



Brady Corporation (BRC)

Updated November 22nd, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$55	5 Year CAGR Estimate:	3.3%	Volatility Percentile:	40.1%
Fair Value Price:	\$47	5 Year Growth Estimate:	5.0%	Momentum Percentile:	88.4%
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-3.0%	Growth Percentile:	40.3%
Dividend Yield:	1.6%	5 Year Price Target	\$60	Valuation Percentile:	34.6%
Dividend Risk Score:	A	Retirement Suitability Score:	C	Total Return Percentile:	20.8%

Overview & Current Events

Brady Corporation was founded in 1914, generates annual revenue in excess of \$1.1 billion, and has a \$3 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 first quarter fiscal 2020 on 11/21/2019. The company earned \$0.70 per share during the quarter, which was \$0.07 more than expected and a 21% improvement from the previous year. Revenue declined 2% to \$286.95 million, which was \$6.7 million below estimates. Currency exchange reduced revenue results by 1.7% while a lower income tax rate of 9.8% (compared to 23.2% in the Q1 2019) aided results.

Organic sales declined 0.4% for the quarter. ID Solutions revenues were lower by 1.4% as growth in the Americas region were offset by international regions. Segment profit margin for ID Solutions did improve 60 bps. Healthcare product line sales were flat from the previous year. Brady Corporation expects this segment to show 2% to 3% organic growth in fiscal 2020. Workplace Safety sales decreased 4.2%. Currency contributed 3.4% of this year-over-year decline. Organic growth was in the low-single-digits in North America and Australia. This segment is expected to have flat organic growth. Gross profit margins declined 70 bps to 49.3%.

Brady Corporation raised its guidance for the fiscal year and now expects to earn \$2.50 to \$2.60, up from \$2.45 to \$2.55 previously. The midpoint of revised guidance would represent a 3.7% improvement from the previous year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.76	\$2.17	\$1.07	\$1.93	\$1.53	\$1.27	\$1.56	\$1.84	\$2.12	\$2.46	\$2.55	\$3.25
DPS	\$0.70	\$0.72	\$0.74	\$0.76	\$0.78	\$0.80	\$0.81	\$0.82	\$0.83	\$0.85	\$0.87	\$0.92
Shares¹	53	53	52	52	51	51	51	51	52	50	54	50

Brady Corporation grew earnings per share at a rate of 3.4% annually over the last decade. Due to a lower tax rate and cost efficiencies, we expect earnings growth of at least 5% through 2024.

Brady increased its dividend by 2.4% for the upcoming 10/31/2019 payment. This makes 34 consecutive 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 1.6% currently, slightly below that of the S&P 500.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	16.8	14.9	27.8	16.6	19.0	20.2	16.2	19.6	19.0	20.0	21.6	18.5
Avg. Yld.	2.4%	2.2%	2.5%	2.4%	2.7%	3.1%	3.2%	2.3%	2.3%	1.7%	1.6%	1.5%

¹ Share count in millions

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Shares of Brady Corporation have increased by \$4, or 7.8%, since our 9/6/2019 update. Based on revised guidance for earnings for fiscal 2020, Brady Corporation's stock trades for a price-to-earnings ratio of 21.6. We have a 2025 P/E ratio target of 18.5, in-line with the stock's long-term average valuation. 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 by fiscal 2025, valuation would be a 3% headwind to annual returns over this period of time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

