

Sustaining a run of positive news

23 July 2020

Gear4music, which reported positively on FY2020 profits in its recent 23rd June 2020 results announcement, released further good news today. The company already stated that FY2021 had started on an exceptionally strong note for sales revenue. But profitability – an upgraded priority in the past 18 months – now looks to be ahead of expectations. We raise our forecasts on this report.

Gear4music reconfirmed very rapid first quarter sales growth in today's release. Total sales in the three months to end-June 2020 increased **by 68%** to £37.3m as UK sales advanced by a very fast 80% to £21.2m and Europe and Rest of the World also advanced quickly, recording 55% growth to £16.1m. At this stage, we are leaving our full year FY2021 revenue forecast at £143.5m, which represents a 19% growth rate. However, we note the company's increased confidence after a brisk Q1 that these arguably ambitious expectations will be met comfortably.

Gear4music's FY2020 prioritisation of profitability looks to have been rewarded and we upgrade our FY2021 EBITDA forecast from £10.3m to £11.3m. After a period of disruption in late calendar 2018, the company embarked on major projects to improve the quality of its internal organisation and logistics. The hard work associated with this process appears to have laid the foundations in benefiting both gross margins and the ability to target marketing expenditure more efficiently. Encouragingly, this implies that the company should be able to maintain positive profit momentum at whatever stage Covid-19 eases.

Today's announcement extends Gear4music's ability to deliver positive newsflow. It is the **fifth** consecutive positive RNS since 18th March 2020 when the company highlighted minimal impact from Covid19. Since then there were separate positive announcements on sales and profitability in April and better than expected results in June. We believe this should increase market confidence in how the business is positioned and being managed.

Gear4music's attractions as a company which can generate mature market sales volume growth remain in place. Even without a boost from Covid-19, its distribution model is arguably far more appropriate for an industry in which "hobbyist" customers wish to **maximise available choice**, than that of traditional retailing.

Valuation

Gear4music's share price has doubled year to date. However, that increase been supported by very positive newsflow and the current valuation appears undemanding given the sustainability of that growth and the company's inherent financial strength.

The EV/sales ratio looks modest at 0.6x while EV/EBITDA of 7.6x looks unusually low by the standards of successful online retailers. In our view, the shares are likely to enjoy further rerating. We reiterate that Gear4music looks well placed as a company to thrive, both mid and post pandemic.

Company Data

EPIC	G4M
Price (last close)	408p
52 weeks Hi/Lo	423p / 135p
Market cap	£85m

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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