

Sanderson Group (SND) AIM



FLASH NOTE - TRADING UPDATE

- A pre-close trading update released on 23 October revealed that performance in the year ended 30 September 2012 was slightly ahead of market forecasts and the level of net cash stood at £4m at the period end. We have upgraded our 2012 forecasts accordingly to £1.9m at the pre-tax level (previously £1.8m) for earnings per share of 3.9p (previously 3.8p).
- This update clearly demonstrates the strength of the business given the tough economic backdrop. The multi-channel business saw an increase in sales order intake of over 15%, which implies that the company is justified in its belief that further positive progress is achievable in the year to 30 September 2013.
- The company has a strong balance sheet and net cash of £4m equates to 20% of the current market capitalisation. Adjusting for this the shares trade on a low multiple of earnings given the likelihood of sustainable growth moving forward.
- Final results are due to be released on 27 November and these should provide further evidence that Sanderson continues to thrive. Following a strong run in the share price our previous price target of 49p is now too conservative and we have raised this to 51.25p, being 12.5x earnings for 2013, although this has scope to be upgraded after the 2012 results announcement.

Results and Consensus Forecasts

Year to 30th September	Revenue (£m)	Pre-Tax Profit* (£m)	Earnings per share*(p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2010A	27.0	1.9	3.9	11.5	0.6	1.3
2011A	14.1	0.4	1.1	40.9	0.8	1.8
2012E	13.1	1.9	3.9	11.5	1.2	2.7
2013E	14.0	2.1	4.1	11.0	1.3	2.9

* from continuing operations with 2011 numbers restated to account for sale of Sanderson RBS

KEY DATA

Share Price:	45p
Prospective p/e ratio (2012):	11.5x
Prospective net yield (2012):	2.6%
Market Capitalisation:	£20.1m
Next Results Due (Finals):	27 NOV
Net Cash (at 30 Sep):	£4m
NAV per share:	45.6p



2011/12 Price Range: 48p/26p

BULLET POINTS

- Positive momentum continues to build
- The business is focused on attractive e-commerce and online sales markets
- The shares are inexpensive given the potential for growth in earnings
- Strong balance sheet with an improving net cash position
- Growing dividend
- Stripping out forecast year end net cash the shares trade on a modest rating

Date of Report : 6 November 2012

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About Sanderson

- Sanderson is a supplier of innovative software solutions and IT services focussed on multi-channel retail and manufacturing markets in the UK and Ireland. The group develops long term relationships with its customers with the majority of product development being customer led and offering tangible benefits. The group delivers solutions to numerous organisations with turnovers typically between £5m and £250m. Its customers include many household names, such as Mothercare, Hotel Chocolat, Beaverbrooks and Scotts of Stow.
- The group's solutions now primarily consist of Sanderson proprietary owned software, integrated with other market-leading products being delivered, supported and serviced by Sanderson staff. Sanderson's contracts for both software and support and maintenance provide it with a solid recurring revenue base, with 62% of revenues being of a recurring nature - enough to cover 80% of overheads. A further 33% of revenue comes from additional spend from the existing customer base, with 5% of revenue from new customers.
- Following the sale of Sanderson RBS last January, for cash of £11.7m, the group has concentrated on developing and growing its businesses both in the expanding multi-channel retail and ecommerce markets as well as in selected manufacturing markets. This investment has focused on developing new products and services, such as warehouse automation and, increasingly, mobile applications. The group's sales and marketing capabilities have also been strengthened.

GENERAL INFORMATION

COMPANY DATA

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FINANCIAL CALENDAR

Last Year End:	30 September 2012
Final Results Announcement:	27 November 2012
Expected AGM Date:	10 March 2013
Final Dividend Payment Date:	31 March 2013
Interim Results Period End:	31 March 2013
Interim Results Due:	14 May 2013

The above dates should only be used for guidance

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