

SANDERSON GROUP (AIM:SND)

Share price 66p

Date: 19th October 2016

Sector: Software & Computer Services

Market Cap: c£36m

www.sanderson.com

Positive pre-close should give the shares a boost after a bizarrely weak run

A positive pre-close trading update from the software and IT services business specialising in digital retail technology and enterprise software will hopefully offer support to what has been a surprisingly weak share price over the past few months.

- Revenue ahead, profit in line

The update confirmed that results for the year ended 30 September 2016 are in line with market expectations in terms of profit whilst revenue is slightly ahead of expectations. Revenue has grown by 10% to now exceed £21m (2015: £19.18m) and adjusted operating profit (stated before the amortisation of acquisition-related intangibles, share-based payment charges and acquisition-related costs) has also increased by over 10% to approximately £3.69m (2015: £3.30m).

- New business wins boost order book

Sales order intake has grown to over £12m (2015: £10.03m) and has included over £3.8m of business gained from new customers, which is nearly double the £2.0m gained from new customers during the previous financial year ending 30 September 2015.

The Group order book at 30 September 2016 stood at £3.0m (2015: £2.35m). The all-important pre-contracted recurring revenues increased to £10.76m (2015: £9.85m) representing over 50% of total revenue.

- Strong cash position

The Group's net cash balance at 30 September 2016 of £4.30m was materially up on the half year (31 March 2016: £3.39m) and after the payment of deferred consideration of £1.6m in respect of 2013 and 2014 acquisitions, as well as, total dividend payments in the year of £1.2m.

- Divisional breakdown***Digital Retail Division***

Digital Retail's revenue grew approximately 8.5% to £6.40m (2015: £5.86m). A large new retail customer was secured towards the end of the financial year, with the solution being rolled-out during the coming financial year ending 30 September 2017. The Group has made further investment in management, sales and delivery capacity in anticipation of continued rapid growth in the digital retail market with sales prospects remaining good.

Enterprise Division

The Enterprise division comprises two market-focused businesses which are based upon the manufacturing sector and the wholesale distribution and logistics sector.

The Manufacturing business, which is very much driven by the food and drink processing sector, gained over £1.0m of orders from new customers. Group businesses addressing the wholesale distribution and logistics sectors have also traded very well and have gained a record value of orders from new customers and overall divisional order intake was up by 50% over the prior year. The Enterprise

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Division enters the new financial year with a strong order book and good sales prospects.

- Still on the look-out for acquisitions

They continue to have a keen eye on complementary acquisitions and the update confirmed a number of opportunities are currently under consideration. However, management continues to adopt a 'careful and measured approach' in this regard. In the meantime, the focus remains on continuing to deliver shareholder value through achieving organic growth and 'on target' results.

- No evident Brexit impact

The update confirmed that they have not yet detected any loss of confidence from both existing customers and prospective customers following the Brexit vote but are keeping a watchful eye on things.

- Broker forecasts

New house broker forecasts for the financial year ending September 2017 are for sales of £22.2m (growth 5.2%), normalised profit before tax of £3.4m (growth 8.8%), adjusted earnings per share of 5.1p (+1.9%) and a dividend of 2.3p, equating to a yield of 3.4% at the current share price.

The sharp sell-off in the share price post Brexit is a bit of a mystery, perhaps 'the market' was concerned about the Group's exposure to the under-pressure UK retail sector! Sanderson has a robust balance sheet with net cash of £4.3m, is highly cash generative and has lots of delightful reliable recurring revenue, what more can one ask for!

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