

Brady

Trading update

Broadly in line as new CEO starts in mid-February

FY18 numbers were broadly in line with expectations and we have maintained our forecasts. Management remains confident on the outlook as the group stands to benefit from the streamlining and investment of the last few years. In December, Brady appointed Carmen Carey, currently a Brady non-executive director, as its new CEO. An initial priority for the new CEO will be developing the new sales strategy. The market opportunity is substantial, and we believe Brady is well positioned to benefit from the significant sector consolidation.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17**	22.3	(2.9)	(5.6)	0.0	N/A	N/A
12/18e	23.7	0.3	0.3	0.0	198.5	N/A
12/19e	24.9	1.3	1.2	0.0	53.1	N/A
12/20e	26.3	2.1	1.9	1.0	33.4	1.6

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Excludes recycling business and restated for IFRS 15.

Investment case: E/CTRM is a highly attractive space

Brady has more than 300 customers, including many blue-chip names that cover a wide range of commodity businesses such as trading companies, financial institutions, producers and manufacturers. The global E/CTRM market was worth c \$1.65bn in 2016 (ComTech Advisory) and is forecast to grow at c 6% CAGR in 2016–20. Brady has a strong position in niche areas including commodity logistics, credit risk, metals (number one globally) and European energy, yet has a relatively modest market penetration overall (we estimate 1.2%). Recurring revenues were c 70% of the FY18 group total, which is in line with the 70% medium-term target.

Trading update: Broadly in line

FY18 revenues were c £23m (we forecast £23.7m), while adjusted EBITDA (Brady definition) was in line with our forecasts at £2.6m. Year-end cash was slightly below expectations at £4.6m (£5.1m) as two projects were invoiced later than expected in the final days of 2018. Brady says it continued to make significant progress in delivering on its strategy, including several customer-focused projects.

Appointment of new CEO

In December, Brady appointed Carmen Carey as its new CEO, with effect from 18 February. As part of this process, Ian Jenks will step back from his role as executive chairman to non-executive chairman. Ms Carey joined the Brady board as a non-executive director in March 2017. She is an IT industry veteran with a strong sales focus, whose career has encompassed leadership roles as an executive in fast-growing, global, VC-backed and publicly traded technology companies.

Valuation: Well positioned in a consolidating sector

While we only forecast modest near-term profitability, the long-term shift to microservices and cloud will enable much improved scalability of the business model. If Brady could take a 5% market share and generate 20% operating margins, it would suggest c 400% upside if the stock traded on c 10x earnings.

Software & comp services

29 January 2019

Price **63.5p**

Market cap **£54m**

Net cash (£m) at 31 December 2018 4.6

Shares in issue 83.4m

Free float 68%

Code BRY

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (1.6) (2.7) 8.6

Rel (local) (2.7) (0.6) 22.8

52-week high/low 68.2p 55.8p

Business description

Brady is the largest Europe-based E/CTRM player. It provides a range of transaction and risk management software applications, which help producers, consumers, financial institutions and trading companies manage their commodity transactions in a single, integrated solution.

Next events

Final FY18 results March 2019

AGM May 2019

Interim results September 2019

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Exhibit 1: Financial summary

	£'000s	2015	2016	2017	2018e	2019e	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		27,374	25,373	22,275	23,724	24,917	26,334
Cost of Sales		(10,867)	(9,804)	(10,119)	(9,472)	(9,728)	(10,105)
Gross Profit		16,507	15,569	12,156	14,252	15,189	16,228
EBITDA		1,506	1,910	(2,581)	694	1,606	2,444
Adjusted Operating Profit		924	1,290	(2,879)	344	1,256	2,051
Amortisation of acquired intangibles		(1,640)	(1,618)	(1,559)	(1,270)	(1,270)	(1,270)
Exceptionals items		(469)	(1,250)	(4,363)	0	0	0
Share based payments		(243)	(90)	(11)	(150)	(400)	(500)
Operating Profit		(1,428)	(1,668)	(8,812)	(1,076)	(414)	281
Net Interest		31	3	(22)	(10)	30	60
Profit Before Tax (norm)		955	1,293	(2,901)	334	1,286	2,111
Profit Before Tax (FRS 3)		(1,397)	(1,665)	(8,834)	(1,086)	(384)	341
Tax		(329)	(188)	102	(67)	(283)	(507)
Profit After Tax (norm)		813	1,992	(4,656)	267	1,003	1,605
Profit After Tax (FRS 3)		(1,726)	(1,853)	(8,732)	(1,153)	(667)	(165)
Average Number of Shares Outstanding (m)		82.7	83.0	83.3	83.6	84.0	84.4
EPS – normalised (p)		1.0	2.4	(5.6)	0.3	1.2	1.9
EPS – FRS 3 (p)		(2.1)	(2.2)	(10.5)	(1.4)	(0.8)	(0.2)
Dividend per share (p)		0.00	0.00	0.00	0.00	0.00	1.00
EBITDA Margin (%)		5.5	7.5	(11.6)	2.9	6.4	9.3
Adjusted Operating Margin (%)		3.4	5.1	(12.9)	1.5	5.0	7.8
BALANCE SHEET							
Fixed Assets		31,461	37,035	26,578	21,793	20,687	19,264
Intangible Assets		29,831	35,999	26,091	21,253	20,036	18,479
Tangible Assets		1,147	978	487	540	651	785
Deferred tax		483	58	0	0	0	0
Current Assets		13,633	14,640	13,340	10,194	12,125	14,098
Stocks		0	0	0	0	0	0
Debtors		7,039	7,297	4,787	5,098	5,355	5,659
Cash		6,594	7,343	4,089	5,095	6,770	8,439
Current Liabilities		(10,804)	(12,669)	(13,483)	(13,731)	(13,893)	(14,110)
Creditors		(10,804)	(12,669)	(13,483)	(13,731)	(13,893)	(14,110)
Short-term borrowings		0	0	0	0	0	0
Long-Term Liabilities		(4,814)	(5,670)	(4,593)	(4,593)	(4,593)	(4,593)
Long-term borrowings		0	0	0	0	0	0
Other long-term liabilities		(4,814)	(5,670)	(4,593)	(4,593)	(4,593)	(4,593)
Net Assets		29,476	33,336	21,842	13,663	14,327	14,659
CASH FLOW							
Operating Cash Flow		2,363	2,737	(316)	2,376	3,671	4,590
Net Interest		31	3	(22)	(10)	30	60
Tax		(416)	(428)	247	(760)	(257)	(465)
Capex		(2,591)	(2,167)	(2,806)	(3,535)	(2,703)	(2,517)
Acquisitions/disposals		(1,186)	(326)	0	2,936	934	0
Financing		469	47	190	0	0	0
Dividends		(1,524)	0	0	0	0	0
Net Cash Flow		(2,854)	(134)	(2,707)	1,006	1,675	1,668
Opening net debt/(cash)		(9,580)	(6,594)	(7,343)	(4,089)	(5,095)	(6,770)
Disposal		0	0	(265)	0	0	0
Other		(132)	883	(282)	()	()	()
Closing net debt/(cash)		(6,594)	(7,343)	(4,089)	(5,095)	(6,770)	(8,439)

Source: Brady (historicals), Edison Investment Research (forecasts). Note: IFRS 15 has been applied from FY17. FY17 excludes the recycling business.

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