

GEAR4MUSIC

CONSUMER DISCRETIONARY

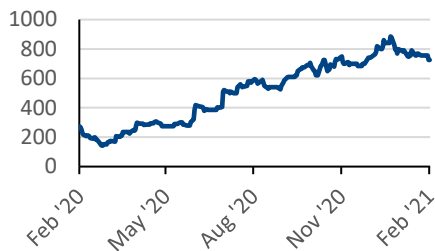
25 February 2021

G4M.L

725p

Market Cap: £151.9m

SHARE PRICE (p)



12m high/low 885p/143p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£(5.7)m (at 30/09/20)
Enterprise value	£157.6m
Index/market	AIM
Next news	Full year update-April
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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Maintained momentum.....

.....delivers further upgrade

Further to the upgrade delivered on the back of its impressive Q3 peak trading period, G4M has continued to perform strongly in Q4, resulting in another upgrade. Management now anticipates that EBITDA for FY21E will be not less than £18.2m, compared with our previous forecast of £16.6m. We have subsequently raised our FY21E EBITDA forecast by £1.7m (+10%) to £18.3m. G4M will make a more detailed announcement on FY21E's trading performance no later than 23 April.

- Q3 recap:** After its strong H1 performance, G4M maintained momentum over its peak Q3 trading period, in terms of both sales growth and margin expansion. Group sales increased by 30% in Q3, bringing cumulative year-on-year (yoy) growth to 36% for the first nine months. Europe & Rest of the World sales rose by 51% in Q3, with UK sales showing double-digit growth of 10%. Reflecting the group's focus on profitable growth, gross margin expanded by 370bps in Q3 to 29.9%, bringing the nine-month (9M) yoy gross margin expansion to 350bps at 29.2%.
- FY21E upgrade assumptions:** G4M's trading update describes trading thus far in Q4 as strong. With only a month until the year end, management has sufficient visibility and confidence to guide market EBITDA expectations to no less than £18.2m for FY21E. We have raised our turnover forecast by 1.6% to £157m, a year-on-year (yoy) increase of 30.5% from our previous 28.4% forecast. This now assumes Q4 sales growth of 13% rather than our conservative 5% forecast previously. Our gross margin forecast has been lifted by 20bps to 29.1%, equating to a 320bps yoy increase. The consequent £1m uplift in gross profit is complemented by further operating efficiencies to the tune of c £0.7m, resulting in our £1.7m EBITDA and PBT upgrades to £18.3m and £12.9m respectively. The forecast EBITDA margin now stands at 11.7% (+90bps from 10.8% previously).
- Outer year forecasts:** As before, given the ongoing uncertainties around both coronavirus and the new trading environment post-Brexit, we are not updating our estimates for the two subsequent years at present. Our FY21E forecast upgrade does have a ripple through benefit to net cash in outer years however. We continue to note that G4M's growth prospects are underpinned by its many scale and competitive advantages.

FYE MAR (£M)	2019	2020	2021E	2022E	2023E
Revenue	118.2	120.3	157.0	151.3	167.1
Adj EBITDA	2.3	7.8	18.3	11.6	13.1
Fully Adj PBT	-0.6	3.1	12.9	6.7	7.9
Fully Adj EPS (p)	-0.8	12.2	50.9	26.4	31.2
EV/Sales (x)	1.3x	1.3x	1.0x	1.0x	0.9x
EV/EBITDA (x)	69.1x	20.3x	8.6x	13.6x	12.1x
PER (x)	N/A	59.3x	14.2x	27.5x	23.3x

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.

