Brady Corporation (BRC)

Updated September 22nd, 2021 by Nathan Parsh

Key Metrics

Current Price:	$50	**5 Year CAGR Estimate:**	9.2%	**Market Cap:**	$2.6 billion
Fair Value Price:	$57	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	10/7/2021
% Fair Value:	88%	**5 Year Valuation Multiple Estimate:**	2.7%	**Dividend Payment Date:**	10/29/2021
Dividend Yield:	1.8%	**5 Year Price Target**	$73	**Years Of Dividend Growth:**	36
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Last Dividend Increase**	2.3%

Overview & Current Events

Brady Corporation was founded in 1914, generates annual revenue in excess of $1.3 billion, and has a $2.6 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 9/20/2021, Brady Corporation reported earnings results for the fourth quarter and fiscal year 2021. For the quarter, revenue grew 21.6% to $306 million, which was $4.4 million more than expected. Adjusted earnings-per share of $0.70 compared favorably to adjusted earnings-per-share of $0.53 in the prior year, but was $0.01 below estimates. For fiscal year 2021, which ended July 31st, revenue grew 5.9% to $1.14 billion while adjusted earnings-per-share improved 14.2% to $2.65, $0.02 better than we expected.

Organic sales improved 12.6% for the quarter. Identification Solutions grew 35% with organic growth of 24.5%. Sales were higher in all regions. Workplace Solutions fell 6.8%, as a 5.9% benefit from currency exchange was more than offset by a decline in organic sales. This business is facing very tough comparisons in the prior year when COVID-19 related products were in especially high demand.

Brady Corporation offered guidance for fiscal year 2022. The company expects earnings-per-share of $2.90 to $3.10 for the fiscal year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.07	$1.93	$1.53	$1.27	$1.56	$1.84	$2.12	$2.46	$2.32	$2.65	***$3.00***	***$3.83***
DPS	$0.74	$0.76	$0.78	$0.80	$0.81	$0.82	$0.83	$0.85	$0.87	$0.88	***$0.90***	***$0.99***
Shares[1]	51.6	52.1	51.3	51.3	50.5	51.4	52	50	52	52	***52***	***49***

Brady Corporation grew earnings per share at a rate of more than 10% annually over the last decade. We continue to expect earnings growth of at least 5% through 2027. We feel that this is an appropriate starting place for earnings growth due to the low base for earnings-per-share that occurred in 2012.

On 9/1/2021, Brady Corporation announced a 2.3% dividend increase for the 10/29/2021 payment date, extending the company's dividend growth streak to 36 years. We expect that dividends will continue to be raised by a very modest amounts going forward.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	27.8	16.6	19.0	20.2	16.2	19.6	17.7	18.3	24.0	20.6	***16.7***	***19.0***
Avg. Yld.	2.5%	2.4%	2.7%	3.1%	3.2%	2.3%	2.2%	1.9%	1.7%	1.6%	***1.8%***	***1.4%***

[1] Share count in millions

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Shares of Brady Corporation have decreased by $5, or 11%, since our 5/20/2021 update. Based on estimates for earnings for fiscal 2022, Brady Corporation's stock trades for a price-to-earnings ratio of 16.7. We reaffirm our five-year target P/E ratio of 19 from 18.5 to be more in-line with the stock's average valuation over the last decade. As a result, the stock appears undervalued. If the stock returns to our estimate of fair value by fiscal 2027, valuation would be a 2.7% tailwind to annual returns over this period of time.

Shares yield 1.8% currently, slightly above that of the average yield of S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

