

## Three acquisitions so far in FY25

Vinyl Group (ASX: VNL) is a music company with a portfolio of brands – **Jaxsta**, **Vinyl.com**, **Vampr** and **The Brag Media** – that empower participants in the music ecosystem. It has commenced FY25 with three acquisitions.

### Buying at bargain prices

Vinyl commenced its M&A spree in August by purchasing the assets of **Mediaweek** for \$1m – 50% in cash and 50% in scrip. Mediaweek is a trade publication with ~300k unique visitors per month, and that generated \$2.2m in revenue in FY24. In the last week of September, Vinyl bought **Serenade** and reached a Heads of Agreement to buy **Funkified Entertainment** with the deal expected to close by 31 Deember. Funkified Entertainment is an end-to-end events and brand activations business with a \$4m turnover. VNL purchased Funkified for \$2.5m - \$1.8m cash upfront plus \$200k in shares and the rest in an earnout. Serenade is a Web3 pioneer of physical and digital collectibles serving 200+ global artists. Vinyl will pay \$800k upfront with a further scrip earn-out of \$1.5m based on P&L targets. These acquisitions have a cash cost of just over \$2m and VNL expects these acquisitions to contribute towards a 2x company revenue run rate by the end of FY25 – from \$10.5m to \$20m.

### More M&A to come

VNL is open to more M&A activity if the price is right. Future acquisitions will serve the company's objectives including adding web 3/blockchain capabilities, entering the music events space, diversifying revenues and improving margins. It has the audacious goal of connecting 1,000 leading brands, 100m music creators and 1b fans.

### Valuation range reiterated

For the time being, we reiterate our valuation of VNL first outlined in our May 2024 initiation report - at \$211.4m in a base case scenario and \$273.6m in an optimistic (or bull) case. These currently equate to 20c per share in our base case and 26c per share in our bull case. We intend to update our valuation once these acquisitions begin to be reflected in the company's top and bottom lines. Please see p.7 for further details on our valuation and p.8 for the key risks associated with our investment thesis.

Share Price: A\$0.10

ASX: VNL

Sector: Media

10 October 2024

Market cap. (A\$m)	101.0
# shares outstanding (m)	1,010.2
# shares fully diluted (m)	1,034.8
Market cap. ful. dil. (A\$m)	103.5
Free float	48.9%
12-months high/low(A\$)	0.165 / 0.045
Avg. daily volume ('1000)	549.3
Website	<a href="https://vinyl.group/">https://vinyl.group/</a>

Source: Company, Pitt Street Research

### Share price (A\$) and avg. daily volume (k, r.h.s.)



Source: Refinitiv Eikon, Pitt Street Research

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*Disclosure: Pitt Street Research directors own shares in VNL.*



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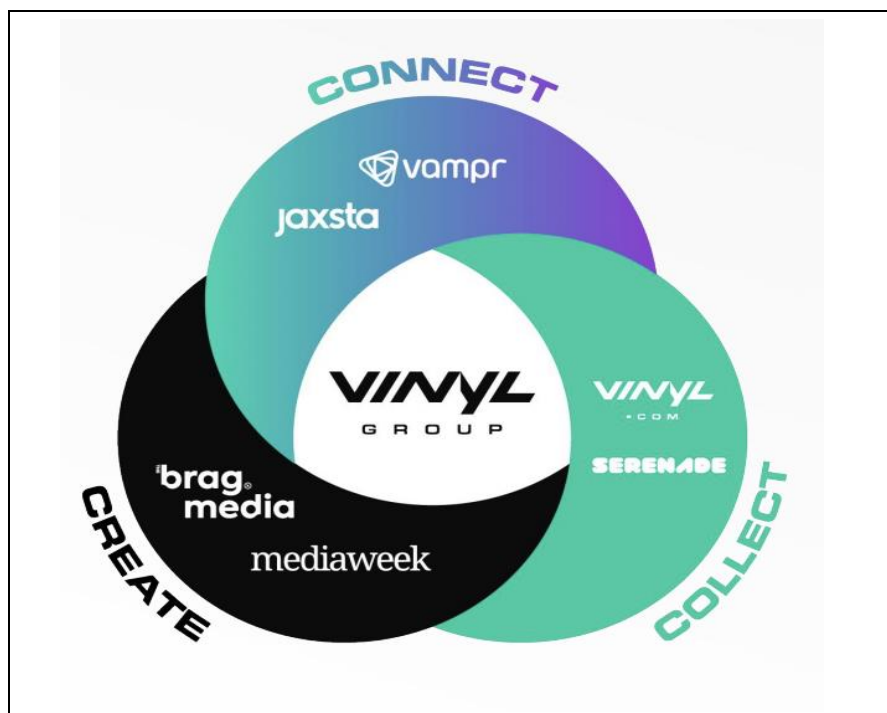
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## Vinyl Group's acquisitions and how they fit into the company's strategy

