GEAR4MUSIC
CONSUMER DISCRETIONARY

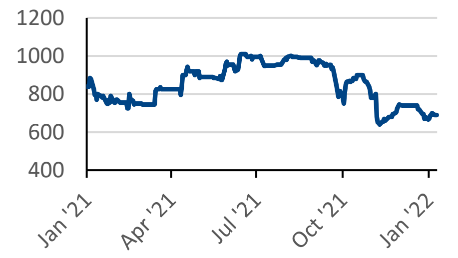
20 January 2022

G4M.L

690p

Market Cap: £144.6m

SHARE PRICE (p)



12m high/low	1,010p/640p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£(13.4)m *(at 30/09/21)*
Enterprise value	£158m
Index/market	AIM
Next news	Update - April '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

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Steady as she goes…

…on track to meet consensus expectations

G4M's Q3 trading update showed a continuation of the trends seen in H1, with a robust domestic market performance offset by ongoing short-term post-Brexit challenges in Europe. The latter are being addressed through scaling up the new distribution centres in Spain and the Republic of Ireland, with European revenues set to regain momentum in FY23E. With nine-month sales down c.9% against last year's exceptional performance, G4M's FY22E EBITDA remains in line with consensus expectations of £12.0m.

- **Q3 trading update.** G4M traded in line with the Board's expectation over the peak Q3 trading period. Aggregate group sales fell 10% compared with the exceptional period last year but were up 17% compared with the pre-Covid Q3 period two years ago. Gross margin at 28.4% remains strong, 220bps higher than two years ago, albeit down on last year's exceptional achievement at 29.9%. Q3 gross profit was 27% higher than two years ago, equating to a two-year compound growth rate (CAGR) of just under 13%.
- **UK performing strongly.** Quarterly trading in the UK remains on an upward trend, with Q3 sales up 13% on Q3 last year, improving from the flat sales performance in H1 against very tough comparatives. Q3 sales are up 24% on a two-year view, with a two-year CAGR of more than 11%.
- **Post-Brexit challenges persist.** Sales in Europe remain constrained by ongoing post-Brexit challenges, down 27% from Q3 last year, though still up 9% on a two-year view. These challenges should be mitigated through the scaling up of new distribution centres in Spain and Ireland, with positive sales momentum expected as G4M heads into FY23E.
- **AV.com launched.** Following completion of the acquisition of AV Distribution Ltd in December, the group successfully launched the AV.com website on 13 January 2022. With its focus on Home Cinema and HiFi products, the acquisition increases G4M's addressable European market size by an estimated £2.7bn. AV's acquisition, combined with a strong pipeline of product, systems and website developments, underpins G4M's longer-term growth prospects.
- **Forecasts unchanged.** G4M confirmed that EBITDA for FY22E remains on course to meet current consensus expectations of £12.0m from a consensus turnover base of £149.2m.

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)	1.3x	1.0x	1.0x	0.9x	0.8x
EV/EBITDA (x)	20.4x	8.0x	13.0x	10.5x	8.9x
PER (x)	56.4x	11.6x	32.0x	23.4x	18.4x

Source: Company Information and Progressive Equity Research estimates.

Trading details

In the following table we lay out G4M's revenue performance for both Q3 and the nine-month (9M) periods over the past three years. The latter 9M figures represent the sum of the interim H1 revenue figures and the Q3 trading update figures. We have provided UK, International and total group figures, together with the gross margin percentage. This has been calculated for the 9M period on the basis of the Q3 gross margin figures provided by G4M in its trading updates. The FY21 figures, for both sales and gross margin, reflect clearly how G4M benefited from the pandemic, as described in previous company statements and our notes.

Q3 and 9M trading performance details – FY20, FY21 and FY22

Sales (£m)	**Q3 FY22**	**Q3 FY21**	**Q3 FY20**	**9M FY22**	**9M FY21**	**9M FY20**
UK	26.0	23.0	20.9	62.7	59.7	45.7
International	21.2	29.2	19.4	49.2	62.7	44.0
Total	***47.2***	***52.2***	***40.3***	***111.9***	***122.4***	***89.7***
Change on prior year period (%)	**Q3**	**Q3**	**Q3**	**9M**	**9M**	**9M**
UK	13%	10%	n.a.	5%	31%	n.a.
International	-27%	51%	n.a.	-22%	43%	n.a.
Total	***-10%***	***30%***	***n.a.***	***-9%***	***36%***	***n.a.***
Gross margin (%)	*28.4%*	*29.9%*	*26.2%*	*28.2%*	*29.2%*	*25.6%*

Source: G4M, Progressive Equity Research

G4M provided comparative Q3 performance figures not only for last year, but also for the equivalent trading period two years ago. This enables trading to be measured against and compared with the last available pre-Covid trading period, a practice used by companies both in retail and across many other sectors.

