

Gear4music Holdings

Jingle bells

Gear4music (G4M) has fulfilled the strong expectations of its four-month Christmas trading period. Revenue growth of 42% is consistent with H1 and is in line with expectations, both in the UK and faster growing international markets. This means that the online model continues to take share, achieving growth far ahead of consumer fundamentals and building on its market-leading position. We retain our forecast and reiterate our valuation stance, which sees upside based on the rate of development of international markets.

Year end	Revenue (£m)	EBITDA (£m)	PBT* (£m)	EPS* (p)	P/E (x)	EV/EBITDA (x)
02/16	35.5	1.7	0.6	3.1	246.9	93.9
02/17	56.1	3.7	2.7	11.6	66.4	45.1
02/18e	81.4	4.1	2.4	10.0	77.3	40.3
02/19e	102.1	5.2	3.3	13.3	57.9	32.0

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Pre-Christmas trading on expectation

G4M reports 42% y-o-y growth in total sales for the four months from September to December, its important pre-Christmas sales period. That is reassuringly close to the 44% growth in the first half, with trading in line with expectations. Growth for each of the geographies was also close to H1 levels. The UK (25% vs 30%) continued to provide substantial sales growth, and international sales (69% vs 70%) are powering ahead based on increased capacity and localised delivery options provided by the Swedish and German hubs. Active customer numbers were 38% up at 450,000, and are already 15% higher than at the half year. Website conversion, which is characteristically strong in this period, was up from 3.0% a year ago to 3.3%.

Revenue returns to underlying strong growth

G4M comments that two-year revenue growth of 120% is ahead of the same stage last year at 114%. This looks through the upward blip in September to December 2016 (+55%), which was supported by investment in stock at pre-referendum rates, as well as the upsurge in own-brand products following investment in the wake of the IPO. A year before (September to December 2015) growth had been 38%. The inference is that growth is returning to underlying strong rates.

Forecast unchanged

We commented at the half year that we expected second-half revenue to grow by similar rates to the first. That is the case, and we are not changing our forecast.

Valuation: Pricing market share gains

We reiterate our valuation stance. Short-term P/E and EV/EBITDA multiples remain top of the range of pure-play online retailers. G4M's current share price implies around six years to reach market share of 6% in mainland Europe. Achieving that one year earlier would imply 1,110p. Alternatively, overlaying a 1% share of the US market developed over the next 10 years would be equivalent to a share price of 967p. The two combined would be equivalent to a share price of 1,274p.

January trading statement

Retail

5 January 2018

Price 772p
Market cap £162m

Net debt (£m) at August 2017	3.7
Shares in issue	20.9m
Free float	64%
Code	G4M
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	9.9	(8.1)	53.6
Rel (local)	4.9	(11.0)	41.6
52-week high/low		865p	500p

Business description

Gear4music is the largest dedicated, UK-based online retailer of musical instruments and music equipment. It sells branded instruments and equipment, alongside its own brand products, to customers ranging from beginners to professionals, in the UK and into Europe and the rest of the world.

Next events

Pre-close	Early March 2018
Preliminary results	May 2018

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**Gear4music Holdings is a
research client of Edison
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Exhibit 1: Financial summary

