

Sanderson Group (SND)

AIM - Software & Comp. Services

Annual results to 30 September for software and IT services group Sanderson have shown another increase in profits and earnings per share - an excellent performance in difficult trading conditions. And there should be yet further improvement in the current year with the group having a strong order book. Sanderson continues to attract new customers whilst the introduction of new products will also help to generate additional business from existing customers.

In August, the group successfully refinanced its debt and this will generate cost savings of around £300,000 per annum. The group's strong cash flow has led to a reduction in debt to £6.7m and this is expected to reduce further going forward. The strength of the balance sheet will also facilitate bolt-on acquisitions should

suitable opportunities be found.

Although trading conditions remain challenging, the group has demonstrated that it can deal with these as can be seen from the impressive progress made over the last two years. Despite this, the share price still languishes on a very low rating, although the shares did run up to an intra-day high of 41.5p in July.

At the current level of 26p, the shares are on an historic p/e ratio of just 4.7x and this is expected to fall to 4.2x in the current year. We do not believe that this does justice to either the progress made at the group already or its future prospects. We think there is scope for a significant re-rating and a prospective p/e ratio of 10x current year earnings gives a share price target of 62p.

Activities

Sanderson 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. A new internet retail product has also been successfully introduced as has a new module for hospital catering. Services include maintenance and support, IT and managed services, hardware and installation. Customers include Harrods, Selfridges, French Connection and Salford Royal NHS Foundation Trust.

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 solutions are now also being made available for smaller companies.

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 (%)
2009A	24.9	1.07	4.0	6.5	0.40	1.5
2010A	27.0	1.91	3.9	6.7	0.60	2.3
2011A	26.4	2.34	5.5	4.7	0.75	2.9
2012E	28.0	2.80	6.2	4.2	1.00	3.8

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



KEY DATA

Share Price:	26p
Prospective p/e ratio:	4.2x
Prospective net yield:	3.8%
Market Capitalisation:	£11.3m
Next Results Due (Ints):	MAY
Gearing:	36%

SHARE PRICE PERFORMANCE



BULLET POINTS

- Excellent annual results
- Strong order book
- Significant cost savings made due to debt refinancing
- Net debt continuing to fall
- Progressive dividend policy
- Shares on low p/e ratio

Date of Report : 28 November 2011

www.brokerlink.co.uk

COMPANY DATA

Stockbrokers:
Charles Stanley

Significant Shareholdings:

C Winn Esq, Chairman - 29.97%
AXA Framlington IM - 9.21%
ISIS EP LLP - 6.92%
Hargreave Hale & Co - 6.49%
Chelverton AM - 6.29%
Unicorn Asset Management - 3.55%

Contact Address:

Sanderson House
Manor Road
Coventry
CV1 2GF

www.sanderson.com

Information:

Christopher Winn - Chairman
Adrian Frost - Finance Director
t - 02476 555466

2011 Results

The group's annual results to 30 September have shown yet further progress despite the challenging trading conditions. Revenues for the year declined slightly to £26.42m (2010: £26.99m), although it is pleasing to see that recurring revenues from annual software licences, support and managed service contracts increased to £13.70m (2010: £13.66m). This now represents 52% of total revenues (2010: 51%).

Despite the fall in revenue, an improvement in gross margins to 71.7% (2010: 69.0%) has resulted in slightly higher gross profits of £18.95m (2010: £18.63m). Before exceptional items and amortisation of acquisition-related intangibles, operating profit increased by 7% to £3.30m (2010: £3.09m) and pre-tax profits rose by 22.5% to £2.34m (2010: £1.91m). Earnings per share on the same basis rose to 5.5p (2010: 3.9p) with the large increase due to a tax credit in the year as opposed to a tax charge in 2010. The total dividend has increased to 0.75p (0.60p). Strong operating cash flow has allowed net debt to fall once again to £6.72m (2010: £7.84m) for gearing of 36%.

In the multi-channel retail business, revenues declined slightly to £20.28m (2010: £21.17m) although operating profit before exceptionals increased to £2.38m (2010: £2.26m). 22 new customers were gained during the year (2010: 24) including Country Homes & Gardens, Twinings and Lewis's Home Retail, whilst large orders were also received from existing customers including Wilkinson, The Original Factory Shop, Lakeland and Fenwick.

Revenue at the manufacturing business rose slightly to £6.15m (2010: £5.83m) with most recovery seen in companies operating in general manufacturing, notably printing and aerospace. Recurring revenues account for 58% of the total and operating profit before exceptionals rose to £920k (2010: £836k). Four new customers were gained in the period (2010: four) and the latest version of the Unity software has been well received.

Prospects

Looking ahead, prospects for Sanderson look very encouraging. The group started the current financial year with a strong order book of £2.92m (2010: £3.03m) and the introduction of new products should attract further new customers as well as generate additional revenues from existing customers. It is encouraging that recurring revenues remain strong at over 50% of total revenues, whilst the strong cash flow at the group continues to allow borrowings to fall. The relatively low level of gearing will also mean that small bolt-on acquisitions can be made if suitable targets can be identified. The successful refinancing of the group's debt in August has provided additional flexibility in this regard whilst also generating cost savings of some £300k per annum.

The group continues to enhance its existing systems and develop new products. For example, a new Retail Concept Suite has been developed which showcases and demonstrates latest store technologies to help maximise customer spend, whilst its hospitality and catering module has already allowed Salford Royal NHS Foundation Trust to achieve significant savings. Other new products and services include Business Assurance and Factory Automation, which are now gaining some traction, whilst the group's Green IT, SaaS and Cloud solutions should drive further growth. Further investment has also been made in sales and marketing and the group is clearly benefiting from this as it continues to win new customers.

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1 Skipton Road
Ilkley
West Yorkshire
LS29 9EH

Tel : 01943 886602
Fax : 01943 886601
Email : info@brokerlink.co.uk
www.brokerlink.co.uk

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