

# GEAR4MUSIC

## CONSUMER DISCRETIONARY

13 October 2021

### G4M.L

750p

Market Cap: £157.1m

#### SHARE PRICE (p)



12m high/low 1,010p/620p

Source: LSE Data

#### KEY DATA

Net (Debt)/Cash	£2.7m (at 31/03/21)
Enterprise value	£154.4m
Index/market	AIM
Next news	Interims - 16 Nov
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](http://www.gear4musicplc.com)

GEAR4MUSIC IS A RESEARCH CLIENT OF  
PROGRESSIVE

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## H1 trading in line with expectations

### On track to meet full year market consensus

G4M has delivered an H1 trading update in line with internal expectations against the very strong H1 trading performance last year and is on track to meet full-year consensus market expectations. UK sales performance was the stand-out feature, coming in flat on last year. Europe's performance was hindered by post-Brexit challenges, down 16% on last year, though up 14% on a two-year view. Group sales are down 8% in aggregate, but up 31% on a two-year view. Gross margin has held up well, being down 60bps on last year, but strongly ahead of two years ago (+280bps) and historical levels. G4M is well positioned from a supply chain perspective, with good levels of on hand stock going into its peak trading period.

- Sales and margin performance:** The key elements have been summarised above, with full details to be found in the table on the following page. With a historically stronger H2 gross margin performance, the robust H1 gross margin performance of 28.0% bodes well for the full FY22E outturn compared with our forecast of 27.9%. It is no surprise to see group turnover down in H1 against the remarkable events and market backdrop of last year, but the underlying strength of G4M's sales is shown in the two-year compound growth rate of 14.4% in H1 sales.
- European distribution network strengthened:** The challenges thrown up by Brexit are manifest in the H1 sales performance. In turn, this underlines the rationale for G4M opening two new distribution centres in Barcelona and Dublin to mitigate these challenges. Both are now operational and will build up inventory, courier networks and trading over the coming months.
- AV Distribution Ltd acquisition:** The acquisition of AV, an online retailer of home cinema and hi-fi equipment, is on track for completion in December, with preparatory integration work proceeding well. G4M is aiming to launch AV.com in January 2022 after the Christmas trading peak.
- Forecasts unchanged:** While not immune from global supply chain issues, G4M is well positioned for its peak trading period. On-hand stock, which excludes stock in transit, stands some £7.1m or 30% higher at £31.3m as of 30 September, compared with the same time last year. Our forecasts, which exclude AV ahead of completion of the acquisition, are unchanged with the group on track to meet market consensus expectations.

FYE MAR (£M)	2020	2021	2022E	2023E	2024E
Revenue	120.3	157.5	157.5	180.1	200.2
Adj EBITDA	7.8	19.8	13.9	17.5	20.5
Fully Adj PBT	3.1	14.6	7.5	10.3	12.9
Fully Adj EPS (p)	12.2	59.7	29.0	39.9	49.9
EV/Sales (x)	1.3x	1.0x	1.0x	0.9x	0.8x
EV/EBITDA (x)	19.9x	7.8x	11.1x	8.8x	7.5x
PER (x)	61.3x	12.6x	25.9x	18.8x	15.0x

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.

## H1 trading – further details

The following table summarises the full details provided in G4M’s H1 trading update. It also shows the H1 performance in the previous two years for comparative purposes, together with the change for H1 FY22E against each of these prior trading periods.

The group was clearly a beneficiary of the coronavirus pandemic, with many consumers taking advantage of lockdowns and working from home by taking up or resuming the playing of musical instruments, together with an increased interest in music and podcast equipment. This manifested itself in last year’s H1 trading, with group sales rising by 42%, compared with the full-year FY21 sales increase of 31%.

This was accompanied by an exceptional 340bps increase in gross margin to 28.6%, rising further to 29.4% for the full year. G4M said at the time of the prelims that it did not expect to retain all the gross margin gain achieved in FY21, arising from the exceptional circumstances of the pandemic, but underlined its ambition to retain as much as possible, compared with the 25.9% gross margin delivered in the pre-pandemic FY20 results. The performance achieved in H1 – at 28.0% - of the current FY22E bodes well on this front, given that G4M traditionally delivers a higher gross margin percentage in H2 than H1.

### H1 turnover and gross profit performance, with prior year comparatives (£m unless otherwise stated)

Revenue:	H1 FY22E	H1 FY21	H1 FY20	% change on H1 FY21	% change on H1 FY20	Two-year CAGR
UK sales	36.7	36.7	24.8	-	48%	21.6%
Europe/RoW sales	28.0	33.5	24.6	(16%)	14%	6.7%
<b>Total sales</b>	<b>64.7</b>	<b>70.2</b>	<b>49.4</b>	<b>(8%)</b>	<b>31%</b>	<b>14.4%</b>
Gross profit:	18.1	20.1	12.5	(10%)	45%	20.3%
Gross margin (%)	28.0%	28.6%	25.2%	(60bps)	280bps	n.a.

Source: G4M, Progressive Equity Research

We have also shown the two-year compound annual growth rate (CAGR) delivered on both the sales and gross profit fronts by G4M to give a better picture of the underlying growth trajectory of the group. This eliminates the distortion of the pandemic on FY21’s extraordinary results, the effects of which were magnified even more in the group’s profit performance by the benefits of operational leverage. Group sales in H1 delivered a strong two-year CAGR of 14.4%, with gross profit increasing at the higher rate of 20.3%.

