SMALL CAP SHARE COMMENT
Commissioned Commentary

SANDERSON GROUP (AIM:SND)

Share price 94p

Positive pre-close trading update reflects growing margins and good start from latest acquisition

Date: **30th April 2018**
Sector: **Software & Computer Services**
Market Cap: c£56m
www.sanderson.com

The software and IT services business specialising in digital retail technology and enterprise software has issued a positive trading update ahead of the announcement of its interim results, which are slightly ahead of management's expectations.

The acquisition of the Anisa Group on 23 November 2017, which we commented on in our **note here**, has significantly enhanced the size and strength of the Sanderson Enterprise Division. Anisa specialises in the delivery of world-class integrated supply chain and enterprise resource planning ('ERP') solutions and on acquisition had around 250 customers who are provided with twenty-four hour support on a worldwide basis throughout the year.

- Long term commitment from Anisa management

Following the acquisition, 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 the consideration shares are subject to a three year lock-in expiring on 23 November 2020, highlighting their long term commitment to the enlarged business.

- Results slightly ahead

The Group's trading results for the six months ended 31 March 2018 are anticipated to be slightly ahead of management's expectations with revenue and profit growing over 30%.

Group revenue was just above £14.5m (H1 2017: £10.9m) and operating profit (stated before the amortisation of acquisition-related intangibles, share-based payment charges, acquisition-related and restructuring costs) increased to over £2m (H1 2017: £1.55m).

On a 'like-for-like' basis, excluding the acquisition, revenues have risen to just over £11m (H1 2017: £10.9m) and operating profit is up to just over £1.7m (H1 2017; £1.55m). Gross margins continue to run at a high level of over 80% and growing pre-contracted recurring revenues increased to above £8m. On a 'like-for-like' basis, excluding the impact of the Anisa acquisition pre-contracted recurring revenues ended the first half of the financial year at £5.9m compared with £5.4m for 2017. The focus remains on building recurring revenues including growing subscription, cloud and managed services revenues.

- Order book higher

The value of the Group order book measured on a 'like-for-like' basis at the end of March 2018, was over 15% ahead of the comparable order book value at the end of March 2017. Management commented how the order book is now much better balanced and is now at a more manageable level across the Group's businesses. The total order book, which now includes the

Investor's Champion Ltd
Langwood House,
63-81 High Street.
Rickmansworth, Herts WD3 4DZ
www.investorschampion.com

acquisition and reflects the remaining element of the large order gained in June 2017, is now valued above £8m.

- Divisional

Sanderson breaks down its business in terms of a ***Digital Retail Division*** and an ***Enterprise Software Division***. The Enterprise software division now includes the recently acquired Anisa business, with the remaining parts of the division comprising 2 market-focused businesses based on 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.

In the six-month period to 31 March 2018, revenue in Digital Retail grew over 20% compared with the comparable period in the prior year, profits almost doubled and the order book at 31 March was up by over 50% compared with the order book at 31 March 2017. Following a successful pilot scheme, a Phase One order has been secured with a 'well-known global iconic fashion brand'. Sales prospects remain strong with pilot schemes for a number of prospective customers being planned for initial deployment in the current financial year.

The ***Enterprise Division*** has benefited from increased investment in sales and marketing capability.

The Manufacturing business is increasingly driven by the food and drink processing sector where the Group has a strong presence and the profit achieved was higher than for the comparable prior year period.

Group businesses focusing on the supply of solutions to the wholesale distribution sector remained very profitable with revenue and profit being sustained at levels close to the comparable prior year period. Management expects this part of the business to deliver an improved result for the second half year, which has started well.

Anisa has made a good start as part of Sanderson and this business considerably enhances the proven range of products, services and solutions which Sanderson now offers to prospective and existing customers in the target market sectors.

- Outlook

There was the customary cautious outlook statement from management who nevertheless have "a good level of confidence that Sanderson will make significant further progress during the current financial year ending 30 September 2018."

A very positive first half of the year and the better-balanced order book bodes well for the future.

- Broker estimates

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% at the current share price.

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