

23 January 2012

MORNING COMMENT

BUY

Unchanged

Price 34.5p
Target price Under Review (from 44p)

Reuters/BBG SND.L / SND LN
Index FTSE AIM
Sector Software & Computer Services
Market Cap £15m

Sanderson Group

£11.7m sale of High Street Retail business to Torex. Continuing business Q1 orders up nearly 10%.

Sanderson Group, the software and IT services business specialising in multi-channel retail and manufacturing markets in the UK and Ireland, today announced that it had completed the sale of its high street retail arm for a total cash consideration of £11.7m. This leaves the group as a profitable cash generative business with net cash of circa £4m. This gives Sanderson considerable financial flexibility to 'accelerate' its progressive dividend policy, reduce the moderate pension deficit, and/or make bolt on acquisitions. The remaining businesses have been trading well with order intake in the 3 months to December 2011 up nearly 10% year on year, with a rise in new customers being driven by strong demand particularly from companies operating in the areas of catalogue and online sales, ecommerce and wholesale distribution.

- The sale of Sanderson RBS Ltd adds significant shareholder value, in our view. We estimate that the division represented just over 40% of our pre-sale 2012 revenue projections of £27m. In the year ending 30th September 2011 Sanderson achieved sales of £12.4m and operating profit of £1.4m. A multiple of 8.3x operating profit for what was, in our opinion, the part of the business with the lowest growth prospects, represents full value. The sale price is equivalent to 94% of Sanderson's market value prior to the sale being announced.
- The acquirer of Sanderson RBS is Torex Retail Holdings. Torex owns the intellectual property pertaining to Retail-J, installations thereof which represented the largest part of the Sanderson RBS business. This leaves the Group with the manufacturing and multi-channel retail businesses, whose IP is 100% owned by Sanderson Group.
- The continued strong trading momentum in the remaining businesses is encouraging. In November 2011 the group indicated that the High Street retail market was the most challenging part of its business. Now that it has exited that market it can concentrate on revenue streams better protected from sluggish economic activity, by the structural growth drivers highlighted in our note of 3rd November 2011.
- We will be reviewing our forecasts in due course. However the sale of the high street business is, in our view, value enhancing particularly at the EV/EBITDA level now that all debt has been eliminated. Our previously projected dividend for 2012 of 1.1p now looks to be conservative. Therefore we anticipate **upside to our previous target price of 44p**. We re-iterate out **BUY stance**.

Our forecasts are under review. The table below shows our estimates prior to the sale of Sanderson RBS.

Y/E September	2009A	2010A	2011A	2012E
Turnover (£m)	27.0	27.3	27.0	28.0
WHI Ebitda (£m)	3.4	3.6	3.9	4.2
WHI PTP (£m)	1.9	2.4	3.1	3.6
WHI EPS (p)	3.6	4.9	6.3	6.7
P/E (x)	9.6	7.0	5.5	5.2
EV/EBITDA (x)	7.1	6.2	5.4	4.7
Dividend (p)	0.6	0.8	1.0	1.1
Yield (%)	1.7%	2.3%	2.9%	3.1%

Source: WH Ireland estimates

WH Ireland is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority.

Marketing Communication

This document has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Please refer to important disclosures towards the end of this document.

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Disclosures

WH Ireland Recommendation Definitions

Buy

Expected to outperform the FTSE All Share by 15% or more over the next 12 months.

Outperform

Expected to outperform the FTSE All Share by 5/15% over the next 12 months.

Market Perform

Expected to perform in line with the FTSE All Share over the next 12 months.

Underperform

Expected to underperform the FTSE All Share by 5/15% or more over the next 12 months.

Sell

Expected to underperform the FTSE All Share by 15% or more over the next 12 months.

Speculative Buy

The stock has considerable level of upside but there is a higher than average degree of risk.

Disclaimer

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Share Price Target

The share price target is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon.

Stock Rating Distribution

As at the quarter ending 31 December 2011 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	44	81%	27
Speculative Buy	2	4%	2
Outperform	2	4%	2
Market Perform	5	9%	5
Underperform	1	2%	0
Sell	0	0%	0
Total	54	100%	36

This table demonstrates the distribution of WH Ireland recommendations. The first column illustrates the distribution in absolute terms with the second showing the percentages.

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The research analyst or analysts attest that the views expressed in this research report accurately reflect his or her personal views about the subject security and issuer.

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