

GEAR4MUSIC

CONSUMER DISCRETIONARY

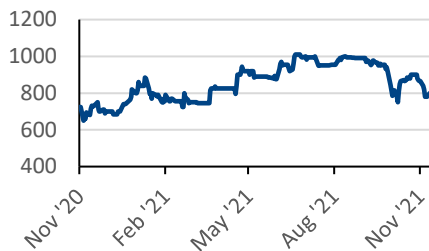
16 November 2021

G4M.L

800p

Market Cap: £167.6m

SHARE PRICE (p)



12m high/low 1,010p/660p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£(13.4)m (at 30/09/21)
Enterprise value	£181m
Index/market	AIM
Next news	Update - 20 Jan '22
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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Interim results in-line...

...with revised forecasts on slower Q3 European sales

G4M's interim results were in line with Board expectations, reflecting the previously disclosed sales and gross margin performance, together with some operational deleverage against last year's exceptional H1 performance. The group reported H1 EBITDA of £4.8m, compared with £8.5m last year, from turnover 8% lower and resilient underlying product margins down just 30bps. While the H1 results were in line with management expectations, Q3 trading in Europe has to date been slower than expected. The Board has therefore prudently reined back expectations towards previous levels, guiding to FY22E EBITDA of not less than £12m.

- Interim results:** The current-year performance can best be characterised as reflecting some unwinding of the group's extraordinary performance last year, when the closure of non-essential retail stores and home working combined to boost G4M's turnover. Most metrics are therefore behind those achieved in H1 last year but remain significantly ahead of the prior H1 (to September 2019, which was unaffected by Covid). Reported gross margin was some 60bps lower year-on-year (yoy) at 28.0%, but 280bps higher than two years ago, underlining the group's focus on more profitable products. Profit was down yoy by around £4m at EBITDA, operating profit and PBT levels, but over £2m up vs H1 FY20.
- European distribution centres (DCs):** The decline in H1 turnover stemmed from European sales falling 16%, with the UK rising marginally. This arose primarily from cross-border issues post Brexit with European sales fulfilled from the UK, with a greater administrative burden, higher costs and longer lead times seeing sales decline through this channel by £9.2m, compared with a pleasing £3.7m increase in European sales fulfilled from European DCs. Opening incremental DC space in Spain and Ireland in September should help to alleviate and mitigate these issues over the medium term once stock profiles are optimised and better aligned in the new DCs.
- Forecast revisions:** With some Brexit issues remaining and European sales being slower than expected thus far in Q3, the group has sensibly and prudently moved to revise market expectations for FY22E. These return broadly to their level before the June prelims, when consensus forecasts were raised, with guidance for FY22E EBITDA of not less than £12m. We roll this timing effect forward into our FY23E and FY24E forecasts.

FYE MAR (£M)	2020	2021	2022E	2023E	2024E
Revenue	120.3	157.5	150.5	171.7	190.9
Adj EBITDA	7.8	19.8	12.1	15.1	17.8
Fully Adj PBT	3.1	14.6	5.6	7.6	9.7
Fully Adj EPS (p)	12.2	59.7	21.5	29.4	37.5
EV/Sales (x)	1.5x	1.1x	1.2x	1.1x	0.9x
EV/EBITDA (x)	23.3x	9.2x	14.9x	12.0x	10.2x
PER (x)	65.4x	13.4x	37.2x	27.2x	21.3x

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.

Look to the future now...

While H1 results were in line with management expectations against last year's tough comparatives, driven by the extraordinary level of trading around Covid-led events on both the demand side and the supply side, European sales continue to be hindered by Brexit-related issues. This has resulted in softer trading at the start of Q3 for European sales than expected, leading the group to prudently lower EBITDA expectations for FY22E to not less than £12m, compared with previous consensus expectations of £14m.

The opening of new hubs in Spain and the Republic of Ireland adds £9m of inventory capacity and £55m of sales capacity to the group. These will ease the issues over time that have held back European sales in H1. The group's Brexit plan has worked, although the realities of cross-border trading have been more onerous than expected. The longer-term solution is the new hubs, though these need to bed in more fully in terms of the inventory profile, both breadth and depth of products, and establishing relationships with local courier networks to offer competitive delivery options. Given the ongoing global shipping and supply chain issues, the new hubs will not be fully scaled up and integrated until FY23E, effectively pushing back the timeline of benefits by a few months. This timing effect impacts our FY22E forecasts, and for prudence we have rippled this through our outer-year forecasts as well.

