SMALL CAP SHARE COMMENT
Commissioned Commentary

SANDERSON GROUP (AIM:SND)

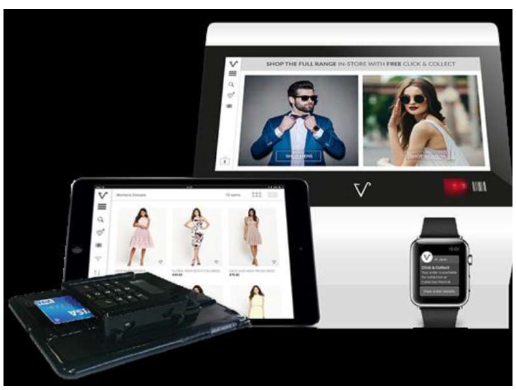
Share price 70p

Date: **30th November 2016**
Sector: **Software & Computer Services**
Market Cap: c£38m
www.sanderson.com

Results in-line, cash flow delightful and a dividend yield over 3.5% offers plenty of encouragement

Results for the year ending 30th September 2016 were in line with the pre-close trading update on 19th October 2016 when the Group reported strong order intake and revenue ahead of expectations.

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's 230+ employees addresses 500 predominantly small and medium sized enterprises and the substantial element of delightful recurring revenue means there is decent 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.

With the use of mobile technologies continuing to grow, Sanderson looks well placed to benefit in this area.

- Business segments

As reported in the interims Sanderson now 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**.

- A cracking year for new business

It was clearly a cracking year for new business wins with over £3.8m of business gained from new customers, being substantially up on the £2.0m gained from new customers during the previous financial year.

The Group order book at 30 September 2016 stood at £3.0m (2015: £2.35m). The all-important pre-contracted recurring revenues increased to £10.75m (2015: £9.85m) representing 50% of total forecast revenue.

- Summary results

Income statement
Results for the year ending 30th September 2016 saw group revenue grow 11% to £21.3m (2015: £19.2m), and adjusted operating profit (stated before amortisation of acquisition-related intangibles, acquisition-related costs and share-based payment charges) up 12% to £3.7m (2015: £3.3m).

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

As tax losses have been utilised the tax rate has risen, with half the Group now in a tax paying position. By November 2017 it is anticipated that tax losses will be fully utilised.

Acquisition and restructuring costs of £62k relate to costs incurred on 2 acquisitions that ultimately didn't proceed.

The year was notable for further investment in technical and sales and management resource, with emphasis on Digital Retail.

Diluted adjusted earnings per share rose 12.2% to 5.5p (2015:4.9p).

The value of the order book at the period-end of £3.0m, up 25% on the prior year.

Pre-contracted recurring revenues increased to £10.75m (2015: £9.85m) representing 50% of total revenue.

The overall gross margin remained broadly flat at 84.1% (2015:84.5%) once again reflecting the continuing emphasis on the supply of Sanderson 'owned' proprietary software and services.

The full year dividend increased 14% to 2.4p per share (2015:2.1p) equating to a yield of 3.4%.

Balance sheet

Cash generation was the usual excellence with operating cash inflow £4m (2015: £2.9m) and year end net cash £4.3m, after the payment of £1.66m of deferred consideration and £872k of expenditure on product development.

The pension position was affected by the low level of interest rates which saw the discount rate fall to 2.3% from 4%. Therefore, the pension deficit at year end was £8.1m (2015: £4.6m). The annual funding requirement was £330k in the Financial Year and will be £360k in 2017 Financial year. Evidently if rates stay depressed, as is likely, the funding requirement will probably rise. However, they would no doubt negotiate, on the basis of the average length of time until members retire as a reason to not increase payments significantly. Notwithstanding, the Group's excellent cash generative abilities would comfortably support this. To put things into perspective, Scheme assets were approximately £9m and Scheme liabilities £17m, with 70-75 members in the Scheme and the average period until retirement 16 years.

