



# Brady Corporation (BRC)

Updated November 18<sup>th</sup>, 2024 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$70	<b>5 Year CAGR Estimate:</b>	11.4%	<b>Market Cap:</b>	\$3.3 B
<b>Fair Value Price:</b>	\$82	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	01/09/25 <sup>1</sup>
<b>% Fair Value:</b>	85%	<b>5 Year Valuation Multiple Estimate:</b>	3.2%	<b>Dividend Payment Date:</b>	01/31/25 <sup>2</sup>
<b>Dividend Yield:</b>	1.4%	<b>5 Year Price Target</b>	\$115	<b>Years Of Dividend Growth:</b>	39
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## Overview & Current Events

Brady Corporation was founded in 1914, generates annual revenue of more than \$1.3 billion, and has a \$3.3 billion market capitalization. It manufactures and markets specialty materials. Beginning with 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 5<sup>th</sup>, 2024, Brady Corporation increased its quarterly dividend 2.1% to \$0.24, extending the company's dividend growth streak to 39 consecutive years.

On November 18<sup>th</sup>, 2024, Brady Corporation reported results for the first quarter of fiscal year 2025 for the period ending October 31<sup>st</sup>, 2024. For the quarter, revenue grew 13.6% to \$377.1 million, which beat estimates by \$11.2 million. Adjusted earnings-per share of \$1.12 compared favorably to \$1.00 in the prior year and was \$0.02 ahead of expectations.

Organic revenue grew 3.6% for the quarter with the Americas & Asia improving 5.1% and Europe & Australia inching higher by 0.7%. Acquisitions greatly aided results while currency exchange and divestitures were slight headwind during the period. Gross profit margin contracted 140 basis points to 50.3% for the period.

Brady Corporation reaffirmed prior guidance for fiscal year 2025 as well. The company still expects adjusted earnings-per-share in a range of \$4.40 to \$4.70, which would represent an increase of 7.8% from the prior fiscal year.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>EPS</b>	\$1.27	\$1.56	\$1.84	\$2.12	\$2.46	\$2.32	\$2.65	\$3.15	\$3.64	\$4.22	<b>\$4.55</b>	<b>\$6.38</b>
<b>DPS</b>	\$0.80	\$0.81	\$0.82	\$0.83	\$0.85	\$0.87	\$0.88	\$0.90	\$0.92	\$0.94	<b>\$0.96</b>	<b>\$1.06</b>
<b>Shares<sup>3</sup></b>	51.3	50.5	51.4	52	50	52	52	50	50	48	<b>48</b>	<b>47</b>

Brady Corporation grew earnings per share at a rate of more than 14% annually over both the last decade and the last 5 years. We reaffirm our expected earnings growth rate of at least 7% through 2030, up from 5% previously. We feel that this is an appropriate starting place for earnings growth due to the low base for earnings-per-share that occurred in 2014 and the high base expected for the current fiscal year. In addition, recent results have been strong and the company has guided towards high single-digit growth for the current fiscal year.

<sup>1</sup> Share count in millions

<sup>2</sup> Share count in millions

<sup>3</sup> Share count in millions

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## Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	20.2	16.2	19.6	17.7	18.3	24.0	20.6	15.0	14.2	17.0	<b>15.4</b>	<b>18.0</b>
Avg. Yld.	3.1%	3.2%	2.3%	2.2%	1.9%	1.7%	1.6%	1.9%	1.8%	1.3%	<b>1.4%</b>	<b>0.9%</b>

Shares of Brady Corporation have declined \$3, or 4.3%, since our September 10<sup>th</sup>, 2024 report. Based on estimates for earnings for fiscal year 2025, Brady Corporation's stock trades with a price-to-earnings ratio of 15.4. We have lowered our five-year target P/E ratio to 18 from 19 as this is 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 2030, then valuation would be a 3.2% tailwind to annual returns over this period.

Shares yield 1.4% currently, largely in-line with the average yield for the S&P 500.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

