

## Sanderson Group (SND)

AIM



### INVESTMENT SUMMARY

- Interim results covering the six months ended 31 March 2019 have been released. The figures detail a strong first half for Sanderson.
- Both divisions delivered impressive performance, with double-digit growth in revenue and operating profit from Digital Retail and Enterprise.
- Overall, revenue was up 18% at £17.17m and operating profit up 34% at £2.79m under the new IFRS 15 accounting standard.
- The net cash balance of £3.29m as at 31 March was ahead of management expectations and the balance sheet remains in good shape. This has allowed the interim dividend to be increased by 20% to 1.50p per share.
- Gould Hall, a specialist provider of logistics solutions acquired earlier this month, is an interesting addition with the deal having been completed on attractive terms. This acquisition is expected to be earnings enhancing in the next financial year, being the first full year under new ownership.
- The company remains cautious in its approach and this is sensible given the uncertain macroeconomic outlook. However, in view of performance in the first half of the year it is highly likely that there will be significant growth in the current financial year as a whole.

### Results and Consensus Forecasts

| Year to 30th September | Revenue (£m) | Pre-Tax Profit* (£m) | Earnings per share** (p) | P/E Ratio | Net Dividend (p) | Net Yield (%) |
|------------------------|--------------|----------------------|--------------------------|-----------|------------------|---------------|
| 2017A                  | 21.6         | 3.7                  | 6.3                      | 18.3      | 2.65             | 2.3           |
| 2018A                  | 32.1         | 4.8                  | 7.6                      | 15.1      | 3.00             | 2.6           |
| 2019E                  | 35.0         | 5.3                  | 8.1                      | 14.2      | 3.50             | 3.0           |
| 2020E                  | 39.0         | 6.0                  | 9.0                      | 12.8      | 3.80             | 3.3           |

\* - adjusted; \*\* - diluted adjusted

### KEY DATA

|                            |        |
|----------------------------|--------|
| Share Price:               | 115p   |
| Prospective p/e ratio:     | 14.2x  |
| Prospective net yield:     | 3.0%   |
| Market Capitalisation:     | £69.5m |
| Next Results Due (Finals): | NOV    |
| Net Cash (31 March):       | £3.29m |
| NAV per share (31 March):  | 56.3p  |

### BULLET POINTS

- Solid interim results have been released
- Double-digit growth in both Digital Retail and Enterprise divisions
- Revenue increased by 18% to £17.17m (2018: £14.61m)
- Operating profit jumped 34% to £2.79m (2018: £2.08m) although this was boosted by the change to IFRS 15
- Progressive dividend policy with a 20% increase in the interim dividend

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## Executive Summary

- ***Sanderson Group is specialist provider of digital technology solutions, innovative software and managed services for the retail, wholesale, supply chain logistics, food and drink processing and manufacturing market sectors. The group develops long term relationships with its customers with the majority of product development being customer led and offering tangible benefits.***
- ***There are two divisions. The Digital Retail Division provides IT solutions to businesses operating in ecommerce, mobile commerce and retail sectors in the UK. The Enterprise Division is now made up of three market focused businesses operating in manufacturing, wholesale and supply chain logistics.***
- ***Earlier this month the acquisition of Gould Hall, a specialist provider of logistics solutions, was announced. The maximum consideration is £4m, payable in cash and shares. The deal adds to Sanderson's capability and should be earnings enhancing in the year to 31 March 2020.***
- ***The acquisition of Anisa Consolidated Holdings Limited, for an enterprise value of £12.0m, was completed in November 2017. Anisa became part of the Enterprise Division and specialises in integrated supply chain and enterprise resource planning solutions. This is a cash generative business and the acquisition was earnings enhancing from the outset.***
- ***The group recognises the need to focus on higher margin growth markets such as e-commerce and mobile. With this in mind niche ecommerce business Priam and One iota Limited, which provides cloud-based multi-channel solutions, were acquired in 2013. Proteus Software Limited was subsequently acquired in December 2014.***
- ***The sale of Sanderson RBS in January 2012 transformed the balance sheet, resulting in a net cash position. The acquisition of One iota Limited was accompanied by a share placing, which raised £3.5m and this ensured that a healthy cash balance was maintained. The net cash balance as at 31 March 2019 was £3.29m.***
- ***The balance sheet remains in good shape and a progressive dividend policy is in place. The interim dividend was increased by 20% this year.***

