Brady Corporation (BRC)

Updated November 17th, 2018 by Nate Parsh

Key Metrics

Current Price:	$43	**5 Year CAGR Estimate:**	6.4%	**Volatility Percentile:**	69.9%
Fair Value Price:	$42	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	66.0%
% Fair Value:	102%	**5 Year Valuation Multiple Estimate:**	-0.6%	**Growth Percentile:**	30.6%
Dividend Yield:	2.0%	**5 Year Price Target**	$53	**Valuation Percentile:**	49.2%
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Total Return Percentile:**	30.9%

Overview & Current Events

Brady Corporation was founded in 1914, generates annual revenue in excess of $1.1 billion, and has a $2.2 billion market cap. It manufactures and markets specialty materials. The company operates two segments: Identification Solutions and Workplace Safety. Its product lines includes absorbents, labels, pipes and valves, signs, tags, tapes, and printers.

Brady reported 1st quarter financial results for fiscal 2019 on November 15th. The company earned $0.58 per share, coming in $0.06 ahead of estimates and improving 18.4% from the previous year. Revenue grew 1.1% to $293.2 million, though this was $1.35 million below estimates. Brady's organic growth increased 4.7%. The company's Identification Solutions segment had organic growth of 5.7%, partially offset by currency headwinds of 1.7%. This segment saw growth in all geographic regions, led by single digit gains in the Americas and Europe. Workplace safety saw revenues drop 6.6%. Currency headwinds (-2.6%) as well as Brady's divestiture of its Runelandhs business in the 4th quarter of last year (-6.2%) were only partially offset by organic growth (2.2%). On the plus side, Brady saw organic sales increase more than 10% in Australia along with low single digit growth in Europe. The company expects a tax rate in the mid 20% range for the year. Brady now expects earnings-per-share (EPS) to fall in a range of $2.20-$2.30, up from its previous guidance of $2.15-$2.25. If achieved, this would represent 3.8%-8.5% growth compared to EPS for fiscal 2018.

Growth on a Per-Share Basis

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	***$2.25***	***$2.87***
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***
Shares	52.5	52.6	53.1	51.6	52.1	51.3	51.3	50.5	51.4	52	***50***	***50***

From 2009 through 2018, Brady grew earnings per share at a rate of 4.4% annually. Due to lower a tax rate, we expect EPS growth in the 5% range through 2024.

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.

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	***19.1***	***18.5***
Avg. Yld.	2.7%	2.4%	2.2%	2.5%	2.4%	2.7%	3.1%	3.2%	2.3%	2.3%	***2.0%***	***1.7%***

Shares of Brady have decreased $2, or 4.4% since our September 14th update. Based on earnings guidance for 2019, Brady stock trades for a price-to-earnings ratio of 19.1. 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 just 0.6% per year.

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Safety, Quality, Competitive Advantage, & Recession Resiliency

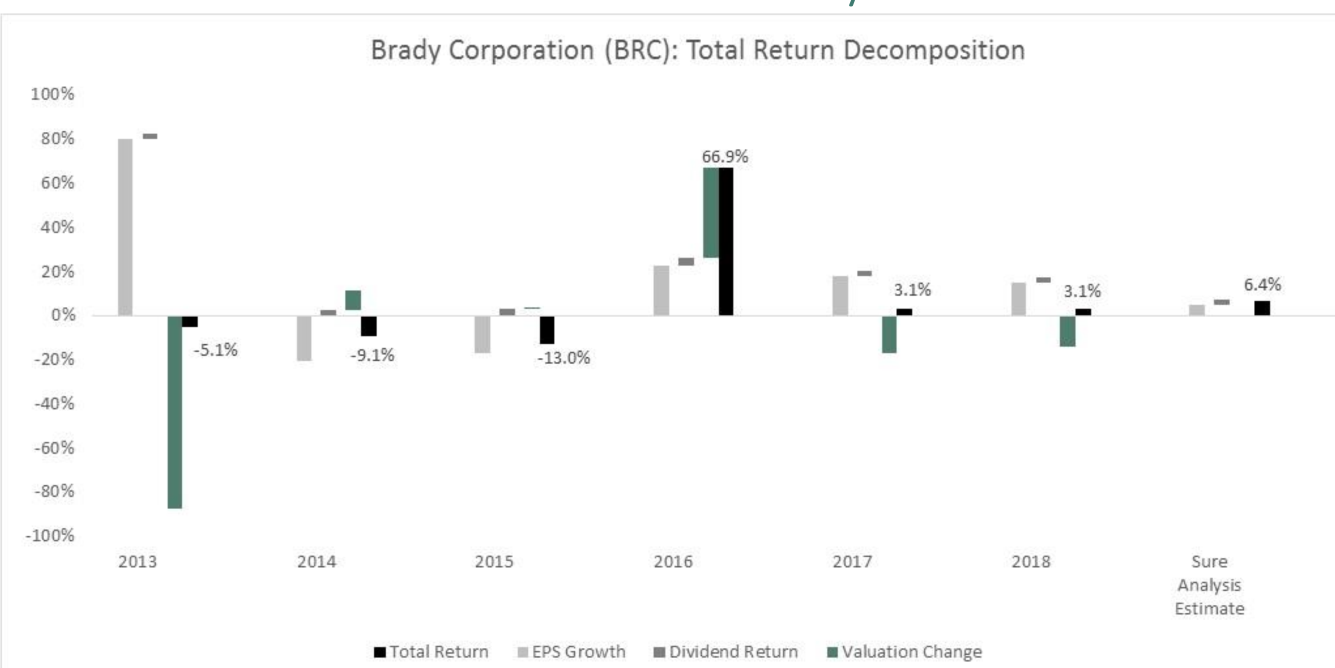
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
GP/A	36.5%	35.7%	31.6%	36.8%	42.3%	48.6%	52.5%	53.5%	53.1%	43.1%	***43.2%***	***43.4%***
Debt/A	39.9%	42.4%	37.9%	37.2%	42.2%	41.5%	44.7%	42.2%	33.3%	35.0%	***35.9%***	***39.6%***
Int. Cov.	4.9	6.1	6.8	8.4	-4.7	-2.71	3.24	14.98	24.04	20.0	***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 main 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.

Final Thoughts & Recommendation

After 1st quarter earnings, we expect shares of Brady Corporation to return 6.4% through 2024, up from our previous forecast of 4.9%. This total return estimate is a combination of growth (5%), dividends (2.0%) and valuation multiple reversion (-0.6%). Brady delivered a solid 1st quarter and raised its guidance for the fiscal year. Brady now trades closer to our fair value and isn't as overpriced relative to its own history; we view shares as a hold. We feel the stock doesn't offer enough total return to entice growth investors nor does it have an attractive dividend yield that would interest income investors to buy at current prices. We have raised our 2024 price target $1 to $53 due to EPS guidance.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	1209	1259	1059	1072	1158	1225	1172	1121	1113	1174
Gross Profit	578	623	588	591	609	610	558	559	558	588
Gross Margin	47.8%	49.5%	55.5%	55.2%	52.6%	49.8%	47.7%	49.9%	50.1%	50.1%
SG&A Exp.	397	436	397	393	428	452	423	405	388	390
D&A Exp.	55	53	49	44	49	45	39	32	27	25
Operating Profit	146	145	152	164	148	122	99	118	131	153
Operating Margin	12.1%	11.5%	14.4%	15.3%	12.8%	10.0%	8.4%	10.5%	11.8%	13.0%
Net Profit	70	82	109	-18	-155	-46	3	80	96	91
Net Margin	5.8%	6.5%	10.3%	-1.7%	-13.3%	-3.8%	0.3%	7.1%	8.6%	7.8%
Free Cash Flow	103	139	147	121	108	50	67	122	129	121
Income Tax	27	27	22	37	43	-5	20	29	31	61

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	1583	1747	1862	1608	1439	1254	1063	1044	1050	1057
Cash & Equivalents	188	315	390	306	91	82	114	141	134	181
Accounts Receivable	191	222	228	199	169	178	157	147	150	161
Inventories	94	95	104	106	95	113	105	99	107	113
Goodwill & Int. Ass.	867	872	890	761	774	606	502	490	491	462
Total Liabilities	632	742	705	598	608	521	475	440	350	305
Accounts Payable	84	97	99	87	83	88	73	62	67	67
Long-Term Debt	0	61	393	316	313	263	254	217	108	53
Shareholder's Equity	951	1005	1156	1009	831	733	588	604	700	752
D/E Ratio	0.00	0.06	0.34	0.31	0.38	0.36	0.43	0.36	0.15	0.07

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	4.1%	4.9%	6.0%	-1.0%	-10.1%	-3.4%	0.3%	7.6%	9.1%	8.6%
Return on Equity	7.1%	8.4%	10.1%	-1.7%	-16.8%	-5.9%	0.5%	13.4%	14.7%	12.5%
ROIC	5.7%	8.1%	8.3%	-1.2%	-12.5%	-4.3%	0.3%	9.6%	11.7%	11.3%
Shares Out.	52.5	52.6	53.1	51.6	52.1	51.3	51.3	50.5	51.4	52
Revenue/Share	22.86	23.78	19.94	20.29	22.56	23.62	22.80	22.07	21.43	22.35
FCF/Share	1.94	2.62	2.76	2.28	2.10	0.96	1.30	2.40	2.48	2.31

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.