of £11.4m and inventory investment resulted in year-end net debt of £24.2m, compared with net cash of £2.7m at end FY21. There remains good headroom relative to the £35m Revolving Credit Facility (RCF), which has been rigorously stress-tested against different turnover scenarios. With inventories expected to decrease, net debt should reduce in FY23E.
- Forecasts unchanged – confidence in long-term growth trajectory.** We initiate our FY25E forecasts, with our FY23E and FY24E forecasts broadly unchanged. These underline the longer-term outlook, with double-digit three-year CAGR for sales and profits. Notwithstanding the adverse macroeconomic challenges and impact over the short term, the company states that FY23E trading will be in line with the Board's expectations.

FYE MAR (£M)	2021	2022	2023E	2024E	2025E
Revenue	157.5	147.6	165.1	181.0	199.2
Adj EBITDA	19.8	11.2	11.9	14.0	16.7
Fully Adj PBT	14.6	5.0	3.8	5.2	7.2
Fully Adj EPS (p)	59.7	17.3	13.1	17.9	24.7
EV/Sales (x)	0.4x	0.4x	0.4x	0.3x	0.3x
EV/EBITDA (x)	3.0x	5.3x	5.0x	4.3x	3.6x
PER (x)	2.8x	9.8x	13.0x	9.5x	6.9x

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.

Well set to face uncertainties

G4M, along with most businesses, faces not inconsiderable uncertainties over the short term. With the world emerging tentatively and hopefully from the pandemic, albeit to face fractured supply chains and inflationary pressures, events in the Ukraine have amplified and exacerbated these challenges to commercial enterprises and consumers alike. The company rightly acknowledges this situation, and that macroeconomic issues will provide challenges and are potentially the biggest risk to short-term forecasts.

Our forecasts are broadly unchanged at this stage, with the company expressing confidence that FY23E trading will be in line with the Board's expectations. In this regard, we would also highlight the seasonality of G4M's trading, with Q3 (October – December) being the most important quarter. It is also worth noting G4M's stated objectives of accelerating market share gains and delivering operational efficiencies. We believe that actions taken in FY22 and planned for FY23E (and beyond) see G4M well positioned to deliver on these objectives, even in the face of current uncertainties within the wider world.

We would highlight the following areas to support this view:

- Acquisitions
- Pipeline developments
- Inventory purchases
- European distribution network extension

Acquisitions

The acquisition of AV Distribution and the AV.com domain open up a £2.7bn addressable European market in Home Audio Visual products to G4M. The development of the business since acquisition has focused on the product offer, logistics and re-platforming AV.com onto G4M's proprietary platform. There will be a concerted push into Europe in FY23E.

Since the launch of AV.com in January 2022, some 2,000 new SKU's have been listed, partly through the introduction of new brands, many of which operate at the premium end of the market. These include Loewe, Bang & Olufsen, LG, Samsung and Panasonic. The showroom has been upgraded to accommodate and support these new brands.

The acquisition of the Eden and Premier brands will also support sales growth initiatives, with the latter celebrating its centenary. A new 'G4M' brand will be launched in FY23E. This will be used as a premium own label across many categories, except drums. This is also a more accessible brand name on a global basis, being a simple combination of letters and a number, rather than a more obviously Anglo-Saxon word/brand name. To support the Home Audio Visual offer, a new own brand, AVCOM, is being introduced for speakers, amplifiers and TVs.

Pipeline developments

With a team of over 90 software engineers in-house, G4M is continually developing and enhancing its proprietary platform. It capitalised £4.4m of development costs in FY22, up from £3.2m in FY21. Multiple upgrades are planned for FY23E, in addition to the European launch of AV.com outlined above. These include upgrades to the consumer finance proposition and an upgrade to partner integration, which will provide access of more than a thousand new digital download products.

