

Sanderson Group

Expansion Into Mobile E-Commerce

Update
9th October 2013

Further expanding its position in the rapidly growing mobile enabled ecommerce and online sales market, Sanderson Group has acquired One iota, a leading provider of cloud-based multi-channel retail solutions, for a maximum consideration of £5.43m. In addition, the software and IT services business has conditionally raised £3.5m, through a placing at 55p per share, in a move to boost the balance sheet as well as fund opportunities for further growth. 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, ahead of the pre-close trading update at the end of this month, we retain our buy stance, with a target price of 64p.

■ Acquisition

Based in Lancashire, One iota provides cloud-based, multi-channel solutions via mobile, tablet and in-store devices. It has developed a proprietary cloud-based modular technology platform MESH, enabling the delivery of enterprise grade solutions delivered in a Software as a Service (SaaS) business model. It is currently working with a number of major retailers, including Littlewoods, Very.co.uk, Footasylum and SuperDry. For the year-ended 31st January 2013, One iota posted a pre-tax profit of £0.20m (2012: £0.16m) on revenues of £0.66m (2012: £0.50m). Its assets stood at £0.85m. The consideration comprises initial payments of £2.38m in cash and of £0.75m in shares. A further £0.3m will be paid unconditionally over the period ending 30th September 2016 and an additional £2m is dependent on certain performance criteria being met over the 3-year period. We see One iota as a good fit, and believe that Sanderson could significantly grow the business over the next few years. With Sanderson expecting to boost One iota's revenues over the next year to c.£1.1m, the acquisition price equates to a multiple of 16.6x pre-tax profits assuming stable margins.

■ Financial forecasts

With Sanderson continuing to trade well in H2, we keep our forecasts unchanged and are therefore forecasting a pre-tax profit of £2m on revenue of £13.8m and a dividend of 1.5p per share for FY13. For FY14, we are forecasting a pre-tax profit of £2.3m on revenue of £14.6m and a dividend of 1.6p. While we believe that we could see the synergies begin to emerge from its recent acquisitions within the next 12 months, we prefer to be prudent and are waiting for signs of growth before upgrading our forecasts.

■ Valuation

Given the strong progress made, we consider a rating of 13x forward earnings + net cash as justifiable for setting our target price of 64p. This compares to the software sector multiple of c.17. The prospective yield of 2.9% 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 (%)	1.35%	2.16%	2.70%	2.88%

Source: GECR and company.

Notes: *Continuing operations

Buy

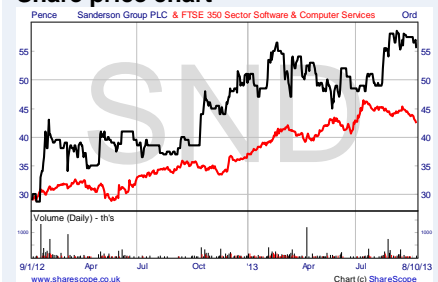
Target price

64p

Key data

Share price	55.50p
52 week high/low	58.50p/38.50p
Primary exchange	AIM
EPIC	SND
Shares in issue	43.8 m
Market Cap	£24.31 m
Sector	Software & Computer Services

Share price chart



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