Brady Corporation (BRC)

Updated May 22nd, 2020 by Nathan Parsh

Key Metrics

Current Price:	$48	**5 Year CAGR Estimate:**	4.6%	**Market Cap:**	$2.5 billion
Fair Value Price:	$43	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	7/9/2020
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-2.0%	**Dividend Payment Date:**	7/31/2020
Dividend Yield:	1.8%	**5 Year Price Target**	$55	**Years Of Dividend Growth:**	34
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Last Dividend Increase**	2.4%

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.

On 5/21/2020, Brady Corporation reported earnings results for the third quarter of fiscal 2020. The company earned $0.47 per share for the quarter, which was $0.01 below estimates and a 28% decline from the previous year. Revenue decreased 8.2% to $266 million, though this was $15 million higher than expected. Organic growth declined 6% while currency exchange was a 2.2% headwind to results.

Organic sales for ID Solutions were down 8.2% with currency translation lowering results by 1.5%. Much of this decline occurred in April with the shutdown of North American and European companies. Organic growth was higher through March in both regions before declining in April. Workplace Safety organic sales improved 0.2%, but were more than offset by currency exchange, which lowered results by 4.1%. As with ID Solutions, Workplace Safety growth was solid through March before a sharp decline in April. COVID-19 related sales added $11 million to results. Gross profit margins declined 160 basis points to 48.7% due to tariffs, higher product costs and employee severances. A higher than normal tax rate also impacted results, reducing earnings-per-share by $0.07 for the quarter. Brady Corporation has pulled its guidance for fiscal 2020 due to the unknown impact of the COVID-19 pandemic on results. The company had guided towards earnings-per-share of $2.60. The analyst community now expects $2.35 of earnings-per-share for the 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	***$2.35***	***$3.00***
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***
Shares[1]	52.6	53.1	51.6	52.1	51.3	51.3	50.5	51.4	52	50	***53***	***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 2025.

Brady increased its dividend by 2.4% for the 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 1.8% currently, slightly below that of the S&P 500.

[1] Share count in millions

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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	***20.4***	***18.5***
Avg. Yld.	2.4%	2.2%	2.5%	2.4%	2.7%	3.1%	3.2%	2.3%	2.3%	1.7%	***1.8%***	***1.7%***

Shares of Brady Corporation have decreased by $1, or 2%, since our 2/21/2020 update. Based on revised estimates for earnings for fiscal 2020, Brady Corporation's stock trades for a price-to-earnings ratio of 20.4. 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 overvalued. If the stock returns to our estimate of fair value by fiscal 2025, valuation would be a 2.0% headwind to annual returns over this period of time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

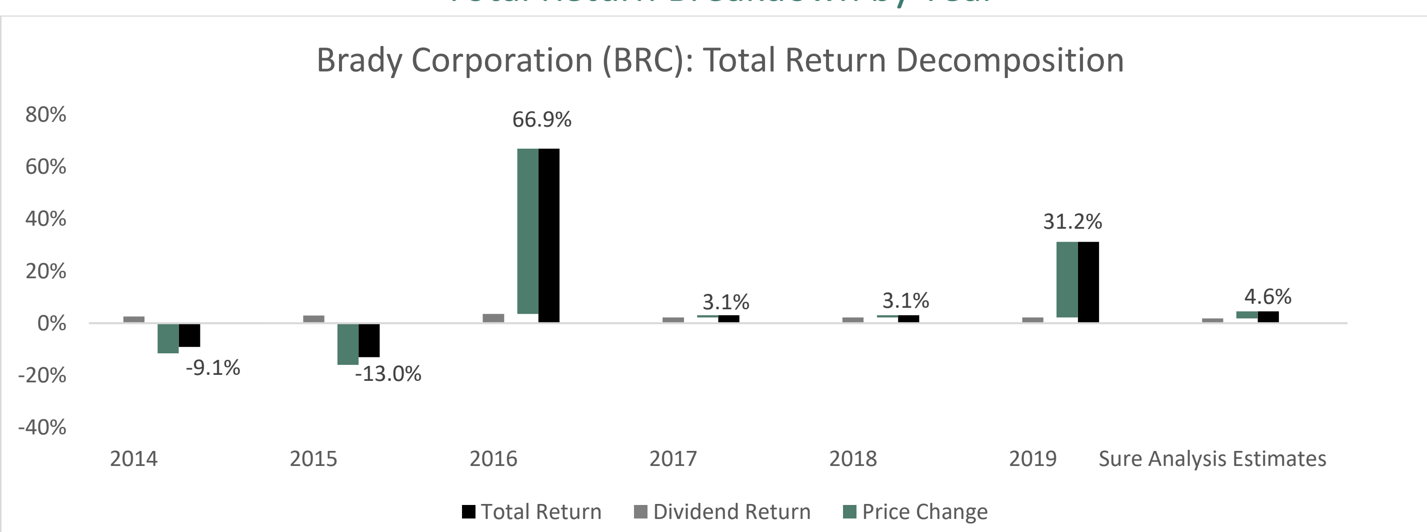
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	40%	33%	69%	39%	50%	63%	52%	45%	39%	35%	**37%**	***31%***

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 reviewing third quarter earnings results, Brady Corporation is now projected to return 4.6% annually through fiscal 2025, down from our prior estimate of 6.1%. The company had a solid quarter prior to the COVID-19 pandemic causing a severe decline in both business segments. A higher tax rate also impacted results. Brady Corporation expects at least the start of the fourth quarter to be weak as well. We have lowered our 2025 price target $6 to $55 and maintain our hold rating on the stock.

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.