Brady Corporation (BRC)

Updated September 7th, 2023 by Nathan Parsh

Key Metrics

Current Price:	$55	**5 Year CAGR Estimate:**	13.0%	**Market Cap:**	$2.7 B
Fair Value Price:	$76	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	10/10/23
% Fair Value:	73%	**5 Year Valuation Multiple Estimate:**	6.6%	**Dividend Payment Date:**	10/31/23
Dividend Yield:	1.7%	**5 Year Price Target**	$97	**Years Of Dividend Growth:**	38
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. Beginning of the third quarter of fiscal year 2023, the company began reporting results for geographic regions as opposed to product lines. This includes the Americas & Asia and Europe & Australia. Brady Corporation's products include absorbents, labels, pipes and valves, signs, tags, tapes, and printers.

On September 4th, 2023, Brady Corporation increased its quarterly dividend 2.2% to $0.235, extending the company's dividend growth streak to 38 consecutive years.

On September 5th, 2023, Brady Corporation announced results for the fourth quarter and fiscal year 2023 for the period ending July 31st, 2023. For the quarter, revenue increased 6.8% to $345.9 million. Adjusted earnings-per share of $1.04 was a company record and compared favorably to $0.87 in the prior year. For fiscal year 2023, sales grew 2.3% to $1.33 billion while adjusted earnings-per-share reached a record $3.64.

Organic revenue grew 6.9% for the quarter and 5.5% for the year. Organic growth for the Americas & Asia and Europe & Australia was higher by 4.4% and 11.5%, respectively. Gross profit margin expanded 40 basis points to 50.4% for the period as the company offset input costs with pricing action, lower fright charges, and efficiency gains. The company also announced a $100 million share repurchase authorization.

Brady Corporation provided an outlook for fiscal year 2024 as well, with the company expecting adjusted earnings-per-share in a range of $3.85 to $4.10 for the period.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.53	$1.27	$1.56	$1.84	$2.12	$2.46	$2.32	$2.65	$3.15	$3.64	***$3.98***	***$5.08***
DPS	$0.78	$0.80	$0.81	$0.82	$0.83	$0.85	$0.87	$0.88	$0.90	$0.92	***$0.94***	***$1.04***
Shares[1]	51.3	51.3	50.5	51.4	52	50	52	52	50	50	***49***	***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 2029. 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	19.0	20.2	16.2	19.6	17.7	18.3	24.0	20.6	15.0	14.2	***13.8***	***19.0***
Avg. Yld.	2.7%	3.1%	3.2%	2.3%	2.2%	1.9%	1.7%	1.6%	1.9%	1.8%	***1.7%***	***1.1%***

[1] Share count in millions

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Shares of Brady Corporation have increased $6, or 12.2%, since our May 25th, 2023 report. Based on estimates for earnings for fiscal year 2023, Brady Corporation's stock trades with a price-to-earnings ratio of 13.8. We reaffirm our 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 2029, then valuation would be a 6.6% tailwind to annual returns over this period.

Shares yield 1.7% currently, slightly ahead of the average yield of S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

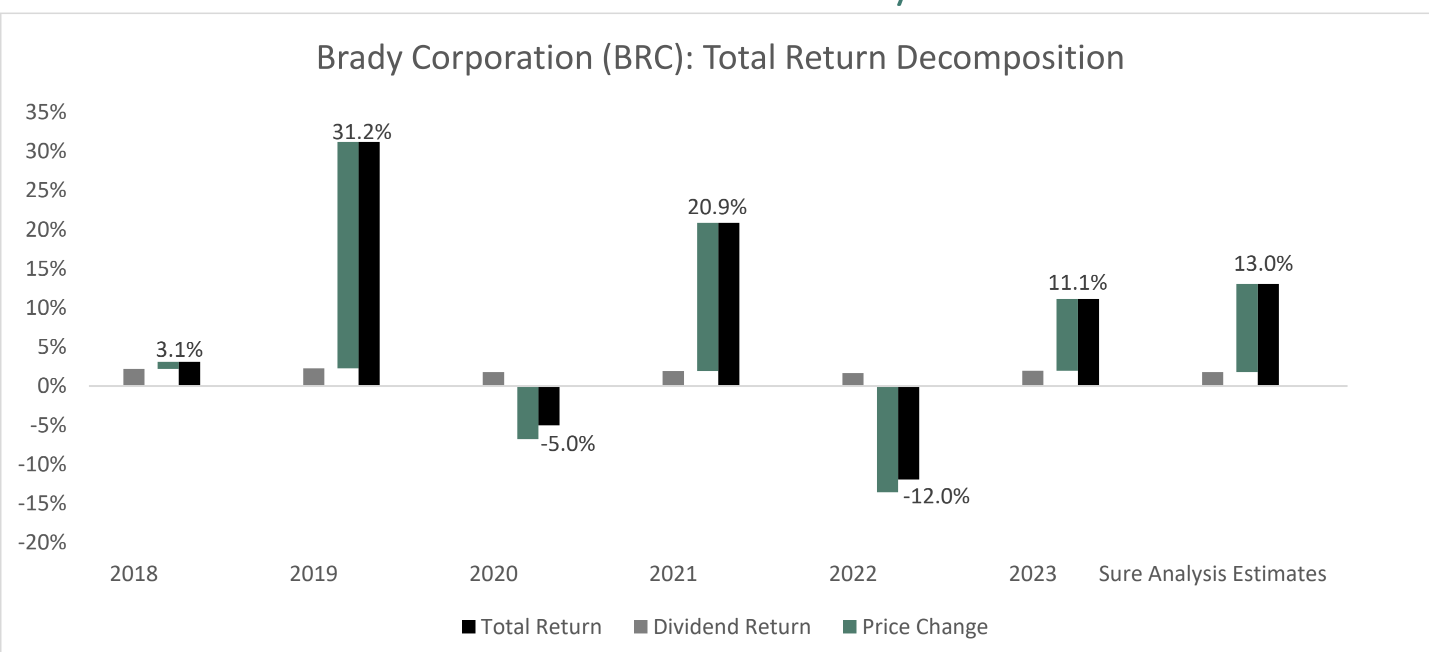
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	50%	63%	52%	45%	39%	35%	38%	38%	29%	25%	***24%***	***20%***

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

Following fourth quarter results, Brady Corporation is projected to return 13.0% annually through fiscal 2029, down slightly from our prior estimate of 13.1%. This estimated return stems from a 5% earnings growth rate, a 1.7% starting dividend yield, and a mid-single-digit contribution from multiple expansion. Organic growth was positive for the quarter and fiscal year, though currency exchange weighed on results again. The stock's 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 $11 to $97 due to earnings guidance for the new fiscal year. 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.