

# Sanderson Group

Update  
3<sup>rd</sup> March 2017

## AGM Supports Growth Prospects

Reporting at its Annual General Meeting, Sanderson Group announced that it has made a solid start to the current financial year ending 30th September 2017, with sales order intake in the first four months of the year increasing by 8% on the comparable period a year earlier. The software and IT services group which specialises in multi-channel retail and manufacturing markets added that it remains confident that it will make continued progress in the current financial year. The announcement is in-line with our expectations, and we keep our forecasts unchanged. With the shares offering investors exposure to the high-growth Enterprise Resource Planning software market, as well as offering a decent dividend of 3.6%, we continue to classify the shares as a hybrid growth and income stock.

### ■ Annual General Meeting

Order book continued to grow and is ahead of the level as at the end of January 2016. Its digital retail businesses have experienced a strong increase in sales order intake. Its enterprise businesses have also made a good start to the current financial year, in particular by those businesses whose activities are focused in the wholesale distribution, logistics and fulfilment sectors.

### ■ Financial forecasts

For FY17, we are forecasting revenue of £22.10m. We are assuming gross margins of 84.2%, leading to a gross profit forecast of £18.61m. We expect the group to continue its investment in product innovation, as well as sales & marketing, and are forecasting an adjusted EBIT of £3.89m. We are also forecasting a DPS of 2.60p. For FY18, we are forecasting revenue of £23.30m, gross profit of £19.62m and adjusted EBIT of £4.20m. We anticipate DPS of 2.9p.

### ■ Valuation

We continue to be impressed by the high level of recurring revenues, which cover two-thirds of business overheads. A strong and growing range of products and services, a growing presence in the multi-channel retail and manufacturing markets, the strengthened balance sheet and strong cash generation augur well for Sanderson. The shares are trading at a 39% discount to the Software & IT services sector on an EV/EBITDA basis (9.28x vs 15.3x) (source: Stockopedia). A key risk includes a deterioration in the economic environment.

Table: Financial overview

Year to 30 <sup>th</sup> Sep.	2015A	2016A	2017E	2018E
Revenue (£'000)	19,182	21,320	22,100	23,300
PBT* (£'000)	2,913	3,441	3,720	4,031
EPS* (p)	5.05	5.64	5.46	5.94
Dividend (p)	2.10	2.40	2.60	2.90
Yield (%)	2.59%	2.96%	3.21%	3.58%

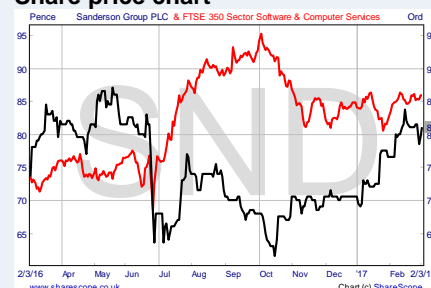
Source: GECR and company.

Notes: \*Adjusted for exceptionals

### Key data

Share price	81.00p
52 week high/low	88.00p/61.00p
Primary exchange	AIM
EPIC	SND
Shares in issue	54.97 m
Market Cap	£44.5 m
Sector	Software & Computer Services

### Share price chart



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## Appendix

*Figure: P&L forecasts*

<b>Year end: 30th Sept.</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>
Revenue (£'000)	16,411	19,182	21,320	22,100	23,300
EBITDA (£'000)	2,813	3,559	4,251	5,033	5,344
Depreciation and amortisation (£'000)	(765)	(1,138)	(1,225)	(1,225)	(1,225)
Operating profit (£'000)	2,048	2,421	3,026	3,808	4,119
Other income (£'000)	0	0	0	0	1
Net interest (£'000)	(132)	(138)	(153)	(173)	(173)
PBT -reported (£'000)	1,916	2,031	2,781	3,635	3,946
Impairment of acquired intangibles (£'000)	(387)	(483)	(513)	0	0
Non-recurring items/exceptionals (£'000)	(404)	(399)	(147)	(85)	(85)
PBT - normalised (£'000)	2,707	2,913	3,441	3,720	4,031
Taxation (£'000)	(318)	(164)	(354)	(727)	(789)
Minorities & preference dividends (£'000)	0	0	0	0	0
Discontinued/assets held for sale (£'000)	0	0	0	0	0
Net Income - normalised (£'000)	2,389	2,749	3,087	2,993	3,241
Attributable profit (£'000)	1,598	1,867	2,427	2,908	3,156
EPS - reported (p)	3.1	3.4	4.4	5.3	5.8
EPS (norm., cont.) – FD* (p)	4.4	4.9	5.5	5.3	5.8
DPS (p)	1.8	2.1	2.4	2.6	2.9
Average number of group shares – FD* (m)	54.2	55.9	56.3	56.3	56.1
Average number of group shares (m)	51.9	54.4	54.8	54.8	54.6

Source: Company and GECR

\*FD stands for fully diluted.

*Figure: Cash flow forecasts*

<b>Year end: 30th Sept.</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>
Profit for the period	1,598	1,867	2,427	2,908	3,156
Depreciation & amortisation	765	1,138	1,225	1,225	1,225
Other cash and non-cash movements	551	643	684	985	1,047
Change in working capital	(224)	(771)	(362)	(700)	(600)
Operating cash flow	2,690	2,877	3,974	4,418	4,829
Pension contribution	(360)	(450)	(330)	(360)	(600)
Interest Paid	0	(5)	0	0	0
Tax paid	(2)	0	0	(600)	(300)
Cash utilised by non-recurring items	0	(310)	(62)	0	0
Cash flow from operations	2,328	2,112	3,582	3,458	3,929
Maintenance capex	(113)	(296)	(254)	(254)	(254)
Free cash flow	2,215	1,816	3,328	3,204	3,675
Expansionary capex	0	0	0	0	1
Other financials	(652)	(515)	(783)	(857)	(858)
Acquisitions	(2,146)	(1,936)	(1,660)	(135)	(135)
Disposals	0	0	0	0	0
Net share issues	3,953	118	58	0	0
Dividends paid	(873)	(1,035)	(1,206)	(1,424)	(1,582)
Change in net cash	2,497	(1,552)	(263)	788	1,101
Net cash/(debt)	6,159	4,607	4,344	5,132	6,233
FCFPS - FD (p)	4.1	3.3	5.9	5.7	6.6

Source: Company and GECR

\*FD stands for fully diluted.

Figure: Balance sheet

Year end: 30th Sept.	2014	2015	2016	2017E	2018E
Property plant and equipment	294	469	524	579	634
Intangible assets	28,514	30,627	30,473	30,319	30,165
Investments and other non-current assets	1,145	1,319	1,755	1,755	1,755
Cash and equivalents	6,159	4,607	4,344	5,132	6,233
Other current assets	4,932	5,745	7,261	7,261	7,261
<b>Total assets</b>	<b>41,044</b>	<b>42,767</b>	<b>44,357</b>	<b>45,046</b>	<b>46,048</b>
Total debt	0	0	0	0	0
Preference shares	0	0	0	0	0
Other long term liabilities	(6,598)	(5,807)	(9,094)	(9,094)	(9,094)
Other current liabilities	(8,629)	(10,333)	(10,332)	(9,632)	(9,032)
<b>Total liabilities</b>	<b>15,227</b>	<b>16,140</b>	<b>19,426</b>	<b>18,726</b>	<b>18,126</b>
<b>Net assets</b>	<b>25,817</b>	<b>26,627</b>	<b>24,931</b>	<b>26,320</b>	<b>27,922</b>
Shareholder's equity	25,817	26,627	24,931	26,500	28,159
Minority interests	0	0	0	0	0
<b>Total equity</b>	<b>25,817</b>	<b>26,627</b>	<b>24,931</b>	<b>26,320</b>	<b>27,922</b>
Net working capital	1,355	1,646	2,482	3,182	3,782
NAV per share (p)	47.6	47.7	44.3	46.8	49.8

Source: Company and GECR

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