

# SANDERSON DESIGN GROUP

## CONSUMER DISCRETIONARY

4 August 2022

### SDG.L

113p

Market Cap: £80.2m

#### SHARE PRICE (p)



12m high/low

234p/104p

Source: LSE Data (priced as at prior close)

#### KEY DATA

Net (Debt)/Cash	£15.0m (at 31/07/22)
Enterprise value	£65.2m
Index/market	AIM
Next news	Interims - 11 October
Shares in Issue (m)	71.0
Chairman	Dame Dianne Thompson
Chief Executive	Lisa Montague
Finance Director	Mike Woodcock

#### COMPANY DESCRIPTION

Sanderson Design Group is a luxury interior furnishings company, specialising in wallpapers, fabrics and paints.

[www.sandersondesign.group](http://www.sandersondesign.group)

SANDERSON DESIGN GROUP IS A RESEARCH CLIENT OF PROGRESSIVE

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## H1 trading update – a solid performance

Sanderson Design Group has reported a resilient H1 trading performance for the six months to 31 July, with group sales up 1% on a reported basis. Strong performances were delivered by the Morris & Co brand, Licensing, and in the US market, all of which delivered superior margins. Adjusted underlying H1 profit before tax is expected to be in line with Board expectations, as is full-year trading currently, notwithstanding ongoing market and consumer uncertainties in an inflationary global environment.

- H1 trading – a resilient performance.** Group sales rose 1% on a reported basis to £57.9m and were flat on a constant current (CC) basis. Broken down into business segments, Brand product revenue was down 3% on a reported and CC basis. Adjusting for the loss of £0.8m of sales from ceasing to trade in Russia this year, and the £0.6m benefit to H1 sales last year from delayed FY21 dispatches following Brexit, the underlying Brand product revenue performance translates to a 1% increase on a reported basis (and flat in CC terms). External Manufacturing sales nudged down 2% to £11.9m against last year's tough comparator, when customers began restocking after emerging from the pandemic and retail lockdowns.
- Licensing – contract extension from Williams Sonoma.** Following on from NEXT's recent contract extension, the group has announced that US kitchenware retailer Williams Sonoma has extended its licensing agreement by two years to run to 2025. As with NEXT, this is a partnership with the Morris & Co brand. Licensing revenue in H1 23 has risen 90% to £3.8m (H1 FY22: £2.0m), of which £1.9m (H1 FY22: £0.5m) relates to accelerated income from recent agreements. Underlying Licensing revenues therefore saw a strong increase to £1.9m from £1.5m last year. As a 100% gross margin revenue stream, Licensing will strongly support H1 profitability.
- Strong balance sheet – and pricing power.** Net funds at the period end stood at around £15.0m (H1 FY22: £15.4m). In combination with brand pricing power, the group is well-positioned to weather the challenges presented by global market conditions and inflationary pressures.
- Forecasts unchanged – despite global uncertainties.** The group states that H1 adjusted underlying profit before tax is anticipated to be in line with Board expectations. Despite a challenging global backdrop, full-year trading currently also remains on track. Given this, and ahead of the interim results on 11 October, our forecasts remain unchanged.

FYE JAN (£M)	2021	2022	2023E	2024E	2025E
Revenue	93.8	112.2	119.1	128.4	138.4
Adj EBITDA	13.5	18.2	19.5	20.7	22.1
Fully Adj PBT	7.0	12.6	13.0	14.0	15.2
Fully Adj Dil EPS (p)	7.7	13.6	14.7	15.8	16.7
EV/Sales (x)	0.7x	0.6x	0.5x	0.5x	0.5x
EV/EBITDA (x)	4.8x	3.6x	3.3x	3.1x	2.9x
PER (x)	14.7x	8.3x	7.7x	7.2x	6.8x

Source: Company Information and Progressive Equity Research estimates.

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## Half-year trading update details

The following table shows the full details of the group's H1 trading performance across its three reporting segments.

It should be remembered that group revenue comprises Brand product revenue, Licensing revenue and external Manufacturing revenue. The group presents the year-on-year percentage change on both a reported and constant currency (CC) basis to provide greater insight.

### H1 revenue performance by reporting segment – FY23 and FY22

	H1 revenues (£m)		% change	
	FY23	FY22	Reported	CC basis
<b>Brand product</b>				
- UK	22.1	22.3	(1%)	(1%)
-Northern Europe	5.5	6.9	(20%)	(17%)
-North America	9.7	8.6	13%	4%
-Rest of World	4.9	5.5	(11%)	(9%)
<b>Total Brand product revenue</b>	<b>42.2</b>	<b>43.3</b>	<b>(3%)</b>	<b>(3%)</b>
<b>Manufacturing</b>				
-External	11.9	12.2	(2%)	
-Internal	9.7	8.8	10%	
<b>Total Manufacturing revenue</b>	<b>21.6</b>	<b>21.0</b>	<b>3%</b>	
<b>Licensing</b>				
<b>Total Licence revenue</b>	<b>3.8</b>	<b>2.0</b>	<b>90%</b>	<b>89%</b>
<b>Group revenue</b>	<b>57.9</b>	<b>57.5</b>	<b>1%</b>	<b>0%</b>

Source: Sanderson Design Group, Progressive Equity Research

The adjustments outlined on the front page of this note to derive the underlying adjusted Brand product revenue growth of 1%, compared with the 3% decline reported, primarily impacted the Northern Europe area.

