

SANDERSON GROUP (AIM:SND)

Share price 81p

Date: 2nd March 2017

Sector: Software & Computer Services

Market Cap: c£43m

www.sanderson.com

Encouraging AGM statement – strong cash generation supports a growing dividend and highlights the compelling value at current levels

The software and IT services business specialising in digital retail technology and enterprise software has issued a positive AGM statement. With lots of delightful recurring revenue and strong cash generation supporting a growing dividend the valuation remains compelling at current levels.

Sanderson Group provides a comprehensive and constantly developing range of modern software solutions, together with associated services to businesses in the multi-channel retail and manufacturing markets, with increasing emphasis on their own proprietary solutions. The Group's 230+ employees addresses 500 predominantly small and medium sized enterprises and the substantial element of delightful recurring revenue means there is decent visibility of future earnings.

Sanderson breaks down its results in terms of a **Digital Retail** business division and an **Enterprise Software** division.

The **Digital Retail** division provides comprehensive solutions for ecommerce, mobile commerce and retail, including cloud-based store solutions.



The **Enterprise Software** division comprises 2 market-focused businesses which are based on upon the **Manufacturing** sector and the **Wholesale Distribution and Logistics** sector.



- Solid start to current financial year

The AGM statement has confirmed a solid start to the current financial year ending 30 September 2017. For the four months to 31 January 2017, sales orders exceeded last year's record, with Group revenues 8% ahead of the comparative period of the previous year. The order book at 31 January 2017 has also continued to grow and is ahead of the level as at the end of January 2016; Group order book at 30 September 2016 stood at £3.0m

The Group's Digital Retail businesses have experienced a strong increase in sales order intake. A number of pilot schemes for prospective customers are being planned for initial deployment in the current financial year with pilots more often than not turning into long term contracts!

The Sanderson Enterprise businesses have also made a good start to the new financial year and those businesses whose activities are focused in the wholesale distribution, logistics and fulfilment sectors have

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continued to grow steadily in this very active market sector.

- Recurring margin covers 63% of overheads

The Group's typical revenue breakdown is as follows:

50% Recurring, being annual, pre-contracted licence, support and managed service contracts

40% Incremental, being incremental discretionary spend from existing customers

10% New customers contracting with Sanderson for the first time.

In the 2016 Financial year, new customer orders represented 18% of revenue.

- Attractive Dividend growth

The recurring revenue stream results in predictable cash generation, which in turn supports the Group's progressive dividend policy. A recommended final dividend of 1.4p per share brings the total dividend for last year to 2.4p, representing an increase of 14% over the previous year; this equates to a yield of approx. 3% at the current share price.

Management commented that, notwithstanding any potential uncertainty which may result from the forthcoming Brexit negotiations, there is a good level of confidence that the Group will make continued progress in the current financial year ending 30 September 2017.

House broker forecasts for the full year ending September 2017 remain for sales of £22.4m (growth 5.2%), adjusted profit before tax of £3.8m, adjusted earnings per share of 5.6p and a dividend of 2.6p,

equating to a yield of 3.2% at the current share price.

- Attractive Free Cash Flow

Free cash flow for the past 2 financial years has averaged approx. £2m per annum, suggesting an attractive historic Free Cash Flow ('FCF') yield of approx. 4.6% at the current share price. Forecast FCF of approx. £2.3m suggests a forward FCF yield of over 5%, suggesting compelling value at the current share price.

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