## History

*The original Sanderson Group was founded in 1983...*

The former Sanderson Group was originally founded in 1983 and its shares were floated on the Unlisted Securities Market of the London Stock Exchange in 1988. The company then moved to a full market listing in 1990. Current executive chairman, Christopher Winn, joined in 1995 when he became group chief executive. By 1999, turnover had risen to £100m and in December of that year he led a management buyout of the group as it was taken private.

*...the present group subsequently joined AIM in late 2004*

The group was then restructured and in 2003 it was demerged into three separate businesses — Sanderson, Civica and Talgentra. The present group kept the Sanderson name and brand and its shares were admitted to AIM in December 2004 through a placing at 50p.

*In January 2012 the group disposed of Sanderson RBS...*

In January 2012, the group disposed of Sanderson RBS, which specialised in the sale of EPOS solutions to retailers, in order to focus on higher margin growth markets. The group has since expanded with particular emphasis on the development of the Multi-channel retail business, acquiring Catan Marketing and One iota in 2013 followed by Proteus Software in December 2014. The most recent acquisitions are Anisa, completed in November 2017, and Gould Hall, completed earlier this month.

*...since that time a number of acquisitions have been made, most recently Anisa*

The group is widely recognised as an established provider of software and IT services in the UK and Ireland with a focus on manufacturing, supply chain logistics and multi-channel retailing.

## Activities

Sanderson supplies its services into retail, wholesale, supply chain logistics, food and drink processing and manufacturing. The group delivers solutions to numerous organisations with turnovers typically between £5m and £750m. Its customers include the likes of Richer Sounds, JD Sports, QUIZ, Hugo Boss, DHL, Clipper Logistics, Superdry, Hotel Chocolat, Beaverbrooks and Scotts of Stow.

The group's solutions now primarily consist of Sanderson proprietary owned software, integrated with other market-leading products being delivered, supported and serviced by Sanderson staff.

Sanderson focuses on supplying customers with market led value for money solutions, which provide tangible benefits. The latest versions of the group's software also address regulatory and legislative compliance such as traceability in food manufacturing.

The group has expertise in Enterprise Resource Planning (ERP), which integrates internal and external management information across an entire organisation, embracing finance, manufacturing, sales and service. This facilitates the flow of information between all business functions inside the boundaries of the organisation and manages the external connections. These solutions help organisations to manage their operations and be more productive, competitive and profitable.

## Digital Retail

*Digital Retail is a growth area and will continue to be a focus for investment*

This division is one of two strands to the business. It addresses an attractive, growing market. Revenues from this part of Sanderson rose by over 20% in the last financial year, reaching £8.82m (2017: £7.28m). Operating profit in the year ended 30 September 2018 (adjusted for amortisation of acquisition-related intangibles, share-based payment charges and 'one off' non-recurring items) was £1.56m (2017: £1.18m). Investment in product innovation and delivery capacity continues and this remains an attractive, growing market.

At the year end the underlying order book was £1.07m, some 24% higher than a year earlier when it was £0.86m. The business is well positioned to continue to grow.

