SMALL CAP SHARE COMMENT
Commissioned Commentary

SANDERSON GROUP (AIM:SND)

Share price 103p

Positive trading update lifts the share price – it's looking good

Date: **15th April 2019**
Sector: **Software & Computer Services**
Market Cap: c£62m
www.sanderson.com

The specialist provider of digital technology solutions has issued a positive trading update ahead of the announcement of its interim results for the six month period ending 31 March 2019.

Trading results for the period are ahead of management's expectations with revenue growing 16.4% to around £17.0m and operating profit (stated before the amortisation of acquisition-related intangibles, share-based payment charges and 'one-off' non-recurring items) up over 30% to £2.8m.

- Some accounting jargon!

The Group adopted ***IFRS 15 Revenue from Contracts with Customers*** with effect from 1 October 2018 on a modified retrospective basis meaning that the prior year comparatives have not been restated.

IFRS 15 is an International Financial Reporting Standard providing guidance on accounting for revenue from contracts with customers.

On a comparable basis, excluding the impact of IFRS 15, revenues still rose over 15% to £16.9m and operating profit increased over 20% to £2.5m.

- Cash flowing and strong order book

The order book stood at approximately £8.0m at the period-end with net cash of £3.29m. After the end of the period in April 2019 the final deferred consideration payment of £0.5m was made in respect of the Anisa acquisition, made in November 2017, resulting in the initial and deferred cash consideration having been satisfied entirely from the Group's own cash resources.

- Operations

Sanderson breaks down its business in terms of a ***Digital Retail Division*** and an ***Enterprise Division***. The Enterprise software division now includes the recently acquired **Anisa Supply Chain Logistics** business, with the remaining parts of the division comprising businesses focused on the manufacturing, wholesale and distribution sectors.

The ***Digital Retail Division*** provides comprehensive solutions for ecommerce, mobile commerce and retail, including cloud-based store solutions and works with leading retailers such as Richer Sounds plc, JD Sports Fashion plc and Superdry.

Digital Retail continued to perform strongly in the period and achieved further double-digit revenue and operating profit growth. This division has continued to benefit from increased investment in sales and marketing capability with the sales order intake being above prior year levels and continued strong sales prospects.

The ***Enterprise Division*** has continued to make good progress. Sales order intake in the Manufacturing business grew by over 10% against the previous year, with the business which focusses on the food & drink processing sector performing particularly strongly. The Group businesses addressing the supply chain logistics sector, strengthened by the Anisa acquisition, have made a strong start to the current financial year with continued growth which is expected to continue into the second half of the financial year.

Hosted managed solutions are now available to customers in all Group businesses, leveraging the capability acquired in November 2017 and considerably enhancing the range of products, services and solutions which Sanderson is now able to offer to its customers.

The Group business which focuses on the supply of solutions to the wholesale distribution market has continued to trade well, benefitting from continued strong interest in its new digital solutions suite of products launched in 2018.

- Outlook

Despite the political uncertainty, we sensed there was less caution than usual to the outlook statement with management expressing "confidence" that Sanderson is well positioned to make further progress in the rest of the full financial year ending 30 September 2019.

- Broker estimates

House broker forecasts for the Financial Year ending September 2019 currently remain for sales up 7.5% to £34.4m, adjusted pre-tax profit up 12.5% to £5.4m and adjusted EPS up 5.2% to 8.0p. These look easily achievable given the very positive first half.

The forecast 2019 dividend of 3.20p, covered 2.5x by adjusted earnings, equates to a yield of approx. 3.1% at the current share price.

This well-balanced software and services group supporting all elements of the supply chain, from manufacturing, through distribution, warehousing and retail continues to look in excellent shape.

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