



Brady Corporation (BRC)

Updated February 27th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$55	5 Year CAGR Estimate:	10.3%	Market Cap:	\$2.7 B
Fair Value Price:	\$67	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	04/06/23
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.9%	Dividend Payment Date:	04/28/23
Dividend Yield:	1.7%	5 Year Price Target	\$85	Years Of Dividend Growth:	37
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Brady Corporation was founded in 1914, generates annual revenue in excess of \$1.3 billion, and has a \$2.7 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 August 31st, 2022, Brady Corporation increased its quarterly dividend 2.2% to \$0.23, extending the company's dividend growth streak to 37 consecutive years.

On February 24th, 2023, Brady Corporation announced results for the second quarter of fiscal year 2023 for the period ending January 31st, 2023. For the quarter, revenue improved 2.6% to \$326.3 million, which was \$6.9 million above estimates. Adjusted earnings-per share of \$0.76 compared favorably to \$0.65 in the prior year, but was \$0.02 below expectations.

Organic revenue grew 6.3% for the quarter, but was offset by a 3.7% headwind from currency exchange. For the quarter, Identification Solutions was up 4.4% with organic growth improving 7.4%. This segment benefited once again from the introduction of new products. Workplace Solutions decreased 3.4%, but organic growth was up 2.8%. Pricing and a slimmer product portfolio aided results for the quarter, but currency exchange impacted results again.

Brady Corporation provided an updated outlook for fiscal year 2023 as well, with the company expecting adjusted earnings-per-share of \$3.40 to \$3.60 for the year, up from \$3.30 to \$3.60 previously.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.93	\$1.53	\$1.27	\$1.56	\$1.84	\$2.12	\$2.46	\$2.32	\$2.65	\$3.15	\$3.50	\$4.47
DPS	\$0.76	\$0.78	\$0.80	\$0.81	\$0.82	\$0.83	\$0.85	\$0.87	\$0.88	\$0.90	\$0.92	\$1.02
Shares¹	52.1	51.3	51.3	50.5	51.4	52	50	52	52	50	50	47

Brady Corporation grew earnings per share at a rate of 5.6% annually over the last decade, but that growth rate has accelerated to more than 10% over the last five years. We continue to expect earnings growth of at least 5% through 2028. We feel that this is an appropriate starting place for earnings growth due to the low base for earnings-per-share that occurred in 2013.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.6	19.0	20.2	16.2	19.6	17.7	18.3	24.0	20.6	15.0	15.7	19.0
Avg. Yld.	2.4%	2.7%	3.1%	3.2%	2.3%	2.2%	1.9%	1.7%	1.6%	1.9%	1.7%	1.2%

Shares of Brady Corporation have increased \$7, or 14.6%, since our November 19th, 2022 report. Based on estimates for earnings for fiscal year 2023, Brady Corporation's stock trades with a price-to-earnings ratio of 15.7. We reaffirm our

¹ Share count in millions

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five-year target P/E ratio of 19 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 2028, then valuation would be a 3.9% tailwind to annual returns over this period of time.

Shares yield 1.7% currently, in-line with the average yield of S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

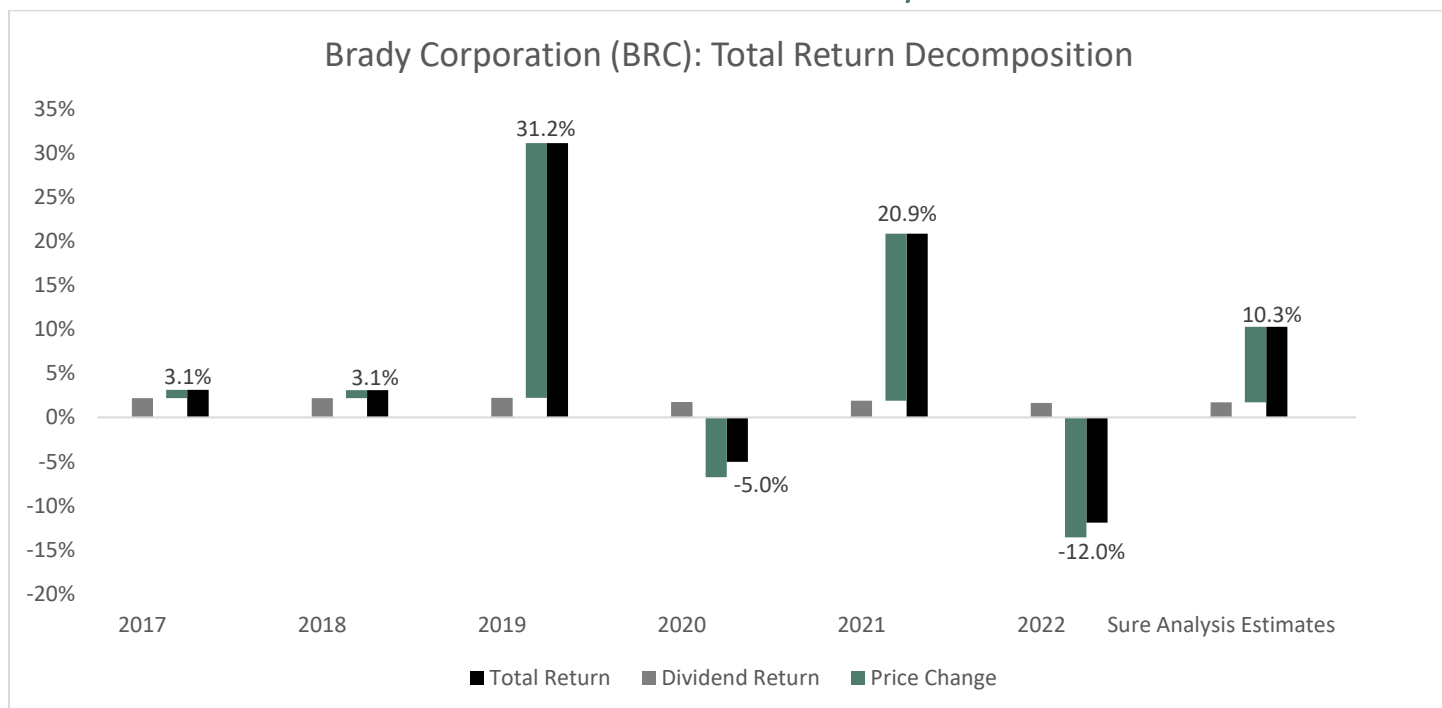
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	39%	50%	63%	52%	45%	39%	35%	38%	38%	29%	26%	23%