G4M – summary of profit & loss account and cash flow forecasts

Profit and loss account	IAS17	IAS17	IFRS16	IFRS16	IFRS16	IFRS16
Year to March	FY18	FY19 (13 m)	FY20	FY21E	FY22E	FY23E
Turnover	80.1	118.2	120.3	157.0	151.3	167.1
Cost of sales	(59.8)	(91.2)	(89.2)	(111.3)	(111.5)	(122.8)
Gross profit	20.3	26.9	31.2	45.7	39.8	44.3
<i>Gross margin (GM) (%)</i>	<i>25.4%</i>	<i>22.8%</i>	<i>25.9%</i>	<i>29.1%</i>	<i>26.3%</i>	<i>26.5%</i>
Operating costs	(18.4)	(26.9)	(27.1)	(31.8)	(32.5)	(35.9)
Operating profit	2.0	(0.0)	4.1	13.9	7.3	8.4
<i>Operating profit margin (%)</i>	<i>2.4%</i>	<i>0.0%</i>	<i>3.4%</i>	<i>8.8%</i>	<i>4.8%</i>	<i>5.0%</i>
Depreciation and amortisation	(1.5)	(2.3)	(3.7)	(4.4)	(4.3)	(4.7)
EBITDA	3.5	2.3	7.8	18.3	11.6	13.1
<i>EBITDA margin (%)</i>	<i>4.3%</i>	<i>1.9%</i>	<i>6.4%</i>	<i>11.7%</i>	<i>7.7%</i>	<i>7.8%</i>
Interest charge	(0.5)	(0.6)	(1.0)	(1.0)	(0.6)	(0.5)
Adjusted PBT	1.5	(0.6)	3.1	12.9	6.7	7.9
Exceptional charges	0.0	0.0	0.0	0.0	0.0	0.0
Profit before tax	1.5	(0.6)	3.1	12.9	6.7	7.9
Adjusted diluted EPS (p)	6.7	(0.8)	12.2	50.9	26.4	31.2
Diluted EPS (p)	6.7	(0.8)	12.2	50.9	26.4	31.1
Dividend (p)	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow	FY18	FY19 (13 m)	FY20	FY21E	FY22E	FY23E
Operating profit	2.0	(0.0)	4.1	13.9	7.3	8.4
Depreciation and amortisation	1.5	2.3	3.7	4.4	4.3	4.7
Inventory (increase)/decrease	(5.4)	(1.6)	(3.4)	(4.0)	0.6	(1.3)
Debtors (increase)/decrease	(1.4)	1.0	(0.8)	(0.5)	0.1	(0.2)
Creditors increase/(decrease)	3.6	0.5	3.3	2.4	(0.8)	0.7
Other	(0.2)	(0.3)	0.4	0.0	0.0	0.0
Operating cash flow	0.1	2.0	7.2	16.2	11.5	12.2
Interest	(0.2)	(0.4)	(0.8)	(1.0)	(0.6)	(0.5)
Tax	0.0	0.6	0.5	(2.1)	(1.1)	(1.3)
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	(9.1)	(4.5)	(3.6)	(4.3)	(4.5)	(4.8)
Trading cash flow	(9.2)	(2.3)	3.3	8.9	5.3	5.7
Acquisition of businesses	(0.4)	(0.4)	(0.4)	(0.2)	0.0	0.0
Disposal of businesses	0.0	0.0	0.0	0.0	0.0	0.0
Share issues	4.2	0.1	0.0	0.0	0.0	0.0
Currency effects, other	0.0	0.0	(1.0)	(1.1)	(1.0)	(1.0)
Net cash inflow/(outflow)	(5.3)	(2.5)	2.0	7.6	4.3	4.7
Net (debt)/cash	(5.0)	(7.5)	(5.5)	2.0	6.3	11.0

Source: Gear4music, Progressive Equity Research

G4M – summary of balance sheet forecasts

Balance sheet	IAS17	IAS17	IFRS16	IFRS16	IFRS16	IFRS16
Year to March	FY18	FY19 (13 m)	FY20	FY21E	FY22E	FY23E
Tangible fixed assets	10.1	10.8	20.2	19.1	18.2	17.1
Intangible fixed assets	6.4	7.8	9.1	10.0	11.1	12.2
Investments and other	0.0	0.0	0.0	0.0	0.0	0.0
Total fixed assets	16.4	18.6	29.3	29.1	29.3	29.3
Stock	17.1	18.7	22.0	26.1	25.4	26.7
Trade and other debtors	2.7	1.7	2.5	3.0	2.9	3.1
Deferred tax	0.0	0.0	0.0	0.0	0.0	0.0
Cash and short term deposits	3.5	5.3	7.8	13.9	15.7	16.9
Current assets	23.3	25.6	32.4	43.0	44.0	46.7
Total assets	39.7	44.2	61.6	72.0	73.3	76.0
Trade and other payables	(10.9)	(11.5)	(14.4)	(16.9)	(16.0)	(16.7)
Borrowings	(3.9)	(8.6)	(9.9)	(8.9)	(6.9)	(3.9)
Other current liabilities	0.0	0.0	(1.1)	(1.1)	(1.1)	(1.1)
Current liabilities	(14.8)	(20.1)	(25.5)	(27.0)	(24.1)	(21.8)
Borrowings	(4.6)	(4.3)	(3.4)	(2.9)	(2.4)	(1.9)
Other non-current liabilities	(1.4)	(1.1)	(11.0)	(11.0)	(11.0)	(11.0)
Non-current liabilities	(6.0)	(5.4)	(14.5)	(14.0)	(13.5)	(13.0)
Total liabilities	(20.8)	(25.5)	(40.0)	(40.9)	(37.6)	(34.8)
Net assets	18.9	18.7	21.6	31.1	35.7	41.3

Source: Gear4music, Progressive Equity Research

Financial Summary: Gear4music

Year end: March (£m unless shown)