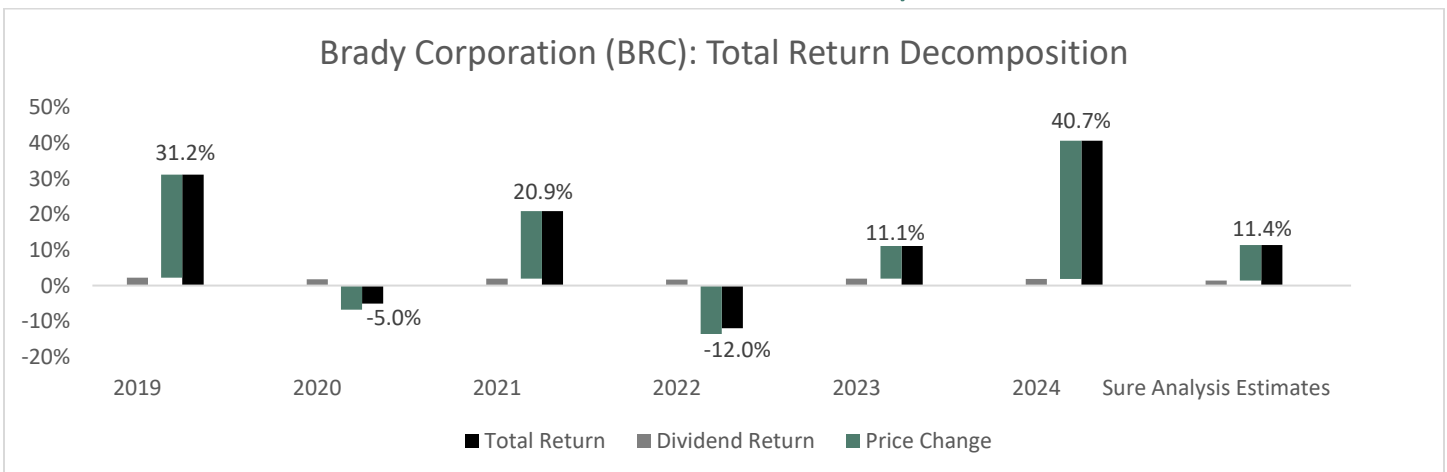
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	63%	52%	45%	39%	35%	38%	38%	29%	25%	22%	<b>21%</b>	<b>17%</b>

Brady Corporation has a secure dividend with a payout ratio well 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 first quarter results, Brady Corporation is projected to return 11.4% annually through fiscal 2030, down slightly 11.6% previously. This estimated return stems from a 7% earnings growth rate, a starting dividend yield of 1.4%, and a low single-digit contribution from multiple expansion. Quarterly results showed strong growth, though much of that was due to acquisitions. However, organic growth was positive for the period in both regions of the company. The stock's yield remains on the low side, but the company has a very consistent dividend growth track record. We have lowered our five-year price target \$6 to \$115 due to a lower target P/E, but 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Revenue</b>	1,172	1,121	1,113	1,174	1,161	1,081	1,145	1,302	1,332	1,341
<b>Gross Profit</b>	558	559	558	588	579	529	561	632	657	688
<b>Gross Margin</b>	47.7%	49.9%	50.1%	50.1%	49.9%	48.9%	49.0%	48.5%	49.4%	51.3%
<b>SG&amp;A Exp.</b>	423	405	388	390	371	336	350	380	371	377
<b>D&amp;A Exp.</b>	39	32	27	25	24	23	25	34	32	30
<b>Operating Profit</b>	99	118	131	153	162	152	167	193	225	243
<b>Operating Margin</b>	8.4%	10.5%	11.8%	13.0%	14.0%	14.0%	14.6%	14.8%	16.9%	18.1%
<b>Net Profit</b>	3	80	96	91	131	112	130	150	175	197
<b>Net Margin</b>	0.3%	7.1%	8.6%	7.8%	11.3%	10.4%	11.3%	11.5%	13.1%	14.7%
<b>Free Cash Flow</b>	67	122	129	121	129	114	178	75	190	175
<b>Income Tax</b>	20	29	31	61	33	28	36	42	51	51

## Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Total Assets</b>	1,063	1,044	1,050	1,057	1,157	1,142	1,378	1,367	1,389	1,516
<b>Cash &amp; Equivalents</b>	114	141	134	181	279	218	147	114	152	250
<b>Accounts Receivable</b>	157	147	150	161	158	146	171	183	184	185
<b>Inventories</b>	105	99	107	113	120	136	136	190	177	153
<b>Goodwill &amp; Int. Ass.</b>	502	490	491	462	447	438	706	661	655	641
<b>Total Liabilities</b>	475	440	350	305	307	279	415	456	398	449
<b>Accounts Payable</b>	73	62	67	67	65	63	82	81	80	85
<b>Long-Term Debt</b>	254	217	108	53	50	-	38	95	50	91
<b>Shareholder's Equity</b>	588	604	700	752	851	863	963	911	991	1,067
<b>LTD/E Ratio</b>	0.43	0.36	0.15	0.07	0.06	-	0.04	0.10	0.05	0.09

## Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Return on Assets</b>	0.3%	7.6%	9.1%	8.6%	11.9%	9.8%	10.3%	10.9%	12.7%	13.6%
<b>Return on Equity</b>	0.5%	13.4%	14.7%	12.5%	16.4%	13.1%	14.2%	16.0%	18.4%	19.2%
<b>ROIC</b>	0.3%	9.6%	11.7%	11.3%	15.4%	12.7%	13.9%	14.9%	17.1%	17.9%
<b>Shares Out.</b>	51.3	50.5	51.4	52	50	52	52	50	50	48
<b>Revenue/Share</b>	22.80	22.07	21.43	22.35	21.77	20.31	21.84	25.21	26.71	27.66
<b>FCF/Share</b>	1.30	2.40	2.48	2.31	2.43	2.14	3.41	1.46	3.81	3.61

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

### Disclaimer

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