Including the additional warehouse capacity in Bacup, to be acquired as part of the proposed purchase of AV Distribution Ltd (AV), G4M will have £48m of inventory capacity with a sales capacity of £260m. The distribution infrastructure is therefore in place to cover growth well into the medium-term future. Along with continued developments for the group's proprietary platform and the expansion plans for its recent acquisitions (Eden, Premier and AV), G4M is well positioned to deliver future growth.

New platform developments include digital downloads, drop shipping (for third parties/brands) and a second-hand marketplace. These developments are targeting revenues of £6m to £10m in FY23E. The following table shows targeted FY23E revenues from brand acquisitions, platform developments and the new European hubs. The first two elements will be totally incremental, while we believe this will not be the case with the hubs, with some of this turnover being substitutional for other routes to the European markets.

Developments and estimated FY23E revenues (£m)

Developments	FY23E	Commentary
Premier and Eden	£2m - £2.5m	First inventory arriving during H2 FY22E
Platform developments	£6m - £10m	Digital downloads, drop shipping, second hand
New European hubs	£10m - £12m	Irish and Spanish hubs, fully scaled up by FY23E
Total	£18m - £24.5m	

Source: G4M; Progressive Equity Research

The potential from the AV acquisition is also significant, with G4M estimating a European addressable market of £2.7bn. The competitive landscape is fragmented, with the majority of established competitors being store-based (multi-channel) operators, such as the UK's Richer Sounds business. There are also no dominant online specialist retailers. AV will benefit from a number of advantages brought by ownership under G4M. These will include re-platforming onto the G4M's proprietary platform; access to G4M's customer database; G4M's expertise in the development of high-margin, own-brand ranges; and its experience in the realm of pay per click (PPC) marketing. AV currently relies primarily on organic/direct traffic to drive sales through its website. The AV re-platforming is slated to take place in January 2022 so as not to disrupt peak season trading.

Interim results

The October trading update had already detailed G4M's sales and gross margin performance for the period. It also included details of the deliberate decision to increase on-hand stock to £30.4m at the period end, compared with £23.3m at the equivalent juncture last year. These figures rise to £37.5m and £28.7m, respectively, when including stock in transit. This is a wise precautionary measure to help counter potential supply chain issues and increased container costs, as widely reported by many other companies.

The following table summarises the fuller P&L performance of G4M in H1 FY22, with comparisons not only to last year but also to the period two years ago. The FY20 period is more representative of usual H1 trading patterns and is therefore a more like-for-like (LFL) comparison than last year.

Overview of G4M interim results against prior two years (£m unless otherwise stated)

	H1 FY20	H1 FY21	H1 FY22	FY22 change on FY21 on FY21 (%)		FY22 change on FY20 on FY20 (%)	
UK sales	24.8	36.7	36.7	0.0	n.c	11.9	48%
International sales	24.6	33.5	28.0	(5.5)	(16%)	3.4	14%
Total sales	49.4	70.2	64.7	(5.5)	(8%)	15.3	31%
Product sales	47.2	66.8	61.6	(5.2)	(8%)	14.4	31%
Product gross profit	14.0	21.9	19.7	(2.2)	(10%)	5.7	41%
<i>Product gross margin</i>	<i>29.6%</i>	<i>32.8%</i>	<i>32.0%</i>	<i>-80bps</i>		<i>+240bps</i>	
Gross profit	12.5	20.1	18.1	(2.0)	(10%)	5.6	45%
<i>Gross margin</i>	<i>25.2%</i>	<i>28.6%</i>	<i>28.0%</i>	<i>-60bps</i>		<i>+280bps</i>	
Operating costs :							
Marketing	(3.9)	(3.7)	(4.4)	(0.7)	19%	(0.5)	28%
Labour	(4.7)	(5.5)	(6.1)	(0.6)	11%	(1.4)	30%
Europe/other	(1.9)	(2.4)	(2.8)	(0.4)	26%	(0.9)	47%
Total opex	(10.5)	(11.6)	(13.3)	(1.7)	11%	(2.8)	27%
EBITDA	2.0	8.5	4.8	(3.7)	(44%)	2.8	140%
<i>EBITDA margin</i>	<i>4.0%</i>	<i>12.1%</i>	<i>7.4%</i>	<i>-470bps</i>		<i>+340bps</i>	
Total DA	1.8	2.1	2.4	0.3	15%	0.6	33%
Operating profit	0.2	6.4	2.4	(4.0)		2.2	
<i>Operating profit margin</i>	<i>0.5%</i>	<i>9.1%</i>	<i>3.7%</i>	<i>-540bps</i>		<i>+320bps</i>	
Financial expenses	(0.5)	(0.7)	(0.5)	0.2		0.0	
Pre tax profit	(0.3)	5.8	1.9	(3.9)		2.2	
Diluted EPS (p)	(0.7)	23.4	5.1	(18.3)		5.8	

