

15 June 2015

### Key Statistics

**Code** : SND  
**Listing** : AIM  
**Sector** : Software and Computer Services  
**Market Cap** : £34.6m  
**Share in issue** : 54.55m  
**Current Price** : 69p  
**12 month High/Low**: 74.5p/58.5p

### Stock Performance



Source: Fidessa

### Financials

Y/E Sep	2013A	2014A	2015E	2016E
<b>Revenue £m</b>	13.83	16.41	19.2	20.3
<b>EBT £m</b>	1.94	1.92	3.10	3.30
<b>EPS (p)</b>	4.4	4.6	4.7	5.0
<b>Dividend (p)</b>	1.5	1.8	1.9	2.0

Source: Digitallook and Sanderson Group Investor Relations (Consensus Forecasts)

### Company description

Sanderson is an established and profitable software and IT services business specialising in the multi-channel retail and manufacturing markets. Operating primarily in the UK and Ireland, the Group delivers solutions to organisations with turnovers typically between £5m and £250m. Sanderson maintains a strong market position due to the quality of its products and services and its successful track record.

### HYBRIDAN LLP

Birchin Court, 20 Birchin Lane, London,  
 EC3V 9DU  
 Website: [www.hybridan.com](http://www.hybridan.com)

Derren Nathan  
 Tel: 020 3713 4584  
 Email: [derren.nathan@hybridan.com](mailto:derren.nathan@hybridan.com)

## A recurring theme

**The software and IT services business specialising in multi-channel retail and manufacturing markets in the UK and Ireland has this week delivered strong numbers with its interim results for the six months to March 2015. The Group which now has over 52% recurring revenue, has an established record of delivering revenue, earnings and dividend growth. The latest half year figures saw revenue up 15%, operating profit up 13%, adjusted diluted EPS up 10% and the interim dividend up 13%. The Board has a good level of confidence that the strong balance sheet, sales pipeline and order book (£2.84m +15%) will deliver FY September 2015 results in line with expectations. We think they may be a little better.**

To complement organic growth the company's strategy of making selective acquisitions is proving successful. The 2013 acquisitions of Priam (multi-channel e-commerce) and one iota (cloud-based mobile multi-channel retail solutions) have been earnings enhancing and the outlook for Proteus acquired in December 2014 is promising with some rationalisation planned. Further acquisitions are possible in due course.

The largest division within Sanderson, multi-channel software is benefitting from structural changes in the retail market with UK Ecommerce growing at circa 10% pa and m-commerce forecast to grow by 77.8% in 2015 alone. However 70% of retailers offer neither a mobile optimised web site nor app. This is likely to be more pronounced in Sanderson's target SME market. Sanderson is addressing these opportunities with its strong range of predominantly proprietary software solutions, and continues to invest in research and development enabling it to also win larger clients such as Superdry. Growth in Sanderson's manufacturing division is more challenging to generate with revenue and profit broadly flat year on year. Nonetheless Sanderson continues to win new customers (eight in the period vs five in H1 2014) and is building a niche in the food processing and manufacturing sector.

The business is strongly cash generative with typically circa 100% operating cash conversion. The first half year cash flow was 0.75m, compared with £1.0m last year, with just under £500k of debtor payments, slipping over the period end and which were received during the first five days of the second half year in April. Cash generation and a strong balance sheet enabled Sanderson to continue to increase its dividend despite paying £1.8m in acquisition and deferred consideration payments in the period. Cash stands at £3.9m and the pension deficit was down £0.2m to £4.6m. We understand Sanderson is actively exploring options to reduce the deficit and associated payments.

On 14.7x consensus earnings Sanderson stands at a reasonable discount to the wider software sector which trades in the high teens. The company is on track to deliver on its three year promises, and looking ahead we can envisage pre-tax profits hitting £5m within the next three years. Even without a re-rating that would equate to the shares reaching the £1 level, and those who invest at the current share price level also stand to benefit from a 2.8% dividend yield.

### Key Fundamentals

Year Ending	Revenue (£m)	Pre-tax (£m)	EPS (p)	P/E	Div	Yield
30/09/2012	13.37	1.48	3.86	17.9	1.2	1.7%
30/09/2013	13.83	1.94	4.40	15.7	1.5	2.2%
30/09/2014	16.41	1.92	4.60	15.0	1.8	2.6%

### Forecast

Year Ending	Revenue (£m)	Pre-tax (£m)	EPS (p)	P/E	Div	Yield
30/09/2015	19.2	3.10	4.70	14.7	1.9	2.8%
30/09/2016	20.3	3.30	5.00	13.8	2.0	2.9%

Source: Digitallook and Sanderson Group Investor Relations (Consensus Forecasts)

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