Growth Equities & Company Research

28th November 2011

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Sanderson Group – Positive Full-Year Results; reiterate 'Buy' at 26p, Target Price: 54p

Key Data	
EPIC	SND
Share Price	26p
Spread	25p - 27p
Total no of Shares	43.53 million
Market Cap	£11.3 million
NMS	2,000
12 Month Range	25p - 39.65p
Market	AIM
Website	www.sanderson.com
Sector	Software & Computer Services
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Sanderson Group, the software and IT services business specialising in multi-channel retail and manufacturing markets in the UK and Ireland, has announced positive results for its year ended 30th September 2011. Whilst the company has been impacted by a sluggish UK economy and challenging high street trading conditions, new products and services introduced during the last couple of years have driven an improved trading performance. The company's defensiveness and the platform it has developed for future growth look to continue to be unreflected in the share price and we reiterate our stance; **buy.**

A focus on higher margin products, based on its own software and services, has facilitated Sanderson delivering a 6.8% increase in underlying operating profit, to £3.30 million, and a 22.7% increase in resultant pre-tax profit, to £2.34 million, despite a 2.1% decline in total revenue to £26.42 million. Adjusted basic earnings per share came in at 5.5p, up from a prior year 3.9p, and a 0.45p per share final dividend – payable on 30th March to shareholders on the register at close of 9th March – has been proposed. This will take the total dividend for the year up to 0.75p per share, from 2010's 0.60p.

Cash generation was also improved – with £3.07 million of net cash generated from operating activities before changes in working capital (£2.93 million after), up respectively from £2.76 million and £2.67 million. This meant even after a net £816,000 of capex (the depreciation charge was just £196,000), £275,000 in change of banker fees and £282,000 of dividend payments, net debt was reduced to £6.72 million, from £7.84 million at 30th September 2010.

Both group divisions – manufacturing and multi-channel retail - produced an improved contribution. Multi-channel retail did so on 4.2% lower revenue (of £20.28 million) as a higher proportion of own software and services sales enabled gross margins to be increased from 65% to 68.4%. Operations other than high street retail are noted to have "performed very strongly", with activity levels of larger existing retail customers also having continued to be “strong, especially in the areas of fraud prevention and payment card industry compliance” . Manufacturing's contribution was enhanced on 5.4% higher revenue (of £6.15 million) as this industrial area saw some recovery in activity and Sanderson gained four new customers.

Looking forward, the company states a strong (£2.92 million, excluding support) order book and improved competitive market position provide it with a reasonable level of confidence despite it being cautious on general economic conditions. Growing recurring revenues from annual software licences, support and managed service contracts (£13.70 million, 52% of total revenue) provide a strong level of resilience and the company's offerings tending to provide a swift return on investment, in terms of cost savings and business efficiencies, also help its defensiveness. Additionally, Sanderson emphasised “the new product and service suites of Business Assurance and Factory Automation introduced in the previous year have continued to gain traction in their respective markets. The introduction of solutions based on the latest technologies in the areas of internet retailing and ecommerce have provided further business impetus. The product portfolios were additionally enhanced by the launch of a number of energy saving products, collectively branded ‘Green IT'”.

A further defensive element is that the latest versions of the group's software products have incorporated features addressing regulatory and legislative compliance e.g. the payment card industry in retail and food standards and traceability in food manufacturing. There thus looks to be a sound platform for enhanced growth on economic conditions improving – with the company particularly looking to its Green IT, Software-as-a-Service and Cloud solutions to drive this.

Despite the company noting current “challenging conditions in its core markets” , we continue to expect the relevance of its offerings to see EBITDA again grow this year, and together with material cost savings from August refinanced banking arrangements, earnings to strongly advance. Earnings for the next couple of years should continue to benefit from the use of historic losses to offset tax payable, which should also help net debt be further materially reduced and enable a continuingly progressive dividend policy – a targeted 1p per share dividend for this year, currently equating to a yield of 3.8%. Given Sanderson's demonstrated resilience and cash generation we consider a target price of 54p – equating to 8 times current year forecast earnings and 7.7 times on an Enterprise Value/EBITDA basis - comfortably justifiable and, given the disparity between this and the current share price, reiterate our stance; **buy.**

Forecast Table

Year to 30th September	Revenues (£ million)	Adjusted Pre-tax Profit (£ million)	Earnings Per Share (p)	Adjusted EBITDA (£ million)	EV/EBITDA (x)	Net Debt (£ million)
2009A	24.90	1.07	4.0	3.11	6.8	9.96
2010A	27.0	1.91	3.9	3.47	5.5	7.84
2011E	26.42	2.34	5.5	3.56	5.1	6.72
2012E	27.0	2.9	6.7	3.75	4.5	5.5

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