*Vinyl's acquisitions will cost just over \$2m in cash, but lead to combined revenues of \$7m and a positive cash flow impact of \$1m.*

After the recent acquisitions, Vinyl Group now has 6 brands (Figure 1) – the Funkified brand will be rolled into Brag. The acquisitions complement the company's mission, grow its revenues and eventually lead the company to profitability. The acquisitions will cost just over \$2m in cash but lead to combined revenues of \$7m and a positive cashflow impact of \$1m.

Figure 1: The Vinyl Group's portfolio of brands



Source: Company

## Vinyl's existing brands

Before we recap the 3 acquisitions, it is important to recap Vinyl's existing 4 brands to understand how they fit in to the company's business model. Vinyl's existing brands include:

- **The Brag Media** a publishing, creative agency and events group. It is Australia's largest youth publisher, reaching over 11m users per month and over 35m monthly page views. Its publication list includes Rolling Stone and Variety, as well as Billboard, The Hollywood Reporter, Rotten Tomatoes, and IndieWire.
- **Jaxsta** is the world's largest and only database of official music credits with over 380m verified credits. The credits are official as they are received directly from more than 365 data partners, including record labels, publishers, distributors, and industry associations. Jaxsta deep links the credits and offers data-led insights to music creators and businesses to ensure music stakeholders correctly map ownership and



subsequent revenue distribution. Jaxsta generates money by offering curated membership for creators, businesses, and enterprises.

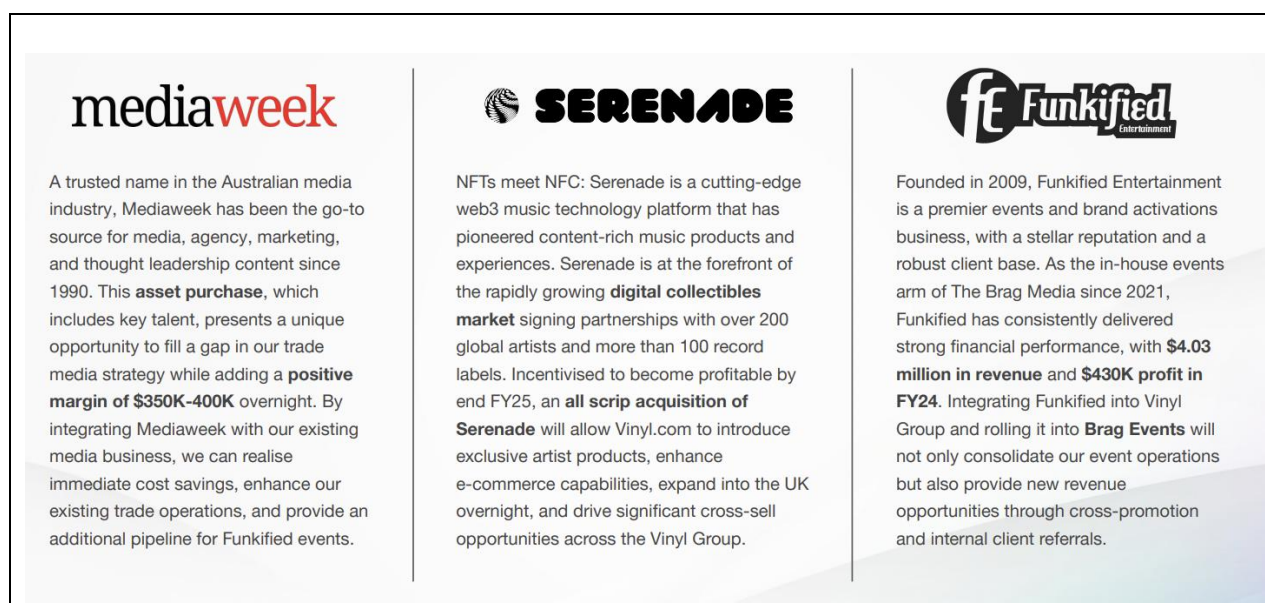
- **Vampr** is essentially a 'LinkedIn for Creatives' - a social-professional networking platform and talent marketplace. It has over 1m users and in 2021 helped musicians and creatives create over 220,000 original songs. People whose collaborations started on Vampr enjoy a combined 62.5bn streams on major music platforms<sup>1</sup> and have earned \$162m in royalties.
- **Vinyl** is an online store for vinyl records. It was only founded in 2023 and is powered by Jaxsta credits. Vinyl has seen a revival in the last 15-20 years, so while units of Vinyl records are lower than the levels of the mid-20<sup>th</sup> century, revenue for this format has never been better, with interest coming from those who still have technology to play the records as well as those who don't, but wish to demonstrate loyalty to individual artists.

