SMALL CAP SHARE COMMENT
Commissioned Commentary

SANDERSON GROUP (AIM:SND)

Share price 66p

Date: **3rd March 2015**
Sector: **Software & Computer Services**
Market Cap: c£36m
www.sanderson.com

Positive AGM statement and forecasts underpinned

The software and IT services business specialising in multi-channel retail and manufacturing markets in the UK and Ireland, has issued a positive AGM statement.

The statement confirms a good start to the current financial year ending 30 September 2015 with trading results to the end of January 2015 ahead of the comparative period for the year ended 30 September 2014. Sales order intake is ahead of last year and the value of the Group order book is higher than the £2.41m at 30th September 2014.

- Positive start for manufacturing division

The manufacturing division (incorporating the businesses which address companies in the manufacturing sector), has made a positive start and has gained six new customers, albeit at a lower average initial order value. This compares with nine new customers during the whole of last year. Consequently, the Group business which focuses on the general manufacturing sector has achieved an improved level of trading.

- Online continues to grow in multi-channel retail division

The multi-channel retail division, which is continuing to increase its penetration of the online sales, ecommerce and catalogue markets has continued to achieve overall growth, notwithstanding a slowdown in the wholesale distribution and cash and carry market.

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.

Management commented how One iota, which is focused on the rapidly developing mobile commerce market, continues to "forge ahead" and in the period achieved a higher revenue than in the whole of the full year prior to its acquisition in October 2013.

One iota is focused on cloud-based, multi-channel solutions accessed via mobile, tablet and in-store devices and has increased revenue by over 60% and more than doubled profit during its first year as part of the Group.

The Proteus business which was acquired in December 2014, has also made a steady start as part of the Group. Proteus, which is based in Birmingham, provides warehouse management solutions to businesses operating in the areas of third party logistics, warehouse management and supply chain distribution.

- Investing for the future

The Group's product development, especially in the area of mobile solutions, is continuing at a high level but, in line with the Board's conservative policy, the majority of the development is continuing to be fully expensed as it is incurred. The Group is also making an additional investment in both operational management and sales and marketing but this is not expected to have an adverse effect on profitability in the current year.

There was the now customary reference to the caution in the 'SME' market but the more positive acknowledgement how customers and prospective customers in the online sales, ecommerce and catalogue sectors are generally more optimistic, albeit sales cycles are still prolonged.

- Attractive recurring revenue model

The recurring revenue model is attractive with approximately 50% of Group revenues pre-contracted for a minimum of a year ahead supporting excellent cash generation and decent visibility of earnings. In recognition of this Sanderson is able to deliver an attractive dividend with a final dividend of 1.0p resulting in a full year dividend of 1.8 pence per share, an increase of 20% over the previous year. This equates to a yield of approximately 2.7% at the current share price (66p)

- Forecasts underpinned

Today's update underpins current year forecasts for the full year ending September 2015 for sales of £17.3m, normalised profit before tax of £3.1m, normalised earnings per share of 4.55p and a dividend of 1.90p. At the current share price of 66p this results in a current year multiple of 14.5x normalised earnings.