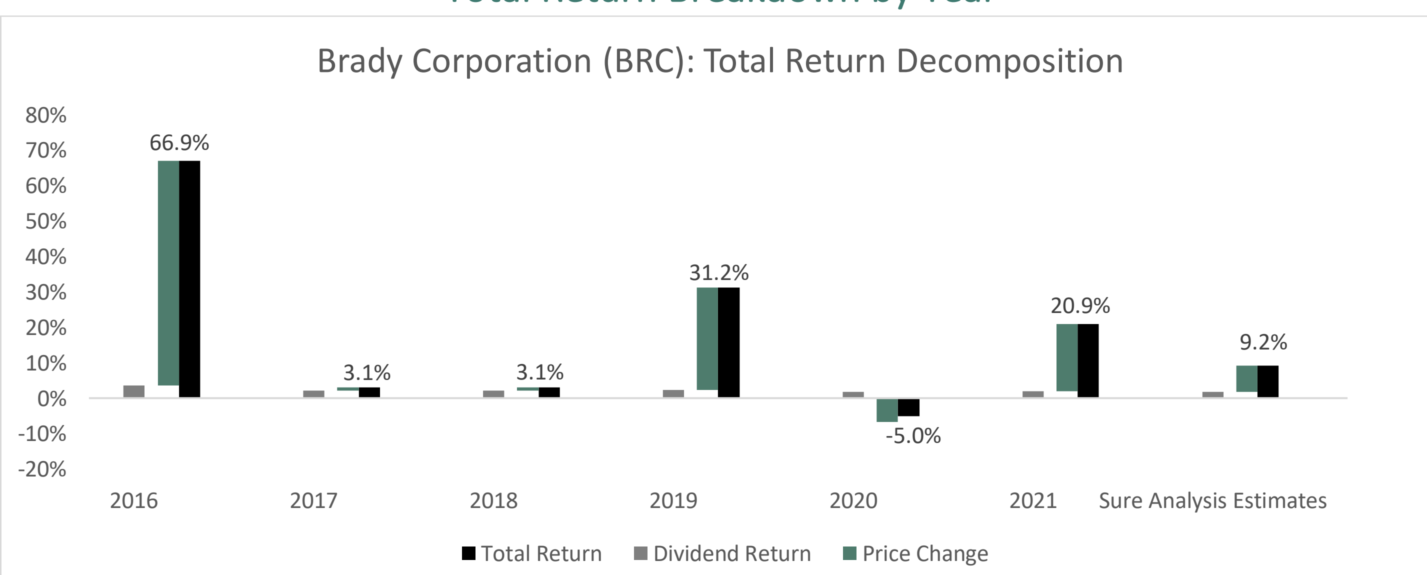
Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2027**
Payout	69%	39%	50%	63%	52%	45%	39%	35%	38%	38%	***30%***	***26%***

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 results, Brady Corporation is now projected to return 9.2% annually through fiscal 2027, up from our prior estimate of 4.5%. This estimated return stems from a 5% earnings growth rate, a 1.8% starting dividend yield and a low single-digit contribution from multiple expansion. Organic growth was strong for the company over all, especially in the ID Solutions segment. Workplace Safety remains challenged, but this is due to a tough comparison in the prior year and not specific weakness in the segment. We have increased our five-year price target $9 to $73 due to guidance for the fiscal year. The yield is on the low side, but the company has a very consistent dividend growth track record. We would be buyers of Brady Corporation on a pullback due to total returns and the company's 30+ years of dividend growth.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,072	1,158	1,225	1,172	1,121	1,113	1,174	1,161	1,081	1,145
Gross Profit	591	609	610	558	559	558	588	579	529	561
Gross Margin	55.2%	52.6%	49.8%	47.7%	49.9%	50.1%	50.1%	49.9%	48.9%	49.0%
SG&A Exp.	393	428	452	423	405	388	390	371	336	350
D&A Exp.	44	49	45	39	32	27	25	24	23	25
Operating Profit	164	148	122	99	118	131	153	162	152	167
Operating Margin	15.3%	12.8%	10.0%	8.4%	10.5%	11.8%	13.0%	14.0%	14.0%	14.6%
Net Profit	(18)	(155)	(46)	3	80	96	91	131	112	130
Net Margin	-1.7%	-13.3%	-3.8%	0.3%	7.1%	8.6%	7.8%	11.3%	10.4%	11.3%
Free Cash Flow	121	108	50	67	122	129	121	129	114	178
Income Tax	37	43	(5)	20	29	31	61	33	28	36

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1608	1439	1254	1063	1044	1050	1057	1157	1,142	1,378
Cash & Equivalents	306	91	82	114	141	134	181	279	218	147
Accounts Receivable	199	169	178	157	147	150	161	158	146	171
Inventories	106	95	113	105	99	107	113	120	136	136
Goodwill & Int. Ass.	761	774	606	502	490	491	462	447	438	706
Total Liabilities	598	608	521	475	440	350	305	307	279	415
Accounts Payable	87	83	88	73	62	67	67	65	63	82
Long-Term Debt	316	313	263	254	217	108	53	50	-	38
Shareholder’s Equity	1009	831	733	588	604	700	752	851	863	963
D/E Ratio	0.31	0.38	0.36	0.43	0.36	0.15	0.07	0.06	-	0.04

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	-1.0%	-10.1%	-3.4%	0.3%	7.6%	9.1%	8.6%	11.9%	9.8%	10.3%
Return on Equity	-1.7%	-16.8%	-5.9%	0.5%	13.4%	14.7%	12.5%	16.4%	13.1%	14.2%
ROIC	-1.2%	-12.5%	-4.3%	0.3%	9.6%	11.7%	11.3%	15.4%	12.7%	13.9%
Shares Out.	52	52	51	51	51	51	52	50	52	52
Revenue/Share	20.29	22.56	23.62	22.80	22.07	21.43	22.35	21.77	20.31	21.84
FCF/Share	2.28	2.10	0.96	1.30	2.40	2.48	2.31	2.43	2.14	3.41

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