On this basis, as detailed within the trading update, compared with the Q3 period to 31 December 2019 (part of the FY20 reporting period), G4M's latest Q3 sales performance increased by 24% in the UK, by 9% in Europe and the Rest of the World, and by 17% in aggregate. This two-year view arguably gives a better picture of underlying sales progress.

An even better perspective, in our view, is the two-year comparison for the longer 9M period. On this basis, the UK grew its sales base by 37%, Europe and the Rest of the World by 12%, and the group by 25%. The group figure equates to a two-year compound annual growth rate (CAGR) of around 12%.

While Q3's gross margin of 28.4% was down by 150bps compared with last year, it should be noted that it was some 40bps higher than the 28.0% reported in H1, bringing the cumulate 9M figure up to c.28.2%.

Financial Summary: Gear4music

Year end: March (£m unless shown)

PROFIT & LOSS	**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
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	**2020**	**2021**	**2022E**	**2023E**	**2024E**
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	**2020**	**2021**	**2022E**	**2023E**	**2024E**
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	**2020**	**2021**	**2022E**	**2023E**	**2024E**
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	**2020**	**2021**	**2022E**	**2023E**	**2024E**
EV/Sales (x)	1.3	1.0	1.0	0.9	0.8
EV/EBITDA (x)	20.4	8.0	13.0	10.5	8.9
EV/NOPAT (x)	45.5	11.7	28.8	21.8	17.7
PER (x)	56.4	11.6	32.0	23.4	18.4
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	2.3%	5.3%	(5.2%)	4.1%	4.6%

Source: Company information and Progressive Equity Research estimates

20 January 2022

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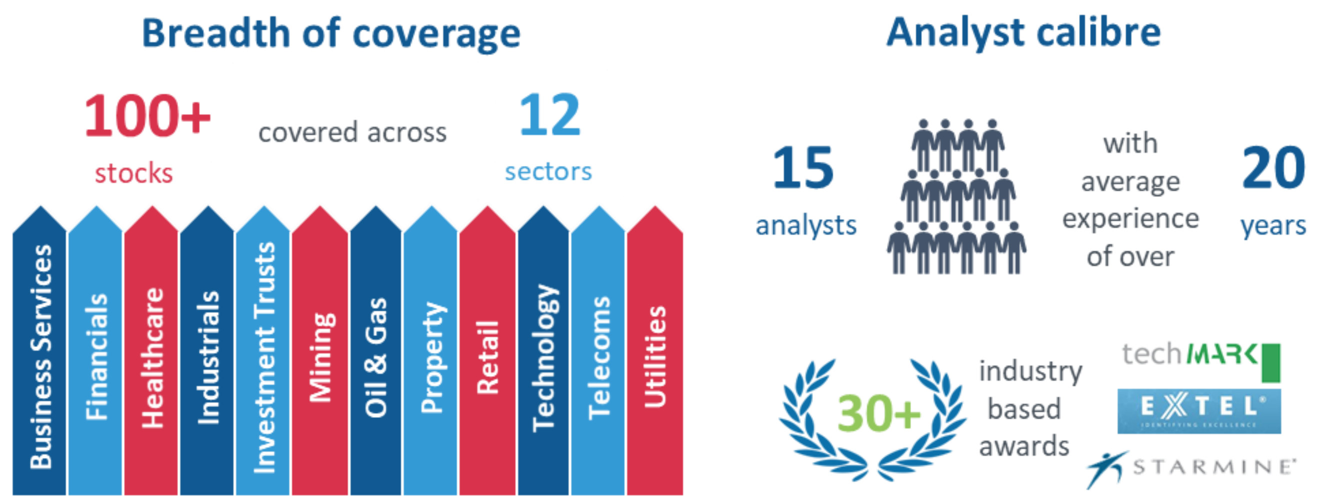

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