Another key development will see the launch of a second-hand platform to complement the sale of new products. This will appeal to customers seeking to sell products they no longer use, and thereon to customers who may not want or be able to afford a new product. G4M will purchase the products for cash or credit, then test them, before selling them on with a warranty for peace of mind to customers via its e-commerce platform. The gross margin on these second-hand products should be similar to those made on own-brand purchases. G4M's long experience of selling products and its knowledge of product reliability, together with its brand name and the confidence it gives purchasers, will be very important for this new venture, which will complement its core business.

Inventory purchases

Stock at year-end was some £17.1m (60%) higher than at the end of FY21. This reflects a conscious and precautionary decision to protect against supply chain disruption and a view of likely inflationary price increases. With sterling currently sitting around a two-year low against the US dollar (£1 = \$1.20), this investment in stock looks an increasingly prescient move by the company.

Unlike clothing and food, G4M's inventory is susceptible to neither fashion risk nor perishability and can consequently be carefully managed to price through to customers at good margins. G4M has significant experience in managing its inventory against fluctuating currency markets.

European distribution network extension

This subject has been described above, so does not need further expansion here. However, the key point is worth reiterating, namely that it will support European sales post Brexit, particularly from FY23E onwards.

Thus, while the FY23E outlook is "challenging and difficult to predict", we believe G4M is well set to face the uncertainties ahead.

FY22 results

The following table summarises G4M's FY22 results, many highlights of which had been presented in the company's post-close trading update in April. This now benefits from greater insight into the composite parts of the P&L account, such as product gross margin and operating costs, as laid out below.

The key headline is that G4M reported results marginally ahead of expectations, with EBITDA landing at £11.2m, compared with the April guidance of £11.0m. This translates into an EBITDA margin of 7.6%. With the exception of that achieved in FY21, this represents a continuation of the historical trend of EBITDA margin expansion, highlighting the company's underlying growth, benefits of scale and operational leverage.

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

	FY20	FY21	FY22	FY22 change		FY22 change	
				on FY21	on FY21 (%)	on FY20	on FY20 (%)
UK sales	61.8	78.7	82.6	3.9	5%	20.8	34%
International sales	58.5	78.8	65.0	(13.8)	(18%)	6.5	11%
Total sales	120.3	157.5	147.6	(9.9)	(6%)	27.3	23%
Product sales	114.8	149.6	140.6	(9.0)	(6%)	25.8	22%
Product gross profit	35.1	50.9	45.2	(5.7)	(11%)	10.1	29%
<i>Product gross margin</i>	<i>30.5%</i>	<i>34.1%</i>	<i>32.1%</i>	<i>-200bps</i>		<i>+160bps</i>	
Gross profit	31.2	46.4	41.1	(5.3)	(10%)	9.9	45%
<i>Gross margin</i>	<i>25.9%</i>	<i>29.4%</i>	<i>27.9%</i>	<i>-150bps</i>		<i>+200bps</i>	
Operating costs :							
Marketing	(9.3)	(9.2)	(10.8)	(1.6)	17%	(1.5)	16%
Labour	(9.7)	(12.3)	(13.1)	(0.8)	7%	(3.4)	35%
Europe/other	(4.4)	(5.1)	(6.0)	(0.9)	18%	(1.6)	36%
Total opex	(23.4)	(26.6)	(29.9)	(3.3)	12%	(6.5)	28%
EBITDA	7.8	19.8	11.2	(8.6)	(43%)	3.4	44%
<i>EBITDA margin</i>	<i>6.4%</i>	<i>12.6%</i>	<i>7.6%</i>	<i>-500bps</i>		<i>+120bps</i>	
Total DA	3.7	4.4	5.1	0.7	16%	1.4	38%
Operating profit	4.1	15.4	6.1	(9.3)		2.0	
<i>Operating profit margin</i>	<i>3.4%</i>	<i>9.8%</i>	<i>4.1%</i>	<i>-570bps</i>		<i>+70bps</i>	
Financial expenses	(1.0)	(0.8)	(1.1)	(0.3)		(0.1)	
Pre tax profit	3.1	14.6	5.0	(9.6)	(66%)	1.9	63%
Diluted EPS (p)	12.2	59.7	17.3	(42.4)	(71%)	5.1	42%

