SMALL CAP SHARE COMMENT
Commissioned Commentary

SANDERSON GROUP (AIM:SND)

Share price 89p

Plenty of visibility supports earnings and dividend growth

Date: **15th February 2018**
Sector: **Software & Computer Services**
Market Cap: c£52m
www.sanderson.com

The software and IT services business has issued a positive AGM statement with all divisions showing progress and the dividend lifted meaningfully again.

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

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

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 JD Sports and Superdry.

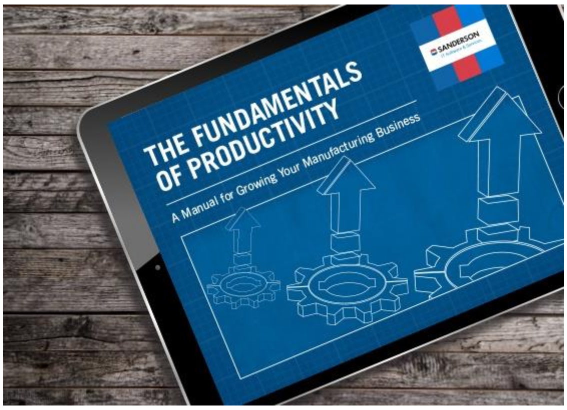
- Meaningfully higher order book supports great visibility

Following the acquisition of the Anisa Group in November 2017, almost two months into the current financial year ending 30 September 2018, Sanderson expects to have annual revenue in excess of £30m, a high gross margin in the region of 80% and approximately 800 customers.

Anisa specialises in the delivery of world-class integrated supply chain and enterprise resource and complements the Enterprise division of Sanderson. You can read our previous commentary covering the Anisa acquisition from the **link here**.

Management is encouraged by Anisa's initial contribution and the overall trading performance of the Sanderson Group is in line with management's expectations.

Up to the end of January (four months into the new financial year) total Group revenues are approximately one-third ahead of the comparative four-month period to the end of January in 2017. Excluding Anisa, like-for-like Sanderson revenues are approximately 5% ahead, with operating profit approximately 10% ahead of the comparative results for the four-months to the end of January 2017.



The \`like-for-like\` order book is over 20% ahead of the level as at the end of January 2017. With the acquisition of Anisa, the Group's pre-contracted recurring revenues now represent around 55% of total revenue, supporting excellent visibility and cash generation.

Notwithstanding the acquisition of Anisa for cash and shares, the Group continues to hold net cash 'at bank'.

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- Long term commitment from Anisa management

Anisa directors hold shares representing 4.77% of the issued share capital of Sanderson and in turn, Mr David Renshaw, the Chief Executive of Anisa, owns shares, representing 3.48% of Sanderson share capital. All of these consideration shares are subject to a three year lock-in expiring on 23 November 2020, highlighting their long term commitment to the enlarged business.

- Digital Retail growing strongly

The Group previously commented how particular emphasis would be placed on enhancing the range of mobile and ecommerce solutions in Digital Retail and latest statement confirms that the Digital Retail businesses have made a good start to the new financial year with both revenue and operating profit continuing to grow at double-digit rates.

As has been the case for a while now, sales cycles continue to be long, but a number of new customer prospects and continued strong levels of activity provide a good level of confidence going into the remaining eight months of the financial year.

The Enterprise businesses have also made a solid start and sales prospects are well ahead of last year, though sales cycles also remain protracted. A new, innovative digital platform for the wholesale distribution market has been very well received by existing and prospective new customers with overall interest ahead of expectations.

- Dividend up 10%

A recommended final dividend of 1.55 pence per share brings the total dividend for last year's results to 2.65 pence per share, representing an increase of over 10% from the previous year and an attractive dividend yield of approximately 3.0% at the current share price of 89p.

- Broker estimates

Broker estimates were revised following the acquisition of Anisa. House broker forecasts for the Financial Year ('FY') ending September 2018 are for adjusted EPS of 6.4p and 6.9p for FY 2019.

The forecast 2018 dividend of 2.9p, covered over 2x by adjusted earnings, equates to a yield of approx. 3.2% at the current share price.

The Group continues to have a robust balance sheet, is highly cash generative and has lots of delightful reliable recurring revenue.

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