Brady Corporation (BRC)

Updated August 10th, 2018 by Bob Ciura

Key Metrics

Current Price:	$37	**5 Year CAGR Estimate:**	4.6%	**Volatility Percentile:**	74.7%
Fair Value Price:	$32	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	62.7%
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.6%	**Valuation Percentile:**	34.4%
Dividend Yield:	2.2%	**5 Year Price Target**	$42	**Total Return Percentile:**	21.8%

Overview & Current Events

Brady Corporation was founded in 1914, and generates annual revenue in excess of $1.1 billion. It manufactures and markets specialty materials. The company operates two segments: Identification Solutions and Workplace Safety. Its product line includes absorbents, labels, pipes and valves, signs, tags, tapes, and printers. The company's customers are located in a wide range of industries, such as electronics, telecommunications, manufacturing, construction, healthcare, and aerospace.

On 5/24/18, Brady turned in a solid quarterly report. Revenue increased 8.2% to $298.42 million, and beat analyst expectations by $6.95 million. Earnings-per-share matched expectations, and increased 14% from the same quarter a year ago. Revenue growth was achieved through organic revenue growth of 3.2% and an increase of 5.0% from foreign currency translation. This was the 4th consecutive quarter of positive organic revenue growth for the company. Earnings-per-share growth was driven by revenue growth and tax reform.

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	***$1.97***	***$2.51***
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. It is seeing robust demand for its two key product categories. By segment, sales increased 7.8% in Identification Solutions and 9.1% in Workplace Safety last quarter. Both segments contributed positive organic sales growth as well. For 2018, the company expects organic sales growth in the low-single digit range. Earnings-per-share will also be enhanced by a lower tax rate. Due to greater-than-anticipated impact from tax reform, Brady increased the lower-end of its full-year earnings guidance, from a previous range of $1.90 to $2.00 per share to a range of $1.95 to $2.00 per share. We have increased our 2018 earnings expectation to reflect the revised guidance. Over the next five years, we expect 5.0% annual earnings growth, while the company is expected to continue raising its annual dividend by $0.01 per share each year.

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	***19.0***	***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 updated earnings guidance for 2018, Brady stock trades for a price-to-earnings ratio of 19.0. Meanwhile, the stock has traded for an average price-to-earnings ratio of 16.4 in the past 10 years. We view the 10-year average valuation as a better estimate of fair value for Brady stock. As a result, the stock appears to be overvalued. If the stock returns to our estimate of fair value, total returns would be reduced by 2.6% per year. Brady stock should still generate positive returns for shareholders, from earnings growth and dividends.