## Vinyl's acquisitions in FY25

*Vinyl has made three acquisitions so far in FY25: Mediaweek, Serenade and Funkified.*

Vinyl has made three acquisitions so far in FY25: Mediaweek, Serenade and Funkified (Figure 2).

Figure 2: The Vinyl Group's FY25 acquisitions



Source: Company

- On 13 August 2024, Vinyl announced it was purchasing **Mediaweek** from Chattr Pty Ltd. Mediaweek is a leading media trade publication in Australia, boasting 300,000 unique visitors. It reports on the business of media, marketing and advertising in Australia. It expands on the trade media capabilities of Vinyl's media Arm which includes B2B titles The Music Network and Variety Australia. Mediaweek also hosts a popular events calendar with Mediaweek100 and the Next of the Best Awards, which celebrates music industry leaders of today and tomorrow.

<sup>1</sup> Including Spotify, Apple Music, TikTok and SoundCloud.



*Mediaweek will accelerate Vinyl's existing trade media and events business, enhancing the efficiency and reach of these operations.*

*Funkified will consolidate the company's event operations, but also provide new revenue opportunities through cross-promotion and internal client referrals*

*The acquisition of Serenade will accelerate the expansion of Vinyl.com to the UK and European markets while adding physical and digital collectables to its platform.*

Mediaweek's unaudited revenues for F24 audited to \$2.2m, with a proforma profit of at least \$350k. Vinyl paid under \$1m - \$479k in cash and \$500k in shares valued at the 15-day Volume Weighted Average Price (VWAP) of Vinyl's ASX shares for the period immediately preceding the transaction's formal completion (which occurred on 4 September at A\$0.09655 per share). Mediaweek will accelerate Vinyl's existing trade media and events business, enhancing the efficiency and reach of these operations. This will occur through the sharing of sales resources and through streamlined back-office operations.

- On 26 September 2024, Vinyl announced the acquisition of Funkified. **Funkified** is an end-to-end events and brand activations business, that was founded in 2009 and has served as Brag Media's in-house events arm since 2021, and as a brand activation agency, provides white label services for some of the largest advertising and creative houses in Australia. Vinyl has agreed to pay \$1.8m in cash and \$200k in shares valued at the 15-day VWAP immediately prior to the deal.

Funkified's unaudited revenue for FY24 was \$4.03m, with an EBITDA to \$430k. It will be integrated under The Brag Media operation and Funkified will manage the Mediaweek events schedule. Founder and CEO Gus Stephenson will remain with the business and be employed full-time by Vinyl. Funkified will consolidate the company's event operations, but also provide new revenue opportunities through cross-promotion and internal client referrals. It will also result in cost savings and improved margins because Funkified will be managed in-house rather than Brag having to pay a premium to access Funkified's services, which derive ~25% of Brag's revenue.

- On 30 September 2024, Vinyl announced it was acquiring the assets of London-based company **Serenade**. Serenade is a Web3 pioneer of physical and digital collectibles. It has served 200+ global artists including Liam and Noel Gallagher, Muse, Sum 41, Twenty One Pilots and Thirty Seconds to Mars, and has commercial partnerships with over 100 record labels including Warner Music Group, Beggars Group, Concord and Glassnotes.

