

**SANDERSON GROUP (AIM:SND)**

Share price 69p

Positive trading update, cash flowing and plenty of visibility

Date: **30 October 2017****Sector:** Software & Computer Services

Market Cap: c£38m

[www.sanderson.com](http://www.sanderson.com)

The software and IT services business specialising in digital retail technology and enterprise software has issued a positive trading update covering the year ending 30 September 2017.

Through its different divisions 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 addresses 500 predominantly small and medium sized enterprises and the substantial element of recurring revenue means there is excellent visibility of future earnings.

Emphasis over the past few years has been the development of mobile commerce solutions and food and drink processing solutions. The mobile commerce products, together with in-store technology developments, are collectively referred to as **Digital retail solutions** which enable retailers to capitalise on the huge growth in the widespread adoption of smartphones and tablets and to exploit mobile as a sales channel. Notable success in this area has been achieved with clients such as JD Sports and Superdry

**- Summary financials for year ending 30 September 2017**

Revenue for the year ended 30 September 2017 is expected to be approximately £21.5m (2016: £21.32m) and operating profit, adjusted for amortisation of acquisition-related intangibles, share-based payment charges and one-off non-recurring items, is approximately £3.9m (2016: £3.69m).

Non-recurring items, of approximately £0.5m, include costs relating to potential acquisitions during the year, the consolidation of office premises with internal reorganisation, as well as the costs incurred in changing the Group Finance Director. These non-recurring costs are mitigated by the receipt in full of a licence fee from a former customer who had been disputing the payment relating to their access of the Group's software.

Pre-contracted recurring revenues increased to over £11m (2016: £10.76m) and represent over half of total revenue.

Group margins were maintained at a high level of 82% in line with the first half of the financial year, reflecting again a high element of Sanderson Intellectual Property.

Sales order intake was strong and totalled £13.7m (2016: £12.26m) with the Group order book at 30 September 2017 at £5.8m (2016: £3.02m). This includes a significant order from an existing customer which is scheduled to be delivered over the course of the next two financial years.

Free cash flow ('FCF') was very strong in the period with cash at 30 September 2017 well ahead of market expectations (c£4.9m) at over £6m (30 September 2016: £4.34m) and this after the payment of £1.38m of dividend payments in the period.

With FCF in the first half of £1.1m, the year end cash position of over £6m suggests approx. £3.1m FCF for the full year implying a FCF yield of approx. 8% at the current share price.

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[www.sanderson.com](http://www.sanderson.com)**- Divisional**

Sanderson Group breaks down its results in terms of a **Digital Retail** business 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**.

**Digital Retail Division**

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

Mobile enablement and deployment continues to be a key business driver in this market sector with increasing levels of business activity.

Digital Retail comfortably achieved double digit growth in the period.



Management previously reported that a large new retail customer had been gained towards the end of the prior financial year ended 30 September 2016. The trading update has now confirmed this to be Richer Sounds where the Sanderson solution was successfully installed and implemented during the financial year ending 30 September 2017.

Following the receipt of an initial order worth over £200,000, a large pilot scheme is now underway with a leading global fashion brand.

The update confirmed that sales prospects remain good.

**Enterprise Division**

The Enterprise division comprises two market-focused businesses based upon the manufacturing sector (the main areas of specialisation being in food and drink, engineering, plastics, aerospace, electronics and print manufacturing) and the wholesale distribution and logistics sector.



The Division delivered another solid year's trading performance and though sales prospects are good, sales cycles do remain extended.

A large order gained during the 'prior year' was successfully delivered during the course of the current year to DPD Logistics, one of the UK's major delivery, logistics businesses. The Enterprise business has good sales prospects but as ever, the timing of the receipt of sales orders will be critical to business performance.

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[www.sanderson.com](http://www.sanderson.com)**- Broker forecasts**

The house broker has trimmed revenue forecasts for the current financial year ending September 2017 to £21.5m but left profit expectations broadly unchanged, being for adjusted pre-tax profit at £3.7m and adjusted earnings per share at 5.4p. The forecast dividend is 2.6p which equates to a yield of 3.8% at the current share price.

For the year ending September 2018 forecasts are for revenue of £23m, adjusted pre-tax profit £4.0m, adjusted earnings per share 5.8p and a full year dividend of 2.9p.

**- Outlook**

There was the customary cautious outlook statement and while management remains keen on making complementary acquisitions, clearly it's been tricky to tie anything down, at the desired terms.

The share price has struggled to make headway over the past few years but we remain of the view that, with a strong net cash position, decent visibility and attractive solutions, notably in

digital retail, cash generative Sanderson still looks decent value.

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