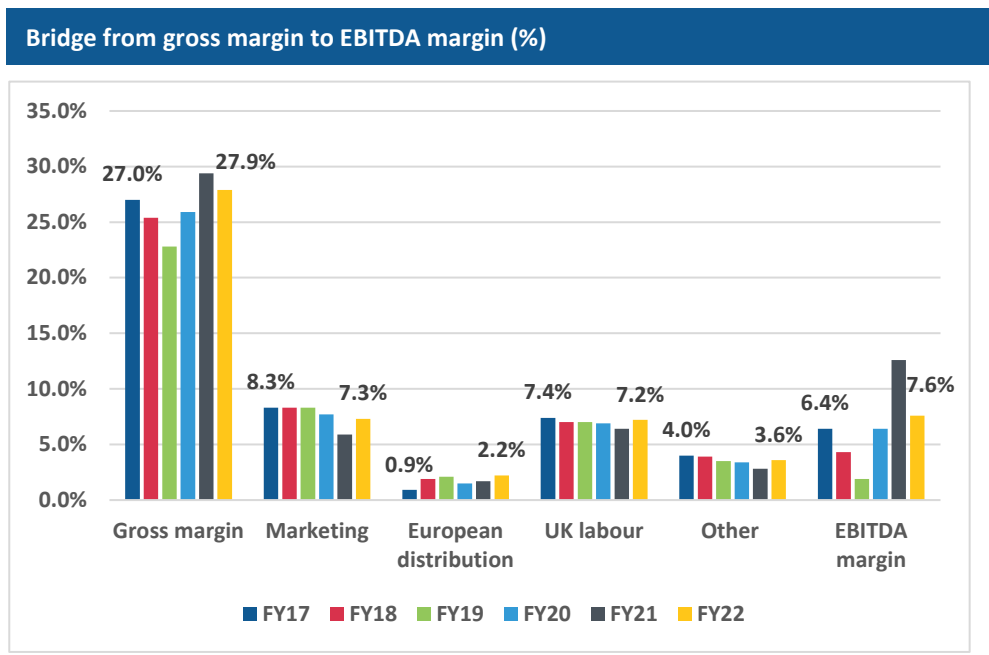
Source: Gear4music, Progressive Equity Research

As alluded to above, we have included the historical performances not just of the exceptional FY21 prior year but also of the pre-Covid FY20 financial year. This enables a comparison with the pre-pandemic trading levels of FY20, which provides a better reflection of underlying trends and progress. While most measures of sales and profitability in FY22 are understandably down compared with those achieved in FY21, they are likewise up compared with the pre-pandemic trading performance of FY20. This is shown in the final two columns of the table, comparing the absolute and percentage changes against FY20.

A notable exception when comparing to FY21 comes from the performance of the UK, where sales were 5% up. G4M has now delivered sales growth (on a 12-month basis) every year since its IPO in FY16. The growth achieved in FY22 sees the company's estimated UK market share expand to 9.2% from 8.9% in FY21 and 7.2% in FY20. Trading in the UK was less affected by Brexit than trading into Europe for G4M, and may even have benefitted from some European competitors facing post-Brexit challenges shipping into the UK.

As outlined in previous notes, the company’s European sales were adversely affected in the aftermath of Brexit, with many of these fulfilled from the principal UK distribution centre (as well as those in Sweden and Germany). These sales fulfilled from the UK took longer and cost more than previously, thereby significantly weakening the proposition to European customers relative to local and other EU-based retailers. This is the main reason behind the decline in European sales, which comprise the vast majority of International sales. For reference, sales revenue in FY22 from outside of Europe accounted for 1.4% of total revenue (and c.3.2% of International revenue), up from 1.3% of total revenue (and c.2.6% of International revenue) in FY21.