Vinyl has paid \$800,000 in scrip upfront with a further earnout of \$1.5m based on profit and loss targets. Specifically, subject to Serenade and Vinyl.com achieving a combined \$4m in revenue and \$500k EBIT in the 12 months following the completion date. This acquisition will accelerate the expansion of Vinyl.com to the UK and European markets while adding physical and digital collectables to its platform, and also position it as a leader in the digital music space as well as the physical music space.

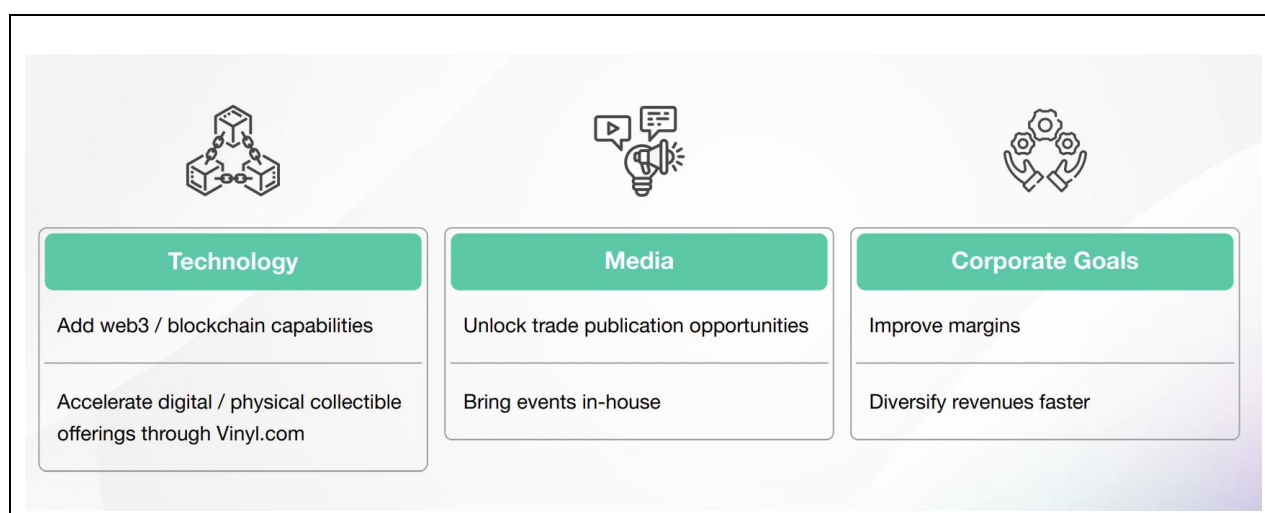


*There are several catalysts that should drive Vinyl's growth in the future.*

## Vinyl's strategy

Vinyl's strategy in purchasing these businesses was to expand its footprint in the music, media and entertainment sectors and to improve margins across the company. Through the acquisitions of Mediaweek, Funkified and Serenade the company had the objectives of accelerating its technological capabilities and offerings, helping reach its financial goals and enhancing its reach in the media and events segment of the music industry (Figure 3). Combined, Vinyl expects these acquisitions, in addition to organic growth in Vinyl's 4 existing businesses, to contribute to a near doubling of the company's revenue from \$10.5m to >\$20m. The company aims to reach cash flow positive by 1HY26. If Vinyl could be said to have what Jim Collins has called a 'Big Hairy Audacious Goal', is that it can ultimately connect 1000 leading brands, 100m music creators and 1bn fans.

Figure 3: Vinyl's M&A Strategy



Source: Company

Vinyl paid \$2.3m in cash for these acquisitions. These will be funded through existing cash reserves, although the company may need to raise capital later in FY25 to ensure the smooth integration and rapid growth of the businesses and it is reliant on the exercise of large option positions.





*We derive an equity value of \$211.4m in our base case and \$273.6m in our optimistic (or bull case).*

## Our valuation of Vinyl

We reiterate our previous valuation of Vinyl Group as expressed in our initiation report. We arrived at an equity value of \$211.4m in our base case and \$273.6m in our optimistic (or bull case). These equate to 20c per share in our base case and 26c per share in our bull case, based on the current number of shares on issue. Investors should see our previous reports for our underpinning assumptions. In absence of audited accounts for the new acquisitions, it is too early to integrate them into our results just yet, but we intend to update our valuation once these businesses are integrated and begin to be reflected in the company's results.

