

# Brady

Trading update

## Perfect storm as sales stall, forecasts revised

With the company expecting FY19 revenues of c £19m, c 22% down on our previous forecasts (£24.3m), new sales have slowed markedly since Brady's last trading update on 30 May. This represents a perfect storm for Brady with it trying to affect a turnaround in the face of significant market and business uncertainties. We have revised our FY19 forecasts and now anticipate a PBT loss of £4.2m in FY19 (previously £1.0m) with FY19 net cash falling from £2.7m to £1.2m net debt. We have withdrawn our FY20/21 forecasts pending further clarification expected with the interim results on 23 September. However, as a market leader in the attractive E/CTRM space, as and when Brady demonstrates renewed sales momentum it should become an attractive investment on an FY19 EV/sales multiple of 1.5x.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	EV/sales (x)	P/E (x)	Yield (%)
12/17**	22.2	(3.0)	(5.7)	1.07	N/A	N/A
12/18	23.2	0.3	0.0	1.03	N/A	N/A
12/19e	19.0	(4.2)	(4.0)	1.54	N/A	N/A

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.

### Trading update: Sales momentum stalls

In its trading update on 21 August 2019, Brady announced that FY19 revenues would be c £19m, c 22% down on our previous forecasts (£24.3m), due to the pipeline of revenues from new customers 'maturing' but not expected to materialise in FY19. Brady noted that recurring revenues are 'in line with expectations' and new business bookings are anticipated in H219, although not at the levels previously anticipated. This represents a marked slowdown since the previous trading update on 30 May, attributable to a difficult market environment and elevated business uncertainty. EBITDA guidance was not provided.

### Investment case: Clarification pending

In our view, there are a number of factors that may have contributed to the sales slowdown, including the escalating US/China trade war, an increasingly uncertain commodities trading environment, stiffening market competition and uncertainty around Brexit. Although Brady has indicated that new sales leads continue to progress, closing deals appears to have become increasingly problematic and it is not yet clear which of these possible factors is the primary driver. As and when new business is signed, the consequential impact of IFRS 15 is that an ever-smaller proportion of revenues will be recognised in FY19 as the year end approaches.

### Valuation: Forecasts revised, EV/sales of 1.5x

Following the update, we now forecast FY19 revenues of £19.0m, with EBITDA loss of £3.9m and loss before tax of £4.2m. Our previous forecasts were for £24.3m of revenues, £1.3m of adjusted EBITDA and PBT of £1.0m. FY19e net cash falls from £2.7m to net debt of £1.2m. When Brady demonstrates renewed sales momentum, it should become an attractive investment on an FY19 EV/sales multiple of 1.5x.

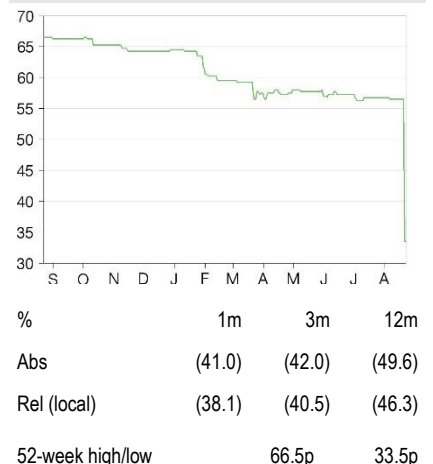
### Software & comp services

23 August 2019

**Price** 33.5p  
**Market cap** £28m

Net cash (£m) at 31 December 2018	4.1
Shares in issue	83.4m
Free float	68%
Code	BRY
Primary exchange	AIM
Secondary exchange	N/A

### Share price performance



### 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

Interim results	23 September 2019
-----------------	-------------------

### Analysts

Richard Williamson	+44 (0)20 3077 5700
Dan Ridsdale	+44 (0)20 3077 5729

[tech@edisongroup.com](mailto:tech@edisongroup.com)

[Edison profile page](#)

