

# Sanderson Group

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

## Trading Update

Sanderson Group has announced a trading update for the 12-month period ended 30th Sept. 2017. Key highlights include a better than expected cash balance of over £6.0m (vs. GECR forecast of £5.2m), in-line with expectation adjusted operating profit of £3.9m and slightly below expectation revenue of £21.5m (vs. GECR forecast of £22.1m). The software and IT services group added that it's well positioned to make further progress during the current financial year (FY18). Accordingly, we update our forecasts for both FY17 and FY18. We will issue forecasts for FY19 on the back of the full-year results announcement, which is scheduled for release on 28th Nov. 2017. We continue to classify the shares as a hybrid growth and income stock, with the shares offering investors exposure to the high-growth Enterprise Resource Planning software market and a decent prospective dividend yield of 4.17%.

### Trading Update

Revenue increased by 1% to £21.5m (FY16: £21.3m), gross margin decreased by 2pp to 82% (FY16: 84%), and adjusted operating profit increased by 6% to £3.9m (FY16: £3.7m). The amount of non-recurring items was £0.5m, and these mainly relate to due-diligence costs in regards to a potential acquisition, the consolidation of office premises with internal reorganisation and recruitment of a new group finance director. Pre-contracted recurring revenues were almost unchanged at £11m (FY16: £10.8m), which represents more than half of total revenue. Sales order intake increased by 12% to £13.7m. Order book increased by 92% to £5.8m (FY16: £3.02m). Reflecting the group's strong cash generation, cash increased by at least 38% to over £6m (30th Sept. 2016: £4.34m). The company said that its Digital Retail Division achieved double digit growth, and that sales prospects remain good. Similarly, it said that the Enterprise Division achieved another solid year's performance and that sales prospects remain good.

### Financial forecasts

For FY17, we reduce our revenue forecast to £21.5m, our gross margin forecast to 82% (from 84.2%) and operating cost forecast to £14.3m (from £14.8m) and increase our exceptional cost to £0.5m (from £0.1m), resulting in an unchanged adjusted EBIT forecast of £3.89m. We maintain our DPS forecast of 2.60p. For FY18, we now forecast revenue of £23.0m (from £23.3m) and gross profit of £18.86m (from £19.6m). We maintain our adjusted EBIT forecast at £4.2m and DPS forecast at 2.9p. A key risk to our forecasts includes a deterioration in the economic environment.

### Valuation

The shares trade at a 61% discount to its peers on an EV/EBITDA basis (6.7x vs 17.1x), according to Bloomberg.

Table: Financial overview

Year to 30 <sup>th</sup> Sep.	2015A	2016A	2017E	2018E
Revenue (£'000)	19,182	21,320	21,500	23,000
PBT* (£'000)	2,913	3,441	3,727	4,022
Dilutive EPS* (p)	4.92	5.48	5.38	5.74
Dividend (p)	2.10	2.40	2.60	2.90
Yield (%)	3.02%	3.45%	3.74%	4.17%

Source: GECR and company.

Notes: \*Adjusted for exceptionals

### Key data

Share price	69.50p
52 week high/low	90.00p/63.00p
Primary exchange	AIM
EPIC	SND
Shares in issue	55.07 m
Market Cap	£38.27 m
Sector	Software & Computer Services

### Share price chart



**Important:** All disclaimer information can be found on the last page of this document. Please note that this publication has been commissioned by the company to which this publication relates and therefore it cannot be considered independent. The contents of this report, which has been prepared by and is the sole responsibility of MIL, have been approved by Eastwood Anglo Corporate Finance Limited solely for the purposes of section 21(2) of the Financial Services and Markets Act 2000.

## Appendix

Figure: P&L forecasts

Year end: 30th Sept.	2014	2015	2016	2017E	2018E
<b>Revenue (£'000)</b>	<b>16,411</b>	<b>19,182</b>	<b>21,320</b>	<b>21,500</b>	<b>23,000</b>
<b>EBITDA (£'000)</b>	<b>2,813</b>	<b>3,559</b>	<b>4,251</b>	<b>4,585</b>	<b>5,035</b>
Depreciation and amortisation (£'000)	(765)	(1,138)	(1,225)	(1,225)	(1,225)
<b>Operating profit (£'000)</b>	<b>2,048</b>	<b>2,421</b>	<b>3,026</b>	<b>3,360</b>	<b>3,810</b>
Other income (£'000)	0	0	0	0	0
Net interest (£'000)	(132)	(138)	(153)	(173)	(173)
<b>PBT -reported (£'000)</b>	<b>1,916</b>	<b>2,031</b>	<b>2,781</b>	<b>3,187</b>	<b>3,637</b>
Impairment of acquired intangibles (£'000)	(387)	(483)	(513)	0	0
Non-recurring items/exceptions (£'000)	(404)	(399)	(147)	(505)	(385)
<b>PBT - normalised (£'000)</b>	<b>2,707</b>	<b>2,913</b>	<b>3,441</b>	<b>3,727</b>	<b>4,022</b>
Taxation (£'000)	(318)	(164)	(354)	(637)	(727)
Net Income - normalised (£'000)	2,389	2,749	3,087	3,090	3,295
Attributable profit (£'000)	1,598	1,867	2,427	2,550	2,910
EPS - reported (p)	3.1	3.4	4.4	4.6	5.3
EPS (norm., cont.) – FD (p)	4.4	4.9	5.5	5.4	5.7
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	57.4	57.4
Average number of group shares (m)	51.9	54.4	54.8	55.1	55.1

Source: Company and GECR

\*FD stands for fully diluted.

