SMALL CAP SHARE COMMENT
Commissioned Commentary

SANDERSON GROUP

(AIM:SND)
Share price 37.5p

Bank refinancing successfully concluded with evident benefits

Date: **2nd August 2011**
Sector: Software & Computer Services
Market Cap: c£16.3m
www.sanderson.com

The software and IT services business specialising in multi-channel retail and manufacturing markets in the UK and Ireland has announced the successful conclusion of discussions regarding the refinancing of its term debt and working capital facilities.

We pointed out in our May 2011 commentary how net financing costs of £577,000 for the 6 months compared to net operating profit of £782,000 highlighted the impact of the former on operating profit and the evident benefits of refinancing on more favourable terms.

HSBC Bank plc has now replaced Royal Bank of Scotland as the Group's banker having advanced a four year term facility of £7.4m together with a £1m working capital facility. Net debt at 31st March 2011 half year end was £7.2m (2010: £9.0m).

- Significant cost savings from new facility

Management commented that the new facility is expected to generate annual savings of approx £300,000 per annum, although a one-off charge of c£400,000 will be recorded in the current period to 30th September 2011 as an exceptional finance expense, representing the unamortised portion of RBS fees, including a repayment fee arising from the early repayment of the RBS facility.

- Good trading momentum continues

Sanderson also took the opportunity to update the market on trading with good trading momentum continuing in its Manufacturing and Multi-Channel businesses, and more challenging conditions being experienced in its high street Retail market.

- Order book growing

The Group has continued to invest in product innovation, sales and marketing and they have reported a significant number of prospects for the new Green IT products, especially in the Manufacturing customer base. Since the half year end at 31st March 2011, when the reported order book was £3.3m (2010: £3.0m), the order book has continued to grow and new customers have been won across all markets, including two new high street retailers with the demand for e-commerce systems still strong.

- Profits expected to be in-line

Normalised full year pre-tax profits (prior to the refinancing charge referred to above) are expected to be in line with current market expectations with consensus forecasts for the year ending September 2011 pointing to profit before tax of £2.4m and adjusted earnings per share of approx 4.74p.

At the current share price (37.5p) this leaves the shares trading at approx 7.9x 2011 adjusted earnings estimates with a projected yield of c2.1%.

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