SMALL CAP SHARE COMMENT
Commissioned Commentary

SANDERSON GROUP (AIM:SND)

Share price 86p

Positive pre-close – results slightly ahead

Date: **10th October 2018**
Sector: **Software & Computer Services**
Market Cap: c£52m
www.sanderson.com

The specialist provider of digital technology solutions, innovative software and managed services has issued a positive pre-close trading update covering the year ending 30 September 2018

The enlarged Sanderson Group develops and supplies their own software solutions for the retail, wholesale, supply chain logistics, food and drink processing and manufacturing sectors.

The Group works closely with its customers forging long-term relationships which results in lots of delightful, long term, recurring revenues.

In retail, they work closely with well-known high street brands such as JD Sports Fashion to pioneer the adoption of digital technologies such as mobile, social and interactive, to deliver a more engaging customer experience. In food and drink processing the Group's systems help manufacturers manage the complexities of their business, tackling product traceability and increasing regulation.

Anisa Group, which **was acquired on 23 November 2017**, specialises in the delivery of world-class integrated supply chain and enterprise resource planning ('ERP') solutions. The acquisition considerably enhances the range of solutions and services which Sanderson can now offer customers. In particular, managed services provide an opportunity to exploit and to accelerate expected market trends towards subscription and cloud-based options for product delivery going forward.

- Results slightly ahead

Trading results of the enlarged Group, which includes Anisa, are significantly ahead of the prior year and slightly ahead of current market expectations.

Group revenue rose to approx £32m (2017: £21.6m) with gross margins continuing to run at high levels of 80%. Operating profit (before the amortisation of acquisition-related intangibles, share-based payment charges and 'one-off' non-recurring items) increased by 30% to over £5m (2017:£3.90m).

On a like-for-like basis, excluding the effect of the acquisition, operating profit is expected to be slightly ahead of last year with revenue growing at over 5%, largely driven by pre-contracted recurring revenue growth of over £1m. Annually, pre-contracted recurring revenues now total over £17m (2017: £11.18m), representing 55% of total revenue (2017: 52% of total revenues).

- Order book highly supportive

In the second half of the financial year, the Group continued to experience strong sales order intake and the order book at 30 September 2018 stood at over £7m (March 2018: £3.22m). On a like-for-like basis, the order book increased by over 9% (excluding the acquisition and the large order gained in June 2017 which is being delivered 'on schedule').

The balance sheet remains in good shape with cash of £6.45m at the period end (2017: £6.18m). This was after the payment in the year of £1.67m in dividends and after a net outflow of £2.64m, associated with the acquisition of Anisa.

Debt taken on with the acquisition has fallen to £3.44m at the period end from £4.12m initially.

- Digital retail doing nicely

All Group businesses traded strongly in the second half of the year with the highlights being the performance of the Digital Retail business which grew at over 20%. Anisa, has made a strong start and, towards the end of the financial year, gained a large initial order with Port of Dover Cargo Limited.

- Broker estimates

House broker forecasts for the Financial Year ending September 2018 were for adjusted EPS of 6.4p and 6.9p for FY 2019. At the current share price of 86p the rating of 12.5x forecast earnings looks modest for a business benefiting from such a high level of recurring revenue.

The forecast 2018 dividend of 2.9p, covered over 2x by adjusted earnings, equates to a yield of approx. 3.3% at the current share price.

Look out for the full year results statement on 26 November 2018.

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