

Sanderson Group

Update
14th August 2013

Acquisition of Ecommerce Business

In a move to augment its existing multi-channel retail business, Sanderson Group has acquired Catan Marketing Limited for a maximum consideration of £644,660. We see the acquisition as a good fit, and anticipate that the revenue and cost synergies created will more than outweigh the attractive price paid, given the strong similarities between these businesses and the strong market opportunity. While we believe that we could see the synergies begin to emerge within the next 12 months, we prefer to be prudent and are waiting for signs of growth before upgrading our forecasts. With that said, we continue to be impressed by Sanderson's high level of recurring revenues, strong and growing range of products and services, growing presence in the catalogue, online sales and ecommerce markets, strong balance sheet and cash generation. Accordingly, we retain our buy stance, with a target price of 66p.

Acquisition

Catan provides e-commerce solutions under the 'Priam' trading name to +30 multi-channel retailers. For the year-ended 31st August 2012, Catan achieved a pre-tax profit (PBT) of £27,000 (2011: £69,000) on revenues of £895,000 (2011: £1,160,000). At the date of acquisition, Catan had net assets of c.£50,000. The consideration, payable in cash, comprises an initial payment of £500,000 on completion and an additional amount of £49,660 due October 2013. A further £95,000 is dependent on certain performance criteria being met by the end of August 2014. The acquisition price equates to a multiple of 0.72x sales and 23.88x earnings (PBT), but we understand that profits had been distributed to the owner - who has now been relinquished of his services.

Financial forecasts

Preferring to be prudent, and with Sanderson continuing to trade well in H2, we keep our forecasts unchanged and are therefore forecasting a PBT of £2m on revenue of £13.8m and a DPS of 1.50p for FY13. For FY14, we are forecasting a PBT of £2.3m on revenue of £14.6m and a DPS of 1.6p. With the latest mobile enabled technologies accounting for c.10% of total sales orders, and strong demand being shown by customers, we believe this could be an area of significant growth and consider an acquisition within this area could be on the cards.

Valuation

Given the strong progress made, we consider a rating of 13x forward earnings + net cash as justifiable for setting our target price of 66p. This compares to the software sector multiple of c.17x. The prospective yield of 3.2% is also attractive.

Table: Financial overview

Year to 30 th Sep.	2011A	2012A	2013E	2014E
Revenue* (£m)	14.1	13.4	13.8	14.6
PBT (£m)	0.4	1.5	2.0	2.3
EPS* (p)	1.1	3.0	4.09	4.34
Dividend (p)	0.75	1.20	1.50	1.60
Yield (%)	1.52%	2.42%	3.03%	3.23%

Source: GECR and company.

Notes: *Continuing operations

Buy

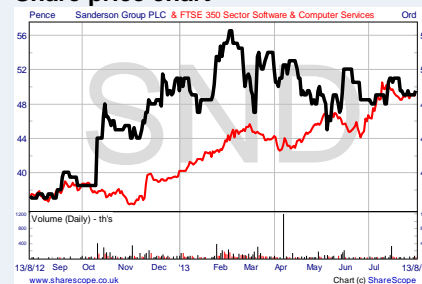
Target price

66p

Key data

Share price	49.50p
52 week high/low	56.50p/37.00p
Primary exchange	AIM
EPIC	SND
Shares in issue	43.8 m
Market Cap	£21.68 m
Sector	Software & Computer Services

Share price chart



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