## Next news flow

G4M will deliver its interim results on 16 November.

**Financial Summary: Gear4music**

Year end: March (£m unless shown)

	2020	2021	2022E	2023E	2024E
<b>PROFIT &amp; LOSS</b>					
Revenue	120.3	157.5	157.5	180.1	200.2
Adj EBITDA	7.8	19.8	13.9	17.5	20.5
Adj EBIT	4.1	15.5	8.5	11.2	13.8
Reported PBT	3.1	14.6	7.5	10.3	12.9
Fully Adj PBT	3.1	14.6	7.5	10.3	12.9
NOPAT	3.5	13.4	6.9	9.2	11.3
Reported EPS (p)	12.2	59.7	29.0	39.9	49.9
Fully Adj EPS (p)	12.2	59.7	29.0	39.9	49.9
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
<b>CASH FLOW &amp; BALANCE SHEET</b>					
Operating cash flow	7.2	14.9	13.5	15.2	18.7
Free Cash flow	3.3	7.7	5.2	5.7	9.3
FCF per share (p)	15.9	36.6	25.0	27.1	44.2
Acquisitions	(0.4)	(0.2)	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	2.0	8.2	4.1	4.6	8.2
Overdrafts / borrowings	(13.4)	(3.5)	(2.5)	(2.0)	(1.5)
Cash & equivalents	7.8	6.2	9.3	13.4	21.2
Net (Debt)/Cash	(5.5)	2.7	6.8	11.4	19.6
<b>NAV AND RETURNS</b>					
Net asset value	21.6	34.3	39.4	46.7	56.3
NAV/share (p)	103.2	163.7	187.7	222.8	268.5
Net Tangible Asset Value	12.5	24.0	27.7	33.3	41.7
NTAV/share (p)	59.8	114.3	131.9	158.8	198.8
Average equity	20.2	27.9	37.4	44.7	54.2
Post-tax ROE (%)	72.4%	26.8%	27.6%	28.9%	29.1%
<b>METRICS</b>					
Revenue growth	1.8%	30.9%	0.0%	14.3%	11.2%
Adj EBITDA growth	239.8%	154.9%	(29.7%)	26.0%	17.2%
Adj EBIT growth	8146.0%	275.3%	(45.3%)	32.6%	23.2%
Adj PBT growth	(605.4%)	373.9%	(48.6%)	37.5%	25.2%
Adj EPS growth	(1670.4%)	388.3%	(51.5%)	37.5%	25.2%
Dividend growth	N/A	N/A	N/A	N/A	N/A
Adj EBIT margins	3.4%	9.8%	5.4%	6.2%	6.9%
<b>VALUATION</b>					
EV/Sales (x)	1.3	1.0	1.0	0.9	0.8
EV/EBITDA (x)	19.9	7.8	11.1	8.8	7.5
EV/NOPAT (x)	44.5	11.5	22.3	16.8	13.6
PER (x)	61.3	12.6	25.9	18.8	15.0
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	2.1%	4.9%	3.3%	3.6%	5.9%

Source: Company information and Progressive Equity Research estimates

**Disclaimers and Disclosures**

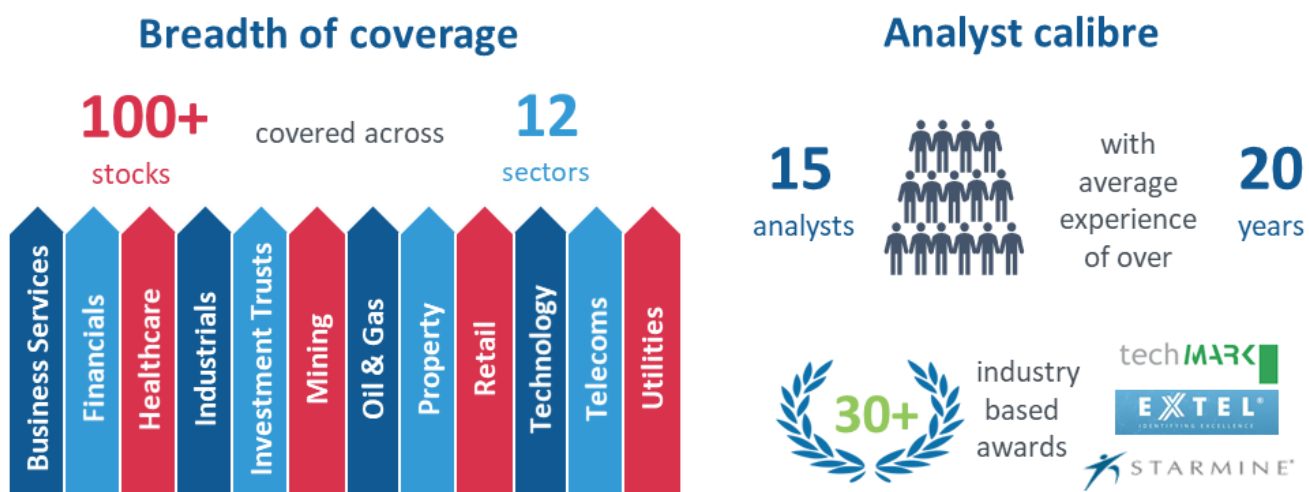
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