Vinyl Group

All set for a big FY25

Share Price: A$0.093

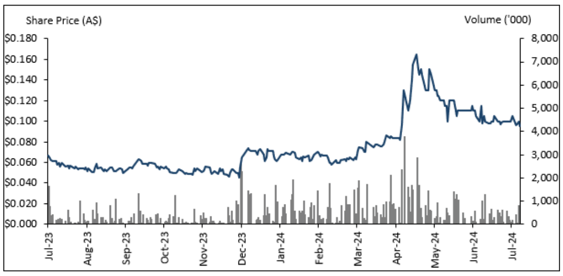
ASX: VNL
Sector: Media
31 July 2024

Vinyl Group (ASX: VNL) is the only ASX company with exposure to the music industry. The company's portfolio of brands – **Jaxsta, Vinyl.com, Vampr and The Brag Media** – empower participants in the music ecosystem. Vinyl helps musicians create monetise their work, through correctly mapping ownership, distributing revenues and collaborate with other musicians. For music fans, the company operates an online vinyl record store (Vinyl.com) and it owns a portfolio of digital media brands (The Brag Media) with a substantial audience reach.

Market cap. (A$m)	93.9
# Shares outstanding (m)	1,010.2
# Share fully diluted (m)	1,034.8
Market cap full. dil. (A$m)	96.2
Free float	48.9%
12-months high/low (A$)	0.165 / 0.045
Avg. daily volume ('1000)	549.3
Website	https://vinyl.group/

Source: Company, Refinitiv Eikon, Pitt Street Research

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



Source: Refinitiv Eikon, Pitt Street Research

A portfolio of brands that are better together

Vinyl Group began its listed life as Jaxsta, named after its music credit database. Over the past 18 months, the company has broadened its position in the music industry, by launching Vinyl.com as well as buying Vampr and The Brad Media. All of these brands are performing well individually and are collectively contributing to the Group's results. In 4Q24, VNL recorded $2.6m in cash receipts, a 52% increase quarter-on-quarter, and $2.2m in revenue, up 19% quarter-on-quarter.

Vinyl shareholders have a lot to look forward to

FY25 will be a big year for Vinyl. It will be the first full year of the company owning all four of its brands. As we outlined in our May 2024 initiation report and will again in this update note, we are optimistic about the growth in the music industry generally, and in the need and desire for VNL's brands within them. We note in particular, the revival in the Vinyl records market and a global music credits system. Many of Vinyl's offerings lack legitimate competition (if any). Beyond top-line growth, bottom-line growth should be achieved too. The company will increase margins through the scale of having all these brands together, as well as the absence of one-off integration costs in FY24.

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Valuation range reiterated

In our initiation report from May 2024, we valued VNL at $211.4m in a base case scenario and $273.6m in an optimistic (or bull) case. We reiterate this valuation, although note that the value per share has decreased because of the company's capital raised since our initiation report – to 20c per share in our base case and 26c per share in our bull case. With a cash balance of $4.1m as at 30 June 2024, that has been boosted by a further $2.6m since then, we do not foresee further shareholder dilution in the short to medium term. Please see p.7 for further details on our valuation and p.8 for the key risks associated with our investment thesis.

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Disclosure: Pitt Street Research directors own shares in VNL.

