

# Gear4music Holdings

Placing

European horizons open up

**Gear4music's continued market share gains in the UK, and triple-digit growth in Europe, give line of sight to a significantly larger business with enhanced investment returns. Institutional investors have demonstrated their confidence in the company's growth strategy with the recent placing, but that has not been sufficient to address a market that continues to focus on higher value based on increasing market share.**

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	244.3	92.9
02/17	56.1	3.7	2.7	11.6	65.7	45.0
02/18e	79.7	4.1	2.4	10.0	76.4	40.2
02/19e	102.1	5.1	3.3	13.3	57.3	32.0

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

## Expansion through European market share gains

G4M is on a path to major expansion. Its success in the UK, applying 21<sup>st</sup> century retail technology to disrupt a fragmented industry, is giving way to the prospect of a significantly larger presence on the continent. In FY17, European sales grew 124%, and G4M has opened distribution hubs in Sweden and Germany. Separately, it plans a US website, which should provide a platform for own-brand sales there. It is also acquiring a £5.3m freehold, catering for its medium-term head office needs.

## Funding for investment opportunities

G4M has funded additional growth opportunities by raising £4.2m before expenses through a placing of 610,000 shares. It plans to invest the proceeds in the IT platform, international expansion, supply chain development, inventory investment, further enhancement of the marketing offering, the fit out of the new UK head office and further development of the German and Scandinavian hubs. The directors also placed 839,000 of their own shares and the CEO, who retains 34.3% of the shares, has undertaken not to sell further shares for one year.

## Forecasts materially unchanged

As the placing represents only a 3.5% increase in share capital, there is no material change to our forecasts.

## Valuation: Focus on the European opportunity

The placing was oversubscribed at 690p and the share price continues to demonstrate significant investor demand. The market is clearly focusing on the European opportunity. Based on a multiple of 2x sales, typical of pure-play online retailers, the current share price implies only a 2% revenue share of a European musical instrument and equipment market valued at £4.3bn, compared with G4M's 0.5% share now and its major competitor's 14% share. In the UK, G4M has already taken a 20% share, growing that at around 5% pa over the last three years. Thus, for G4M to reach a 2% European penetration looks achievable, and any over-achievement would give grounds for future upside.

Retail

5 June 2017

**Price** **764p**  
**Market cap** **£159m**

Net cash (£m) at end February 2017	0.4
Shares in issue	20.9m
Free float	64%
Code	G4M
Primary exchange	AIM
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	43.6	13.2	468.0
Rel (local)	38.8	10.0	368.6
52-week high/low	808.5p	99.5p	

### 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

AGM trading statement	July 2017
-----------------------	-----------

### Analysts

Paul Hickman	+44 (0)20 3681 2501
Neil Shah	+44 (0)20 3077 5715

[consumer@edisongroup.com](mailto:consumer@edisongroup.com)

[Edison profile page](#)

**Gear4music Holdings is a  
 research client of Edison  
 Investment Research Limited**

**Exhibit 1: Financial summary**

	£'000	2016	2017	2018e	2019e	2020e
Year end: February		IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>						
Revenue		35,489	56,128	79,728	102,116	127,347
Cost of Sales		(26,303)	(40,983)	(58,615)	(74,875)	(93,382)
Gross Profit		9,186	15,145	21,114	27,242	33,965
EBITDA		1,688	3,650	4,092	5,133	6,649
Operating profit (before amort. and except.)		903	2,655	2,648	3,590	4,747
Amortisation of acquired intangibles		0	0	0	0	0
Exceptionals		(606)	0	0	0	0
Share-based payments		(8)	(39)	(73)	(66)	(83)
Reported operating profit		289	2,616	2,575	3,524	4,663
Net Interest		(283)	20	(289)	(265)	(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	2,286	3,259	4,399
Reported tax		(49)	(322)	(283)	(532)	(717)
Profit After Tax (norm)		571	2,353	2,076	2,793	3,765
Profit After Tax (reported)		(43)	2,314	2,003	2,727	3,682
Minority interests		0	0	0	0	0
Discontinued operations		0	0	0	0	0
Net income (normalised)		571	2,353	2,076	2,793	3,765
Net income (reported)		(43)	2,314	2,003	2,727	3,682
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	17.6
Dividend per share (p)		0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		46.4	58.2	42.0	28.1	24.7
Gross Margin (%)		25.9	27.0	26.5	26.7	26.7
EBITDA Margin (%)		4.8	6.5	5.1	5.0	5.2
Normalised Operating Margin		2.5	4.7	3.3	3.5	3.7
<b>BALANCE SHEET</b>						
Fixed Assets		4,477	7,102	14,067	15,124	16,255
Intangible Assets		3,238	5,537	6,432	6,971	7,465
Tangible Assets		1,239	1,565	7,634	8,153	8,790
Investments & other		0	0	0	0	0
Current Assets		11,194	16,035	24,687	28,821	34,099
Stocks		6,906	11,686	15,060	19,068	23,307
Debtors		740	1,348	1,915	2,452	3,058
Cash & cash equivalents		3,548	3,001	7,712	7,301	7,734
Other		0	0	0	0	0
Current Liabilities		(6,022)	(10,000)	(14,940)	(18,028)	(21,511)
Creditors		(5,188)	(7,379)	(10,722)	(13,710)	(17,096)
Tax and social security		0	0	0	0	3
Short term borrowings		(834)	(2,621)	(4,219)	(4,319)	(4,419)
Other		0	0	0	0	0
Long Term Liabilities		(290)	(1,415)	(4,368)	(4,154)	(3,804)
Long term borrowings		(127)	(24)	(4,278)	(4,064)	(3,714)
Other long term liabilities		(163)	(1,391)	(90)	(90)	(90)
Net Assets		9,359	11,722	19,445	21,763	25,039
Minority interests		0	0	0	0	3
Shareholders' equity		9,359	11,722	19,445	21,763	25,042
<b>CASH FLOW</b>						
Op Cash Flow before WC and tax		1,688	3,656	4,092	5,133	6,649
Working capital		(1,416)	(3,618)	(598)	(1,558)	(1,459)
Exceptional & other		(607)	28	(73)	(66)	(83)
Tax		0	(104)	(283)	(532)	(717)
Net operating cash flow		(335)	(38)	3,137	2,978	4,390
Capex		(1,509)	(2,195)	(7,680)	(2,601)	(3,034)
Acquisition: deferred payments		0	0	(409)	(409)	(409)
Net interest		(130)	(47)	(289)	(265)	(264)
Equity financing		9,535	0	0	0	0
Dividends		0	0	0	0	0
Other		0	0	0	0	0
Net Cash Flow		7,561	(2,280)	(5,240)	(297)	683
Opening net debt/(cash)		4,974	(2,587)	(356)	4,884	5,181
FX		0	0	0	0	0
Other non-cash movements		0	49	0	0	0
Closing net debt/(cash)		(2,587)	(356)	4,884	5,181	4,498

Source: Company accounts, Edison Investment Research

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. [www.edisongroup.com](http://www.edisongroup.com)

#### DISCLAIMER

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Gear4music Holdings and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2017. "FTSE" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.