

SANDERSON GROUP
(AIM:SND)
Share price 40.25pDate: 15th May 2012
**Sector: Software & Computer
Services**
Market Cap: c£17.1m
www.sanderson.com**Results in line and a positive 'Mobile' future**

The software and IT services business specialising in the manufacturing and multi-channel retail markets issued interim results for the six months ending 31st March 2012 in line with expectations communicated on 29th April. More importantly the outlook remains cautiously positive, supported by a strong net cash position and growing opportunities in the area of mobile applications.

- Results: improving gross margins

Although revenues from continuing operations of £6.14m were down on the comparable period (2011: £7.04m) operating profit of £0.80m was higher (2011: £0.75m) with the Group benefiting from improved gross margins of 84.3% (2011: 81.4%) reflecting the delivery of more proprietary software and other 'owned' services. It's also worth stating that the fall in revenue resulted primarily from discontinued lower margin 'Help Desk' activities and was flagged previously.

Basic earnings per share from continuing operations were 0.4p (2011: 0.6p) and the interim dividend was increased to 0.5p per share (2011: 0.3p).

The effective tax charge for the period of £247,000 (2011: £86,000) was high as a result of pre-disposal tax structure

Having received a net £10.86m on the sale of Sanderson RBS the net cash balance at 31st March 2012 was a supportive £3.56m which compares with bank debt of £7.20m at 31st March 2011. The pension deficit at 31st March 2012 was £3.872m (30th Sept 2011: £3.994m) and the annual funding requirement is currently approximately £300,000.

Net assets at the half year end were £19.78m.

- Order book promising

The order book at 31st March was £1.95m (2011: £1.67m) representing a 44% improvement from 30th September 2011 year end position of £1.35m. The Group expect the benefits of this larger order book to be reflected in the trading result for the second half year, during which most of the projects are scheduled for implementation and delivery to customers.

Recurring revenues in respect of continuing operations rose to £3.79m (2011: £3.61m) with a first order received for new mobile solution applications.

- Operations***Multi-channel retail***

Sanderson provides a comprehensive range of solutions for multi-channel retail, online sales, ecommerce, catalogue, wholesale and cash & carry businesses. These solutions comprise primarily the Group's proprietary software often integrated with other market-leading products, which are installed, supported and serviced by Sanderson staff.

Although revenues derived from multi-channel retail operations fell by 20% during the period to £3.196m, the change in business mix resulted in operating profit rising 26% to £508,000.

The Group services over 220 customers in the multi-channel retail space with the spend of the top 5 customers during the period £498,000.

Online sales and ecommerce related activity performed well in the period with the Group winning four new customers, including Toni & Guy and Barrington Sports. Sales order intake

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increased by over 25% compared with the comparative period of 2011.

The period end order book in multi-channel retail was, at £1.27m (2011: £836k), more than double the order book value of £562,00 at 30th September 2011.

Mobile-commerce in this space is predicted to grow particularly rapidly.

Manufacturing

The Group's manufacturing business covers the provision of IT solutions to manufacturing companies which operate primarily in the engineering, plastics, aerospace, electronics, print and food process sectors.

Revenues were broadly in line with the comparable period at £2.947m (2011: £3.01m) with operating profit 17% lower at £293k (2011: £349k). Divisional recurring revenues represent 62% of total revenues and cover over 80% of the divisional overheads.

Three new customers were gained in the period (2011: two new customers), including Tyzack Machine Knives and Bayview Seafoods.

Management commented that the order book of £784k (2011: £825k) should ensure an improved trading result in the second half year.

- Recurring revenue cover

Margin attributable to recurring revenue, being annual, pre-contracted licence, support & managed service contracts now covers 80% of Group overheads.

- Estimates achievable

With full year house broker estimates for revenue of £13.1m (excludes approx £2m of Sanderson RBS, now sold), and having achieved £6.1m in the first half, the target in the 2nd half target is for revenue of £7.0m. In this regard recurring revenue of £3.8m combined with a current order book of £2.0m leaves a gap of £1.2m to be filled, seemingly easily achievable.

Full year estimates broker estimates remain for normalised pre-tax profit of £1.8m and normalised earnings per share of 3.8p. For the year ending 30th September 2013, estimates are for Group sales of £13.8m (no contribution from Sanderson RBS), normalised pre-tax profit of £2.2m and normalised earnings per share of 4.2p.

We remain of the view that the now cash rich group addressing the one bright area in the retail space remains good value at current levels.

- Outlook is Mobile!

The Group is excited by the growth opportunities presented by the development of mobile applications evident in the increasing adoption by businesses of smartphones and tablet devices.

Management commented how the rapid growth of online, ecommerce and catalogue retail channels is continuing to experience annual growth rates in excess of 10% in a tough retail environment. This growth is expected to continue into the mid-term by the development and expansion of m-commerce, or e-commerce with mobile devices.

- Use of cash?

In addition to the promised increase in the dividend (1.2p for the full year) no doubt the

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Group will be on the look out for some small bolt-on acquisitions to support their growth ambitions. The medium-term target is to grow annual revenue and profit to approximately £20m and £3m-£4m respectively through a mix of organic and acquisition related activity, building cash balances to approximately £5m.

With online sales & ecommerce expected to grow rapidly and Sanderson well placed in this area the outlook looks promising.

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