Source: G4M; Progressive Equity Research

The two-year change figures, both monetary and percentage, give a better reflection of the longer-term underlying performance of the company, in our view, and show the significant improvement made over that time period. These would deliver significant double-digit compound growth rates at all levels shown within the table.

The improvement made in terms of both product and reported gross margin (the latter struck after deduction of net carriage and other charges) is particularly noteworthy, in our view. While down against the record figures recorded last year, on a two-year view these are 240bps and 280bps ahead, respectively. These in turn have helped to underpin the even greater progress made at the EBITDA and operating margin levels, which are up by 340bps and 320bps, respectively on a two-year view.

The declines against the previous year at these profit levels show the enormous operational leverage achieved last year, most notably in marketing. In H1 FY21, marketing expenses were just 5.3% of sales, compared with 8.0% in the equivalent FY20 period. In H1 FY22, marketing as a percentage of sales rose to 6.9% of turnover, though this is still 110bps better than the level of two years ago. This underlines the group's commitment to deliver strong, profitable returns on its marketing spend. Last year's performance saw the cost of new customer recruitment fall to just £9. This has returned to £13, the same level as in H1 FY20. However, the gross profit per transaction rose to £36, compared with £31m last year and £30 two years ago. These also underline the important fact that although new customers are a key driver of sales growth for G4M, given the products sold and frequency of purchase, the group is profitable from the very first transaction.

Labour costs also fell dramatically as a percentage of sales last year to 7.8% (£5.5m). In the current period they came in at 9.4% (£6.1m) and were more closely aligned to the 9.5% (£4.7m) achieved in H1 FY20. Labour costs rose by 11% yoy in the current period, reflecting a number of factors, including pay increases, recruitment in response to Brexit and the full-year impact of new hires from FY21.

Total administrative expenses rose by just over £2m (14.9%) to £15.7m, including depreciation and amortisation charges. Total depreciation and amortisation charges rose 15.5% yoy to £2.4m. The latter included a charge relating to the £3.0m acquisition of the AV.com domain name. European DC local administrative costs rose by 24% to £2.0m in the period, primarily reflecting the new hub openings in Spain and Ireland.

The group recorded PBT of £1.9m (£5.8m) in H1, delivering fully diluted EPS of 5.1p (23.4p).

Net debt stood at £13.4m at the period end, comfortably within the group's three-year £35m revolving credit facility. It is worth noting that September typically represents the low point of the annual cash cycle, with stocks building for the Christmas peak. This year has also seen acquisition investment in the form of the AV domain name (£3m) and of the Premier brand (£1.7m), together with incremental stock purchases for the new hubs and to build a buffer in case of further supply chain disruption from external factors. G4M also invested £2m in the development of its platform, driven largely, though by no means exclusively, by preparations for the AV integration and new website launch in January. Capex in the period was £0.7m and related primarily to the fit-out of the new Irish and Spanish distribution centres.

Website users and conversion rates

The table below gives insight into the development of the customer base and website utilisation rates, again including H1 FY20 for comparison with a more normal trading period.

The number of unique website users declined against last year by 11% but shows a small increase over two years ago. This was driven primarily by a 15% decline in international users, with UK user numbers falling by 5%. The UK user figure remains higher than that of two years ago (+12%), whereas the International figure is 6% lower than two years ago.

With less working from home in the current period, there has been an increase in the mobile user mix, which has returned to the 65% level of two years ago. Last year's working from home saw an increase in desktop access to the website at the expense of mobile/tablet access. Conversely, as the mobile user mix has bounced back up, the level of organic/direct traffic has dropped back to the level of two years ago, at 38%.