**Financial Summary: Sanderson Design Group**

Year end: January (£m unless shown)

	2021	2022	2023E	2024E	2025E
<b>PROFIT &amp; LOSS</b>					
Revenue	93.8	112.2	119.1	128.4	138.4
Adj EBITDA	13.5	18.2	19.5	20.7	22.1
Adj EBIT	7.2	12.5	13.2	14.2	15.4
Reported PBT	4.9	10.4	10.7	11.7	12.9
Fully Adj PBT	7.0	12.6	13.0	14.0	15.2
NOPAT	5.5	9.3	10.1	10.1	11.6
Reported EPS (p)	5.3	10.8	11.5	12.2	13.5
Fully Adj Dil EPS (p)	7.7	13.6	14.7	15.8	16.7
Dividend per share (p)	0.0	3.5	3.8	4.0	4.3
<b>CASH FLOW &amp; BALANCE SHEET</b>					
Operating cash flow	17.8	13.1	16.9	15.2	17.2
Free Cash flow	16.4	6.7	4.7	2.9	4.4
FCF per share (p)	23.2	9.4	6.7	4.1	6.3
Acquisitions	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	0.0	0.0	0.0	0.0	0.0
Net cash flow	13.8	3.9	2.0	0.3	2.0
Overdrafts / borrowings	(0.4)	0.0	0.0	0.0	0.0
Cash & equivalents	15.5	19.1	21.0	21.3	23.3
Net (Debt)/Cash	15.1	19.1	21.0	21.3	23.3
<b>NAV AND RETURNS</b>					
Net asset value	67.5	79.7	80.3	81.3	83.3
NAV/share (p)	95.1	112.3	113.1	114.6	117.4
Net Tangible Asset Value	39.2	52.7	55.1	57.9	61.6
NTAV/share (p)	55.2	74.3	77.6	81.5	86.8
Average equity	66.2	69.7	73.5	76.7	80.6
Post-tax ROE (%)	10.6%	18.0%	17.7%	18.3%	18.9%
<b>METRICS</b>					
Revenue growth	N/A	19.7%	6.1%	7.8%	7.8%
Adj EBITDA growth	N/A	35.0%	7.1%	6.2%	6.9%
Adj EBIT growth	N/A	74.9%	5.6%	7.5%	8.4%
Adj PBT growth	N/A	79.4%	3.8%	7.6%	8.6%
Adj EPS growth	N/A	76.2%	7.9%	7.5%	5.9%
Dividend growth	N/A	N/A	7.1%	5.3%	7.6%
Adj EBIT margins	7.6%	11.2%	11.1%	11.1%	11.1%
<b>VALUATION</b>					
EV/Sales (x)	0.7	0.6	0.5	0.5	0.5
EV/EBITDA (x)	4.8	3.6	3.3	3.1	2.9
EV/NOPAT (x)	11.9	7.0	6.4	6.4	5.6
PER (x)	14.7	8.3	7.7	7.2	6.8
Dividend yield	N/A	3.1%	3.3%	3.5%	3.8%
FCF yield	20.5%	8.3%	5.9%	3.6%	5.5%

Source: Company information and Progressive Equity Research estimates

**Disclaimers and Disclosures**

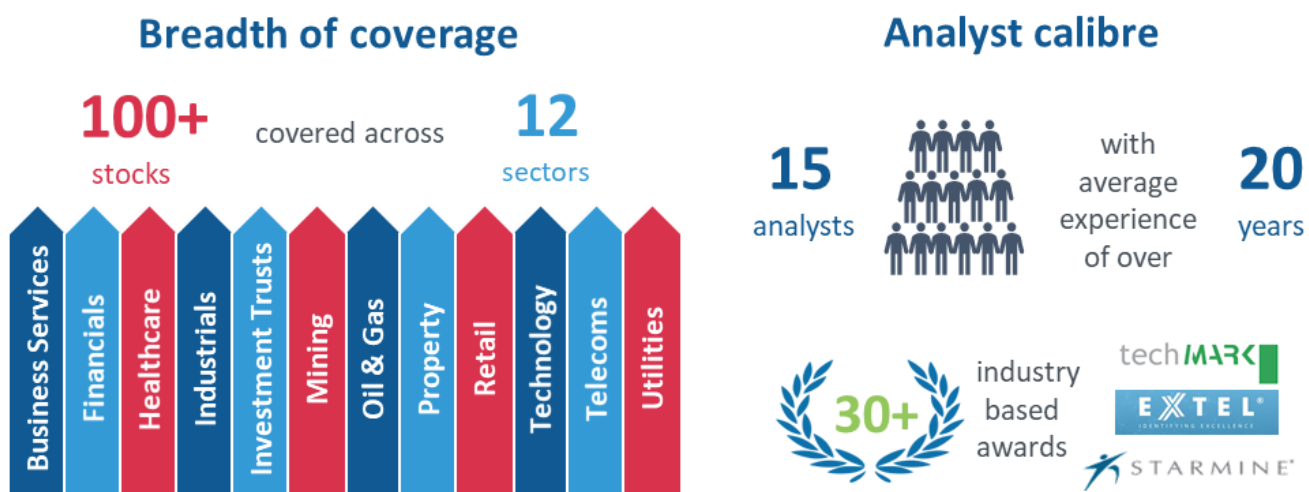
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