- Recurring margin covers 63% of overheads

The typical revenue breakdown is as follows:

50% Recurring, being annual, pre-contracted licence, support and managed service *contracts*

40% Incremental, being incremental discretionary spend from existing customers

10% New customers contracting with Sanderson for the first time.

In the 2016 Financial year, new customer orders represented 18% of revenue.

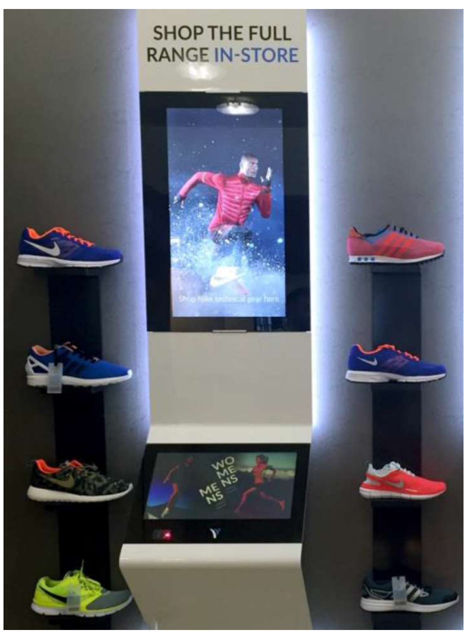
House broker estimates for the year ending September 2017 are for revenue of £22.4m. With £10.75m of recurring revenue and an order book of £3.0m, this leaves an £8.65m 'Gap' to fill, being 38.6% of total which compares to 35% in the prior year.

- Divisional review

The Group now breaks down divisional results in terms of a **Digital Retail** business division and an **Enterprise software** division.

Digital Retail
Revenue £6.4m (2015: £5.80m)
Adj. operating profit £885k (2015: £1.3m)
Order book £0.92m (2015: £0.92m)
60+ customers

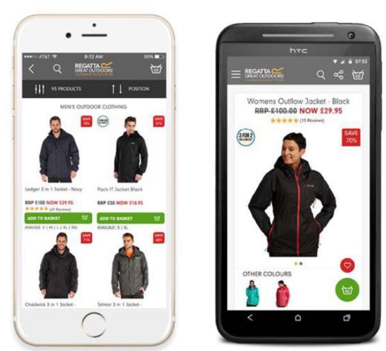
The division provides comprehensive solutions for ecommerce, mobile commerce and retail, including cloud-based store solutions.



There was continued strong demand for mobile solutions and the division benefits from retailer focus on digital technology to both survive and drive growth.

The top 5 customers with a total spend of £4.1m (64% of total) were high flying JD Sports, which seems to be growing at a phenomenal rate, Superdry, Scotts of Stow, and fellow AIM listed Hotel Chocolat. In addition to these 4 high quality retailers was a yet to be named 'Large Retailer' the roll-out for whom is due to start in the summer.

The stickiness of the customer base is well-illustrated by the relationship with Axminster Tools & Machinery a market leader in the mail order tools and machinery sector. 12 years since first providing an £80k solution to Axminster this client has now spent many times this original order with Sanderson. Over this period, Axminster has grown from a 2 store £20m revenue business to one with 8 stores, a growing web presence and revenue of £40m, with thousands of customers and 17,000 product lines.



Outdoor and leisure clothing company Regatta wanted new channels to sell more product, more frequently to loyal mobile enabled customers. In response, the

Group's One iota business was asked to run a pilot creating iOS and Android apps.

Enterprise Division
Revenue £14.9m (2015: £13.3m)
Adj. operating profit £2.8m (2015: £2.1m)
Order book £2.1m

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***.

Manufacturing sector
Revenue £6.56m (2015: £6.5m)
Adj. operating profit £0.86m (2015: £0.68m)
200+ customers

Traceability of products and ingredients through the food manufacturing and supply chain and the assurance of product compliance to the latest regulatory standards are strong features of the Sanderson solution; these are key requirements for businesses operating in the food and drink processing industry.