The situation with regard to sales into Europe has been considerably enhanced with the addition of two further regional distribution hubs in Spain and the Republic of Ireland. These two new hubs provide additional inventory and sales capacities of £9.5m and £55m, bringing G4M’s total inventory and sales capacities to £51.5m and £280m. The capacity of the German facility is to be extended in Q3 FY23E and the UK now also benefits from a new hub in Bacup, Lancashire, as part of the acquisition of AV Distribution. The advantages of the increased and well-stocked European facilities should deliver a relative improvement in European sales against softer comparatives, notwithstanding a more subdued demand environment given the macroeconomic backdrop affecting all markets.



Source: Gear4music, Progressive Equity Research

The above chart shows the bridge from gross margin down to EBITDA margin from FY17 to FY22. This 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 longer-term improvements made to gross and EBITDA margins relative to the FY17 base year (and through the reset to focus on profitable growth, rather than just top-line growth, made after FY19).

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 most positive element within the website statistics G4M provides is without doubt the continued improvement in conversion rates. Whereas some of the statistics reflect the directional trend of the sales performance compared with FY21, the aggregate conversion rate has continued to move forward, improving to 4.1% from 3.7% in FY21 and 3.3% in FY20. Europe and mobile have delivered pleasing progress from a lower base than the UK, where the conversion rate was flat at an impressive level of 5.5%. Mobile penetration has fallen back since FY20, though this presumably reflects the working-from-home trend precipitated by the pandemic, which will have led to increased access from desktop devices.

Website utilisation and conversion rates

	FY20	FY21	FY22	FY22 % change	
				on FY21	on FY20
Unique website users (m)	28.4	36.0	28.8	(20%)	1%
Total pages viewed (m)	150	170	143	(16%)	(5%)
UK users (m)	11.0	14.4	13.1	(9%)	19%
International users (m)	16.6	20.8	15.1	(27%)	(9%)
Mobile user mix	56.0%	55.0%	53.0%	-200bps	-300bps
Organic/direct traffic	39.0%	42.0%	49.0%	+700bps	+1,000bps
Conversion rates:					
UK	4.8%	5.5%	5.5%	n.c.	+72bps
Europe	2.4%	2.6%	2.9%	+38bps	+56bps
Mobile	2.4%	2.7%	3.2%	+52bps	+83bps
Total	3.3%	3.7%	4.1%	+37bps	+77bps

Source: Gear4music, Progressive Equity Research

While all website usage metrics were down on those of FY21, the number of unique website users was 1% higher than in FY20 at 28.8m. Reflecting the continued sales growth within the UK, UK users were 19% higher than in FY20 at 13.1m, albeit 9% lower than the record FY21 performance. The continued increase in the mix of organic/direct traffic is a positive development.

The customer base

The number of customers served in FY22 declined 13% against FY21 to 921,000, but was 14% higher than in FY20, with broadly similar trends seen in the number of new customers. Repeat customers were down on FY21 but 2% higher than in FY20.

Customer metrics

	FY20	FY21	FY22	FY22 % change	
				on FY21	on FY20
Customers served ('000)	807	1,064	921	(13%)	14%
New customers ('000)	704	947	793	(16%)	13%
Repeat customers	170	206	174	(16%)	2%
Email subscriber database ('000)	650	980	1,280	31%	97%
Average order value	£117	£116	£125	8%	7%

Source: Gear4music, Progressive Equity Research

The email subscriber database increased by 31% over FY21 to stand at just under 1.3m subscribers. This is almost double the size of the subscriber base in FY20. With enhanced analytical abilities for more personalised targeting of promotions and other offers, the larger database should yield even better marketing returns going forward.

The average order value increased by 8% over FY21 to stand at £125. The gross profit per transaction stood at £33 (FY21: £32, FY20: £30) compared with a new customer acquisition cost of £14 (FY21: £9, FY20: £12). This underlines the fact that G4M is profitable from the very first customer transaction, unlike companies in other product sectors such as clothing and groceries. The sales life time value of customers increased by 16% to £241 in FY22.

Product range development

Product range expansion is an important growth driver to the company, both in terms of third-party and own brands. The total number of SKUs rose by 8% to 62,400 in FY22, with the number of brands listed rising by 20%.

