



American Musical Supply, Inc. ("AMS")



BB 1 year PD
0.38% to 0.60%

- Declining revenue and profitability trend with increasing leverage may impact long-term financial stability.
- High liquidity and a distinctive market position in the retail industry can aid in addressing financial concerns.

Credit Highlights

- Strengths**
 - The company maintains a strong liquidity position with a current ratio of 2.73, significantly above the industry median, allowing it to meet short-term obligations effectively.
 - Specialization in various musical instruments and related equipment caters to a wide range of customers, enhancing market reach and reducing concentration risks.
 - As an established (almost 40 years), and specialized retailer in the musical instrument sector, the company holds a distinctive market position (~ 6.1%).
- Weaknesses**
 - Decline in revenue by 8.7% and a substantial decrease in net income by 57.5% from Dec-21 to Dec-22, raises questions about operational and/or market challenges.
 - EBITDA margin reduced from 10.7% to 7.2%, raising questions about operational inefficiencies.
 - Debt to assets ratio increased to 26.0%, indicating a rise in leverage and potential increase in financial risk.

Scorecard Summary

	Weight	Score	Scaled Rating	Contribution
Financial	75%	6.49	Liquidity	<div><div></div></div>
			Leverage	<div><div></div></div>
			Profitability	<div><div></div></div>
Business	25%	6.16	Industry Risk	<div><div></div></div>
			Competitive Position	<div><div></div></div>
			Mgmt / Governance	<div><div></div></div>
			Sponsor / Parent	<div><div></div></div>
Modifiers	-0.25		Trend Analysis	<div><div></div></div>

Industry Benchmarks - Primary: Other Specialty Retail

Company Overview

Headquarters	Oakland, NJ
Type	Private (Non-PE)
Employees	~300
Year Founded	1986
Website	https://www.americanmusical.com/
Business	Online musical instrument retailer and wholesale supplier
Revenues	\$336M

- American Musical Supply, Inc. is a leading online retailer specializing in the sale of musical instruments, equipment, and accessories.
- Products:** The company offers a comprehensive range of products including guitars, keyboards, drums, live sound equipment, DJ equipment, and recording software, catering to both amateur and professional musicians.
- Customers:** Serving a diverse customer base, American Musical Supply, Inc. focuses on musicians, music producers, studio professionals, and DJs, providing products through its e-commerce platform.
- Ownership:** The company is privately held, with specific ownership details not publicly disclosed.

Financial Ratio Benchmarking

# of Benchmarks:	69	Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	1.60	2.73	<div><div></div></div>
	Quick Ratio	0.52	1.60	<div><div></div></div>
Leverage	Net Debt / EBITDA	1.16	1.85	<div><div></div></div>
	Debt to Assets	23.6%	26.0%	<div><div></div></div>
Profitability	EBITDA Margin	5.3%	7.2%	<div><div></div></div>
	ROCE %	8.3%	15.8%	<div><div></div></div>
	Revenue	\$142M	\$336M	

- A current ratio of 2.73x (vs 1.6x peer median), substantiates their robust ability to cover short-term liabilities with short-term assets.
- The Net Debt / EBITDA ratio of 1.85x is higher than the median, signaling elevated leverage and potential risks in debt management.
- EBITDA margin (7.2%) is still well above its' peers, despite the y-o-y decline.

Financial Statement Highlights

\$ '000s	Dec-21 T12	Dec-22 T12	YOY Chg
Income Statement			
Total Revenue	367,881	335,846	-8.7%
Adjusted EBITDA	39,358	24,048	-38.9%
Gross Profit Margin	26.6%	26.4%	(21) bps
EBITDA Margin	10.7%	7.2%	(354) bps

Balance Sheet			
Cash And Cash Equivalents	8,270	3,971	-52.0%
Total Current Assets	160,610	158,130	-1.5%
Total Goodwill & Intangibles	10,033	12,623	25.8%
Total Assets	174,199	185,821	6.7%
Total Debt	34,104	48,404	41.9%
Total Liabilities	69,973	77,923	11.4%
Total Shareholder Equity	104,226	107,898	3.5%

Cash Flow			
Net Income	40,932	17,402	-57.5%
CAPEX	462	294	-36.4%
Depreciation & Amortization	2,657	3,841	44.6%
Free Cash Flow			
Fixed Charge Coverage Ratio	37.04x	12.58x	(-24.5)x

- 8.7% decline in total revenue in FY-2021 compared to FY-2020
- Despite the revenue decline, gross profit margin remained around 26.4%, indicating effective cost management (COGS), contrary to OPEX (+11.9%).
- Total debt increased significantly in FY-2022, reaching \$48.4mn, an increase by 41.9% (y-o-y), increasing reliance on borrowings.

Business Risk Highlights

- Industry Risk:** The specialized retail industry for musical instruments is subject to market demand fluctuations and consumer preferences.
- Competitive Positioning:** AMS. operates in a niche market, facing competition from both specialized and general electronic retailers.
- Operational Efficiency:** The increase in operating expenses in FY-2022, despite a decline in revenue, raises concerns about the company's operational efficiency and cost management strategies (excluding COGS).
- Management and Governance:** As the company is privately held we were unable to gather further details about its management and governance structure to further assess operational and strategic risks from a qualitative perspective.