Brady Corporation (BRC)

Updated November 19th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$46	**5 Year CAGR Estimate:**	6.4%	**Market Cap:**	$2.4 billion
Fair Value Price:	$46	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	1/7/2021[1]
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	-0.2%	**Dividend Payment Date:**	1/29/2021[2]
Dividend Yield:	1.9%	**5 Year Price Target**	$58	**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 billion, and has a $2.4 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 11/19/2020, Brady Corporation announced earnings results for the first quarter of fiscal year 2021. The company had earnings-per-share of $0.64, which was an 8.6% decrease from the prior year but was $0.07 above estimates. Revenue declined 3.4% to $277.2 million, but was $6.7 million higher than expected. A lower effective tax rate of 9.8% aided results. Currency translation lowered revenues by 1.5%.

Sales for Identification Solutions was down 7.8% to $198 million. Workplace Safety increased 9.8% to $79 million. Organic sales declined 4.9% overall, due to a 9.4% decrease for ID Solutions offset by a 5.5% improvement in Workplace Safety. The company ended the quarter with $256.3 million of cash on its balance sheet and no outstanding debt. Cash from operations grew 62% to $62.8 million. Gross margins declined 140 basis points to 48.9% to 50.3%. SG&A expenses were lower by 1.3%. Consensus estimate call for $2.46 of EPS for the fiscal year, down slightly from $2.54 previously.

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	***$2.46***	***$3.14***
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[3]	53.1	51.6	52.1	51.3	51.3	50.5	51.4	52	50	52	***52***	***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 1.9% 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	***18.7***	***18.5***
Avg. Yld.	2.2%	2.5%	2.4%	2.7%	3.1%	3.2%	2.3%	2.3%	1.7%	1.9%	***1.9%***	***1.6%***

Shares of Brady Corporation have increased by $2, or 4.5%, since our 9/16/2020 update. Based on estimates for earnings for fiscal 2021, Brady Corporation's stock trades for a price-to-earnings ratio of 18.7. We have a five-year 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

[1] Estimated ex-dividend date
[2] Estimated dividend payment date
[3] Share count in millions

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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 0.2% headwind to annual returns over this period of time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

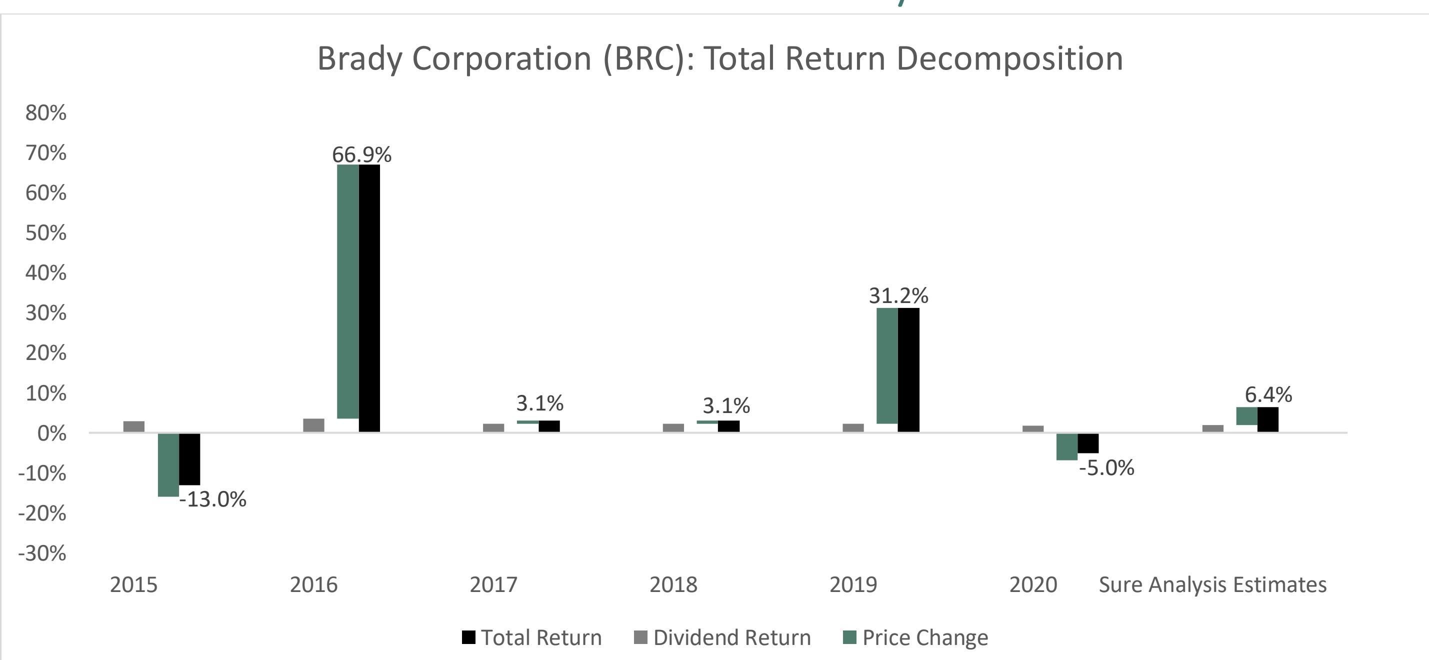
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	33%	69%	39%	50%	63%	52%	45%	39%	35%	38%	**36%**	***30%***