Website utilisation and conversion rates

	H1	H1	H1	FY22 % change	
	FY20	FY21	FY22	on FY21	on FY20
Unique website users (m)	13.4	15.2	13.5	(11%)	1%
UK users (m)	5.0	5.9	5.6	(5%)	12%
International users (m)	8.4	9.3	7.9	(15%)	(6%)
Mobile user mix	65%	58%	65%	+700bps	n.c.
Organic/direct traffic	38.0%	42.0%	38.0%	-400bps	n.c.
Conversion rates:					
UK	4.78%	6.11%	6.39%	+28bps	+161bps
Europe	2.08%	2.60%	2.41%	-19bps	+33bps
Mobile	1.96%	2.64%	2.30%	-34bps	+34bps
Total	3.02%	3.90%	4.00%	+10bps	+98bps

Source: G4M; Progressive Equity Research

The rising trend in mobile access drives competition for screen space, together with the relevance of pay-per-click (PPC) marketing. G4M states that improved PPC returns were achieved and maintained above pre-FY21 levels. In H1 FY21, marketing was held at just 5.3% of sales, when lower PPC spend was employed to manage capacity during the Covid lock-down periods. In H1 FY22, this rose to 6.9% of sales, but this represents higher levels of PPC returns, in line with its strategy, compared with 8.0% in H1 FY20 and 8.2% in H1 FY19.

Conversion rates rose by 10bps in the period over last year, driven entirely by the 30bps increase in the UK conversion rate to 6.4%, which more than offset the 20bps decline seen in Europe to 2.4%. Given the overall 30bps decline in conversion rates via the mobile channel, the increase in the UK conversion rate is even more commendable.

Customer base

In terms of its customer base, the total number of customers served and the number of new customers served fell by 16% and 19%, respectively, compared with last year. However, on a two-year view, both figures are some 23% to 24% higher. A 9% increase in the average order value (AOV) to £128 helped to offset the decline in customer numbers.

Customer metrics					
	H1 FY20	H1 FY21	H1 FY22	FY22 % change	
				on FY21	on FY20
Customers served ('000)	328	482	404	(16%)	23%
New customers ('000)	265	403	328	(19%)	24%
Proportion of repeat customers	26.9%	24.9%	24.4%	-50bps	-250bps
Email subscriber database ('000)	717	708	725	2%	1%
Average order value	£120	£117	£128	9%	6%

Source: G4M; Progressive Equity Research

With a higher proportion of new customers in H1 of the current year within total customers served, this resulted in a slightly lower level of repeat customers in the period, at 24.4%.

The email subscriber base saw a 2% increase to 725,000. The group is looking to further enhance its email retargeting system with a view to driving a higher number of repeat customers.

Product range

Unlike the two areas detailed above with regard to website utilisation and the customer base, the growth in G4M's product portfolio continues unabated. This is in terms of the total number of stockkeeping units (SKUs), own brand SKUs and brands listed – on both a one- and two-year comparison basis.

Product range evolution					
	H1 FY20	H1 FY21	H1 FY22	FY22 % change	
				on FY21	on FY20
Total number of SKU's	52,700	55,200	60,500	10%	15%
Brands listed	889	894	951	6%	6%
Own brand performance :					
Own brand SKU's	3,300	3,600	3,900	8%	18%
Own brand SKU mix	6.3%	6.5%	6.4%	-7bps	+19bps
Own brand sales mix	27.3%	27.5%	24.9%	-267bps	-243bps

Source: G4M; Progressive Equity Research

While the growth in own-brand SKUs has lagged the overall SKU growth compared with last year, there were many new own-brand products launched in the period this year, including a large range of SubZero, RedSub and Hartwood guitar & bass amplifiers, together with a range of SubZero guitar pedals. H2 will see the imminent launch of Premier digital drum kits, following development work on the Premier brand acquired earlier in 2021. To coincide with Premier's centenary next year, Summer/Autumn 2022 will see the launch of several new Premier ranges of acoustic drum kits as well.

Own brands continue to be a highly profitable part of G4M's product offering, generating a product sales mix participation that is typically over 4x their SKU mix (and an even higher gross profit mix participation, given their higher gross margin percentage). In H1, this nudged back to 3.9x (vs 4.2x last year), partly due to lower use of the Amazon platform, through which only own-brand products were sold. Own-brand product sales declined 16.8% yoy, with external or third-party brand product sales falling by 4.4%. Underlying product margins unwound 30bps yoy for both own brand and external brands against last year's substantial increase, with the aggregate product margin decline of 80bps driven by the sales mix effect of lower own-brand participation.

