

SOFTCAT plc

("Softcat", the "Company")

Interim Results for the six months to 31 January 2018

Softcat plc (LSE: SCT.L), a leading UK provider of IT infrastructure products and services, today publishes its interim results for the six months to 31 January 2018 ("the period"). The results demonstrate strong growth, further profitable market share gains and strong cash generation.

Financial Summary	Six months ended		
	31 January	31 January	Growth
	2018	2017	
	£m	£m	%
Revenue	472.8	378.5	24.9
Gross profit	74.8	61.3	22.2
Operating profit	24.1	20.9	15.4
Adjusted operating profit ^a	25.4	21.4	19.1
Cash Conversion ^b	103%	112%	n/a
Interim dividend (p)	3.3p	2.9p	13.8
Diluted earnings per share (p)	9.8p	8.5p	15.3
Adjusted diluted earnings per share ^c (p)	10.4p	8.7p	19.5

^aAdjusted operating profit is defined as operating profit before exceptional items and share-based payment charges.

^bCash conversion is defined as cashflow from operations before tax but after capital expenditure as a percentage of operating profit.

^cAdjusted diluted earnings per share is defined as profit after tax before exceptional items and share based payment charges divided by the weighted average number of shares including the dilutive effect of share options.

Highlights for the six months to 31 January 2018

- Gross profit up 22.2% to £74.8m (H1 2017: £61.3m)
- Operating profit up 15.4% to £24.1m (H1 2017: £20.9m)
- Adjusted operating profit up 19.1% to £25.4m (H1 2017: £21.4m)
- Customer numbers up 6.0% (H1 2017: 8.7%).
- Gross profit per customer up 15.3% (H1 2017: 4.6%) reflecting deeper penetration into customer requirements and cross-selling a wider product range to each
- Consistent growth across the period with all business lines and offices performing well
- Customer demand has remained robust with particular appetite for security, data storage and compute solutions
- South coast office opened in October, expansion of Manchester premises, plans to open a presence in Dublin within 12 months
- The company remains debt free with a cash balance of £43.3m
- Interim dividend of 3.3p per share to be paid on 11 May 2018, the shares will trade ex-dividend on 29 March 2018.

Martin Hellawell, Softcat CEO, commented:

"I'm delighted to report on another very strong period of performance for the Company. We are benefiting from strong market demand for all our offerings and from all our major customer segments and continue to relentlessly pursue our simple strategy of doing more business with our existing customers and winning new customers. These latest results further demonstrate that this strategy is working and I'd like to thank our fantastic people for their great work and dedication to customer service."

We've continued to scale up all areas of our operations whilst adding further depth to our technical expertise. This has enabled us to continue winning hundreds of new customers as well as developing existing relationships and cross-sell additional product lines and services. As a result, we added 600 new customers in the period while gross profit per customer grew by more than 15%. Those metrics extended our run of unbroken revenue and profit growth to a 50th quarter.

I'm therefore pleased to report a 14% increase in our interim dividend, in line with our progressive policy.

The second half of the year has started well and the Board is confident of meeting its expectations for the full year, but we have some important months ahead and will remain very focussed on continuing to deliver outstanding service for our customers."

On the previously announced Board and Leadership changes, Mr Hellowell added:

"The search for our new CEO was also completed during the period and we will welcome Graeme Watt to Softcat on 3 April 2018. I'm looking forward to stepping into the Non-executive Chairman role and working with Graeme towards further growth and success for Softcat.

I would like to thank Brian Wallace who will step down from the Board as I step into his Chairman position from the beginning of April. Brian has been an excellent Non-executive Director and Chairman for Softcat for the last five years. His experience has been invaluable particularly in guiding us through the IPO process, establishing ourselves as a public company and he has provided significant support to me personally throughout these important months."

Analyst meeting

A results presentation will be held for investors and analysts at the offices of FTI Consulting: 9th Floor, 200 Aldersgate, Aldersgate Street, London, EC1A 4HD on 21 March 2018. Registration will open at 08.45 for a 09.00 start. Materials from this presentation will be available online at www.softcat.com from 09.00. A copy of this announcement will also be available online from 07.00.

Enquiries

Softcat plc: +44 (0)1628 403 403
Martin Hellowell, Chief Executive Officer
Graham Charlton, Chief Financial Officer

FTI Consulting LLP: +44 (0)2037 271 000
Ed Bridges
Matt Dixon
Dwight Burden

Forward-looking statements

This announcement includes statements that are, or may be deemed to be, "forward-looking statements". By their nature, such statements involve risk and uncertainty since they relate to future events and circumstances. Actual results may, and often do, differ materially from any forward-looking statements.

Any forward-looking statements in this announcement reflect management's view with respect to future events as at the date of this announcement. Save as required by law or by the Listing Rules of the UK Listing Authority, the Company undertakes no obligation to publicly revise any forward-looking statements in this announcement following any change in its expectations or to reflect subsequent events or circumstances following the date of this announcement.

Chief Executive Officer's Review

The period was characterised by a continuation of the strong customer demand we experienced during the previous financial year. We were again able to capitalise on this due to our ongoing investment in both scaling our existing offering and adding new capabilities. We saw consistent and strong performance across all customer segments and technology areas during both the first and second quarters in roughly equal measure.