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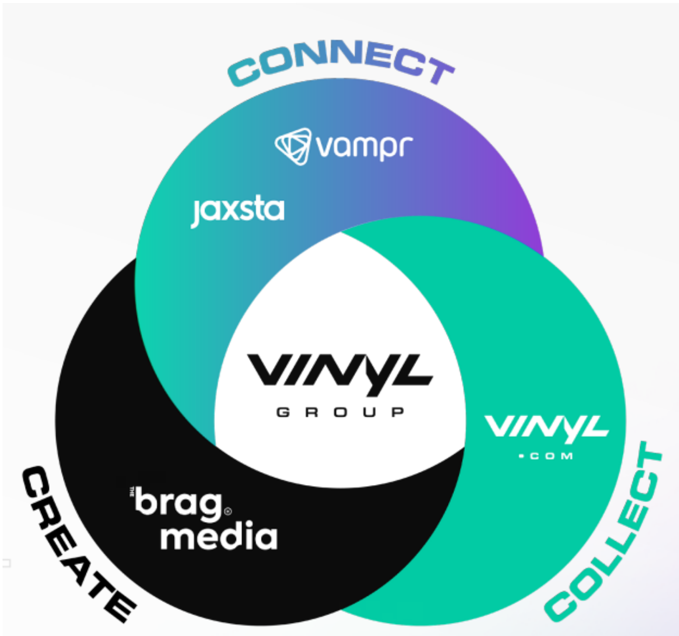
Re-introduction Vinyl Group (ASX:VNL) and its brands

Vinyl's platforms are: The Brag Media, Vinyl, Vampr and Jaxsta.

Figure 1: The Vinyl Group's portfolio of brands



Source: Company

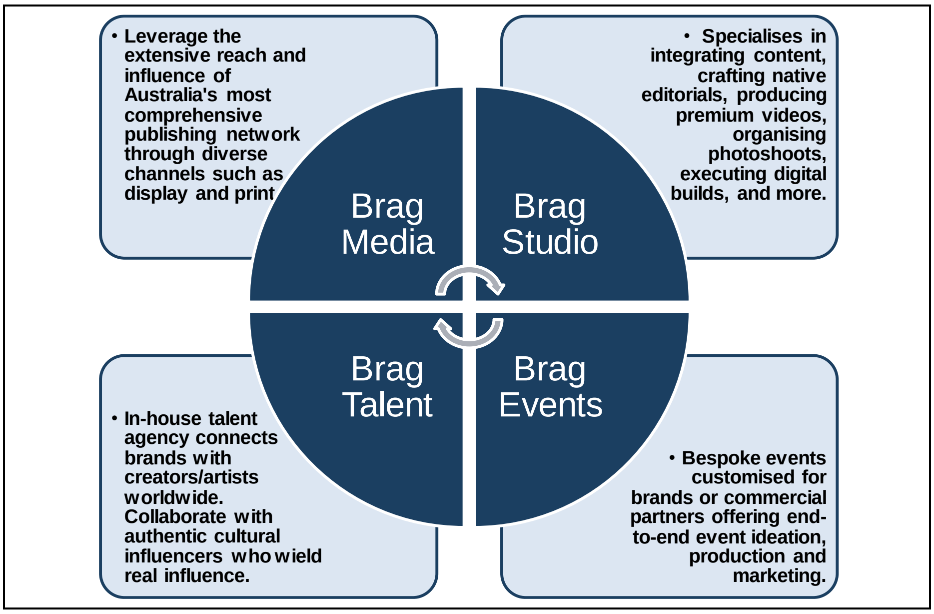
The Brag Media

The Brag Media is a publishing, creative agency and events group.

The Brag Media is a publishing, creative agency and events group (Figure 2). It was formed in 2017 as Seventh Street Media, eventually adopting the name of 'The Brag' after one of its publications. Other titles include The Music Network, Tone Deaf, and Penske Media Corporation titles, Rolling Stone and Variety in Australia and New Zealand. It also exclusively represents local digital audiences for over a dozen other titles, including HypeBeast, Billboard, The Hollywood Reporter, Music Feeds, ComingSoon, Rotten Tomatoes, Game Revolution, and IndieWire.

The Brag Media built a solid business model headlined by content targeted at niche segments amongst music fans. By the time it was acquired by Vinyl Group in January 2024, The Brag Media reached 11.5m users per month with over 35m monthly page views, positioning it as Australia's largest youth publisher.

Figure 2: The Brag Media's offerings and business model



Source: Company, Pitt Street Research

Vinyl.com

Vinyl is an online store for vinyl records.

Vinyl.com was launched in 2023 and is an online store for vinyl records. The online store is powered by Jaxsta credits, verifying every creative contribution on every recording. It is a chart accredited record store, and currently reports physical album sales to Billboard and the Australian Record Industry Association (ARIA).

