Brady Corporation (BRC)

Updated September 16th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$44	**5 Year CAGR Estimate:**	8.0%	**Market Cap:**	$2.3 billion
Fair Value Price:	$47	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	10/8/2020
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.3%	**Dividend Payment Date:**	10/30/2020
Dividend Yield:	2.0%	**5 Year Price Target**	$60	**Years Of Dividend Growth:**	35
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Last Dividend Increase**	1.1%

Overview & Current Events

Brady Corporation was founded in 1914, generates annual revenue in excess of $1.1 billion, and has a $2.3 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.

On 9/16/2020, Brady Corporation reported earnings results for the fourth quarter and fiscal year 2020. Revenue declined 15% to $251.7 million for the quarter, though this was $2.3 million above estimates. Currency reduced revenues by 1%. Earnings-per-share decreased $0.15, or 22%, to $0.53, but was $0.01 higher than expected. For the fiscal year, revenue was down 6.8% to $1.1 billion. Currency translation was a 1.4% headwind to results. Earnings-per-share declined $0.14, or 5.7%, to $2.32. This was $0.03 below our estimates for the year.

Organic sales were down 13.7% for the quarter and 5.4% for the fiscal year. Sales for the Identification Solutions segment decreased 22.8% to $171.2 million. Workplace Safety improved 9.7% to $80.6 million. Organic growth for ID Solutions was down 21.7% while Workplace Safety improved almost 11%. Gross margins were down 256 basis points to 47.1% while operating margins were lower by 246 basis points to 13.2%. Brady Corporation controlled expenses during the quarter. Research and development costs were down 16.8% while SG&A expenses were down almost 15%. The company ended the fiscal year with $218 million of cash and zero outstanding debt.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.17	$1.07	$1.93	$1.53	$1.27	$1.56	$1.84	$2.12	$2.46	$2.32	***$2.54***	***$3.24***
DPS	$0.72	$0.74	$0.76	$0.78	$0.80	$0.81	$0.82	$0.83	$0.85	$0.87	***$0.88***	***$0.93***
Shares[1]	53.1	51.6	52.1	51.3	51.3	50.5	51.4	52	50	52	***51***	***49***

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 1.1% for the 10/30/2020 payment. This makes 35 consecutive years of annual dividend growth. The most recent increase is below the five-year average increase of 2%. We expect that dividends will continue to be raised by a penny per share going forward. Shares yield 2.0% currently, slightly above that of the S&P 500.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.9	27.8	16.6	19.0	20.2	16.2	19.6	19.0	20.0	19.8	***17.3***	***18.5***
Avg. Yld.	2.2%	2.5%	2.4%	2.7%	3.1%	3.2%	2.3%	2.3%	1.7%	1.9%	***2.0%***	***1.6%***

Shares of Brady Corporation have decreased by $4, or 8.3%, since our 5/22/2020 update. Based on estimates for earnings for fiscal 2021, Brady Corporation's stock trades for a price-to-earnings ratio of 17.3. We have a five-year P/E

[1] Share count in millions

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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 slightly undervalued. If the stock returns to our estimate of fair value by fiscal 2026, valuation would be a 1.3% tailwind to annual returns over this period of time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

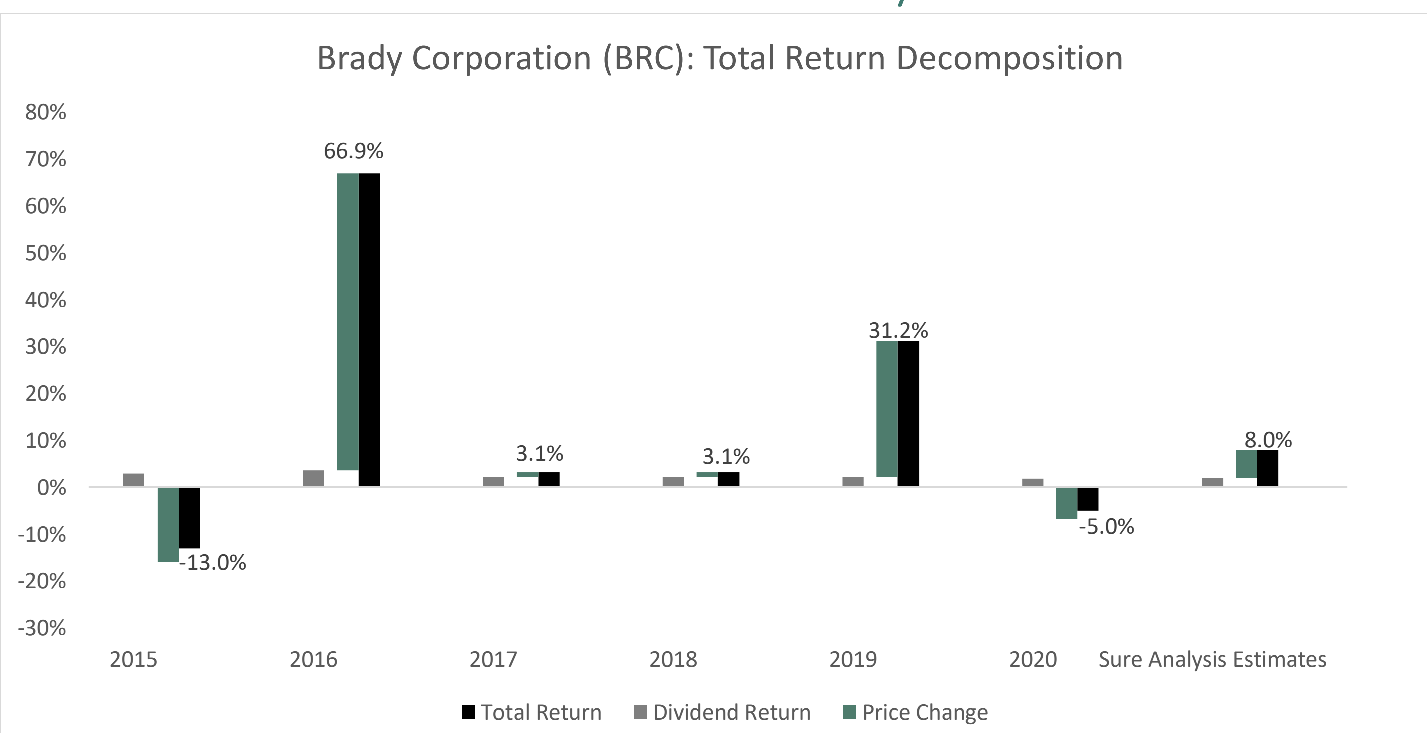
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	33%	69%	39%	50%	63%	52%	45%	39%	35%	38%	**35%**	***29%***

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

Following fourth quarter and full fiscal year results. Brady Corporation is now projected to return 8% annually through fiscal 2026, up from our prior estimate of 4.6%. Top and bottom-line results were down significantly from the previous year, but managed to top analyst estimates. Much of this was due to reduced business activity due to COVID-19, though the Workplace Safety reported strong results. Brady Corporation earns a hold recommendation from Sure Dividend, but we would be interested in the stock on a further pullback. We have raised our five-year price target $5 to $60 due to EPS estimates for the current fiscal year.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	1,259	1,059	1,072	1,158	1,225	1,172	1,121	1,113	1,174	1,161
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.