

Sanderson Group

Update
25th April 2014

Positive Trading Update

In a trading update ahead of its interim results, Sanderson Group has announced a positive H1 trading performance, boosted by the recent acquisitions of Catan Marketing and One iota. The announcement, we feel, supports and underpins the group's commitment to maintain its progressive dividend policy, and provides us with further confidence in our forecasts. With a high level of recurring revenue, strong and growing range of products and services, growing presence in the catalogue, online sales and ecommerce markets and healthy balance sheet, we retain our "buy" stance, with a target price of 88p.

Trading Update

For the 6-months ended 31st March 2014, revenues rose by 20% on the comparable period a year earlier to £7.90m (H1 FY13: £6.37m). Underlying organic revenue - which is revenue before the effect of acquisitions - grew by >4%. Pre-contracted recurring revenue continued to grow and now stands at £4.41m (H1 FY13: £3.96m), representing 55% of total revenues. The order book remained strong with orders growing by 56% to £2.46m (H1 FY13: £1.58m), reflecting strong sales order intake for its mobile and ecommerce offerings (30% of total order intake) as well as from both existing and new customers. Gross margins were more-or-less unchanged at 87% (H1 FY13: 88%), reflecting a higher level of proprietary products and services, and operating profit increased by 20% to £1.20m (H1 FY13: £988k). Cash on the balance sheet increased to >£5m (H1 FY13: £4.50m).

Financial forecasts

For FY14, we continue to forecast revenues of £16.10m. With a larger amount of higher margin products expected to be sold, we are forecasting gross profit of £13.85m. We expect the group to continue its investment in product innovation, as well as sales & marketing, and are forecasting adjusted PBT of £2.67m. We keep our DPS forecast unchanged at 1.60p. For FY15, we are forecasting gross profit of £14.88m on revenue of £17.30m. We are forecasting an adjusted PBT figure of £3.20m, and anticipate DPS of 1.70p, but note that this could be higher given the strong cash generation.

Valuation

Given the strong progress made, we consider a rating of 15x forward earnings + net cash as justifiable for setting our target price of 88p. The prospective yield of 2.30% is also attractive. We see the principal risk as a general decline in business confidence in the companies markets.

Buy

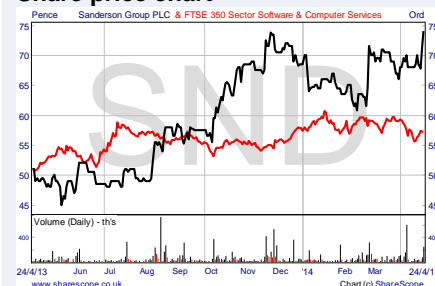
Target price

88p

Key data

Share price	74.00p
52 week high/low	76.00p/45.00p
Primary exchange	AIM
EPIC	SND
Shares in issue	51.97 m
Market Cap	£38.46m
Sector	Software & Computer Services

Share price chart



Analyst details

Emanuil Manos Halicioglu
+44 (0)207 562 3368
Emanuil.Halicioglu@gocr.co.uk

Andrew Noone
+44 (0)207 562 3370
Andrew.Noone@gocr.co.uk

Important: All disclaimer information can be found on the last page of this document. Please note: this publication has been commissioned by the company to which this publication relates and therefore it cannot be considered independent.

Table: Financial overview

Year to 30 th Sep.	2012A	2013A	2014E	2015E
Revenue (£'000)	13,374	13,828	16,100	17,300
PBT* (£'000)	1,613	2,186	2,670	3,195
EPS* (p)	3.80	4.42	4.72	5.19
Dividend (p)	1.20	1.50	1.60	1.70
Yield (%)	1.62%	2.03%	2.16%	2.30%

Source: GECR and company.

Notes: *Adjusted

Important Information

Please read the following information carefully as it contains important legal and regulatory notices.

If you are in any doubt about the action you should take in regard to this website and the information provided therein you should contact an independent financial adviser or other professional adviser authorised under the Financial Services and Markets act 2000. Reliance on this information for the purpose of engaging in any investment activity may expose an individual to a significant risk of losing all of the assets invested. Nothing in this document constitutes investment, tax, financial or other advice.

This document and its contents are confidential and are being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published in whole or in part, for any purpose.

The information contained herein is not directed at or intended to be acted upon by anyone in any jurisdiction where it would be unlawful to do so. This document is for information purposes only and does not constitute or form any part of, and should not be construed as, an offer or invitation or other solicitation or recommendation to purchase, subscribe for or otherwise deal in any securities or other interests. No reliance may be placed for any purpose whatsoever on the information contained in this document, and no liability is accepted for such information. This document does not constitute either advice or a recommendation regarding any securities or other interests. Any person who is in any doubt about the subject matter of this document should consult a duly authorised person.

Neither Burnbrae Media Limited, Sapia Partners LLP nor or any other person makes any guarantee, representation or warranty, express or implied as to the accuracy, completeness or fairness of the information contained in this document, and neither Burnbrae Media Limited nor any other person accepts any responsibility or liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith. The information herein is subject to change and no representation, express or implied, is made that any changes to the information will be provided to you.

The distribution of this document may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of the relevant jurisdiction.

By accepting this document you will be taken to have represented, warranted and undertaken that: (i) you are a person lawfully entitled to receive it; (ii) you have read and agree to comply with the contents of this notice; and (iii) you will treat and safeguard as strictly private and confidential all the information contained herein and take all reasonable steps to preserve such confidentiality.

Burnbrae Media Limited is an appointed representative of Sapia Partners LLP, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority.