

Brady Corp. - Cl A

Post F2Q24: Organic growth a touch lighter, but mix provides support; Buy

Reiterate Rating: BUY | PO: 64.00 USD | Price: 57.82 USD

F2Q adj. EPS of \$0.93 slightly ahead of BofA

We reiterate our Buy rating on Brady Corp. (BRC) primarily given its relative valuation. BRC reported F2Q adj. EPS of \$0.93 which was slightly ahead of BofA and compared to the Street at \$0.95. Slightly lower segment income (including corporate) deducted 3c from EPS relative to our model. Americas & Asia segment operating profit of \$43.9mn was \$2.9mn below our \$46.8mn estimate and Europe & Australia earnings were about in line at \$15.1mn. Meantime, this was more than offset by 4c of positive variance from higher investment and other income.

Organic growth a touch lighter, but mix provides support

Key points from the quarter were: (a) Organic growth was lighter than our forecasts in both regions and the company lowered its guidance for the year to low-single digit growth (from mid-single digit growth previously). Based on the commentary, it appears that a slower environment in Europe as well as still soft demand in healthcare and people identification were the contributing factors to the change in organic guidance. This along with the lower result in the quarter relative to the Street led to a 5% decline in the shares on reporting day; (b) That said, higher-value areas of the portfolio seem to be doing well which allowed the company to raise the low end of its EPS guidance range to \$3.95-4.10 from \$3.85-4.10 previously; (c) Longer-term, BRC continues to highlight its investments in R&D and new product pipeline. This, along with recent additions to the company's sales resources and the eventual pickup customer automation-related projects should also be supportive of growth long-term.

Revise estimates, PO moves to \$64

In consideration of the points above and BRC's revised guidance, we maintain our F24 EPS estimate of \$4.00. That said, we do lower our organic growth forecasts in both segments and are now estimating 2.5% growth for the full year. As noted above, an improving mix of business should allow for good margin trends despite lower organic growth. Meantime, our F25 and F26 estimates move lower by 5c to \$4.25 and \$4.45, respectively given the run-rate of growth from here. Furthermore, we build in some additional divestiture impacts for F24 and F25. As a result of these changes, our PO moves to \$64 from \$65.

Estimates (Jul) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.15	3.64	4.00	4.25	4.45
EPS Change (YoY)	18.9%	15.6%	9.9%	6.3%	4.7%
Consensus EPS (Bloomberg)			4.07	4.42	NA
DPS	0.90	0.92	0.94	0.94	0.94
Valuation (Jul)					
P/E	18.4x	15.9x	14.5x	13.6x	13.0x
Dividend Yield	1.6%	1.6%	1.6%	1.6%	1.6%
EV / EBITDA*	11.7x	10.3x	10.1x	9.4x	9.1x
Free Cash Flow Yield*	2.7%	6.8%	7.1%	6.9%	7.1%

* For full definitions of *IQmethod*SM measures, see page 5.

23 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	65.00	64.00
2024E Rev (m)	1,414.1	1,356.8
2025E Rev (m)	1,456.5	1,387.5
2026E Rev (m)	1,485.6	1,415.3
2025E EPS	4.30	4.25
2026E EPS	4.50	4.45
2024E EBITDA (m)	271.5	264.5
2025E EBITDA (m)	287.0	283.0
2026E EBITDA (m)	295.6	291.6

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Stock Data

Price	57.82 USD
Price Objective	64.00 USD
Date Established	23-Feb-2024
Investment Opinion	B-1-7
52-Week Range	46.77 USD - 63.02 USD
Mrkt Val (mn) / Shares Out (mn)	2,797 USD / 48.4
Free Float	95.0%
Average Daily Value (mn)	15.19 USD
BofA Ticker / Exchange	BRC / NYS
Bloomberg / Reuters	BRC US / BRC.N
ROE (2024E)	18.5%
Net Dbt to Eqty (Jul-2023A)	-10.3%
ESGMeter TM	Medium

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iQprofileSM Brady Corp. - CI A

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	13.5%	15.6%	15.5%	14.9%	13.9%
Return on Equity	17.4%	19.1%	18.5%	17.3%	15.9%
Operating Margin	14.8%	16.9%	17.2%	18.1%	18.4%
Free Cash Flow	75	190	197	192	200

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.7x	1.2x	1.4x	1.1x	1.1x
Asset Replacement Ratio	1.3x	0.6x	2.4x	1.3x	1.3x
Tax Rate	21.9%	22.5%	21.6%	23.0%	23.0%
Net Debt-to-Equity Ratio	-2.1%	-10.3%	-18.0%	-26.3%	-33.4%
Interest Cover	NM	NM	NM	NM	NM

Income Statement Data (Jul)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,302	1,332	1,357	1,388	1,415
% Change	13.7%	2.3%	1.9%	2.3%	2.0%
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	227	258	264	283	292
% Change	18.0%	13.4%	2.7%	7.0%	3.0%
Net Interest & Other Income	(1)	0	6	3	3
Net Income (Adjusted)	163	182	194	204	210
% Change	17.4%	11.5%	7.1%	4.9%	3.2%

Free Cash Flow Data (Jul)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	150	175	187	196	203
Depreciation & Amortization	34	32	32	32	32
Change in Working Capital	(76)	11	47	(6)	(5)
Deferred Taxation Charge	(2)	(12)	(1)	3	3
Other Adjustments, Net	12	3	8	8	8
Capital Expenditure	(43)	(19)	(75)	(40)	(40)
Free Cash Flow	75	190	197	192	200
% Change	-57.8%	152.2%	4.0%	-2.7%	3.9%
Share / Issue Repurchase	(114)	(77)	(32)	(20)	(20)
Cost of Dividends Paid	(46)	(45)	(45)	(45)	(44)
Change in Debt	57	(45)	0	0	0

Balance Sheet Data (Jul)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	114	152	249	378	515
Trade Receivables	183	184	178	182	186
Other Current Assets	201	189	143	146	149
Property, Plant & Equipment	140	142	196	214	233
Other Non-Current Assets	730	722	713	701	688
Total Assets	1,367	1,389	1,479	1,622	1,771
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	255	258	253	255	257
Long-Term Debt	95	50	50	50	50
Other Non-Current Liabilities	106	91	68	69	71
Total Liabilities	456	398	371	374	377
Total Equity	911	991	1,108	1,247	1,393
Total Equity & Liabilities	1,367	1,389	1,479	1,622	1,771

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Packaging

Company Description

With F2023 sales of \$1.3bn, Brady is a leading global manufacturer and marketer of ID solutions and workplace safety products that identify and protect premises, people, and products. Among other items, BRC's offering includes materials, printing systems, RFID/barcode scanners, industrial track and trace applications, software, and facility safety, identification, & protection products. BRC reports results on a July fiscal year-end.

Investment Rationale

We rate Brady Buy as its growth trajectory and valuation look more encouraging. Growth from here should be supported by several factors including its comprehensive industrial tack and trace solution and some potentially structural tailwinds including reshoring and increased domestic manufacturing activity. Further, new products and recent internal efforts to rationalize SKUs and position the portfolio should help as well.

Stock Data

Average Daily Volume 262,667

Quarterly Earnings Estimates

	2023	2024
Q1	0.84A	1.00A
Q2	0.81A	0.93A
Q3	0.95A	1.02E
Q4	1.04A	1.04E

Model Changes and Key Operating Statistics

Exhibit 1: BRC Model Changes

Review of latest estimates and forecast changes

	Actual	BofA	Consensus
Quarterly Result	\$0.93	\$0.92	\$0.95
Model Changes	New	Old	Consensus
F2024E	\$4.00	\$4.00	\$3.97
F2025E	\$4.25	\$4.30	\$4.33
F2026E	\$4.45	\$4.50	na
Price Objective	\$64	\$65	

Source: Company reports, BofA Global Research estimates, Bloomberg consensus forecasts

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Exhibit 2: BRC Relevant Operating Statistics

Review of results vs. BofA estimates

	F2Q24A	BofA	F2Q23A	Key Highlights
Americas & Asia				
Revenue (\$mn)	\$212	\$234	\$220	Organic sales were up 1.2% y/y which included 0.7% growth in the Americas and 5.1% in Asia. Meantime, segment income was higher y/y given growth in higher margin products.
Operating Profit (\$mn)	\$44	\$47	\$40	
Operating Margin	20.7%	20.0%	18.3%	
Europe & Australia				
Revenue (\$mn)	\$111	\$110	\$106	Segment organic growth was up 2.5% y/y in the quarter which included 2.3% growth in Europe and 3.7% in Australia.
Operating Profit (\$mn)	\$15	\$17	\$13	
Operating Margin	13.6%	15.5%	12.7%	

Source: Company reports, BofA Global Research estimates

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Price objective basis & risk

Brady Corp. - CI A (BRC)

Our \$64 PO is based on a three-part valuation approach, which includes: (1) a 17-18x calendarized 2024E P/E multiple, (2) a 10-11x calendarized 2024E EV/EBITDA multiple, and (3) our intrinsic free cash flow (FCF) valuation, which assumes \$185mn normalized FCF, 10% cost of equity, and a 3% growth rate. We apply multiple ranges to reflect a more normalized environment. The selected ranges reflect historical company ranges as well as current peer market multiples.