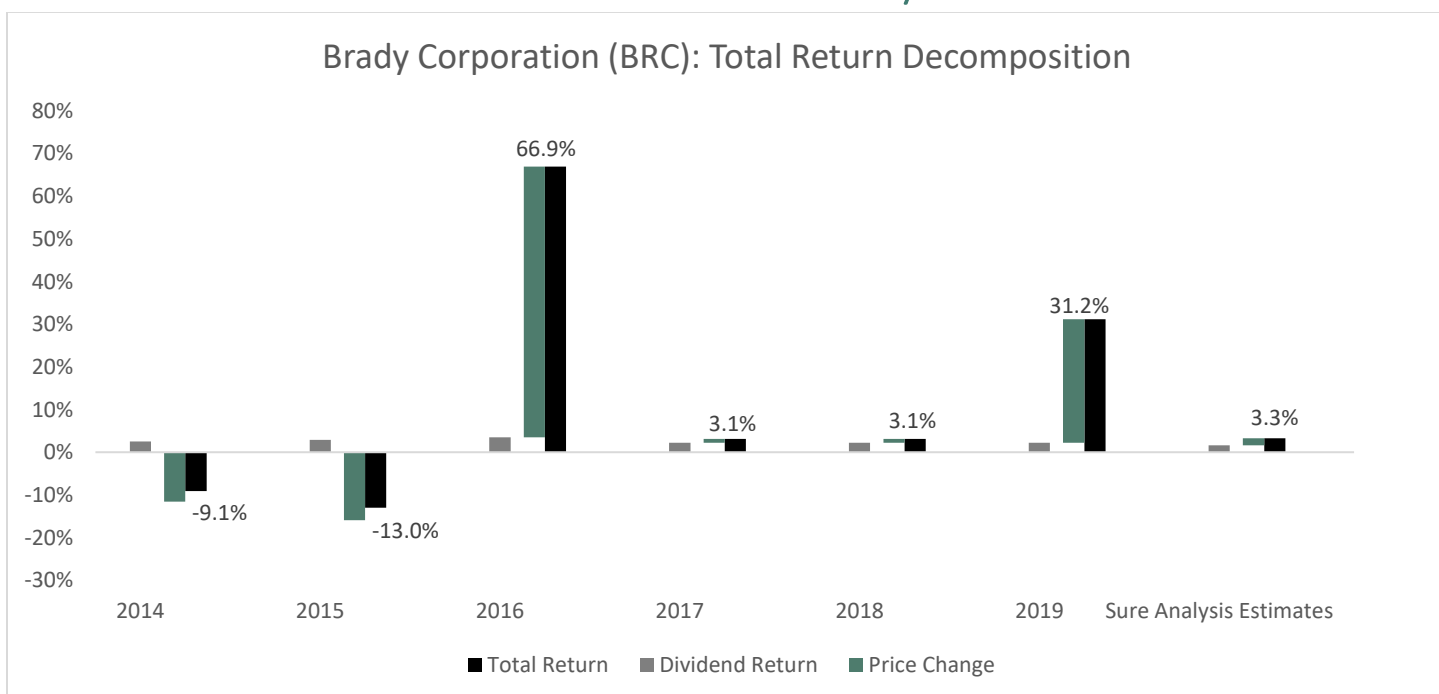
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	40%	33%	69%	39%	50%	63%	52%	45%	39%	35%	34%	28%

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

After first quarter earnings results, Brady Corporation is expected to return 3.3% annually through fiscal 2025, down from our prior estimate of 4.5%. The company had flat organic sales growth during the quarter, though it did manage to beat estimates for earnings-per-share. Bottom line results were helped by a lower tax rate. Currency was a headwind for both divisions of the company, but Brady Corporation did raise its earnings-per-share guidance for the year. We have raised our 2025 price target \$1 to \$60 due to revised guidance, and are moving to a sell recommendation on the stock due to projected returns over the next five years.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	1259	1059	1072	1158	1225	1172	1121	1113	1174	1161
Gross Profit	623	588	591	609	610	558	559	558	588	579
Gross Margin	49.5%	55.5%	55.2%	52.6%	49.8%	47.7%	49.9%	50.1%	50.1%	49.9%
SG&A Exp.	436	397	393	428	452	423	405	388	390	371
D&A Exp.	53	49	44	49	45	39	32	27	25	24
Operating Profit	145	152	164	148	122	99	118	131	153	162
Operating Margin	11.5%	14.4%	15.3%	12.8%	10.0%	8.4%	10.5%	11.8%	13.0%	14.0%
Net Profit	82	109	-18	-155	-46	3	80	96	91	131
Net Margin	6.5%	10.3%	-1.7%	-13.3%	-3.8%	0.3%	7.1%	8.6%	7.8%	11.3%
Free Cash Flow	139	147	121	108	50	67	122	129	121	129
Income Tax	27	22	37	43	-5	20	29	31	61	33

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	1747	1862	1608	1439	1254	1063	1044	1050	1057	1157
Cash & Equivalents	315	390	306	91	82	114	141	134	181	279
Accounts Receivable	222	228	199	169	178	157	147	150	161	158
Inventories	95	104	106	95	113	105	99	107	113	120
Goodwill & Int. Ass.	872	890	761	774	606	502	490	491	462	447
Total Liabilities	742	705	598	608	521	475	440	350	305	307
Accounts Payable	97	99	87	83	88	73	62	67	67	65
Long-Term Debt	61	393	316	313	263	254	217	108	53	50
Shareholder's Equity	1005	1156	1009	831	733	588	604	700	752	851
D/E Ratio	0.06	0.34	0.31	0.38	0.36	0.43	0.36	0.15	0.07	0.06

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	4.9%	6.0%	-1.0%	-10.1%	-3.4%	0.3%	7.6%	9.1%	8.6%	11.9%
Return on Equity	8.4%	10.1%	-1.7%	-16.8%	-5.9%	0.5%	13.4%	14.7%	12.5%	16.4%
ROIC	8.1%	8.3%	-1.2%	-12.5%	-4.3%	0.3%	9.6%	11.7%	11.3%	15.4%
Shares Out.	53	53	52	52	51	51	51	51	52	50
Revenue/Share	23.78	19.94	20.29	22.56	23.62	22.80	22.07	21.43	22.35	21.77
FCF/Share	2.62	2.76	2.28	2.10	0.96	1.30	2.40	2.48	2.31	2.43

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

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