

# Gear4music (Holdings) Plc



## Update confirms over-delivered on plans for FY2020

23rd April 2020

**Gear4music's sales increased by 9% to £120.3m in the year to 31<sup>st</sup> March 2020, according to today's pre-close trading update. The company stated in an earlier (2<sup>nd</sup> April 2020) RNS that FY2020 profits would be ahead of market expectations and this announcement goes on to indicate by how far. With an online distribution focus and positive financial newsflow, the company's business model remains attractive. Moreover, it appears resistant to the current UK lockdown, as indicated in a relatively sanguine release about coronavirus on 18<sup>th</sup> March.**

Sales revenue at £120.3m in FY2020 was broadly in line with our most recent forecast. **UK** sales advanced a resilient 5%, whereas **Europe and Rest of the World** notched up a 15% gain. While the overall sales increase, at 9%, was slower than 16% higher at the half-way stage, we note that H1 included a 33% advance from Europe and Rest of World, and that the UK business has accelerated from a 3% half year gain. Moreover, H2 includes most of Christmas's order period so was 59% of full year sales. We note that H2 was up against strong comparatives as Gear4music sought to accelerate revenue in the same period in FY2019.

Furthermore, profit indicators re-confirm Gear4music's commitment to enhancing profitability which we highlighted in a 12<sup>th</sup> November 2019 report "*Profitability Takes Centre Stage*" and this was a central message of the 2<sup>nd</sup> April 2020 release.

**Gross margins improved to 25.9%** in FY2020 from 22.8% in FY2019. The improvement in gross margin increased in the second half following on from a strong start with H1 gross margins increasing by 250 basis points. EBITDA is expected to be at least £7.0m, which is well above our most recent £5.7m forecast.

**Gear4music remains financially robust.** The company reports that on-hand cash has improved: it was not less than £7.0m at the end-2020 compared with £5.3m a year earlier.

Gear4music's attractions as a company which can generate mature market sales volume growth remain in place. Notably, its distribution model is far more appropriate for an industry in which customers wish to **maximise available choice** than that of traditional retailing. Despite the challenges of COVID19, the company is committed to ensuring that service levels are maintained for customers while ensuring employees remain safe.

### Valuation

**Sales resilience and positive announcements for profitability were helpful for Gear4music's share price in recent weeks. Despite the recent positive share price momentum, the company's £52m market cap represents less than 50% of trailing sales revenue.**

**Investors may wish to note this when considering companies that are well placed to thrive both during and after the COVID-19 lockdown period.**

#### Company Data

EPIC	G4M
Price (last close)	250p
52 week Hi/Lo	283p/135p
Market cap	£52m

#### Share Price, p



Source: ADVFN

#### Description

Gear4music sells own-brand musical instruments and music equipment alongside premium third-party brands including Fender, Yamaha and Roland, to customers ranging from beginners to musical enthusiasts and professionals, in the UK, Europe and, more recently, into the Rest of the World.

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## FY20 statement confirms underlying growth

### Investment case

Gear4music’s investment case continues to centre on a distribution model and product category that are both capable of generating mature market sales revenue growth. The dominance of online for its distribution should sustain growth during COVID19 related lockdown in the UK. However, even under more normal circumstances online is clearly the most appropriate channel for a hobbyist product where customers seek to make precise purchasing decisions from a wide range of brands and instruments.

Furthermore, Gear4music’s senior management team has been not only long-serving, but also consistent in its ability to deal with business challenges. They responded to adversity by prioritising profitability in FY2020, and right now that appears to have paid off as rising gross margins coincided with strong sales revenue expansion.

**Overall growth and resilience has now been a feature of Gear4Music’s latest 3 trading statements.** On 18<sup>th</sup> March, the 2020 the company described coronavirus as unlikely to have had an adverse impact on FY2020 trading. The 2<sup>nd</sup> April 2020 release delivered a positive message for profitability and the ability of the company to be well configured for coronavirus related challenges. Today’s release represents a robust trading statement, too.

### Relative valuation

We include a sales-based relative valuation below. Given so much uncertainty in comparator forecasts and widescale guidance suspension this makes sense in our view. What is clear is that compared to the average of its peer group of specialist online retailers, Gear4music trades at **a significant EV/sales discount** despite demonstrating a marked return to growth in FY2020.

Comparables							
Company	Share price (pence)	Shares o/s (m)	Market cap (£m)	Debt (£m)	EV (£m)	Sales 2020 (£m)	EV/sales 2020 x
AO World	58	458.3	266	18	283	1054	0.3
ASOS	2145	83.6	1793	54	1847	2862	0.6
Boohoo	305	1145.7	3494	236	3730	1220	3.1
Gear4music	250	20.9	52	9	61	122	0.5
Ocado	1625	671.5	10909	147	11056	1987	5.6
<b>Average</b>							<b>2.0</b>

Source: Company data, ED estimates, marketscreener.com, ADVFN

Note: share prices refer to closing price 22nd April 2020



## Investor Access

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