## Enterprise

*Enterprise is the largest of the two reporting divisions*

This division accounted for 72.5% of total revenue last year, having been strengthened by the addition of Anisa. Divisional revenue was £23.23m (2017: £14.28m) and operating profit (adjusted for amortisation of acquisition-related intangibles, share-based payment charges and 'one-off' non-recurring items) was £3.62m (2017: £2.71m). On a like-for-like basis, adjusted for the acquisition, revenue was £14.14m (2017: £14.28m) and operating profit (adjusted for amortisation of acquisition-related intangibles, share-based payment charges and 'one-off' non-recurring items) was £2.49m (2017: £2.71m). Performance improved in the second half of the last financial year and this is expected to continue into the current financial year. The order book at the year end was £5.36m (2017: £1.81m). Excluding the acquisition the underlying order book was up slightly at £1.84m (2017: £1.81m).

*Strong performance in the second half of last year, which has continued into the current financial year*

Due to stronger performance in the second half, 18 new customers were gained in the year. The division invested almost £3m in software product development, with a key focus being the Wholesale business, which secured a number of new orders for the digital suite of products launched earlier in the year.

Towards the end of the last financial year an innovative business intelligence product with enhanced capability was launched. Although it is early days there has already been a high level of interest.

## Acquisitions

*The Anisa deal was a key step forward for the group*

The acquisition of Anisa added around 250 customers. It specialises in the delivery of integrated supply chain and ERP solutions. Over 90 staff are employed across the UK and in smaller operations in Singapore and Australia. The Port of Dover Cargo Limited has appointed Sanderson to supply warehouse management and cargo terminal management software for its new refrigerated cargo terminal. The customer base has been very active, with major orders from Moran Logistics Limited, Culina Group, DX plc and NHS Blood and Transplant during the year. The acquisition has enhanced the range of solutions and services which Sanderson can now offer. In particular hosted managed services, delivered from the company's own dedicated, specialist data centre, provides an opportunity to exploit and accelerate market trends towards subscription and cloud-based options for solution delivery going forward.

*Gould Hall has been acquired on attractive terms this month*

Gould Hall Computer Services Limited, a specialist provider of software solutions to customers operating in the supply chain and distribution sectors was acquired in a deal completed this month. The acquisition adds to the Sanderson Enterprise division and is likely to be earnings enhancing once the business has been integrated. The terms on which the deal have been completed appear to be attractive and £1.55m of deferred consideration is subject to performance criteria being met.

*Further acquisitions are a possibility*

Further acquisitions remain under consideration.

## Interim Results

*Results were reassuring and represented another period of progression*

Revenue in the six months ended 31 March 2019 was 18% higher at £17.17m (pre IFRS 15 revenue rose by 16% to £16.91m from £14.61m a year earlier). Pre-contracted recurring revenues (including hosted managed solutions) were up significantly at £9.53m (£9.46m pre IFRS 15 and £8.25m a year earlier), representing 55% of total revenue in the period. The order book stood at £8.20m (2018: £8.61m) at the period end.

Operating profit rose by 34% to £2.79m (pre IFRS 15 operating profit rose by over 20% to £2.53m (2018: £2.08m)). Basic earnings per share were 3.0p (2018: 2.3p) and adjusted basic earnings per share were 4.1p (2018: 3.1p).

In Digital Retail revenue was £5.98m (£5.91m pre IFRS 15 and 5.37m in the same period a year earlier) and operating profit was £1.22m (£1.10m pre IFRS 15 and £0.94m a year earlier). Order intake during the period was £3.11m versus £2.48m a year earlier.

In Enterprise, divisional revenue was £11.20m (£11.00m pre IFRS and £9.24m in the prior year) and operating profit rose to £1.57m (£1.44m pre IFRS and £1.14m in the same period a year earlier). The order book stood at £5.96m at the period end, up from £5.01m a year earlier.

*There was net cash of £3.29m at the period end and the progressive dividend policy has continued*

Net cash as at 31 March 2019 was higher than management expectations at £3.29m versus £1.39m a year earlier. This allowed the interim dividend to be increased from 1.25p per share to 1.50p per share. The dividend is payable on 19 July with the ex-dividend date being 4 July.