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

Following first quarter results, Brady Corporation is now projected to return 6.4% annually through fiscal 2026, down from our prior estimate of 8%. This estimated return stems from a 5% earnings growth rate and 1.9% dividend yield offset by a slight headwind from multiple expansion. Revenue and earnings-per-share results were down from the previous year, but once again topped what analysts had expected. The ongoing COVID-19 pandemic is having a dual impact on Brady Corporation's results as ID Solutions is seeing lower demand while Workplace Safety continues to produce solid organic growth rate. The company's dividend growth history is impressive, especially for one in a cyclical sector of the economy. We have lowered our five-year price target $2 to $58 due to revised earnings estimates for the fiscal year, but maintain our hold rating on the stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1,059	1,072	1,158	1,225	1,172	1,121	1,113	1,174	1,161	1,081
Gross Profit	588	591	609	610	558	559	558	588	579	529
Gross Margin	55.5%	55.2%	52.6%	49.8%	47.7%	49.9%	50.1%	50.1%	49.9%	48.9%
SG&A Exp.	397	393	428	452	423	405	388	390	371	336
D&A Exp.	49	44	49	45	39	32	27	25	24	23
Operating Profit	152	164	148	122	99	118	131	153	162	152
Operating Margin	14.4%	15.3%	12.8%	10.0%	8.4%	10.5%	11.8%	13.0%	14.0%	14.0%
Net Profit	109	(18)	(155)	(46)	3	80	96	91	131	112
Net Margin	10.3%	-1.7%	-13.3%	-3.8%	0.3%	7.1%	8.6%	7.8%	11.3%	10.4%
Free Cash Flow	147	121	108	50	67	122	129	121	129	114
Income Tax	22	37	43	(5)	20	29	31	61	33	28

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1862	1608	1439	1254	1063	1044	1050	1057	1157	1,142
Cash & Equivalents	390	306	91	82	114	141	134	181	279	218
Accounts Receivable	228	199	169	178	157	147	150	161	158	146
Inventories	104	106	95	113	105	99	107	113	120	136
Goodwill & Int. Ass.	890	761	774	606	502	490	491	462	447	438
Total Liabilities	705	598	608	521	475	440	350	305	307	279
Accounts Payable	99	87	83	88	73	62	67	67	65	63
Long-Term Debt	393	316	313	263	254	217	108	53	50	-
Shareholder's Equity	1156	1009	831	733	588	604	700	752	851	863
D/E Ratio	0.34	0.31	0.38	0.36	0.43	0.36	0.15	0.07	0.06	-

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.0%	-1.0%	-10.1%	-3.4%	0.3%	7.6%	9.1%	8.6%	11.9%	9.8%
Return on Equity	10.1%	-1.7%	-16.8%	-5.9%	0.5%	13.4%	14.7%	12.5%	16.4%	13.1%
ROIC	8.3%	-1.2%	-12.5%	-4.3%	0.3%	9.6%	11.7%	11.3%	15.4%	12.7%
Shares Out.	53	52	52	51	51	51	51	52	50	52
Revenue/Share	19.94	20.29	22.56	23.62	22.80	22.07	21.43	22.35	21.77	20.31
FCF/Share	2.76	2.28	2.10	0.96	1.30	2.40	2.48	2.31	2.43	2.14

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