The company intends to grow in Vinyl.com in several ways, but two in particular. First, through the vinyl influencers joining the affiliate programme. Six influencers including thegrapevinyl, vinylchucks, and Hip Hop By The Numbers have recently joined. Second, expanding the offerings on the website to include music merchandise, digital collectibles, and experiences that connect fans with creators. It also aims to expand geographically and lean into the Jaxsta metadata that powers the store.

Although some may perceive that Vinyl records are an outdated technology in a digital world, they have enjoyed a revival in the past 15-20 years, as evidenced by near constant growth in vinyl record sales and an increase in vinyl production. In 2023, nearly 50 million vinyl albums were bought in the US alone, with Taylor Swift being the biggest seller[1]. Even for fans who don't have the technology to play records, they serve as a kind of souvenir, showing loyalty to the individual artist. Meanwhile, for those who do have this technology, vinyl records bring back nostalgia from the past.

[1] RIAA and MusicWeek data

Vampr – A 'LinkedIn for Creatives'

Vampr as essentially a 'LinkedIn for Creatives'

Vampr is essentially a 'LinkedIn for Creatives' - a social-professional networking platform and talent marketplace for. Vampr was founded in 2015 by current Vinyl Group CEO Josh Simons and multi-award-winning musician Rex Palmer. The aim was to solve the problem of the difficulty in networking amongst fledgling creatives. Vampr grew substantially, reaching 1 million global users in over 190 countries by 2021. It had helped musicians and creatives create over 220,000 original songs with people met on Vampr, enjoy a combined 62.5bn streams on major music platforms[2] and generated $162m in royalties directly to these users.

Vampr acquired by VNL (then known as Jaxsta) in June 2023. The deal also saw Vampr's co-founder Josh Simons become CEO of Vinyl Group. The integration has led to further user growth for Vampr, as well as for existing features for existing users. In particular, VNL has introduced Jaxsta credits and verification as a feature of the Vampr Pro subscription tier.

Jaxsta – Vinyl's legacy business

Jaxsta is the world's largest and only official music credits database

Jaxsta is VNL's legacy business and was its namesake until the 2023 transformation. 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. Whenever a credit is received for a music creator, a profile page is automatically generated for the creative. This page can then be claimed by the creators themselves or by their representatives to to create a comprehensive resume showcasing all their credits, empowering them to promote their work effectively.

All of Jaxsta's data is seamlessly 'deep linked'. This means that when a release is explored on Jaxsta, clicking on any contributor's name instantly redirects to their profile page, providing immediate access to their entire body of work.

Vinyl Group has substantial potential, and it is beginning to show

It has been less than half a year since Vinyl Group completed its transformation, and it will be some time before growth as a group will be able to be tracked over time. However, the company has completed its first full quarter as a listed company and there have been some positive early signs that the company is growing, not just because it has multiple platforms, but also because these platforms are growing in their own right.

Highlights included a 52% quarter-on-quarter growth in cash receipts to $2.6m and 19% quarter-on-quarter revenue growth to $2.2m. The company closed the period with $4.1m in cash and received a further $2.6m in July through the recently completed Entitlements Offer. The company's operating net cash burn increased 33% quarter on quarter due to one-off operational

[2] Including Spotify, Apple Music, TikTok and SoundCloud.

costs associated with the group's consolidation such as compliance, transaction and other consolidation costs. Even if this figure was maintained – which it won't be - the cash balance as of July 2024 would see the company not need another capital raising for at least 12 months.

One particularly notable highlight during the quarter was long-term investor Songtradr expressing its ongoing support for the company through participation in the Entitlement Offer. Songtradr converted just over $1.9 of a convertible notes in exchange for ~91m shares, thus maintaining its 19.99% stake. A note balance of $1.5m remains, and this is not due until 29 June 2025.

