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Sanderson Group (SND)

Software & Computer Services

Having previously highlighted the resilience of Sanderson Group during a tough trading period, it is pleasing to now report on further progress following the release of results for the year ended 30 September 2010.

The software and IT services group is optimistic about the future and the latest results announcement provides evidence that there is good reason for the positive outlook. Although pre-tax profit of £1.91m was a shade lower than the figure of £1.95m we had pencilled in, £3.37m of cash was generated from operations and this allowed net debt to be cut from £9.96m to £7.84m. Relative to the current market capitalisation this is significant and has allowed a very well covered final dividend of 0.35p per share to be declared, bringing the total for the year to 0.6p versus 0.4p a year earlier.

The current year has also started well, helped by the fact that the order book as at 30 September was almost double the level 12 months before. A reassuring level of new customers was won in both operating divisions and some notable projects have also been gained from existing clients in multi-channel retail.

The shares have performed very strongly over the past 18 months, having been as low as 8.5p. Having hit 31.25p earlier this week, the shares have subsequently dropped back on profit taking and, at the current price of 27.5p, they stand on a prospective p/e ratio of just 5.1x. We believe that this provides scope for a re-rating and, assuming a fairly modest p/e ratio of 8x to be fair, implies a share price target of 43.25p.

Activities

Sanderson Group was established in 1983 and has grown both organically and through acquisitions. The group operates as a supplier of innovative software solutions and IT services. There is a heavy bias towards the UK market, specifically the multi-channel retail and manufacturing sectors. Long term relationships are built with clients, who tend to be organisations with turnover between £5m and £250m.

Multi-Channel Retail - the group has a wide range of IT solutions, products and services which are aimed at businesses that sell via retail stores, mail order, wholesale and online. These include EPoS systems, retail management systems, e-commerce software, multi-channel software, mail order management and wholesale IT systems. Services include maintenance and support, IT and managed services, hardware and installation. Customers include Harrods, Selfridges, Tie Rack, Thorntons and French Connection.

Manufacturing - software solutions have been created for manufacturing, with some applications designed specifically for the print and food sectors. The Unity ERP (enterprise resource planning) system has been developed using the group's experience in dealing with the manufacturing sector. Formul8 is designed to manage all aspects of food production and distribution and Unity MIS (management information system) is a modern print business system. Unity SBE improves the management and planning of internal resources of smaller businesses.

Results and Consensus Forecasts

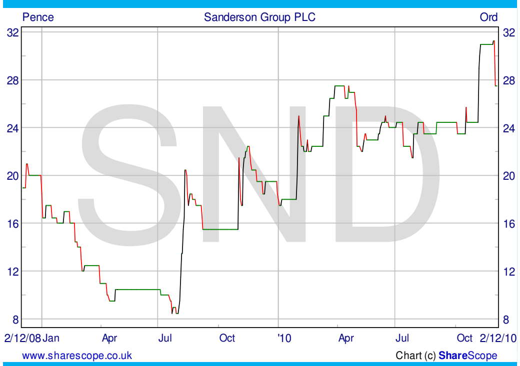
Year to 30th September	Revenue (£m)	Pre-Tax Profit* (£m)	Earnings per share* (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2008A	27.6	3.22	9.6	2.9	1.4	5.1
2009A	24.9	1.07	4.0	6.9	0.4	1.5
2010A	27.0	1.91	3.9	7.1	0.6	2.2
2011E	28.5	2.50	5.4	5.1	0.8	2.9

* before amortisation of acquisition-related intangibles, exceptional costs, impairment of goodwill and share-based payment charge

KEY DATA

Share Price:	27.5p
Prospective p/e ratio:	5.1x
Prospective net yield:	2.9%
Market Capitalisation:	£11.9m
Next Results Due (Ints):	MAY
Gearing:	43%

SHARE PRICE PERFORMANCE



2009/10 High/Low: 31.5p/8.5p

SNAP BULLETS

- Final results confirm that ongoing progress is being made
- Solid cash generation remains a key attraction of the business
- Net debt is being paid down and was under £8m as at 30 September 2010
- Progressive dividend policy
- Shares trade on a modest multiple of earnings despite strong recent outperformance

Date of Report : 3 December 2010

COMPANY DATA

Stockbrokers:
Charles Stanley

Significant Shareholdings:

C Winn Esq, Chairman - 29.97%
AXA Framlington IM - 9.21%
ISIS EP LLP - 6.92%
Chelverton AM - 6.29%
Hargreave Hale & Co - 4.99%
Polar Capital Partners - 4.38%
Unicorn Asset Management - 3.55%

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Adrian Frost - Finance Director
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Final Results

In the year ended 30 September 2010 the group increased revenue by 8% to £26.99m (2009: £24.90m). Recurring revenues from annual software licenses, support and managed service contracts edged up from £13.56m to £13.66m, representing 51% of total revenue (2009: 55% of total revenue).

At the pre-tax level, before the amortisation of acquisition-related intangibles, exceptional costs, impairment of goodwill and before the charge in respect of share-based payments, there was a 79% increase in profit to £1.91m (2009: £1.07m). Adjusted earnings per share on the same basis were 3.9p versus 4.0p a year earlier as the group incurred a tax charge rather than receiving a tax credit. Cash generated from operations during the period was £3.37m (2009: £1.87m), which represents an increase of 80%. This allowed net debt to be paid down to £7.84m as at 30 September 2010 (30 September 2009: £9.96m), having peaked at £12.46m as at 31 March 2008.

The final dividend was raised to 0.35p per share, making a total of 0.60p for the year (2009: 0.40p) and a progressive dividend policy is still anticipated moving forward even though there is a continued focus on reducing net debt.

The bulk of the increase in revenue came from multi-channel retail, with revenue from the division increasing by 10% from £19.16m to £21.17m. During the period 24 new customers were gained (2009: 21) including the likes of Hamley's, David Austin Roses, TJ Hughes, Aquascutum and Links of London. Order intake was £12.95m (2009: £10.62m) and the order book at the year end was notably higher at £2.47m (2009: £1.47m).

In manufacturing, revenue increased marginally to £5.83m (2009: £5.73m) and recurring revenues accounted for 61% of revenue in this business segment (2009: 66%). Four new customers were added, as detailed in our note of July 2010.

Prospects

Final results for the year ended 30 September 2010 were impressive. In particular, the level of cash generated was exceptional relative to the size of the business and the current market capitalisation given the trading backdrop. The economic downturn has been negotiated very well and the company's optimism looks well founded. The significantly improved trading performance comes as no surprise and a trading update on 5 November had already confirmed that net debt was below £8m at the period end.

Some impressive new customer wins have contributed to a strong order book of £3.03m as at 30 September 2010, 58% higher than the figure of £1.92m a year earlier. This has helped to ensure that the current year has started well. The company is keeping an eye on general economic conditions, but on a micro level is confident that its strong offering will allow further progress to be made this year and beyond.

There is a continuing commitment to reducing the level of net debt, which is now down 37% from the peak level of £12.46m. However, a progressive dividend policy is being maintained and although the 0.6p payout for 2009/10 equates to a yield of 2.2% at the current share price, sufficient cash is being generated to cover this very comfortably, allowing flexibility over future payments.

Overall, Sanderson continues to make solid progress. Strong cash generation has been delivered over a sustained period and indicators such as the improved order book suggest that there should be further positive news in the current year.

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