Brady Corporation (BRC)

Updated April 19th, 2018 by Bob Ciura

Key Metrics

Current Price:	$38	**5 Year CAGR Estimate:**	4.3%	**Quality Percentile:**	N/A
Fair Value Price:	$33	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	N/A
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-2.9%	**Total Return Percentile:**	N/A
Dividend Yield:	2.2%	**5 Year Price Target**	$42	**Valuation Percentile:**	N/A

Overview & Current Events

Brady Corporation was founded in 1914, and today operates in the services sector. The company's business model is manufacturing and marketing specialty materials. Brady operates in two segments: Identification Solutions (IDS) and Workplace Safety (WPS). Major product lines include absorbents, labels, pipes & valves, signs, tags, tapes, and printers. Brady's customers are derived from a variety of industries, including the electronics, telecommunications, manufacturing, electrical, construction, medical, and aerospace industries.

On 2/22/18, Brady reported earnings results for the 2018 fiscal second-quarter. Earnings-per-share of $0.48 beat analyst expectations by $0.04. Meanwhile, revenue increased 7.4% to $287.78 million, and beat analyst expectations by $10.77 million. Organic revenue increased 3.2% for the quarter, while favorable currency translation added 4.2% of revenue growth.

Per-Share Growth

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$2.41	$1.71	$1.76	$2.17	$1.07	$1.93	$1.53	$1.27	$1.56	$1.84	***$1.95***	***$2.49***
DPS	$0.60	$0.68	$0.70	$0.72	$0.74	$0.76	$0.78	$0.80	$0.81	$0.82	***$0.83***	***$0.88***

Brady has positive long-term growth potential, particularly in its IDS segment, due to increasing demand for healthcare products. In the most recent quarter, organic sales growth of 4.7% in the IDS segment offset a 0.5% organic sales decline for the WPS segment. This was Brady's strongest quarter of organic sales growth since the first quarter of fiscal 2012. Lastly, earnings-before-interest-and-taxes (EBIT) increased 20% last quarter, and has increased for 10 consecutive quarters.

For 2018, Brady management expects full-year earnings-per-share of $1.90 to $2.00, representing raised guidance from the previous quarter. At the midpoint of 2018 guidance, earnings-per-share of $1.95 would represent 6.0% growth from 2017. Over the following five years, we expect Brady to generate earnings-per-share growth of 5.0% each year. Dividends are expected to be increased at a rate of $0.01 per year, in-line with the company's recent patterns.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	14.5	14.7	16.8	14.9	27.8	16.6	19.0	20.2	16.2	19.6	***19.4***	***16.7***
Avg. Yld.	1.7%	2.7%	2.4%	2.2%	2.5%	2.4%	2.7%	3.1%	3.2%	2.3%	***2.2%***	***2.1%***

Based on earnings guidance for 2018, Brady stock trades for a price-to-earnings ratio of 19.4. This is an above-average valuation for the stock. In the past 10 years, Brady stock has held a median price-to-earnings ratio of 16.7. This is a reasonable estimate of fair value, given the modest growth rate of the company. Therefore, current fair value price for Brady stock is $33, based on the midpoint of 2018 earnings guidance.

Today, Brady stock is overvalued, based on our estimate of fair value. This could reduce total returns moving forward. Over the next five years, we expect the price-to-earnings ratio to decline, reducing total returns by 2.9% per year. The stock will continue to generate positive returns for shareholders, due to earnings growth and dividends. Still, the overvaluation of the stock means total returns are expected to come in at 4.3% over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	40.2%	36.5%	35.7%	31.6%	36.8%	42.3%	48.6%	52.5%	53.5%	53.1%	***43.1%***	***43.1%***
Int. Cov.	8.1	4.9	6.1	6.8	8.4	-4.7	-2.71	3.24	14.98	24.04	***20.0***	***20.0***
Payout	24.9%	39.8%	39.8%	33.2%	69.2%	39.4%	50.1%	63.0%	51.9%	44.6%	**42.6%**	***35.3%***
Std. Dev.	56.6%	47.5%	29.5%	38.1%	23.8%	20.5%	30.5%	32.4%	29.4%	21.8%	***33.0%***	***33.0%***
Debt/A	44.8%	39.9%	42.4%	37.9%	37.2%	42.2%	41.5%	44.7%	42.2%	33.3%	***35.0%***	***35.0%***

In terms of safety, Brady has a secure dividend payout. The company has consistently generated earnings-per-share sufficiently above its dividend payouts. Even though the payout ratio has ticked up in recent years, the company still distributes around half of its earnings. Brady also maintained its dividend during the Great Recession. Part of its resilience is that the company has a significant competitive advantage. Its industry leadership position is supplemented by a willingness to invest in innovation. For example, research and development expense was 19.3% higher last quarter versus the same quarter last year.

That said, this is not a highly recession-resistant business. Earnings-per-share declined significantly in 2009, during the worst of the Great Recession. This is not entirely a surprise, since Brady operates in a cyclical industry. Brady scores well across several safety-related metrics. The company has dramatically increased its interest coverage over the past 10 years, thanks to its efforts to pay off debt and improve its balance sheet.

Final Thoughts & Recommendation

Brady is a high-quality company with a profitable business. The company is a reliable dividend payout, with the ability to continue paying its dividend, even during economic downturns. Brady owes its long history of steady growth to its competitive advantages and diverse customer base.

At the present time, Brady stock appears to be overvalued. This will negatively impact future returns, which we expect in the area of ~4% annually moving forward. Brady is also not an attractive stock for high-yield investors, with a 2.2% yield.

Total Return Breakdown by Year