Brady Corporation (BRC)

Updated May 30th, 2019 by Nathan Parsh

Key Metrics

Current Price:	$47	**5 Year CAGR Estimate:**	5.6%	**Volatility Percentile:**	36.2%
Fair Value Price:	$44	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	76.5%
% Fair Value:	107%	**5 Year Valuation Multiple Estimate:**	-1.2%	**Growth Percentile:**	36.2%
Dividend Yield:	1.8%	**5 Year Price Target**	$56	**Valuation Percentile:**	35.1%
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Total Return Percentile:**	23.1%

Overview & Current Events

Brady Corporation was founded in 1914, generates annual revenue in excess of $1.1 billion, and has a $2.5 billion market capitalization. It manufactures and markets specialty materials. The company operates two segments: Identification Solutions and Workplace Safety. Its product lines include absorbents, labels, pipes and valves, signs, tags, tapes, and printers.

Brady Corporation reported third quarter financial results for fiscal year 2019 on May 23rd. The company earned $0.65 per share, which was $0.09 above estimates and a 33% improvement from the previous year. Revenue declined 2.9% to $290 million, which was slightly below estimates.

Foreign currency translation decreased sales by 3.8% during the quarter. The divestiture of Brady Corporation's Runelandhs business in the fourth quarter of fiscal 2018 negatively impacted sales by 1.5%. The company had organic growth of 2.4%. Identification Solutions grew 0.9% (4% organically) while Workplace Safety suffered a 12.2% decrease (organic sales dropped 1.6%). ID Solutions saw organic sales growth in all regions, with Europe leading the way with a mid-single digit increase. Safety and facility ID, products ID and wire ID were highlighted as areas of strength.

Growth in China was behind the rest of the Asia region. Workplace Safety grew in Europe and Australia but posted a decline in North America. The drop in North America was mostly attributed to the divestiture of the Runelandhs business. The company has made investments in e-commerce, and digital channel sales grew 15% during the quarter. Gross profit margin declined 30 bps to 50.3% due to higher freight and personnel costs. SG&A expenses as a percentage of sales improved 140 bps. Brady Corporation ended the quarter with a net cash position of $188 million, an increase of almost 25% from the second quarter of fiscal 2019.

Brady Corporation increased its guidance for the fiscal year to a range of $2.35 to $2.40 from $2.25 to $2.35 previously. Achieving the midpoint of updated guidance would be a 12.3% increase from fiscal 2018. The company expects to produce at least 3% organic growth in the fiscal year.

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	***$2.38***	***$3.04***
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 2.2% annually. Due to projected organic growth rates, a lower tax rate and cost efficiencies, we expect earnings growth of at least 5% 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 1.8% currently, slightly below that of the S&P 500.

Brady Corporation (BRC)

Updated May 30th, 2019 by Nathan Parsh

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	***19.7***	***18.5***
Avg. Yld.	2.7%	2.4%	2.2%	2.5%	2.4%	2.7%	3.1%	3.2%	2.3%	2.3%	***1.8%***	***1.6%***

Shares of Brady Corporation have decreased by $1, or 2.1% since our February 23rd update. Based on updated earnings guidance for 2019, Brady Corporation's stock trades for a price-to-earnings ratio of 19.7. 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 Corporation's 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 1.2% per year through 2024.

Safety, Quality, Competitive Advantage, & Recession Resiliency

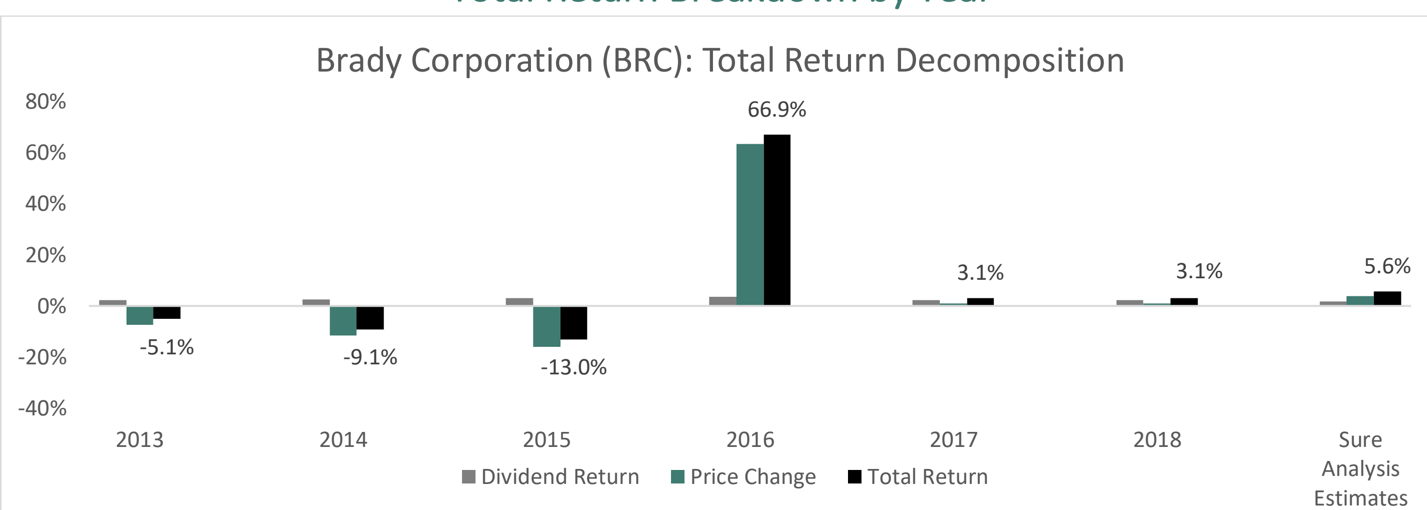
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	40%	40%	33%	69%	39%	50%	63%	52%	45%	39%	**36%**	***30%***

Brady Corporation 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 Corporation also has a consistently profitable business model in most cycles. 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.

Final Thoughts & Recommendation

We estimate that Brady Corporation can offer a total annual return of 5.6% through 2024, up from 4.6% previously. Brady Corporation's revenue was once again negatively impacted due to currency translation, but the company produced solid organic growth. The company also has increased its earnings-per-share estimates for the third consecutive quarter. Despite the upwards revision for earnings and a slight decline in share price, Brady Corporation continues to receive a hold recommendation from Sure Dividend. We have increased our 2024 price target $2 to $56 to reflect the updated guidance.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Brady Corporation (BRC)

Updated May 30th, 2019 by Nathan Parsh

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
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.