Brady Corporation (BRC)

Updated February 25th, 2024 by Nathan Parsh

Key Metrics

Current Price:	$58	**5 Year CAGR Estimate:**	12.1%	**Market Cap:**	$2.8 B
Fair Value Price:	$77	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	04/08/24
% Fair Value:	76%	**5 Year Valuation Multiple Estimate:**	5.7%	**Dividend Payment Date:**	04/30/24
Dividend Yield:	1.6%	**5 Year Price Target**	$98	**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 $2.8 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 February 22nd, 2024, Brady Corporation reported results for the second quarter of fiscal year 2024 for the period ending January 31st, 2024. For the quarter, revenue decreased 1.1% to $322.6 million, which was $17 million below estimates. Adjusted earnings-per share of $0.93 compared favorably to $0.76 in the prior year and was in-line with expectations.

Organic revenue increased 1.6% for the quarter, led by a 2.5% growth in the Europe & Australia region and a 1.2% improvement in the Americas & Asia region. Gross profit margin expanded 220 basis points to 50.2% for the period. The company returned $22.7 million to shareholders through dividends during the period.

Brady Corporation updated its prior guidance for fiscal year 2024 as well, with the company now expecting adjusted earnings-per-share in a range of $3.95 to $4.10 for the year, up from $3.85 to $4.10 previously. We have updated our forecast accordingly.

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	***$4.03***	***$5.14***
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 more than 10% annually over both the last decade and the last 5 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 and the high base expected for the current fiscal year.

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	***14.4***	***19.0***
Avg. Yld.	2.7%	3.1%	3.2%	2.3%	2.2%	1.9%	1.7%	1.6%	1.9%	1.8%	***1.6%***	***1.1%***

[1] Share count in millions

Brady Corporation (BRC)

Updated February 25th, 2024 by Nathan Parsh

Shares of Brady Corporation have increased $3, or 5.5%, since our November 20th, 2023 report. Based on estimates for earnings for fiscal year 2024, Brady Corporation's stock trades with a price-to-earnings ratio of 14.4. We reaffirm our five-year target P/E ratio of 19 as this is 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 5.7% tailwind to annual returns over this period.

Shares yield 1.6% currently, slightly ahead of the average yield for the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

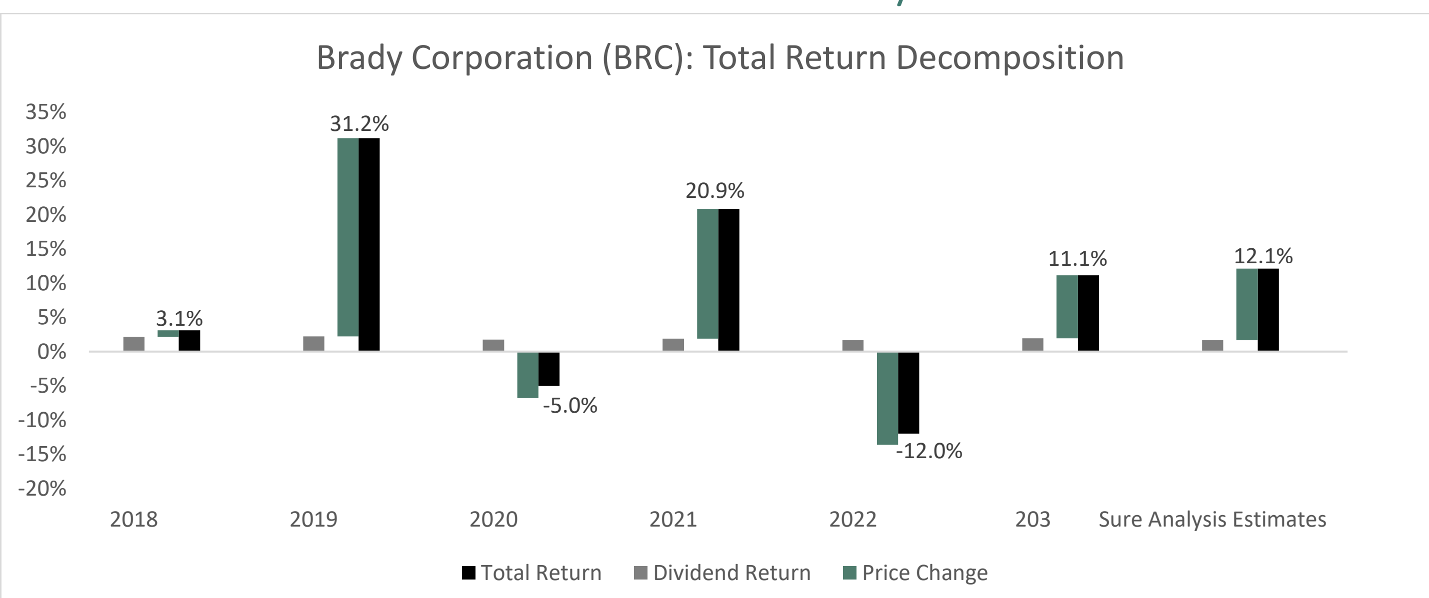
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	50%	63%	52%	45%	39%	35%	38%	38%	29%	25%	***23%***	***20%***