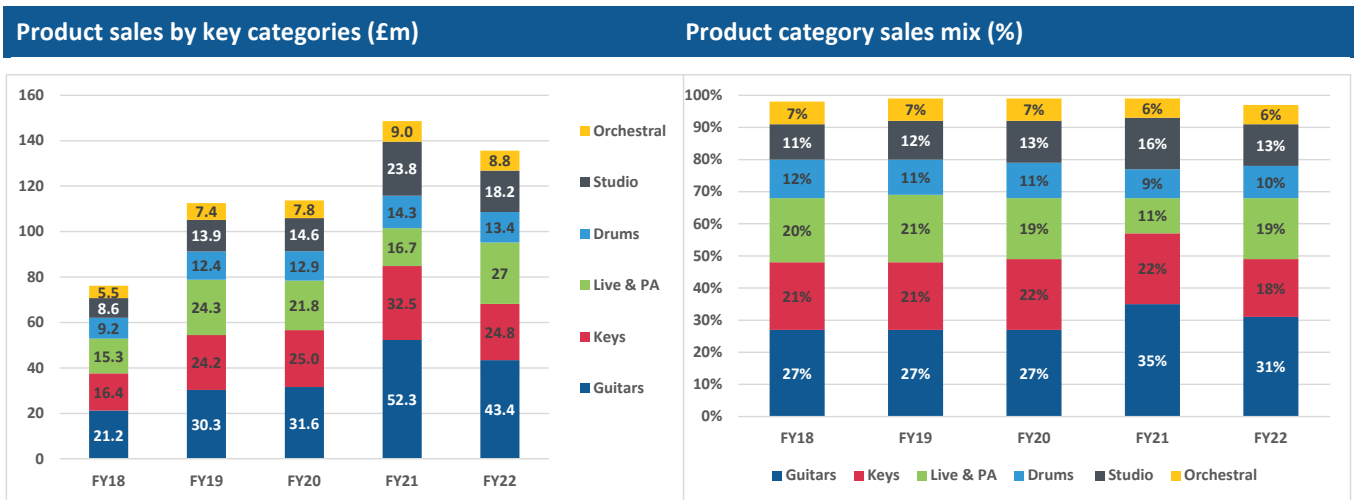
Product range expansion

	FY20	FY21	FY22	FY22 % change	
				on FY21	on FY20
Total number of SKU's	54,200	57,900	62,400	8%	15%
Brands listed	880	900	1,080	20%	23%
Own brand performance :					
Own brand SKU's	3,400	3,800	4,200	10%	23%
Own brand SKU mix	6.3%	6.6%	6.7%	+17bps	+46bps
Own brand sales mix	30.9%	30.3%	25.8%	-452bps	-504bps

Source: Gear4music, Progressive Equity Research

Own-brand SKUs, which deliver a higher gross margin percentage, increased by 10% to 4,200, representing a mix participation of 6.7%. This stands almost 50bps higher than in FY20. Notwithstanding this increased participation in terms of SKUs, the own-brand sales mix fell back around 450bps to 25.8%, reflecting a 16% decline in turnover to £38.1m (FY21: £45.4m, FY20: £35.4m). Own-brand gross margin was down 360bps to 43.4% but remains 120bps higher than the 42.2% achieved in FY20. Third-party margin eased back 40bps to 28.0% but is an impressive 270bps higher than the 25.3% attained in FY20.

Own-brand sales are therefore some 8% up over FY20, with the performance in FY21 driven by a number of factors. These were a high demand for beginner-level products in the pandemic-driven lockdowns, limited availability of some third-party brand products and the adverse impact of Brexit on bulky own-brand products shipped from the UK to European customers. The latter factor has since improved, and continues to improve with higher levels of stock held locally in Europe, together with more and better local carrier options.



Source: Gear4music, Progressive Equity Research

The charts above show the performance of the major product categories sold by G4M since FY18. Reflecting the easing of lockdowns and the return of concerts and live events, the most significant but unsurprising change in FY22 was the 61% growth delivered by the Live & PA category. This was the only category to deliver a sales increase compared with FY21.