The industry catalysts set to purport Vinyl's growth

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

As outlined in our initiation report, there are several catalysts that should drive Vinyl's growth in the future. In particular:

1. **The rise in self-releasing artists**. MIDiA Research's most recent Creator Survey estimated there are 6.4m of them[3]. There is a near-even split between those who wish to have music as a full-time career against those who do not. This will mean an increased market for Vinyl's musician-focused brands, particularly Vampr and Jaxsta. The lowered barrier to entry enables more musicians to enter the industry but also for the need for them to stand above their peers through being credited for their work and having the networking opportunities that Vampr provides.
2. **The rise in artists' spending on creator tools.** MIDiA Research has shown that artists spend a substantial sum on creator tools such as sound content, music production plugins, and hardware/instruments. MIDiA's assessment has estimated that part-time or amateur creators potentially generate US$88m annually and full-time musicians US$96m.
3. **The resurgence in vinyl records**. It is true that Vinyl sales are below all-time highs reached in the 1970s and are unlikely to again, although there has been a revival over the last couple of decades. This is because vinyl records bring back a sense of nostalgia and loyalty towards individual artists. The revival is not just because consumers are buying them, but because record labels and independent artists are opting to release their music on vinyl. Consider that Taylor Swift's 1989 album sold 1.4 million copies in just two months during 2023[4]. As Australia's largest online record store, Vinyl.com is well-positioned to benefit.

[3] https://www.billboard.com/pro/music-revenue-2023-why-ifpi-midia-numbers-different/
[4] https://www.forbes.com/sites/hughmcintyre/2024/03/28/taylor-swift-claims-half-of-the-top-10-bestselling-vinyl-albums-in-the-world/

Our valuation and projections for FY25

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

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 21c per share in our base case and 29c per share in our bull case, figures that are lower than in our initiation report due to the company's capital raisings and issue of new shares on issue.

Figure 3: Vinyl Group DCF valuation

Vinyl Valuation (A$m)	Base Case	Bull Case
Enterprise value	**217.0**	**279.5**
Net (debt) cash	(5.6)	(5.9)
Equity value	**211.4**	**273.6**
Diluted shares (m)	1,034.8	1,034.8
Implied price (A$)	**0.204**	**0.264**
Current price (A$)	0.093	0.093
Upside (%)	119.4%	183.9%
Mid-point Target Price	**0.234**	
Upside (%)	148.9%	

Estimates: Pitt Street Research

Our valuation is outlined in more comprehensive detail in our initiation report. Revenue was derived by deriving top-line figures for each of Vinyl's product lines individually and then adding all of them together to derive the company's total revenue. Vinyl's subscription and API revenues were calculated through a function of paid members and revenues per member, whilst Vinyl.com and the Brag Media was based off market share in the global Vinyl records market and the Digital Advertising Market respectively.

Our bottom line forecasted an EBITDA break-even in FY25, followed by gradual growth to a margin over 35% by FY30. We have modelled NPAT profitability for FY26. We expect margins to expand consistently over the years on the back of enhanced customer traction as company continues to scale.

We have used a WACC of 11.4%. This is derived from a risk-free rate of 4.3%, a 1.25 beta, and 7% equity premium. Considering that the company has excellent growth prospects in the future, with the growing music industry, we have assumed terminal growth rate of 2%.

Catalysts for a potential re-rating

We believe the following factors can contribute to the re-rating of the stock in the direction of our valuation range:

– The platform and its experience being improved through AI features, such as powering unique music suggestions through anticipated interconnections between music contributors. The integration of Vampr and Jaxsta was a key product milestone for the creators.

– Vinyl Group is continuously investing in its brands to grow its business and compete in the market by launching new subscription business model for its customers. The company's acquisition of Vampr and The Brag Media and its launch of Vinyl.com offers to further expand its sales opportunity.

– According to Bloomberg, an artist like Taylor Swift generated A$1.2bn to Australian economy from her Eras Tour. With increasing numbers of artists and creators and increased spending on the music industry gives potential opportunity for the company to expand its business.

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.

– **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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