

**SANDERSON GROUP****(AIM:SND)****Share price 70p**Date: 26<sup>th</sup> November 2013**Sector: Software & Computer  
Services**

Market Cap: c£34m

[www.sanderson.com](http://www.sanderson.com)**Results in line and the future looks very  
promising indeed**

The software and IT services business specialising in multi-channel retail and manufacturing markets in the UK and Ireland issued preliminary results for the year ended 30th September 2013 in line with expectations and the update issued on 25<sup>th</sup> October.

**- Summary results*****Income statement***

Results for the year ending 30<sup>th</sup> September 2013 show revenue of £13.83m (2012: £13.37m), with the gross margin improving further to 87.6% (2012: 83.6%) as a result of increased emphasis on higher margin Sanderson proprietary software, delivered and installed by the Group's own staff.

Operating profit before amortisation of acquisition-related intangibles, acquisition costs and share-based payment charges was £2.22m (2012: £2.04m) and the order book at period end was an encouraging £1.94m (2012: £1.89m, 2011: £1.35m).

The final proposed dividend was 0.85p per ordinary share, making a total dividend of 1.50p (yield 2.2% at current share price) and a 25% increase compared with the prior year.

***Balance sheet***

The Group's cash position remained strong with net cash at 30<sup>th</sup> September 2013 of £3.66m (2012: £4.07m) after paying £500,000 of initial consideration relating to the acquisition of Catan Marketing Limited in the period. The net operating cash inflow was impacted by cash in respect of significant final quarter billings being received after the year end in October.

The pension deficit at 30th Sept 2013 was £4.174m (30th Sept 2012: £4.512m) with the annual funding requirement currently approximately £360,000.

Post year end cash was boosted by the placing (see below).

**- Recurring revenues underpin the business**

The second half of the financial year now contributes a larger proportion of annual operating profit as a result of the Group's multi-channel retail division now being a larger part of the Group's operations which has resulted in an additional £239,000 of operating profit compared with the first half year to 31 March 2013.

Pre-contracted recurring revenues were £7.94m representing 57% of total revenues (2012: £7.66m and 57%) with the gross margin from these covering 73% of Group overheads (2012: 76%). These licence revenues provide good visibility of future earnings and are augmented by consultancy, support and maintenance services.

**- Further investment short term drag but positive for the future**

There was further investment in the delivery and services capabilities of the Group's ecommerce businesses, as well as the business which focuses on the food and drink processing sector. This investment has marginally impacted operating margins in the short term with the benefits to be seen in the future.

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14 new customers were secured in the year (2012: 15 new customers) at an average initial contract value of £119,000 (2012: £99,000). The value of orders from new customers grew again with the total increasing to £1.67m (2012: £1.49m, 2011: £1.33m).

The annual growth rate being achieved in the ecommerce market continues to be in excess of 10% and this growth, which is being further fuelled by mobile commerce (ecommerce via mobile devices) is expected to continue to provide growth opportunities in the mid-term. The food and drink processing sector within the UK is growing, as is the Group's own business which addresses this market.

**- Divisional review*****Multi-channel retail***

Revenue £7.23m (2012: £7.17m)  
Operating profit £1.124m (2012: £1.106)  
Order book £696k (2012: £1.02m)  
Gross margin 87.6% (2011: 83.7%)  
250 customers

The Group's multi-channel retail offering provides comprehensive IT solutions to businesses operating in the areas of online sales, ecommerce, catalogue sales, wholesale distribution, cash and carry and retail stores. High levels of activity have been experienced from providing mobile commerce solutions, incorporating the latest 'responsive' web technologies that optimise customers' websites enabling them to adapt to whatever device is being used for optimal viewing, seamless navigation and increased sales.

While there was continued strong growth in ecommerce businesses, very much reflecting market trends, there was a decline in the Group's business focused on traditional mail order fulfilment.

The completion of planned investment in the infrastructure and capability of the Group's ecommerce business referred to previously resulted in operating profit growth being limited to 6%, £1.28m (2012: £1.21m).

Revenue from customers operating in the ecommerce market grew to £2.62m, (2012: £2.40m) and gross margin improved to 87.6% (2012: 83.7%). We anticipate gross margins will remain around this level going forward.

Five new customers were gained in the period compared with nine in the previous year. The increased level of new customer business has continued with a large order from a new customer, worth almost £250,000, gained at the start of the current financial year. Sales prospects are strong and it is expected that the investment made in the year ending 30<sup>th</sup> September 2013 will contribute to faster progress in the coming year.

The Top 5 Customers were MandM Direct, Barry Group, Beaverbrooks, JoJo Maman Bébé and Scotts of Stow with their total spend £897,000.

***Manufacturing***

Revenue £6.59mm (2012: £6.2m)  
Operating profit £848k (2012: £800k)  
Order book £1.2m (2012: £870k)  
Gross margin 87.6% (2012: 83.6%)  
194 customers

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The main areas of specialisation in Manufacturing are food and drink, engineering, plastics, aerospace, electronics and print manufacturing sectors.

The part of the Group's business which addresses the general UK manufacturing market experienced a tougher trading environment than in the previous year, whereas the business focused on the food and drink processing sector, benefiting from investment made over the last two years, made very good progress and drove overall growth for the manufacturing division.

The size of the UK food and drink processing market is growing and there is an increase in the number of small and medium businesses in this sector. Both the need for traceability through the food and drink distribution, production and supply chain, combined with a continued drive to reduce operational costs has provided the Group with a good opportunity in this market.

The Sanderson food and drink processing business now represents 49% of the Group's manufacturing business (2012: 44%) with recurring revenues accounting for 58% of divisional revenue (2012: 59%).

The top 5 customers were Freddy Hirsch Group, Food Partners, COOK Trading, Newly Weds Foods and RLC UK with their total spend £1.065m.

Nine new customers were gained in the period (2012: six new customers) including Broder Metals Group, COOK Trading Limited, Kolak Snack Foods and Virani Food Products.

The UK food & drink sector remains very active representing 16% of UK manufacturing.

**- Acquisitions**

In order to augment the Group's organic growth, two complementary acquisitions have been completed within the past four months. In August 2013, Catan Marketing Limited, which provides ecommerce solutions under the PRIAM trading name, was acquired for a maximum consideration of £644,600. On 7th October 2013, and therefore at the start of the new financial year, One iota Limited was acquired for a maximum aggregate consideration of £5.43m. One iota is a leading provider of cloud-based multi-channel retail solutions and the acquisition further strengthens the Group's position in the rapidly expanding mobile enabled ecommerce and online sales markets.

**- Post period end share placing**

On 28<sup>th</sup> October 2013, the Group successfully completed the raising of £3.50m before costs at 55p per share with the resulting issued share capital of the Group now 51,479,218 ordinary shares.

As a result of the placing, the cash balance as at 22<sup>nd</sup> November 2013 was in excess of £4.5m.

**- Broker forecast**

House broker forecasts for the full year ending September 2014 are for sales of £16.1m, normalised profit before tax of £2.7m, normalised earnings per share of 4.39p and a dividend of 1.60p, equating to a yield of 2.28%.

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Gross margins are predicted to remain stable at approximately c86/87% with estimated Corporation Tax of £200k for FY14, increasing to £500k in FY15 as they become fully tax paying.

**- Outlook**

There was the now customary cautious outlook statement with management commenting that while the economic environment is showing some signs of improvement it is still challenging. Despite this the strong order book, improved market position and the two recent acquisitions bring expectations of further significant progress during the current financial year ending 30<sup>th</sup> September 2014.

The Group's expanding suite of propriety software and expanding e-commerce offering supported by a robust balance sheet remains compelling. As the UK economy improves Sanderson looks well placed to benefit.

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