Forecasts

Our forecasts for FY23E and FY24E are broadly unchanged from those published following the April post-close trading update. There are some variances in cash flow metrics, reflecting the shape of figures now published for FY22, while the overall absolute net debt figures and the forecast improvement in the level of indebtedness are broadly unchanged.

We have also initiated FY25E forecasts, which assume continued sales growth, gross margin improvement and further operating efficiencies. These result in improved forecast margins at EBITDA, operating profit and PBT levels. The greatest risk, and therefore main caveat to our forecasts, remains the macroeconomic backdrop with the current inflationary pressures and weakened levels of consumer confidence.

The following table summarises our forecasts up to FY25E and includes the calculation of the compound annual growth rate for the three-year forecast horizon. This shows strong double-digit progression for sales and all key measures of profitability.

Forecast summary and 3-year CAGR to FY25E

	FY22	FY23E	FY24E	FY25E	3-yr CAGR
Turnover	147.6	165.1	181.0	199.2	10.5%
Gross profit	41.1	45.2	49.8	55.6	10.6%
Gross margin (%)	27.9%	27.4%	27.5%	27.9%	
Operating costs (exc DA)	29.9	33.3	35.8	38.9	9.2%
Opex as % of turnover	20.3%	20.2%	19.8%	19.5%	
EBITDA	11.2	11.9	14.0	16.7	14.1%
EBITDA margin (%)	7.6%	7.2%	7.7%	8.4%	
Operating profit	6.1	5.3	6.7	8.7	12.8%
Operating margin (%)	4.1%	3.2%	3.7%	4.4%	
Adjusted pre-tax profit	5.0	3.8	5.2	7.2	12.8%
Adjusted diluted EPS (p)	17.3	13.1	17.9	24.7	12.7%
Net cash/(debt)	(24.2)	(17.2)	(14.6)	(8.1)	

Source: Gear4music, Progressive Equity Research estimates

The following tables give fuller details of our forecasts.

Summary of profit & loss account and cash flow forecasts

Profit and loss account	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16
Year to March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Turnover	120.3	157.5	147.6	165.1	181.0	199.2
Cost of sales	(89.2)	(111.1)	(106.5)	(119.8)	(131.2)	(143.6)
Gross profit	31.2	46.4	41.1	45.2	49.8	55.6
<i>Gross margin (GM) (%)</i>	<i>25.9%</i>	<i>29.4%</i>	<i>27.9%</i>	<i>27.4%</i>	<i>27.5%</i>	<i>27.9%</i>
Operating costs	(27.1)	(30.9)	(35.1)	(39.9)	(43.1)	(46.9)
Operating profit	4.1	15.4	6.1	5.3	6.7	8.7
<i>Operating profit margin (%)</i>	<i>3.4%</i>	<i>9.8%</i>	<i>4.1%</i>	<i>3.2%</i>	<i>3.7%</i>	<i>4.4%</i>
Depreciation and amortisation	(3.7)	(4.4)	(5.1)	(6.6)	(7.3)	(8.0)
EBITDA	7.8	19.8	11.2	11.9	14.0	16.7
<i>EBITDA margin (%)</i>	<i>6.4%</i>	<i>12.6%</i>	<i>7.6%</i>	<i>7.2%</i>	<i>7.7%</i>	<i>8.4%</i>
Interest charge	(1.0)	(0.8)	(1.1)	(1.5)	(1.5)	(1.5)
Adjusted PBT	3.1	14.6	5.0	3.8	5.2	7.2
Exceptional charges	0.0	0.0	0.0	0.0	0.0	0.0
Profit before tax	3.1	14.6	5.0	3.8	5.2	7.2
Adjusted diluted EPS (p)	12.2	59.7	17.3	13.1	17.9	24.7
Diluted EPS (p)	12.2	59.7	17.3	13.1	17.9	24.7
Dividend (p)	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow	FY20	FY21	FY22	FY23E	FY24E	FY25E
Year to March						
Operating profit	4.1	15.4	6.1	5.3	6.7	8.7
Depreciation and amortisation	3.7	4.4	5.1	6.6	7.3	8.0
Inventory (increase)/decrease	(3.4)	(6.4)	(14.2)	7.6	0.5	(1.4)
Debtors (increase)/decrease	(0.8)	(1.2)	0.3	(0.8)	(0.4)	0.1
Creditors increase/(decrease)	3.3	2.7	(2.2)	(0.7)	(0.1)	2.5
Other	0.4	0.1	0.8	0.0	0.0	0.0
Operating cash flow	7.2	15.0	(4.1)	18.0	13.9	17.9
Interest	(0.8)	(0.8)	(1.1)	(1.5)	(1.5)	(1.5)
Tax	0.5	(0.0)	(2.7)	(1.0)	(1.4)	(1.9)
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	(3.6)	(4.4)	(6.2)	(7.0)	(7.0)	(6.5)
Trading cash flow	3.3	9.8	(14.1)	8.5	4.0	8.0
Acquisition of businesses	(0.4)	(0.2)	(10.4)	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	(1.0)	(1.3)	(2.4)	(1.5)	(1.5)	(1.5)
Net cash inflow/(outflow)	2.0	8.3	(26.9)	7.0	2.5	6.5
Net (debt)/cash	(5.5)	2.7	(24.2)	(17.2)	(14.6)	(8.1)