**Brady is a research client of  
 Edison Investment Research  
 Limited**

**Exhibit 1: Financial summary**

	£'000s	2016	2017	2018	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue		25,373	22,215	23,157	19,014
Cost of Sales		(9,804)	(9,852)	(9,250)	(9,426)
Gross Profit		15,569	12,363	13,907	9,588
EBITDA		1,910	(2,643)	685	(3,923)
Adjusted Operating Profit		1,290	(2,941)	318	(4,273)
Amortisation of acquired intangibles		(1,618)	(1,559)	(1,283)	(1,283)
Exceptionals items		(2,128)	(2,441)	(274)	0
Share based payments		(90)	(9)	137	(400)
Operating Profit		(2,546)	(6,950)	(1,102)	(5,956)
Net Interest		3	(22)	(42)	30
Profit Before Tax (norm)		1,293	(2,963)	276	(4,243)
Profit Before Tax (FRS 3)		(2,543)	(6,972)	(1,144)	(5,926)
Tax		(188)	127	(664)	933
Discontinued items		878	(1,922)	(271)	0
Profit After Tax (norm)		1,992	(4,721)	5	(3,310)
Profit After Tax (FRS 3)		(1,853)	(8,767)	(2,079)	(4,993)
Average Number of Shares Outstanding (m)		83.0	83.3	83.4	83.6
EPS – normalised (p)		2.4	(5.7)	0.0	(4.0)
EPS – FRS 3 (p)		(2.2)	(10.5)	(2.5)	(6.0)
Dividend per share (p)		0.00	0.00	0.00	0.00
EBITDA Margin (%)		7.5	(11.9)	3.0	(20.6)
Adjusted Operating Margin (%)		5.1	(13.2)	1.4	(22.5)
<b>BALANCE SHEET</b>					
Fixed Assets		37,035	27,001	27,285	26,222
Intangible Assets		35,999	26,091	26,449	25,384
Tangible Assets		978	487	746	748
Deferred tax		58	423	90	90
Current Assets		14,640	14,724	10,227	3,829
Stocks		0	0	0	0
Debtors		7,297	4,787	5,600	3,598
Cash		7,343	4,089	4,627	231
Other current assets		0	5,848	0	0
Current Liabilities		(12,669)	(14,927)	(12,252)	(10,036)
Creditors		(12,669)	(13,543)	(12,019)	(9,803)
Short-term borrowings		0	0	(233)	(233)
Other current liabilities		0	(1,384)	0	0
Long-Term Liabilities		(5,670)	(4,593)	(4,322)	(5,226)
Long-term borrowings		0	0	(296)	(1,200)
Other long-term liabilities		(5,670)	(4,593)	(4,026)	(4,026)
Net Assets		33,336	22,205	20,938	14,789
<b>CASH FLOW</b>					
Operating Cash Flow		2,737	(316)	1,002	(1,942)
Net Interest		3	(22)	(251)	30
Tax		(428)	247	(73)	(1,754)
Capex		(2,167)	(2,806)	(3,289)	(2,635)
Acquisitions/disposals		(326)	0	2,936	1,000
Financing		47	190	0	0
Dividends		0	0	0	0
Net Cash Flow		(134)	(2,707)	325	(5,300)
Opening net debt/(cash)		(6,594)	(7,343)	(4,089)	(4,098)
Other		883	(547)	(316)	0
Closing net debt/(cash)		(7,343)	(4,089)	(4,098)	1,202

Source: Brady (historicals), Edison Investment Research (forecasts). Note: IFRS 9 and IFRS 15 have been applied from FY17. FY17 excludes the recycling business. FY19 forecasts have been updated to reflect the reduced revenues, FY20 forecasts have been withdrawn pending further clarification expected with interim results on 23 September 2019.

---

## General disclaimer and copyright

This report has been commissioned by Brady and prepared and issued by Edison, in consideration of a fee payable by Brady. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2019 Edison Investment Research Limited (Edison). All rights reserved FTSE International Limited ("FTSE") © FTSE 2019. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

---

## Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

---

## New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

---

## United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

---

## United States

The Investment Research is a publication distributed in the United States by Edison Investment Research, Inc. Edison Investment Research, Inc. is registered as an investment adviser with the Securities and Exchange Commission. Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1,185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia