

**SANDERSON GROUP****(AIM:SND)****Share price 67p**Date: 9<sup>th</sup> June 2015**Sector: Software & Computer Services**

Market Cap: c£35m

[www.sanderson.com](http://www.sanderson.com)**Interim results in line with another nice boost to the dividend**

The software and IT services business specialising in the multi-channel retail and manufacturing markets in the UK and Ireland issued positive interim results to 31<sup>st</sup> March 2015 in line with the pre-close statement in April, with the dividend increased another 12.5%.

**- Financials summary**

Revenues increased to £9.09m (2014: £7.95m) and adjusted operating profit rose 13% to £1.37m (2014: £1.21m) with basic earnings per share 1.5p (2014: 1.4p).

Pre-contracted recurring revenues grew to £4.76m (2014: £4.14m) accounting for approximately 52% of total revenues.

Gross margins were 85% (2014: 87%) reflecting the continuing emphasis on the supply of Sanderson 'owned' proprietary software and services.

It's worth noting the continued transition to more 'owned' software and services which enhances margins and ultimately the value of the Group.

The order book at period end was of £2.84m (2014: £2.47m).

Unusually for the Group, which has a history of converting substantially all of its profit to cash, cash generation wasn't as strong as previously with the operating cash inflow only £449k. This is explained by the collection of a number of sales ledger balances slipping beyond the period end, with a total of £435,000 being received in the first week of April and significantly all by the end of April. At 31<sup>st</sup> March 2015, after the payment of £1.80m consideration

and deferred consideration in respect of acquired businesses, the Group's net cash balance was still a healthy £3.95m (2014: £5.07m).

Cash supported a further 12.5% increase in the interim dividend to 0.90p per share (2014: 0.80p).

**- New customer wins**

The strong trading momentum was maintained with a total of thirteen new customer wins with five from multi-channel retail customers and eight new customers added by manufacturing. We expand on those below.

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

*Provision of comprehensive IT solutions to businesses operating in the areas of online sales, ecommerce, mail order and catalogue sales, wholesale distribution, cash and carry businesses and retail shops.*

Divisional revenue: £5.96m (2014: £4.71m)

Operating profit: £1.01m (2014: £0.85m)

Period end order book: £1.80m (2014: £1.19m)

Mobile enablement and deployment continues to be a key business driver in this sector with increasing levels of business activity, with its One iota business, ([www.itsoneiota.com](http://www.itsoneiota.com)) a core component of that delivery. The wholesale distribution and cash and carry market has been a slower area of business during the period for the Group but prospects for the second half year are good, driven by the release in

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February 2015 of the latest enhanced version of software. Proteus, which was acquired in December 2014 for an initial consideration of £1.4m and up to a further £0.5m based on trading performance, has helped to further expand the Group's presence in the areas of warehousing, logistics and supply chain. Management commented how a number of internal 'joint' sales opportunities are being developed.

Five new customers were gained during the period, including Anzac Wines & Spirits, Lavitta, Quba & Co and Matthew Algie. This compares with seven in the comparative period of 2014. The multi-channel retail division has continued to also gain a number of large orders from existing customers including JD Sports, Kingstown Associates, Healthspan and Superdry, with two of these benefitting from the One iota solution.

**Manufacturing**

*Provision of ERP solutions for businesses in the engineering, plastics, aerospace, electronics, print and food and drink manufacturing sectors*

Divisional revenue: £3.14m (2014: £3.23m)

Operating profit: £365k (2014: £367k)

Period end order book: £1.04m (2014: £1.28m)

Although, the overall divisional trading performance was flat as compared with the comparative period of 2014, the Sanderson general manufacturing business improved its trading performance compared with the first half of 2014 and management commented how this improvement is expected to continue into the second half of

the current year. The Group's food and drink business experienced some delays in the receipt of expected sales orders.

Eight new customers were gained during the period, including Simtom Food Products, Summit Chairs, St Marcus Fine Foods, Wine Bottling Solutions and NutriFresh. This compares with five new customers in the comparative period of 2014. Large projects with existing customers included Magnadata, Cook Trading, Food Partners and Freddy Hirsch.

**- Developing solutions**

In the manufacturing division the Group has had some success with its entry level Unity ERP ('Enterprise Resource Planning) product which is aimed at smaller and emerging businesses and over the coming months expects to further develop software and to launch new products, including further cloud-based solutions, into target manufacturing markets.

The recent acquisitions, notably that of One iota, enable the Group to now present a more comprehensive suite of e-commerce solutions. Going forward they intend to place particular emphasis on further developing the range of solutions for mobile and ecommerce businesses, as well as for the food and drink processing sector with mobile solutions are being developed across all of the Group's target markets.

**- New appointments**

Ian Newcombe, who has personally driven the development of the multi-channel business since 2005, has been appointed Group Chief Executive with immediate effect.



## SMALL CAP SHARE COMMENT

*Commissioned Commentary*

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David Gutteridge has also been appointed non-executive director. David has considerable business experience including with Financial Objects plc, Cyan Holdings plc and Sanderson Group plc as a non-executive director between its IPO in 2004 up until 2012.

#### - Outlook

There was the customary caution in the outlook statement with protracted sales cycles still the order of the day. However, that's been the case for a while and a strong order book and healthy balance sheet, together with a long list of sales prospects, provides management with a good level of confidence that the Group will continue to make further progress and deliver trading results in line with market expectations for the current year ending 30 September 2015.

#### - Broker forecasts

Estimates for the full year ending September 2015 are for sales of £19.2m, normalised profit before tax of £3.1m, normalised earnings per share of 4.7p and a full year dividend of 1.90p, equating to a yield of 2.7% at the current share price (68p). For the year ending September 2016 estimates are for sales of £20.1m, normalised pre-tax profit of £3.3m,

normalised earnings per share of 5.0p and a full year dividend of 2.00p.

**All very positive and with the UK election out of the way the customer base should hopefully be encouraged!**



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