Source: Gear4music, Progressive Equity Research estimates

Summary of balance sheet forecasts

Balance sheet	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16
Year to March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Tangible fixed assets	20.2	19.1	21.2	19.7	18.1	15.8
Intangible fixed assets	9.1	10.4	19.8	21.7	23.0	23.9
Investments and other	0.0	0.0	0.0	0.0	0.0	0.0
Total fixed assets	29.3	29.5	41.0	41.4	41.2	39.7
Stock	22.0	28.4	45.5	38.0	37.5	38.8
Trade and other debtors	2.5	3.6	3.8	4.6	5.1	5.0
Deferred tax	0.0	0.0	0.0	0.0	0.0	0.0
Cash and short term deposits	7.8	6.2	3.9	7.4	6.4	12.4
Current assets	32.4	38.3	53.3	50.0	48.9	56.3
Total assets	61.6	67.7	94.3	91.4	90.1	96.0
Trade and other payables	(14.4)	(18.9)	(16.2)	(15.5)	(15.4)	(17.9)
Borrowings	(9.9)	(0.6)	0.0	0.0	0.0	0.0
Other current liabilities	(1.1)	(1.1)	(1.2)	(1.2)	(1.2)	(1.2)
Current liabilities	(25.5)	(20.6)	(17.4)	(16.7)	(16.6)	(19.2)
Borrowings	(3.4)	(2.9)	(28.0)	(24.5)	(21.0)	(20.5)
Other non-current liabilities	(11.0)	(9.9)	(10.8)	(10.8)	(10.8)	(10.8)
Non-current liabilities	(14.5)	(12.8)	(38.9)	(35.4)	(31.9)	(31.4)
Total liabilities	(40.0)	(33.4)	(56.3)	(52.1)	(48.5)	(50.5)
Net assets	21.6	34.3	38.0	39.3	41.7	45.5

Source: Gear4music, Progressive Equity Research estimates

Financial Summary: Gear4music

Year end: March (£m unless shown)