In terms of product categories, the star performer was Live & PA, which grew 48% yoy, accounting for 20% of product sales. This reflects last year's lockdowns, which effectively closed this market in the sense of there being virtually no public performances available and allowed. All other categories saw declines in turnover, the most resilient being *Orchestral* down 3% and *Drums* down 10%. The largest category, *Guitars*, saw sales fall 14%. *Studio*, a beneficiary of lockdowns last year, fell 21%, with *keyboards* down 25%.

Forecasts

The following table summarises our key forecast changes. As previously, these forecasts do not include the AV acquisition, which has yet to complete. In the current year, we have reduced our turnover forecast by just over 4%, which drives a 13% cut in EBITDA to £12.1m, in line with G4M's guidance. This broadly brings our FY22E forecasts back in line with our forecasts leading into the June prelims. We regard this forecast revision as a pushing out of the benefits to accrue from the extended European distribution network, which require more scaling up to deliver their upside. We have therefore rippled this timing effect over the outer two years of forecasts, namely for FY23E and FY24E.

The shape of our new forecasts sees a 4% turnover decline in the current FY22E financial year, with growth resuming in the following years at 14% and 11%, respectively. We have made no change to our reported gross margin over the forecast horizon, which remains flat at 27.9%. Our depreciation and amortisation numbers increase to reflect the Premier and AV domain acquisitions.

Summary of key forecast revisions – FY22E to FY24E

£m unless stated	FY22E			FY23E			FY24E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	157.5	150.5	(4%)	180.1	171.7	(5%)	200.2	190.9	(5%)
Adj EBITDA	13.9	12.1	(13%)	17.5	15.1	(14%)	20.5	17.8	(13%)
Fully adj PBT	7.5	5.6	(26%)	10.3	7.6	(26%)	12.9	9.7	(25%)
Fully adj EPS (p)	29.0	21.5	(26%)	39.9	29.4	(26%)	49.9	37.5	(25%)

Source: Progressive Equity Research

Our cash flow and balance sheet forecasts do include the acquisitions of Premier and the AV domain. They have also been adjusted from our prior forecasts to reflect a higher level of stock intake, as reflected in the interim results. These factors impact on the cash flow and net cash/(debt) position, which can be seen in the fuller forecasts further on.

Next news

G4M will release its Q3/Christmas trading update on 20 January 2022.

Summary forecasts – P&L account and cash flow (£m unless otherwise stated)

Profit and loss account	IAS17	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16
Year to March	FY19 (13 m)	FY20	FY21	FY22E	FY23E	FY24E
Turnover	118.2	120.3	157.5	150.5	171.7	190.9
Cost of sales	(91.2)	(89.2)	(111.1)	(108.5)	(123.8)	(137.6)
Gross profit	26.9	31.2	46.4	42.0	47.9	53.3
<i>Gross margin (GM) (%)</i>	<i>22.8%</i>	<i>25.9%</i>	<i>29.4%</i>	<i>27.9%</i>	<i>27.9%</i>	<i>27.9%</i>
Operating costs	(26.9)	(27.1)	(30.9)	(35.5)	(39.4)	(42.7)
Operating profit	(0.0)	4.1	15.4	6.5	8.5	10.6
<i>Operating profit margin (%)</i>	<i>0.0%</i>	<i>3.4%</i>	<i>9.8%</i>	<i>4.3%</i>	<i>5.0%</i>	<i>5.6%</i>
Depreciation and amortisation	(2.3)	(3.7)	(4.3)	(5.6)	(6.6)	(7.2)
EBITDA	2.3	7.8	19.8	12.1	15.1	17.8
<i>EBITDA margin (%)</i>	<i>1.9%</i>	<i>6.4%</i>	<i>12.5%</i>	<i>8.0%</i>	<i>8.8%</i>	<i>9.3%</i>
Interest charge	(0.6)	(1.0)	(0.8)	(0.9)	(0.9)	(0.9)
Adjusted PBT	(0.6)	3.1	14.6	5.6	7.6	9.7
Exceptional charges	0.0	0.0	0.0	0.0	0.0	0.0
Profit before tax	(0.6)	3.1	14.6	5.6	7.6	9.7
Adjusted diluted EPS (p)	(0.8)	12.2	59.7	21.5	29.4	37.5
Diluted EPS (p)	(0.8)	12.2	59.7	21.5	29.4	37.5
Dividend (p)	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow	FY19 (13 m)	FY20	FY21	FY22E	FY23E	FY24E
Operating profit	(0.0)	4.1	15.4	6.5	8.5	10.6
Depreciation and amortisation	2.3	3.7	4.3	5.6	6.6	7.2
Inventory (increase)/decrease	(1.6)	(3.4)	(6.4)	(5.5)	(1.3)	(3.0)
Debtors (increase)/decrease	1.0	(0.8)	(1.1)	(0.1)	(0.3)	(0.4)
Creditors increase/(decrease)	0.5	3.3	2.6	(1.5)	1.6	1.2
Other	(0.3)	0.4	0.0	0.0	0.0	0.0
Operating cash flow	2.0	7.2	14.9	5.0	15.0	15.6
Interest	(0.4)	(0.8)	(0.8)	(0.9)	(0.9)	(0.9)
Tax	0.6	0.5	(1.9)	(1.0)	(1.4)	(1.7)
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	(4.5)	(3.6)	(4.4)	(10.7)	(6.8)	(6.3)
Trading cash flow	(2.3)	3.3	7.7	(7.6)	6.0	6.7
Acquisition of businesses	(0.4)	(0.4)	(0.2)	(4.7)	0.0	0.0
Disposal of businesses	0.0	0.0	0.0	0.0	0.0	0.0
Share issues	0.1	0.0	0.0	0.0	0.0	0.0
Currency effects, other	0.0	(1.0)	0.7	(1.1)	(1.1)	(1.0)
Net cash inflow/(outflow)	(2.5)	2.0	8.2	(13.4)	4.9	5.7
Net (debt)/cash	(7.5)	(5.5)	2.7	(10.7)	(5.8)	(0.1)