Brady Corporation has a secure dividend with a payout ratio below 30%. 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 second quarter results, Brady Corporation is projected to return 10.3% annually through fiscal 2028, down from our prior estimate of 13.0%. This estimated return stems from a 5% earnings growth rate, a 1.7% starting dividend yield, and a low single-digit contribution from multiple expansion. Organic growth continues to be strong and management raised the low end of guidance for the fiscal year. The yield remains on the low side, but the company has a very consistent dividend growth track record. We have raised our five-year price target \$1 to \$85 due to earnings guidance. We continue to rate Brady Corporation as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,158	1,225	1,172	1,121	1,113	1,174	1,161	1,081	1,145	1,302
Gross Profit	609	610	558	559	558	588	579	529	561	632
Gross Margin	52.6%	49.8%	47.7%	49.9%	50.1%	50.1%	49.9%	48.9%	49.0%	48.5%
SG&A Exp.	428	452	423	405	388	390	371	336	350	380
D&A Exp.	49	45	39	32	27	25	24	23	25	34
Operating Profit	148	122	99	118	131	153	162	152	167	193
Operating Margin	12.8%	10.0%	8.4%	10.5%	11.8%	13.0%	14.0%	14.0%	14.6%	14.8%
Net Profit	(155)	(46)	3	80	96	91	131	112	130	150
Net Margin	-13.3%	-3.8%	0.3%	7.1%	8.6%	7.8%	11.3%	10.4%	11.3%	11.5%
Free Cash Flow	108	50	67	122	129	121	129	114	178	75
Income Tax	43	(5)	20	29	31	61	33	28	36	42

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1439	1254	1063	1044	1050	1057	1157	1,142	1,378	1,367
Cash & Equivalents	91	82	114	141	134	181	279	218	147	114
Accounts Receivable	169	178	157	147	150	161	158	146	171	183
Inventories	95	113	105	99	107	113	120	136	136	190
Goodwill & Int. Ass.	774	606	502	490	491	462	447	438	706	661
Total Liabilities	608	521	475	440	350	305	307	279	415	456
Accounts Payable	83	88	73	62	67	67	65	63	82	81
Long-Term Debt	313	263	254	217	108	53	50	-	38	95
Shareholder's Equity	831	733	588	604	700	752	851	863	963	911
LTD/E Ratio	0.38	0.36	0.43	0.36	0.15	0.07	0.06	-	0.04	0.10

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	-10.1%	-3.4%	0.3%	7.6%	9.1%	8.6%	11.9%	9.8%	10.3%	10.9%
Return on Equity	-16.8%	-5.9%	0.5%	13.4%	14.7%	12.5%	16.4%	13.1%	14.2%	16.0%
ROIC	-12.5%	-4.3%	0.3%	9.6%	11.7%	11.3%	15.4%	12.7%	13.9%	14.9%
Shares Out.	52	51	51	51	51	52	50	52	52	52
Revenue/Share	22.56	23.62	22.80	22.07	21.43	22.35	21.77	20.31	21.84	25.21
FCF/Share	2.10	0.96	1.30	2.40	2.48	2.31	2.43	2.14	3.41	1.46

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

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