

SANDERSON GROUP (AIM:SND)

Share price 71p

Date: **24 November 2017****Sector:** Software & Computer Services

Market Cap: c£39m

www.sanderson.com

Acquisition will hopefully encourage renewed interest in this high yielding cash generator

The software and IT services business has announced a first acquisition since that of Proteus in 2014. It looks an interesting addition with meaningful long-term commitment from the sellers to the enlarged Group. Hopefully the acquisition will also encourage renewed interest in this modestly valued cash generator.

- Acquisition

[Anisa Consolidated Holdings Limited](#) ('Anisa') specialises in the delivery of world-class integrated supply chain and enterprise resource planning ('ERP') solutions and has around 250 customers who are provided with twenty-four hour support on a worldwide basis throughout the year.

Anisa employs over 90 staff and operates from office locations in London, Runcorn, Liverpool and Solihull within the UK and from smaller support operations in Singapore and Australia.

Anisa complements the Enterprise division of Sanderson and the enlarged, merged business is expected to provide and develop incremental and synergistic market opportunities. The managed services, hosting services and cloud delivery services which have been developed by Anisa represent an exciting and enhanced service delivery option for existing Sanderson customers.

Anisa Group encompasses 3 separate operating businesses with well-known customers including British Gas, Carpetright and DHL, amongst others.

**- Anisa financials**

For the period ended 31 December 2016, Anisa had audited revenue of £10.04m. As we would expect, pre-contracted recurring revenues were significant at over 50% of total revenue. Operating profit was £0.38m and profit before tax £73,000; how refreshing not to have a reference to adjusted EBITDA! At 31 December 2016, Anisa had net assets of £6.54m.

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- Acquisition terms

There are quite a few elements to the purchase consideration for an enterprise value of £12m million, which is as follows:

An initial £3.39m, made up of approximately £2.06m in cash, financed from existing Sanderson cash resources, and by the issue of 1,894,217 new Sanderson shares valued at 70p, an approximate 9% premium to yesterday's closing price. The shares are subject to a lock-in period of three years highlighting the commitment of the sellers to the enlarged business.

Further consideration of £1.82m is payable to Anisa share option holders to be satisfied by cash or new Sanderson shares (also subject to a lock-in period of three years) at a price of 70p by 31st December 2017, dependent on the choice of the option holder.

Sanderson is also taking over Anisa's utilised five-year repayable term debt facility (final quarterly repayment being due in 2020) of £4.12m as well as a current account positive cash balance of just over £1m. Loan notes with a coupon of 5% to the value of £1.05 million will also be repaid by October 2018.

Deferred consideration, totalling £1.63 million is payable in three tranches. The first payment of £563,000 is payable in April 2018 and the second payment for the same amount, payable in October 2018; both tranches are unconditional. A third and final deferred payment of up to £500,000 is scheduled for April 2019, dependent upon some pre-agreed trading performance criteria.

- Lovely cash generation

Both Anisa and Sanderson are very cash generative businesses and it is expected that the combined Group will have total revenues of over £30m, of which more than 50% is pre-contracted recurring revenue. The combined Group will not have any net bank debt.

- Senior managers remain highly committed

The Anisa executive team of Mr Ross Telford, Chairman, Mr David Renshaw, Chief Executive and Mr Lionel Moore, Finance Director will remain with Anisa and are committed to making the acquisition a success. They have demonstrated their commitment to the enlarged Group by agreeing to a minimum 'lock-in' period of three years for their new Sanderson ordinary shares.

- A merger more than an acquisition

Chairman, Christopher Winn who is the Group's largest shareholder with a 21% stake commented how the transaction feels more like a merger rather than an acquisition. Anisa and Sanderson are very complementary in terms of their ethos and business model - providing cost-effective solutions, supported by providing quality service to customers thereby building and developing long-term relationships.

- Clear strategy

The strategy of the combined business is to continue to develop the existing range of products and services delivered to existing customers; to further invest and develop the Anisa relationships with strategic partners and to provide additional investment in order to

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accelerate growth opportunities by attracting even more new customers.

- Broker revised forecasts

The house broker assumes that Anisa contributes £7.4m of revenue and £0.8m of adjusted operating profit in FY 2018, and £8.9m of revenue and £1.0m of profit in FY 2019. This implies flat revenue growth in FY 2019 on an annualised basis.

Their adjusted EPS estimates increase by c10% in FY September 2018 to 6.4p and c11% in FY 2019 to 6.9p. The forecast 2018 dividend of 2.9p, covered over 2x by adjusted earnings equates to a yield of 4.0% at the current share price.

Despite steady progress over the past few years, the Sanderson Group share price has fallen over 20% since the April 2017 highs for no apparent reason. Hopefully the acquisition will encourage renewed interest in this well-managed highly cash generative business.

Results for the year ending 30 September 2017 are due out on Tuesday 28 November and will hopefully offer more colour on outlook.

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