Source: G4M; Progressive Equity Research

Summary forecasts – Balance sheet (£m unless otherwise stated)

Balance sheet	IAS17	IFRS16	IFRS16	IFRS16	IFRS16	IFRS16
Year to March	FY19 (13 m)	FY20	FY21	FY22E	FY23E	FY24E
Tangible fixed assets	10.8	20.2	19.1	18.3	17.0	15.2
Intangible fixed assets	7.8	9.1	10.4	16.2	17.7	18.6
Investments and other	0.0	0.0	0.0	0.0	0.0	0.0
Total fixed assets	18.6	29.3	29.5	34.5	34.7	33.7
Stock	18.7	22.0	28.4	33.9	35.2	38.2
Trade and other debtors	1.7	2.5	3.6	3.7	4.0	4.4
Deferred tax	0.0	0.0	0.0	0.0	0.0	0.0
Cash and short term deposits	5.3	7.8	6.2	2.0	3.4	5.6
Current assets	25.6	32.4	38.2	39.6	42.6	48.2
Total assets	44.2	61.6	67.7	74.1	77.3	81.9
Trade and other payables	(11.5)	(14.4)	(18.9)	(17.3)	(18.9)	(20.0)
Borrowings	(8.6)	(9.9)	(0.6)	0.0	0.0	0.0
Other current liabilities	0.0	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Current liabilities	(20.1)	(25.5)	(20.6)	(18.5)	(20.0)	(21.2)
Borrowings	(4.3)	(3.4)	(2.9)	(12.7)	(9.2)	(5.7)
Other non-current liabilities	(1.1)	(11.0)	(9.8)	(9.8)	(9.8)	(9.8)
Non-current liabilities	(5.4)	(14.5)	(12.8)	(22.5)	(19.0)	(15.5)
Total liabilities	(25.5)	(40.0)	(33.4)	(41.0)	(39.1)	(36.7)
Net assets	18.7	21.6	34.3	33.1	38.2	45.2

Source: G4M; Progressive Equity Research

Financial Summary: Gear4music

Year end: March (£m unless shown)