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 second quarter results, Brady Corporation is projected to return 12.1% annually through fiscal 2029, down from 13% previously. This estimated return stems from a 5% earnings growth rate, a 1.6% starting dividend yield, and a mid-single-digit contribution from multiple expansion. Organic growth was positive for the quarter as the company once again saw incremental improvements in results for both of its reporting regions. 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 $1 to $98 due to revised guidance for the fiscal year. We continue to rate Brady Corporation as a buy due to projected returns.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.]

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Brady Corporation (BRC)

Updated February 25th, 2024 by Nathan Parsh

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,225	1,172	1,121	1,113	1,174	1,161	1,081	1,145	1,302	1,332
Gross Profit	610	558	559	558	588	579	529	561	632	657
Gross Margin	49.8%	47.7%	49.9%	50.1%	50.1%	49.9%	48.9%	49.0%	48.5%	49.4%
SG&A Exp.	452	423	405	388	390	371	336	350	380	371
D&A Exp.	45	39	32	27	25	24	23	25	34	32
Operating Profit	122	99	118	131	153	162	152	167	193	225
Operating Margin	10.0%	8.4%	10.5%	11.8%	13.0%	14.0%	14.0%	14.6%	14.8%	16.9%
Net Profit	(46)	3	80	96	91	131	112	130	150	175
Net Margin	-3.8%	0.3%	7.1%	8.6%	7.8%	11.3%	10.4%	11.3%	11.5%	13.1%
Free Cash Flow	50	67	122	129	121	129	114	178	75	190
Income Tax	(5)	20	29	31	61	33	28	36	42	51

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,254	1,063	1,044	1,050	1,057	1,157	1,142	1,378	1,367	1,389
Cash & Equivalents	82	114	141	134	181	279	218	147	114	152
Accounts Receivable	178	157	147	150	161	158	146	171	183	184
Inventories	113	105	99	107	113	120	136	136	190	177
Goodwill & Int. Ass.	606	502	490	491	462	447	438	706	661	655
Total Liabilities	521	475	440	350	305	307	279	415	456	398
Accounts Payable	88	73	62	67	67	65	63	82	81	80
Long-Term Debt	263	254	217	108	53	50	-	38	95	50
Shareholder's Equity	733	588	604	700	752	851	863	963	911	991
LTD/E Ratio	0.36	0.43	0.36	0.15	0.07	0.06	-	0.04	0.10	0.05

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-3.4%	0.3%	7.6%	9.1%	8.6%	11.9%	9.8%	10.3%	10.9%	12.7%
Return on Equity	-5.9%	0.5%	13.4%	14.7%	12.5%	16.4%	13.1%	14.2%	16.0%	18.4%
ROIC	-4.3%	0.3%	9.6%	11.7%	11.3%	15.4%	12.7%	13.9%	14.9%	17.1%
Shares Out.	51.3	51.3	50.5	51.4	52	50	52	52	50	50
Revenue/Share	23.62	22.80	22.07	21.43	22.35	21.77	20.31	21.84	25.21	26.71
FCF/Share	0.96	1.30	2.40	2.48	2.31	2.43	2.14	3.41	1.46	3.81

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