## Forecasts

Following the interim results' announcement, we have increased our forecasts for both the current financial year and next year. There should be some upside this year from Gould Hall as well as a small underlying improvement in the business, but at the pre-tax profit level this will be offset by the anticipated impact of IFRS15 which is likely to leave 2019 profit the same even though revenues will be higher. In the year to 30 September 2020, the group will benefit from a full year contribution from the acquisition partly offset by a small impact from IFRS15.

## Valuation

Sanderson's share price has recently hit new highs but as we have noted in the past, this continues to look justified given the quality of earnings and strength of the balance sheet.

The most recent acquisition could add further value and in the coming years further acquisitions of a similar nature could also provide a boost.

The business continues to be managed conservatively. Over half of revenue is made up of pre-contracted recurring revenues and the strong order book means there is relatively good visibility of earnings.

The market capitalisation has reached a level where more institutional investors are taking an interest. The company's valuation also looks modest relative to some peers addressing the same end markets.

## Prospects

The company has made good progress in recent years and has built a strong track record of meeting or exceeding expectations.

We remain convinced that Digital Retail presents an attractive opportunity and sustained growth in this area is likely to continue in the coming years.

The most recent acquisition, Gould Hall, should be earnings enhancing from the next financial year onwards and this is another driver of growth, along with continued progression in the food and drink processing sector.

Sanderson has plenty going for it and continues to build a strong track record without taking undue risks. Both organic and acquisitive growth looks set to continue over the coming years.

## Share Price Graph



*Higher share price is justified*

*Acquisitions could drive further shareholder value*

*Relatively high level of recurring revenues and strong order book*

*Institutional investors taking greater interest*

*Good progress continues*

*Persistent opportunities in Digital Retail key to creating further value*

*Gould Hall deal is likely to be earnings enhancing*

| Profit and Loss<br>Year End 30 Sept   | 2015<br>(£m) | 2016<br>(£m) | 2017<br>(£m) | 2018<br>(£m) |
|---------------------------------------|--------------|--------------|--------------|--------------|
| <b>Revenue</b>                        |              |              |              |              |
| <b>Total</b>                          | <b>19.2</b>  | <b>21.3</b>  | <b>21.6</b>  | <b>32.1</b>  |
| <b>Operating Profit</b>               |              |              |              |              |
| <b>Total</b>                          | <b>3.3</b>   | <b>3.7</b>   | <b>3.9</b>   | <b>5.2</b>   |
| Movement in fair value of derivatives | 0.0          | 0.0          | 0.0          | 0.0          |
| Net finance costs                     | (0.1)        | (0.1)        | (0.2)        | (0.3)        |
| Exceptional finance charge            | (0.3)        | (0.1)        | 0.0          | (0.1)        |
| <b>Profit before Tax</b>              | <b>2.9</b>   | <b>3.5</b>   | <b>3.7</b>   | <b>4.8</b>   |
| Tax                                   | (0.2)        | (0.4)        | 0.2          | (0.2)        |
| <b>Profit after Tax</b>               | <b>2.4</b>   | <b>2.7</b>   | <b>3.9</b>   | <b>4.6</b>   |
| Av number of shares (m)               | 55.86        | 56.30        | 55.58        | 60.41        |
| <b>EPS (p)</b>                        | <b>4.9</b>   | <b>5.5</b>   | <b>6.3</b>   | <b>7.6</b>   |
| <b>DPS (p)</b>                        | <b>2.10</b>  | <b>2.40</b>  | <b>2.65</b>  | <b>3.00</b>  |