**Figure 4: Vinyl Group DCF valuation**

Vinyl Technologies		
Vinyl Valuation (A\$m)	Base Case	Bull Case
<b>Enterprise value</b>	<b>217.0</b>	<b>279.5</b>
Net (debt) cash	(5.6)	(5.9)
<b>Equity value</b>	<b>211.4</b>	<b>273.6</b>
Diluted shares (m)	1,034.8	1,034.8
<b>Implied price (A\$)</b>	<b>0.204</b>	<b>0.264</b>
Current price (A\$)	0.100	0.100
Upside (%)	104.3%	164.4%
<b>Mid-point Target Price</b>	<b>0.234</b>	
Upside (%)	134.3%	

*Estimates: Pitt Street Research. Please note, the implied price per shares have diluted only because the number of shares on issue have increased, while the enterprise value has stayed the same.*

## Catalysts for a potential re-rating

We believe the key catalyst for Vinyl's re-rating will be the company's growing of both its top and bottom line. We see the company reaching cash flow positive in 1HY26 as crucial. Crucial to the company achieving top-line growth will be continued growth in:

- The sales of vinyl records,
- The growth in creative artists and their willingness to spend on products like Jaxsta and Vampr to enhance the prospects of their career or hobby (whichever may be the case) in our music industry,
- Readership and consumption of the music-focused media publications under the Brag Media umbrella.

The keys to the company achieving its bottom-line growth will be achieving synergies with the newly acquired businesses.



## Risks

We foresee following key risks to our investment thesis for Vinyl Group:

- **Competitive risk:** Vinyl group is in a highly competitive market. There is risk of major competitors obtaining the market share through development of superior technology in the race to achieve large customer base for its platforms.
- **Cost inflation risk:** There is the risk that the company could be hit by cost inflation that could erode company margins.
- **Technological risk:** There is the risk that the company's technology could become outdated. This would impact the growth of the company if not able to cope up with advance technologies.
- **Capital risk:** There is the risk that the company may need capital and it may not be able to obtain it on favourable terms, or even at all. Indeed, the company has told investors further capital may be needed later in FY25 to ensure the acquisitions integrate and achieve their growth potential. Even if capital is successfully raised, it will dilute existing investors.
- **Key personnel risk:** Vinyl Group's performance is highly dependent on its management team and staff. There is the risk the company could lose these individuals and be unable to replace them and/or their contribution to the business.



## Appendix I - Analysts' Qualifications

Stuart Roberts, lead analyst on this report, has been an equities analyst since 2002.

- Stuart obtained a Master of Applied Finance and Investment from the Securities Institute of Australia in 2002. Previously, from the Securities Institute of Australia, he obtained a Certificate of Financial Markets (1994) and a Graduate Diploma in Finance and Investment (1999).
- Stuart joined Southern Cross Equities as an equities analyst in April 2001. From February 2002 to July 2013, his research speciality at Southern Cross Equities and its acquirer, Bell Potter Securities, was Healthcare and Biotechnology. During this time, he covered a variety of established healthcare companies, such as CSL, Cochlear and Resmed, and numerous other emerging companies. Stuart was a Healthcare and Biotechnology analyst at Baillieu Holst from October 2013 to January 2015.
- After 15 months over 2015–2016 doing Investor Relations for two ASX-listed cancer drug developers, Stuart founded NDF Research in May 2016 to provide issuer-sponsored equity research on ASX-listed Life Sciences companies.
- In July 2016, with Marc Kennis, Stuart co-founded Pitt Street Research Pty Ltd, which provides issuer-sponsored research on ASX-listed companies across the entire market, including Life Sciences companies.
- Since 2018, Stuart has led Pitt Street Research's Resources Sector franchise, spearheading research on both mining and energy companies.

Nick Sundich is an equities research analyst at Pitt Street Research.

- Nick obtained a Bachelor of Commerce/Bachelor of Arts from the University of Sydney in 2018. He has also completed the CFA Investment Foundations program.
- He joined Pitt Street Research in January 2022. Previously he worked for over three years as a financial journalist at Stockhead.
- While at university, he worked for a handful of corporate advisory firms.

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