Seven new customers were gained during the period (2015:5), including one of the UK's oldest pie makers – us Brits like our pies! This highly regarded Midlands based business, which supplies into pubs and hotels, selected Sanderson's food ERP system for increased control and efficiency.

The top 5 customers had a total spend of £1.3m (20% of total) and included household names such as HSL (your chair specialists).

Wholesale distribution & logistics sector
Revenue £8.46m (2015: £6.8m)
Adj. operating profit 1.9m (2015: £1.3m)
250+ customers

The Group has a strong market position in wholesale and the cash & carry sector and this division had a terrific year, no doubt boosted by the previous acquisitions of Priam (2013) and Proteus (2014) which expanded the application of Sanderson solutions from the wholesale distribution, cash and carry and fulfilment sectors into warehousing, logistics and supply chain.

There is strong demand for new technology to drive business growth and efficiency in the wholesale arena and IT driving productivity gains and efficiency in the logistics sector.

The total spend for the top 5 customers was £1.5m (19% of total).

The Group has the distinction of supporting JW Gray, the largest wholesaler serving the Shetland and Orkney Islands. This a family owned business where the 2nd generation family managers are keen on implementing new technology to help improve efficiencies.

SMALL CAP SHARE COMMENT
Commissioned Commentary

SANDERSON GROUP (AIM:SND)

Share price 70p

Results in-line, cash flow delightful and a dividend yield over 3.5% offers plenty of encouragement

Date: **30th November 2016**
Sector: **Software & Computer Services**
Market Cap: c£38m
www.sanderson.com

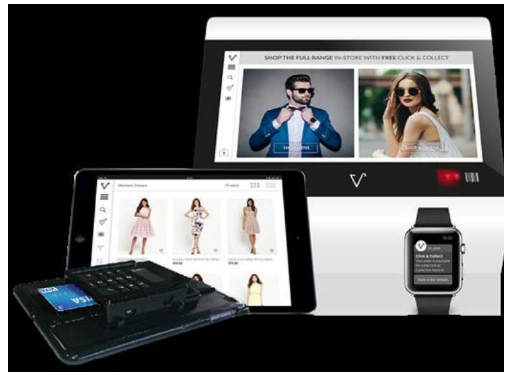
- Broker forecasts

House broker forecasts for the full year ending September 2017 remain for sales of £22.4m (growth 5.2%), normalised adjusted profit before tax of £3.75m, adjusted earnings per share of 5.6p and a dividend of 2.6p, equating to a yield of 3.7% at the current share price.

- Outlook

The three-year strategy and business plan remains for a target (To 2017/18) of annual revenue of £30m, pre-tax profit of £4m to £5m and eps growth of 50%+. This assumes a combination of acquisitions and organic growth. The dividend will be lifted in line with profit growth to reward the patient.

While the Wholesale and logistics facing business was the star of the year, the Group continues to make significant investment in Digital retail. As online retail displays double digit growth and mobile now represents 50% of online transactions Bricks and Mortar retailers need to embrace digital more than ever before. Sanderson in turn looks extremely well placed to support this expanding area.



The successful execution of online is dependent on efficient logistics where increased capex in IT is needed to drive efficiency and productivity. The Group's solutions also encompass this area ensuring they can add value throughout the entire online journey.

The share price has staged only a modest recovery since the post Brexit sell-off. Sanderson has a robust balance sheet with net cash of £4.3m, is highly cash generative and has lots of delightful reliable recurring revenue…. it's still looking good!

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

SMALL CAP SHARE COMMENT
Commissioned Commentary

SANDERSON GROUP (AIM:SND)

Share price 70p

Results in-line, cash flow delightful and a dividend yield over 3.5% offers plenty of encouragement

Date: **30th November 2016**
Sector: **Software & Computer Services**
Market Cap: c£38m
www.sanderson.com

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