| Ratios                      | 2015        | 2016        | 2017        | 2018        |
|-----------------------------|-------------|-------------|-------------|-------------|
| <b>Sales Growth (%)</b>     | <b>17.0</b> | <b>11.1</b> | <b>1.4</b>  | <b>48.6</b> |
| <b>Operating Margin (%)</b> | <b>17.2</b> | <b>17.3</b> | <b>18.1</b> | <b>16.1</b> |
| <b>EPS Growth (%)</b>       | <b>11.4</b> | <b>12.2</b> | <b>27.3</b> | <b>20.6</b> |
| <b>DPS Growth (%)</b>       | <b>16.7</b> | <b>14.3</b> | <b>10.4</b> | <b>13.2</b> |
| <b>Dividend Cover (x)</b>   | <b>2.3</b>  | <b>2.3</b>  | <b>2.4</b>  | <b>2.5</b>  |

| Cash flow<br>Year end 30 Sept                     | 2017<br>£'000 | 2018<br>£'000 |
|---|---------------|---------------|
| Profit for the period                             | 2,867         | 3,026         |
| Adjustments                                       | 1,173         | 2,674         |
| <b>Operating cash flow</b>                        | <b>4,040</b>  | <b>5,700</b>  |
| Changes in working capital/provisions             | 852           | (565)         |
| <b>Interest paid</b>                              | <b>-</b>      | <b>-</b>      |
| Income tax received/(paid)                        | (394)         | 158           |
| <b>Net cash flow from operating activities</b>    | <b>4,498</b>  | <b>5,293</b>  |
| Purchase of assets                                | (1,389)       | (2,854)       |
| Financing activities                              | (1,277)       | (2,144)       |
| <b>Net Increase in cash and cash equivalents</b>  | <b>1,832</b>  | <b>295</b>    |
| <b>Cash and cash equivalents at start of year</b> | <b>4,344</b>  | <b>6,176</b>  |
| <b>Cash and cash equivalents at end of year</b>   | <b>6,176</b>  | <b>6,471</b>  |

| Balance sheet<br>Year End 30 September | 2017<br>£'000 | 2018<br>£'000 |
|--|---------------|---------------|
| Intangible assets                      | 30,419        | 43,265        |
| Other non-current assets               | 1,861         | 2,341         |
| <b>Total</b>                           | <b>32,280</b> | <b>45,606</b> |
| Current assets                         | 11,807        | 15,772        |
| Current liabilities                    | (9,196)       | (18,719)      |
|  | <b>34,891</b> | <b>42,659</b> |
| Non-current liabilities                | (6,960)       | (8,284)       |
| <b>Net Assets</b>                      | <b>27,931</b> | <b>34,375</b> |
| Share Capital                          | 5,507         | 5,997         |
| Share Premium                          | 9,133         | 9,557         |
| Retained earnings/reserves             | 13,291        | 16,490        |
| <b>Shareholders funds</b>              | <b>27,931</b> | <b>34,375</b> |

| Ratios             | 2017        | 2018        |
|--------------------|-------------|-------------|
| <b>NAV (p)</b>     | <b>50.8</b> | <b>57.3</b> |
| <b>Gearing (%)</b> | <b>n/a</b>  | <b>n/a</b>  |

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## GENERAL INFORMATION

### COMPANY DATA

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### FINANCIAL CALENDAR

|                               |                   |
|-------------------------------|-------------------|
| Interim Dividend Ex-div Date: | 4 July 2019       |
| Interim Dividend Payment:     | 19 July 2019      |
| Year End:                     | 30 September 2019 |
| Final Results Announcement:   | November 2019     |
| Expected AGM Date:            | January 2020      |

The above dates should only be used for guidance

### Significant Shareholders

**Ordinary shares of 10p each**

|                                   | %    |
|-----------------------------------|------|
| C Winn                            | 13.3 |
| Cannaccord Genuity                | 11.7 |
| Gresham House Asset Management    | 9.6  |
| Alto Invest                       | 5.6  |
| Downing LLP                       | 4.9  |
| Brooks Macdonald Asset Management | 4.2  |
| Unicorn Asset Management          | 4.0  |
| D Renshaw                         | 3.5  |

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