Downside risks to our PO: (1) risk relative to BRC's ability to generate performance from its comprehensive industrial track and trace investments & other efforts, (2) unfavorable organic growth (volume/pricing) trends in key economies, (3) acquisition/integration risk, (4) senior management succession and bench development risk, (5) unfavorable macroeconomic environments, (6) potential for BRC's future valuation to be impaired relative to our expectations given secular headwinds, or other factors, (8) risks associated with trade & other administration policies.

Analyst Certification

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US - Paper and Packaging Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
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	Berry Global	BERY	BERY US	George L. Staphos
	Brady Corp. - CI A	BRC	BRC US	Cashen Keeler
	Crown Holdings Inc.	CCK	CCK US	George L. Staphos
	Graphic Packaging	GPK	GPK US	George L. Staphos
	O-I Glass Inc	OI	OI US	George L. Staphos
	Pactiv Evergreen	PTVE	PTVE US	George L. Staphos
	Sealed Air Corp.	SEE	SEE US	George L. Staphos
	Silgan Holdings Inc.	SLGN	SLGN US	George L. Staphos
	Sonoco Products Co.	SON	SON US	George L. Staphos
	Sylvamo Corp.	SLVM	SLVM US	George L. Staphos
	WestRock	WRK	WRK US	George L. Staphos
	Weyerhaeuser Co.	WY	WY US	George L. Staphos
NEUTRAL				
	Ardagh Metal Packaging S.A.	AMBP	AMBP US	George L. Staphos
	Greif Inc.	GEF	GEF US	George L. Staphos
	Packaging Corp. of America	PKG	PKG US	George L. Staphos
	PotlatchDeltic Corp.	PCH	PCH US	George L. Staphos
UNDERPERFORM				
	Amcor Plc	AMCCF	AMC AU	George L. Staphos
	Amcor PLC	AMCR	AMCR US	George L. Staphos
	Avery Dennison Corp.	AVY	AVY US	George L. Staphos
	Ball Corp.	BALL	BALL US	George L. Staphos
	Boise Cascade Company	BCC	BCC US	George L. Staphos
	International Paper Co.	IP	IP US	George L. Staphos
	Louisiana-Pacific Corp.	LPX	LPX US	George L. Staphos

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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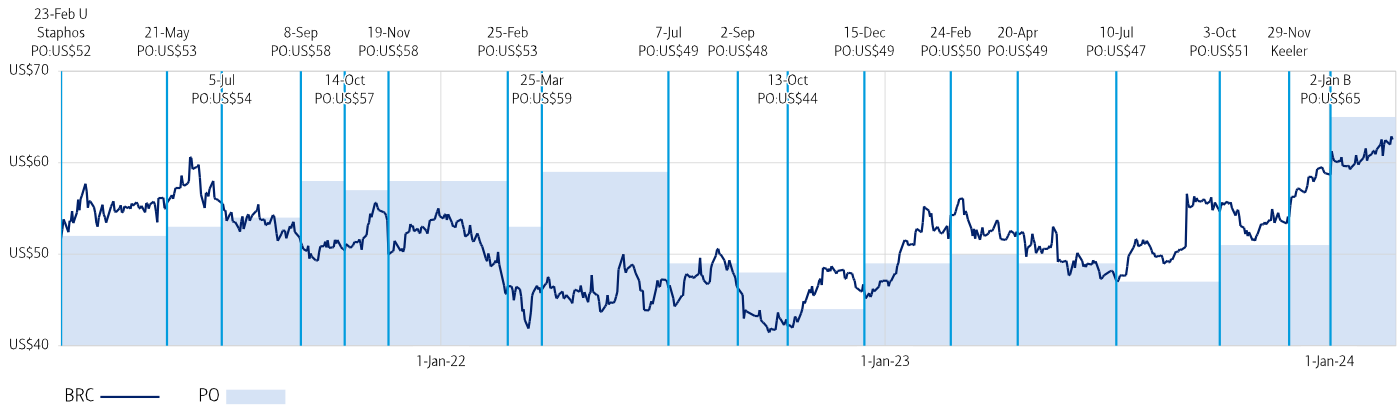
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Brady Corp - A (BRC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Packaging Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	14	60.87%	Buy	10	71.43%
Hold	6	26.09%	Hold	5	83.33%
Sell	3	13.04%	Sell	2	66.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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