	£'000	2016	2017	2018e	2019e	2020e
Year end: February		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		35,489	56,128	81,410	102,116	127,347
Cost of Sales		(26,303)	(40,983)	(60,399)	(74,931)	(93,328)
Gross Profit		9,186	15,145	21,011	27,186	34,019
EBITDA		1,688	3,656	4,092	5,150	6,664
Operating profit (before amort. and except).		903	2,655	2,648	3,589	4,746
Amortisation of acquired intangibles		0	0	0	0	0
Exceptionals		(606)	0	0	0	0
Share-based payments		(8)	(39)	(64)	(65)	(81)
Reported operating profit		289	2,616	2,584	3,525	4,664
Net Interest		(283)	20	(288)	(264)	(264)
Joint ventures & associates (post tax)		0	0	0	0	0
Exceptionals		0	0	0	0	0
Profit Before Tax (norm)		620	2,675	2,360	3,325	4,482
Profit Before Tax (reported)		6	2,636	2,296	3,261	4,400
Reported tax		(49)	(322)	(283)	(532)	(717)
Profit After Tax (norm)		571	2,353	2,077	2,793	3,765
Profit After Tax (reported)		(43)	2,314	2,012	2,729	3,683
Minority interests		0	0	0	0	0
Discontinued operations		0	0	0	0	0
Net income (normalised)		571	2,353	2,077	2,793	3,765
Net income (reported)		(43)	2,314	2,012	2,729	3,683
Basic average number of shares outstanding (m)		18.2	20.2	20.7	20.9	20.9
EPS - basic normalised (p)		3.1	11.7	10.0	13.4	18.0
EPS - normalised (p)		3.1	11.6	10.0	13.3	18.0
EPS - basic reported (p)		(0.2)	11.5	9.7	13.1	17.7
Dividend per share (p)		0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		46.4	58.2	45.0	25.4	24.7
Gross Margin (%)		25.9	27.0	25.8	26.6	26.7
EBITDA Margin (%)		4.8	6.5	5.0	5.0	5.2
Normalised Operating Margin		2.5	4.7	3.3	3.5	3.7
BALANCE SHEET						
Fixed Assets		4,477	7,102	13,718	14,730	15,811
Intangible Assets		3,238	5,537	6,094	6,612	7,083
Tangible Assets		1,239	1,565	7,623	8,119	8,728
Investments & other		0	0	0	0	0
Current Assets		11,194	16,035	21,225	24,340	28,712
Stocks		6,906	11,686	15,426	19,008	23,200
Debtors		740	1,348	1,955	2,452	3,058
Cash & cash equivalents		3,548	3,001	3,844	2,880	2,454
Other		0	0	0	0	0
Current Liabilities		(6,022)	(10,000)	(10,925)	(12,970)	(15,495)
Creditors		(5,188)	(7,379)	(7,957)	(9,901)	(12,329)
Tax and social security		0	0	0	0	3
Short term borrowings		(834)	(2,621)	(2,969)	(3,069)	(3,169)
Other		0	0	0	0	0
Long Term Liabilities		(290)	(1,415)	(5,988)	(5,343)	(4,526)
Long term borrowings		(127)	(24)	(4,728)	(4,491)	(4,141)
Other long term liabilities		(163)	(1,391)	(1,260)	(851)	(385)
Net Assets		9,359	11,722	18,029	20,758	24,502
Minority interests		0	0	0	0	3
Shareholders' equity		9,359	11,722	18,029	20,758	24,505
CASH FLOW						
Op Cash Flow before WC and tax		1,688	3,656	4,092	5,150	6,664
Working capital		(1,416)	(3,618)	(3,769)	(2,134)	(2,370)
Exceptional & other		(607)	28	(64)	(65)	(81)
Tax		0	(104)	(283)	(532)	(717)
Net operating cash flow		(335)	(38)	(25)	2,419	3,496
Capex		(1,509)	(2,195)	(7,680)	(2,573)	(2,999)
Acquisition: deferred payments		0	0	(409)	(409)	(409)
Net interest		(130)	(47)	(288)	(264)	(264)
Equity financing		9,535	0	4,193	0	0
Dividends		0	0	0	0	0
Other		0	0	0	0	0
Net Cash Flow		7,561	(2,280)	(4,208)	(827)	(176)
Opening net debt/(cash)		4,974	(2,587)	(356)	3,852	4,680
FX		0	0	0	0	0
Other non-cash movements		0	49	0	0	0
Closing net debt/(cash)		(2,587)	(356)	3,852	4,680	4,856

Source: Company accounts, Edison Investment Research

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