

**BUY**

Unchanged

Price 26p  
Target price 44p

Reuters/BBG Index Sector Market Cap  
SND.L / SND LN FTSE AIM Software £11.3m

**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.

**Analyst**

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**MORNING COMMENT**

**Sanderson Group**

**Finals – Earnings per share ahead of our expectations**

**Sanderson Group, the software and IT services business specialising in the multi-channel retail and manufacturing markets in the UK and Ireland has today reported full year results for the 12 months ending September 2012. Adjusted diluted earnings per share of 5.1p exceeded our expectations (4.9p) albeit off a lower than expected revenue base of £26.4m reflecting a higher margin sales mix. We retain our target price of 44p equating to an EV/EBITDA multiple of under 7x and a P/E ratio of 6.5x. Our stance remains BUY.**

- Sanderson's propensity to innovate and expand its product portfolio has enhanced its 2011 performance and will help to shore up 2012. Since launch in 2010 the Warehouse and Factory Automation products have already accounted for nearly £1m in revenue and going forward, the Group believes that its Green IT, Saas and Cloud solutions will drive further growth. The Board is cautious and sensitive to the outlook for the general economy but the strong order book and improved competitive position 'provide a reasonable level of confidence' for 2012.
- Net cash flow from operations of £2.9m came a whole £1.3m above our expectations with net debt down over £1m to £6.7m, £0.3m below our year end expectation. Going forward the new banking facilities with HSBC will bring down the cost of debt. Sanderson has proposed a final dividend of 0.45p per share making a total dividend for the year of 0.75p per share, an increase of 25%.
- Recurring income from annual software licenses, support and managed service contracts increased £13.7m up to 53% from 51%. The order book remains healthy at £2.92m down marginally against very strong 2010 comparables of £3.03m. Given the sluggish nature of recovery in the UK economy we take comfort from the sustained level of orders.
- We are leaving our 2012 and 2013 profit forecasts unchanged. However, reflecting the continued trend of higher margin sales (ie a larger proportion of proprietary products), we are reducing our revenue forecasts from £28.1m and £28.9m to £27m and £28m respectively. 60% of our 2012 revenue forecast is accounted for by recurring income and the current order book.

| Estimates y/e Sep (£m) | 2010A | 2011A | 2012E | 2013E |
|------------------------|-------|-------|-------|-------|
| Turnover               | 27.0  | 26.4  | 27.0  | 28.0  |
| WHI EBITDA             | 3.4   | 3.5   | 3.9   | 4.2   |
| WHI PTP                | 1.9   | 2.3   | 3.1   | 3.6   |
| WHI EPS (p)            | 3.6   | 5.1   | 6.3   | 6.7   |
| P/E (x)                | 7.2   | 5.1   | 4.1   | 3.9   |
| EV/EBITDA (x)          | 6.0   | 5.3   | 4.4   | 3.8   |
| Dividend (p)           | 0.60  | 0.75  | 1.0   | 1.10  |
| Yield (%)              | 2.3%  | 3.1%  | 3.8%  | 4.1%  |
| Net funds.(debt)       | (7.8) | (6.7) | (5.4) | (3.4) |

Source: WH Ireland estimates

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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 30<sup>th</sup> September 2011 the distribution of all our published recommendations is as follows:

| Recommendation  | Total Stocks | Percentage % | Corporate |
|-----------------|--------------|--------------|-----------|
| Buy             | 53           | 85%          | 32        |
| Speculative Buy | 3            | 5%           | 3         |
| Outperform      | 4            | 7%           | 2         |
| Market Perform  | 2            | 3%           | 2         |
| Underperform    | 0            | 0%           | 0         |
| Sell            | 0            | 0%           | 0         |
| <b>Total</b>    | <b>62</b>    | <b>100%</b>  | <b>39</b> |

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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### Analyst Certification

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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