Safety, Quality, Competitive Advantage, & Recession Resiliency

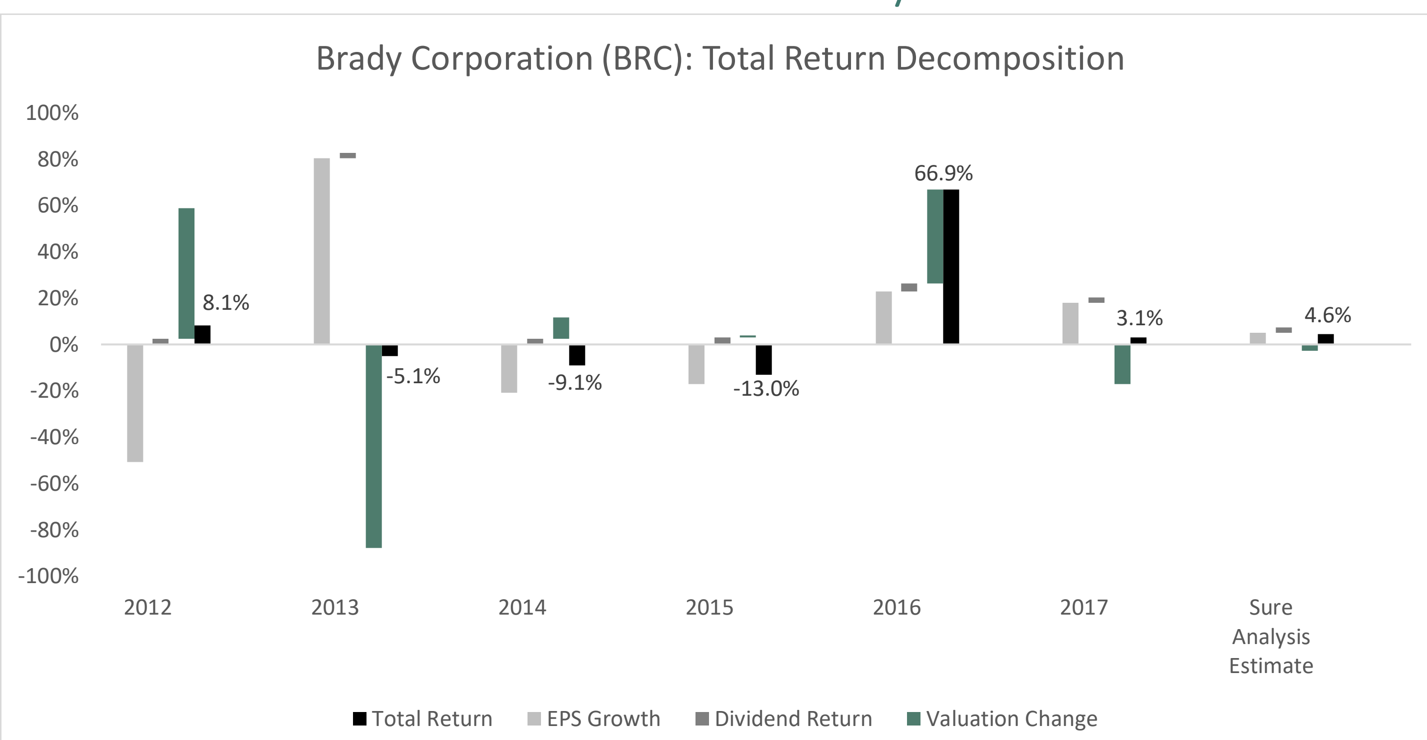
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	40.2%	36.5%	35.7%	31.6%	36.8%	42.3%	48.6%	52.5%	53.5%	53.1%	***43.1%***	***43.1%***
Debt/A	44.8%	39.9%	42.4%	37.9%	37.2%	42.2%	41.5%	44.7%	42.2%	33.3%	***35.0%***	***35.0%***
Int. Cov.	8.1	4.9	6.1	6.8	8.4	-4.7	-2.71	3.24	14.98	24.04	***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%***

Brady ranks well in terms of safety and quality metrics. It has a secure dividend with a payout ratio below 50%. This leaves room for the company to continue to invest in growth initiatives, while also raising its dividend payout each year. Brady also has a consistently profitable business model, even during recessions. This is due to the company's durable competitive advantages. It maintains a leadership position in both of its product categories through sufficient research and development investment. Investors should note that while the company did remain profitable during the Great Recession, it nevertheless experienced a significant reduction in earnings-per-share. The company would likely see earnings decline if another recession were to occur, but we would expect Brady to continue paying its dividend. The company has dramatically increased its interest coverage over the past 10 years, due to its efforts to pay down debt and improve its balance sheet.

Final Thoughts & Recommendation

Brady is a solid company. It has a profitable business model, and a strong position in its industry. It also pays a dividend to shareholders, and the dividend payout is secure. That said, there is nothing overly exciting about Brady in any of the ratings metrics. The company's earnings growth has stagnated for several years. This year is expected to be a good year for the company, but the bulk of that is due to tax cuts. Brady is not a high-growth stock, does not have a high dividend yield, does not raise its dividend at high rates, and the stock appears to be overvalued. While we expect positive shareholder returns, we believe there are better dividend stock opportunities. We rate Brady as a sell, and recommend investors buy a different stock with higher expected returns.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.