Figure: Cash flow forecasts

Year end: 30th Sept.	2014	2015	2016	2017E	2018E
Profit for the period	1,598	1,867	2,427	2,550	2,910
Depreciation & amortisation	765	1,138	1,225	1,225	1,225
Other cash and non-cash movements	551	643	684	895	985
Change in working capital	(224)	(771)	(362)	600	(600)
<b>Operating cash flow</b>	<b>2,690</b>	<b>2,877</b>	<b>3,974</b>	<b>5,270</b>	<b>4,520</b>
Pension contribution	(360)	(450)	(330)	(360)	(600)
Interest Paid	0	(5)	0	0	0
Tax paid	(2)	0	0	(530)	(600)
Cash utilised by non-recurring items	0	(310)	(62)	(420)	(300)
<b>Cash flow from operations</b>	<b>2,328</b>	<b>2,112</b>	<b>3,582</b>	<b>3,960</b>	<b>3,020</b>
Maintenance capex	(113)	(296)	(254)	(254)	(254)
<b>Free cash flow</b>	<b>2,215</b>	<b>1,816</b>	<b>3,328</b>	<b>3,706</b>	<b>2,766</b>
Expansionary capex	0	0	0	0	0
Other financials	(652)	(515)	(783)	(437)	(557)
Acquisitions	(2,146)	(1,936)	(1,660)	(135)	(135)
Net share issues	3,953	118	58	0	0
Dividends paid	(873)	(1,035)	(1,206)	(1,380)	(1,597)
<b>Change in net cash</b>	<b>2,497</b>	<b>(1,552)</b>	<b>(263)</b>	<b>1,754</b>	<b>477</b>
Net cash/(debt)	6,159	4,607	4,344	6,098	6575
FCFPS - FD (p)	4.1	3.3	5.9	6.5	4.8

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	6,098	6,575
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>46,012</b>	<b>46,390</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)	(10,932)	(10,332)
<b>Total liabilities</b>	<b>15,227</b>	<b>16,140</b>	<b>19,426</b>	<b>20,026</b>	<b>19,426</b>
<b>Net assets</b>	<b>25,817</b>	<b>26,627</b>	<b>24,931</b>	<b>25,986</b>	<b>26,964</b>
Shareholder's equity	25,817	26,627	24,931	26,186	27,583
Minority interests	0	0	0	0	0
<b>Total equity</b>	<b>25,817</b>	<b>26,627</b>	<b>24,931</b>	<b>25,986</b>	<b>26,964</b>
Net working capital	1,355	1,646	2,482	1,882	2,482
NAV per share (p)	47.6	47.7	44.3	45.2	46.9

Source: Company and GECR

### Important Information

GECR is a trading name of Master Investor Limited (“**MIL**”). MIL is not authorised or regulated by the Financial Conduct Authority (“**FCA**”). The contents of this report, which has been prepared by and is the sole responsibility of MIL, have been approved by Eastwood Anglo Corporate Finance Limited (“**EACF**”) solely for the purposes of section 21(2) of the Financial Services and Markets Act 2000. EACF, whose registered office is Burnell Arms, Winkburn, Newark, Nottinghamshire, NG22 8PQ. EACF is authorised and regulated by the FCA and its firm reference number is 193023. EACF is acting for MIL and not for any other person and will not be responsible for providing the protections provided to clients of EACF nor for advising any other person in connection with the contents of this report and, except to the extent required by applicable law, including the rules of the FCA, owes no duty of care to any other such person. No reliance may be placed on EACF for advice or recommendations with respect to the contents of this report and, to the extent it may do so under applicable law, EACF makes no representation or warranty to the persons reading this report with regards to the information contained in it.

MIL provides professional equity research services and the companies researched pay a fee in order for this research to be made available. This report has been commissioned by the subject company and prepared and issued by MIL for publication in the United Kingdom only. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This report may contain forecasts, estimates of future share prices and future valuations (“**forecasts**”), which by their nature involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and are not guarantees of future performances. The actual results, performance or achievements of the company or developments in the sector in which the company operates may differ materially from the future results, performance or achievements or sector developments expressed or implied by the forecasts contained in this report. The forecasts contained in this report speak only as at the date of this report. MIL undertakes no obligation to update or revise publicly the forecasts contained in this report to reflect any change in expectations or to reflect events or circumstances occurring or arising after the date of this report.

All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable; however, MIL does not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of MIL at the time of publication, and any estimates are those of MIL and not of the company concerned unless specifically sourced otherwise.

This report is provided for information purposes only and is not a solicitation or inducement to buy, sell, subscribe or underwrite securities. MIL does not make investment recommendations. Any valuation given in this report is the theoretical result of a study of a range of possible outcomes and not a forecast of a likely share price. MIL does not undertake to provide updates to any opinions or views expressed in this document.

MIL does not hold any positions in the securities mentioned in this report. MIL or its affiliates may perform services or solicit business from any of the companies mentioned in this report.

The price and value of securities can go down as well as up, and so you could get back less than you invested. In addition, the level of marketability of the securities mentioned in this report may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. Past performance is not a guide to future performance. Information in this report cannot be relied upon as a guide to future performance.

Before purchasing any securities referred to in this report, persons reading this report should make sure that they fully understand and accept the risks of investing in the company which is the subject of this report. Before making any investment decisions, potential investors should consult an independent financial adviser as to the suitability of the securities referred to in this report to the person concerned.