

**SANDERSON GROUP (AIM:SND)**

Share price 82.5p

Date: 8<sup>th</sup> June 2016

Sector: Software &amp; Computer Services

Market Cap: c£45m

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

High level of business from new customers supports strong order book and confidence in the future.

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The 6 months ending 31<sup>st</sup> March 2016 saw another encouraging performance from the specialist software and IT services business.

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 primary target market for Sanderson is small and medium sized businesses, with particular emphasis over the past few years in 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, the Group looks well placed to benefit in this area.

**- Business segments**

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**.

**- Markets with potential to grow**

The Group focuses on markets that have the potential to grow. This is most evident in the area of online retail which is experiencing double digit growth and where mobile sales in particular are growing particularly strongly.

IMRG, the UK Online Retail Association, recently reported how a major digital tipping point had been reached, with the percentage of UK online retail sales made through mobile devices (smartphones and tablets) exceeding 50% for the first time in in 4<sup>th</sup> quarter from November 2015 to January 2016. Smartphones and tablets accounted for 51% of UK online retail sales in Q4, which was a substantial increase on the 45% recorded in Q3 and up from 40% in Q4 last year.

The Group therefore places particular emphasis on enhancing the range of mobile and ecommerce solutions in digital retail and further strengthening its proposition in food and drink processing.

In order to augment organic growth, selective acquisition opportunities continue to be considered and a number of potential opportunities are currently being developed.

**- Summary results*****Income statement***

Results for the year ending 31<sup>st</sup> March 2016 show revenue growing to £9.86m (2015: £9.09m), and adjusted operating profit (stated before amortisation of acquisition-related intangibles, acquisition-related costs and share-based payment charges) of £1.47m (2015: £1.37m).

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The value of the order book at the period-end of £3.20m was particularly encouraging, being higher than at the end of the prior period (2015: £2.84m) and also higher than at the September 2015 year end (Sept 2015: £2.35m).

The overall gross margin increased to 86% (2015:85%) reflecting the continuing emphasis on the supply of Sanderson 'owned' proprietary software and services.

The interim dividend was increased 11% to 1.2p per ordinary share (2015:0.9p).

**Balance sheet**

Cash generation in the period was particularly strong boosting period end net cash to £3.4m, this after the payment of £1.54m of deferred consideration and £403k of expenditure on product development.

The pension deficit at 31<sup>st</sup> March 2016 was £4.5m (2015: £4.6m) with the annual funding requirement £330k in the Financial Year ending September 2016 and £360k in 2017.

**- Recurring revenues underpin the business**

At the core of the Group's business model is Sanderson software with on-premise and cloud-based licences, together with Sanderson services, provided to customers on an ongoing annual contractual basis. This recurring revenue stream is augmented by consultancy, support and maintenance services. In the 6 months to 31<sup>st</sup> March 2016, recurring revenue from pre-contracted licence and ongoing support services grew to £5.19m (2015: £4.76m)

representing 53% of total revenue in the period.

House broker estimates for the year ending September 2016 are for revenue of £20.3m. With £9.9m of revenue having been generated in the first 6 months this leaves £10.4m 'To Do' in the second half of the year. Of this, recurring revenue accounts for £5m, the order book £3.2m with a 'gap' of £2.2m to fill, representing 21% of the overall. This puts the Group in a fairly strong position to at least meet estimates, although it's important to acknowledge the need for the order book to be balanced across the various business lines, so there isn't too much emphasis on any particular business unit.

**- Divisional review**

This is the first time the divisional review is presented in the new form, breaking down divisional results in terms of a **Digital Retail** business division and an **Enterprise software** division.

**Digital Retail**

Revenue £2.94m (2015: £2.80m)  
Adj. operating profit £328k (2015: £487k)  
Order book £0.78m (2015: £1.03m)  
60+ customers

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

Lower adjusted operating profits reflect the planned further investment in management, sales and delivery capacity in anticipation of continued rapid growth within the digital retail market. Demand

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from existing customers for the Group's latest release of its ecommerce solution continued to grow with sales orders gained from a number of customers including [Hotel Chocolat](#), which recently had a successful admission to AIM, and Scotts of Stow.



The mobile solutions business had a busy first half, successfully completing phase two of a European roll out for Superdry, which ran across eight countries and included major cities such as, Munich, Paris, Brussels, Stockholm & Vienna. The 'connected retail' solution enables Superdry customers to order anywhere, on any device, using any payment method and have their order delivered wherever they choose. The evolution of the Superdry relationship highlights the potential for Sanderson to partner with its customers over several years, adding new applications over time.

One retail chain with stores across the UK and in Europe wanted to embrace innovation and omni-channel retail technology as part of their fixtures & fittings. In support of this Sanderson developed a fully connected digital retail experience including video walls, promotions, product launches and touchscreen kiosks for purchasing.

UK based maternity wear and baby clothing retailer JoJo Maman Bebe has been a customer since 2010 when it had 27 shops and was generating revenue of £20m. Since then the business has grown revenues to more than £40m and now has more than 70 stores with Sanderson multi-channel system having supported their growth, including online expansion in the US.

The Top 5 Customers with a total spend of £1.846m (62% of overall) were JD Sports, Superdry, Scotts of Stow, Hotel Chocolat and Axminster Tools & Machinery.

**Enterprise Division**

Revenue £6.91m (2015: £6.29m)

Adj. operating profit £1.1m (2015: £887k)

Order book £2.4m (2015: £1.8m)

The Enterprise division comprises two market-focused businesses which are 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 £3.26m (2015: £3.14m)

Adj. operating profit £0.56m (2015: £0.37m)

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.

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Five new customers were gained during the period (2015: eight), including Thistle Seafoods Limited and Dunkleys, at an average order value significantly higher than in the comparative period.



Thistle Seafoods is one of the top fish processing firms in the UK with a freezing capacity of 100 tonnes per day. Sanderson's ERP software achieves significant business benefits for Thistle, supporting growth, efficiencies and management information, with a reduced dependency on spreadsheets and disparate systems.

*Wholesale distribution & logistics sector*  
Revenue £3.66m (2015: £3.15m)  
Adj. operating profit £0.59m (2015: £0.52m)  
250+ customers

The Group has a strong market position in wholesale and the cash & carry sector. The acquisitions of Priam (in 2013) and Proteus (in 2014) have expanded the application of Sanderson solutions from the wholesale distribution, cash and carry and fulfilment sectors into warehousing, logistics and supply chain.

Five new customers (2015:3) were gained during the period, including Pedigree Wholesale Limited, Robinson's on the Isle of Man and J W Gray & Co, in the Shetland Islands.

**- Broker forecasts**

House broker forecasts for the full year ending September 2016 remain for sales of £20.3m, normalised profit before tax of £3.4m, adjusted earnings per share of 5.1p and a dividend of 2.3p, equating to a yield of 2.8% 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 outlook statement acknowledged that that Group had achieved a very high level of business from new customers during the period. The very strong order book and healthy balance sheet, together with an extensive list of sales prospects provides management with a good level of confidence that they will deliver trading results in line with market expectations for the year ending 30 September 2016.

**SMALL CAP SHARE COMMENT***Commissioned Commentary***SANDERSON GROUP (AIM:SND)**

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