	2020	2021	2022E	2023E	2024E
PROFIT & LOSS					
Revenue	120.3	157.5	150.5	171.7	190.9
Adj EBITDA	7.8	19.8	12.1	15.1	17.8
Adj EBIT	4.1	15.5	6.7	8.8	10.9
Reported PBT	3.1	14.6	5.6	7.6	9.7
Fully Adj PBT	3.1	14.6	5.6	7.6	9.7
NOPAT	3.5	13.4	5.5	7.2	8.9
Reported EPS (p)	12.2	59.7	21.5	29.4	37.5
Fully Adj EPS (p)	12.2	59.7	21.5	29.4	37.5
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	7.2	14.9	5.0	15.0	15.6
Free Cash flow	3.3	7.7	(7.6)	6.0	6.7
FCF per share (p)	15.9	36.6	(36.2)	28.5	32.1
Acquisitions	(0.4)	(0.2)	(4.7)	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	2.0	8.2	(13.4)	4.9	5.7
Overdrafts / borrowings	(13.4)	(3.5)	(12.7)	(9.2)	(5.7)
Cash & equivalents	7.8	6.2	2.0	3.4	5.6
Net (Debt)/Cash	(5.5)	2.7	(10.7)	(5.8)	(0.1)
NAV AND RETURNS					
Net asset value	21.6	34.3	33.1	38.2	45.2
NAV/share (p)	103.2	163.7	157.8	182.3	215.4
Net Tangible Asset Value	12.5	24.0	16.8	20.6	26.6
NTAV/share (p)	59.8	114.3	80.3	98.0	126.9
Average equity	20.2	27.9	36.6	42.0	49.1
Post-tax ROE (%)	72.4%	19.9%	20.8%	23.1%	30.5%
METRICS					
Revenue growth	1.8%	30.9%	(4.4%)	14.1%	11.2%
Adj EBITDA growth	239.8%	154.9%	(38.7%)	24.7%	17.9%
Adj EBIT growth	8146.0%	275.3%	(56.8%)	32.0%	23.6%
Adj PBT growth	(605.4%)	373.9%	(61.8%)	36.7%	27.3%
Adj EPS growth	(1670.4%)	388.3%	(64.0%)	36.7%	27.3%
Dividend growth	N/A	N/A	N/A	N/A	N/A
Adj EBIT margins	3.4%	9.8%	4.4%	5.1%	5.7%
VALUATION					
EV/Sales (x)	1.5	1.1	1.2	1.1	0.9
EV/EBITDA (x)	23.3	9.2	14.9	12.0	10.2
EV/NOPAT (x)	52.2	13.5	33.0	25.0	20.2
PER (x)	65.4	13.4	37.2	27.2	21.3
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	2.0%	4.6%	(4.5%)	3.6%	4.0%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

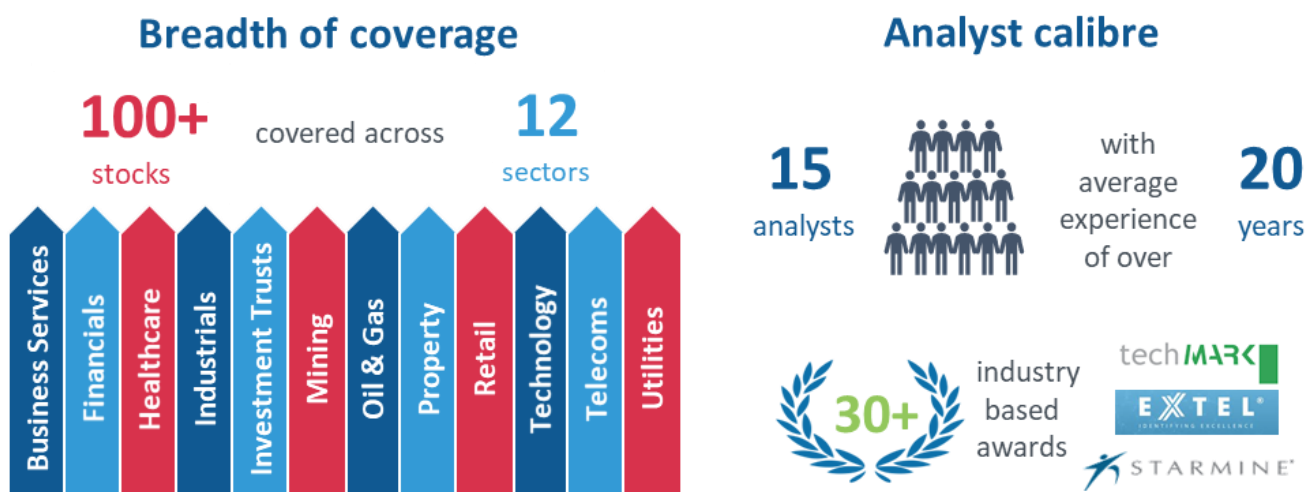
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