	2021	2022	2023E	2024E	2025E
PROFIT & LOSS					
Revenue	157.5	147.6	165.1	181.0	199.2
Adj EBITDA	19.8	11.2	11.9	14.0	16.7
Adj EBIT	15.5	6.1	5.4	6.8	8.8
Reported PBT	14.6	5.0	3.8	5.2	7.2
Fully Adj PBT	14.6	5.0	3.8	5.2	7.2
NOPAT	13.4	4.6	4.0	5.1	6.5
Reported EPS (p)	59.7	17.3	13.1	17.9	24.7
Fully Adj EPS (p)	59.7	17.3	13.1	17.9	24.7
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	15.0	(4.1)	18.0	13.9	17.9
Free Cash flow	9.8	(14.1)	8.5	4.0	8.0
FCF per share (p)	46.8	(67.2)	40.6	19.3	38.3
Acquisitions	(0.2)	(10.4)	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	8.3	(26.9)	7.0	2.5	6.5
Overdrafts / borrowings	(3.5)	(28.0)	(24.5)	(21.0)	(20.5)
Cash & equivalents	6.2	3.9	7.4	6.4	12.4
Net (Debt)/Cash	2.7	(24.2)	(17.2)	(14.6)	(8.1)
NAV AND RETURNS					
Net asset value	34.3	38.0	39.3	41.7	45.5
NAV/share (p)	163.8	181.5	187.6	198.8	217.0
Net Tangible Asset Value	23.9	18.2	17.7	18.6	21.6
NTAV/share (p)	114.2	87.0	84.2	88.9	103.0
Average equity	28.0	36.2	39.4	42.8	47.4
Post-tax ROE (%)	17.9%	10.5%	13.2%	16.8%	0.0%
METRICS					
Revenue growth		(6.2%)	11.8%	9.6%	10.1%
Adj EBITDA growth		(43.3%)	6.2%	17.4%	19.2%
Adj EBIT growth		(60.3%)	(11.2%)	25.8%	29.0%
Adj PBT growth		(65.8%)	(24.1%)	36.9%	38.1%
Adj EPS growth		(71.1%)	(24.4%)	36.9%	38.1%
Dividend growth		N/A	N/A	N/A	N/A
Adj EBIT margins		4.2%	3.3%	3.8%	4.4%
VALUATION					
EV/Sales (x)	0.4	0.4	0.4	0.3	0.3
EV/EBITDA (x)	3.0	5.3	5.0	4.3	3.6
EV/NOPAT (x)	4.5	13.1	14.8	11.8	9.1
PER (x)	2.8	9.8	13.0	9.5	6.9
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	27.5%	(39.5%)	23.9%	11.3%	22.5%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

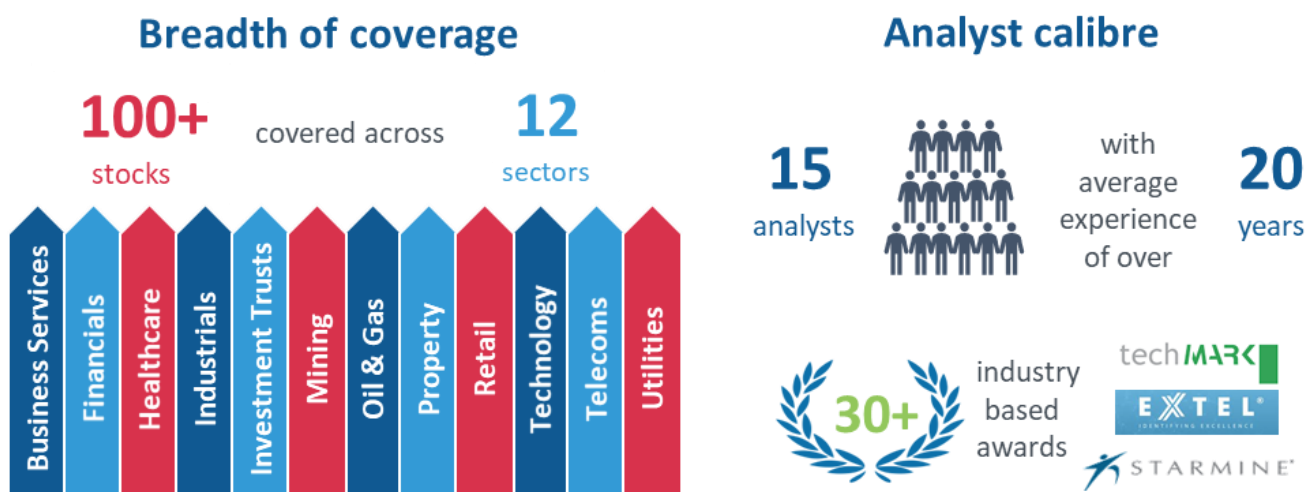
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