	2019	2020	2021E	2022E	2023E
PROFIT & LOSS					
Revenue	118.2	120.3	157.0	151.3	167.1
Adj EBITDA	2.3	7.8	18.3	11.6	13.1
Adj EBIT	0.1	4.1	13.9	7.3	8.4
Reported PBT	(0.6)	3.1	12.9	6.7	7.9
Fully Adj PBT	(0.6)	3.1	12.9	6.7	7.9
NOPAT	(0.4)	4.7	11.7	6.1	7.0
Reported EPS (p)	(0.8)	12.2	50.9	26.4	31.1
Fully Adj EPS (p)	(0.8)	12.2	50.9	26.4	31.2
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	2.0	7.2	16.2	11.5	12.2
Free Cash flow	(2.3)	3.3	8.9	5.3	5.7
FCF per share (p)	(10.9)	15.9	42.4	25.4	27.2
Acquisitions	(0.4)	(0.4)	(0.2)	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	0.1	0.0	0.0	0.0	0.0
Net cash flow	(2.5)	2.0	7.6	4.3	4.7
Overdrafts / borrowings	(12.8)	(13.4)	(11.9)	(9.4)	(5.9)
Cash & equivalents	5.3	7.8	13.9	15.7	16.9
Net (Debt)/Cash	(7.5)	(5.5)	2.0	6.3	11.0
NAV AND RETURNS					
Net asset value	18.7	21.6	31.1	35.7	41.3
NAV/share (p)	89.3	103.2	148.4	170.1	196.7
Net Tangible Asset Value	10.8	20.2	19.1	18.2	17.1
NTAV/share (p)	51.4	96.4	91.3	86.6	81.7
Average equity	18.8	20.2	27.0	35.2	41.3
Post-tax ROE (%)	16.4%	63.8%	24.7%	0.0%	0.0%
METRICS					
Revenue growth	47.5%	1.8%	30.5%	(3.6%)	10.4%
Adj EBITDA growth	(34.0%)	239.8%	136.0%	(36.7%)	12.8%
Adj EBIT growth	(55.8%)	8146.0%	237.7%	(47.4%)	14.2%
Adj PBT growth	(140.6%)	(605.4%)	318.1%	(48.2%)	17.9%
Adj EPS growth	(111.7%)	(1670.4%)	316.4%	(48.2%)	18.2%
Dividend growth	N/A	N/A	N/A	N/A	N/A
Adj EBIT margins	1.1%	3.4%	8.9%	4.8%	5.0%
VALUATION					
EV/Sales (x)	1.3	1.3	1.0	1.0	0.9
EV/EBITDA (x)	69.1	20.3	8.6	13.6	12.1
EV/NOPAT (x)	(386.3)	33.8	13.5	25.6	22.5
PER (x)	N/A	59.3	14.2	27.5	23.3
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(1.5%)	2.2%	5.9%	3.5%	3.8%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

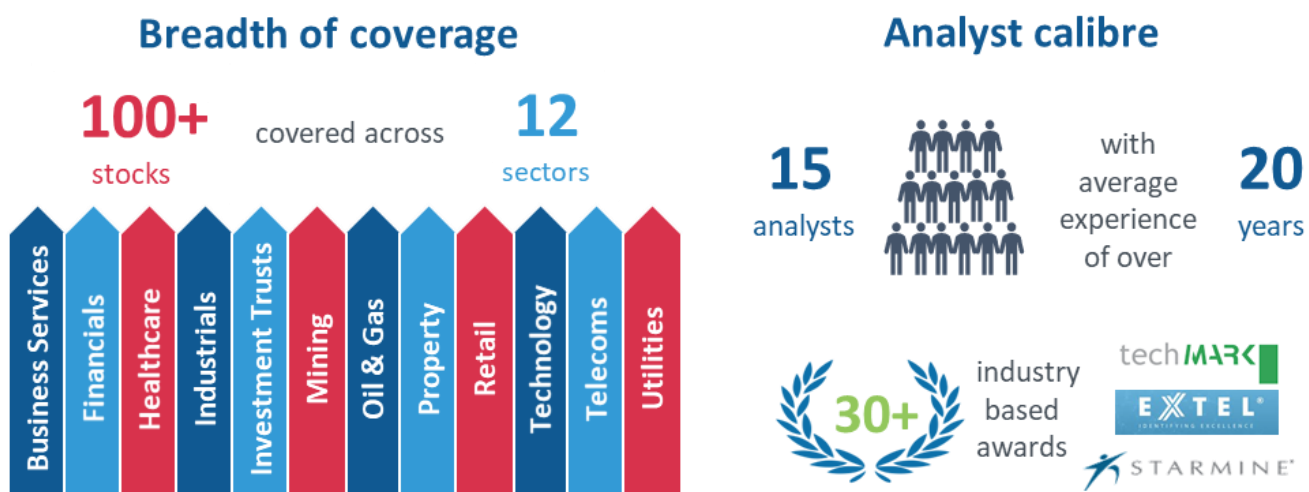
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