Brady Corporation (BRC)

Updated September 14th, by Nate Parsh

Key Metrics

Current Price:	$45	**5 Year CAGR Estimate:**	4.9%	**Volatility Percentile:**	72.8%
Fair Value Price:	$41	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	79.0%
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.0%	**Valuation Percentile:**	39.1%
Dividend Yield:	1.9%	**5 Year Price Target**	$42	**Total Return Percentile:**	24.9%

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. Brady has a current market cap of $2.3 billion.

Brady released 4th quarter earnings on September 14th. The company earned $0.66 per share, topping estimates by $0.14 and improving 38% year over year. This is the 12th consecutive quarter of earnings growth. Organic growth was 2.5% in the quarter, which is the 5th quarter in a row for organic growth. Revenue grew 3% to $297.5 million, beating expectations by $0.46 million. For fiscal year 2018, Brady earned $2.12, a 15% increase from the previous year. Revenue for the year grew 5.4% to $1.17 billion.

Per-Share Growth

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.71	$1.76	$2.17	$1.07	$1.93	$1.53	$1.27	$1.56	$1.84	$2.12	***$2.20***	***$2.81***
DPS	$0.68	$0.70	$0.72	$0.74	$0.76	$0.78	$0.80	$0.81	$0.82	$0.83	***$0.85***	***$0.90***

Brady has some positive long-term growth potential. It is seeing solid demand for its two key product categories. ID Solutions revenue grew 3.1% for the quarter and 4.7% for the year. Sales for Workplace Safety grew 2.3% in the quarter and 4.7% for 2018. Both segments contributed positive organic sales growth as well. Due to a mid-20% effective tax rate and planned reductions in SGA costs, Brady guides towards a midpoint for EPS of $2.20 for fiscal 2019. If achieved, this would represent 3.8% growth from FY 2018. The company expects organic sales growth to be in the 2%-4% range.

We continue to forecast 5% annual growth for Brady through 2024. Based off expected earnings per share, we see 2024 EPS of $2.81, up from our previous estimate of $2.51.

Brady increased its dividend by 2.4% on 9/12/2018. This makes 33 straight years of annual dividend growth. The most recent increase is slightly above the stock's five-year average increase of 2%. While this $0.02 raise was above our previous forecast of a $0.01 annual increase in the dividend, we expect that dividends will continue to be raised by a penny going forward. Shares yield 1.88% currently, slightly above that of the S&P 500, but below that of the 10-Year Treasury Bond.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	14.7	16.8	14.9	27.8	16.6	19.0	20.2	16.2	19.6	19.0	***20.5***	***18.5***
Avg. Yld.	2.7%	2.4%	2.2%	2.5%	2.4%	2.7%	3.1%	3.2%	2.3%	2.3%	***1.9%***	***1.5%***

Shares of Brady have increased $8, or 21.6% since our August 10th update. Based on earnings guidance for 2019, Brady stock trades for a price-to-earnings ratio of 20.5. Meanwhile, the stock has traded for an average price-to-earnings ratio of 18.5 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 2.0% per year.

Safety, Quality, Competitive Advantage, & Recession Resiliency

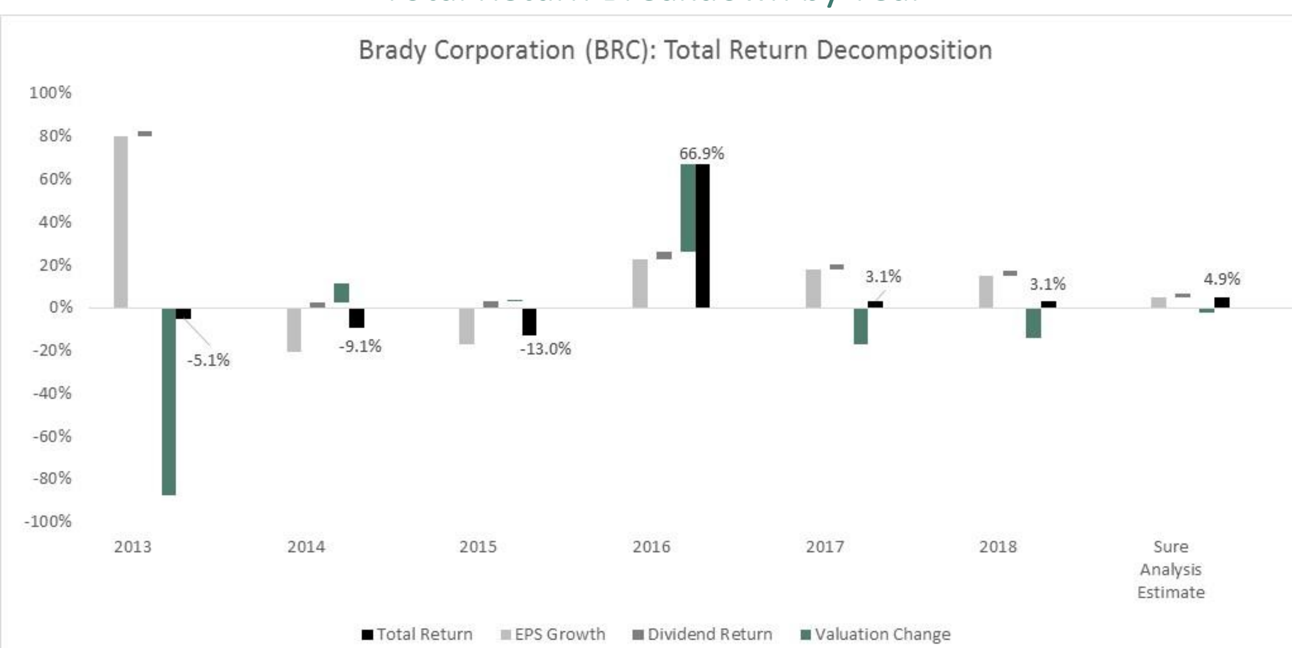
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
GP/A	36.5%	35.7%	31.6%	36.8%	42.3%	48.6%	52.5%	53.5%	53.1%	43.1%	***43.2%***	***43.4%***
Debt/A	39.9%	42.4%	37.9%	37.2%	42.2%	41.5%	44.7%	42.2%	33.3%	35.0%	***35.9%***	***39.6%***
Int. Cov.	4.9	6.1	6.8	8.4	-4.7	-2.71	3.24	14.98	24.04	20.0	***20.0***	***20.0***
Payout	39.8%	39.8%	33.2%	69.2%	39.4%	50.1%	63.0%	51.9%	44.6%	38.6%	**38.6%**	***32%***
Std. Dev.	47.5%	29.5%	38.1%	23.8%	20.5%	30.5%	32.4%	29.4%	21.8%	33.0%	***33.0%***	***32.5%***

Brady ranks well in terms of safety and quality metrics. It has a secure dividend with a payout ratio below 40%. 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

We expect Brady to have annual returns of 4.9% through 2024, up from 4.6% previously. We arrive at this return based on earnings growth (5%), dividends (1.9%) and multiple reversion (2%). Brady is a solid company, with both segments demonstrating organic growth. The company has a long history of dividend growth and a very low payout ratio. That said, the stock is overvalued relative to its historical average. In addition, the dividend is barely above that of the broad market and well below Treasury yields. The stock also doesn't offer much in the way of dividend growth. We have raised our 2024 price target $10 to $52 due to an increase in EPS outlook, but the recent rally in share price has removed much of the upside from the stock. We continue to rate Brady as a sell and suggest investors seek other opportunities.

Total Return Breakdown by Year



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