Our key financial metrics of 22.2% gross profit growth, 19.1% adjusted operating profit growth and 103.3% cash conversion illustrate that our focus on executing our simple strategy while investing for growth continues to drive gains in market share, the delivery of shareholder value, and provide a foundation for further progress. We have now delivered fifty quarters of consecutive revenue and profit growth.

Revenue increased by 24.9% comprising double-digit growth across all our business lines and customer segments. Gross profit margin was slightly down on prior year as expected, which mainly reflects strong growth in our lower-margin public sector partner business. We continued to see strong demand for security products and solutions across both public sector organisations and corporate businesses as they seek to secure their operations against the growing threat of cyber attack. Customers are also investing in their IT infrastructure to support the digital transformation taking place across all segments of the market. In addition, we see significant appetite in the market for data storage and compute solutions to support enhanced analytics and the provision of business intelligence, as well as supporting compliance with the GDPR which is implemented from May 2018. These trends are part of the positive market environment of the last 18 months and factors which we expect to prevail into the medium-term as well.

We will continue to monitor the potential impact of the Brexit process, although the Company's focus on the UK domestic market means that the risk from this is centred around macro-economic factors which may impact customer appetite for business investment.

We have invested heavily in our people over recent years and this latest period was no exception. Headcount continued to grow, driven largely by new recruits into the sales and technical areas. Retention rates continue to track historic norms. Recruitment will continue during the second half as we continue to build scale to address what is still a very large opportunity for further organic growth in our domestic market.

All offices have performed well during the period as the more recent additions of Glasgow, Bristol and Leeds continue to build momentum and contribute increasingly towards overall growth alongside the more established locations of Marlow, Manchester and London. We also opened a modest operation on the South Coast in October. During the period we completed the expansion of the Manchester office to provide additional capacity for growth in that location. We remain keen to enter the Irish market and momentum is gathering behind a project to open in Dublin within the next 12 months.

During the period we were delighted to win a number of awards, the highlights including:

- Cisco UK&I Services Partner of the Year
- Cisco Capital Partner of the Year
- Nutanix European Partner of the Year
- Cylance Emerald Partner of the Year
- Veritas Top Performing Back-up Exec Partner
- Puppet EMEA Rising Star Award
- Forcepoint Platinum Partner
- European Business Awards, UK National Winner

- In November we were named as the UK's second largest VAR (Value Added Reseller) in the annual CRN Top VARs list, further improving on our no.3 position of last year. Additionally, in March 2018, Softcat was named Corporate VAR of the year in the PCR awards.

CEO Change

It has been a great privilege to run Softcat for over twelve years. We have achieved a great deal and it's been a pleasure to be part of the company's success in that period. I owe a very large debt of gratitude to the employees of Softcat for making this possible and also thank our customers and partners for their invaluable support during my tenure.

We are delighted to welcome Graeme Watt as our new Chief Executive. He joins us from Tech Data following a very thorough search process and he enjoys a well-deserved outstanding reputation in the industry. We believe Graeme will embrace and extend the Softcat culture and will continue to lead the very successful execution of our strategy.

Outlook

The Board is confident of meeting its expectations for the full year but we have some important months ahead and will remain very focussed on delivering outstanding service for customers.

Chief Financial Officer's Review

Financial Summary	H1 FY18	H1 FY17	Growth
Revenue	£472.8m	£378.5m	24.9%
<u>Revenue split</u>			
Software	£239.9m	£193.4m	24.1%
Hardware	£164.7m	£126.3m	30.4%
Services	£68.2m	£58.7m	16.2%
Gross profit	£74.8m	£61.3m	22.2%
Gross profit margin	15.8%	16.2%	(0.4% pts)
Adjusted operating profit	£25.4m	£21.4m	19.1%
Adjusted OP:GP margin	34.0%	34.9%	(0.9% pts)
Adjusted operating profit margin	5.4%	5.6%	(0.3% pts)
Operating profit	£24.1m	£20.9m	15.4%
Cash conversion	103.3%	112.3%	(9.0% pts)

Revenue and gross profit

Gross profit remains Softcat's primary measure of income performance and growth of 22.2% to £74.8m represents a very successful period for the Company. There were no unusually large individual transactions or one-off impacts on gross profit in the current period, and so the performance reflects what we believe to be good market conditions and solid execution of a winning strategy. We did see very strong customer demand in the latter part of the comparative period driven by vendor price rises and so the growth generated against that backdrop is particularly pleasing.

Revenue growth of 24.9% slightly exceeded the rate of expansion in gross profit, due mainly to strong revenue growth in our low-margin public sector partner business and, to a lesser extent, reflecting a buoyant market for lower margin client devices and servers. Consequently, gross profit margin decreased in the period by 0.4% pts to 15.8%

The mix of revenue shifted slightly from services to hardware in the period, with hardware mix rising to 34.8% from 33.3%. This reflects strong demand from customers for client devices referenced above, as well as growth in sales of servers.

Customer Metrics	H1 FY18	H1 FY17	Growth
Customer numbers	10.6k	10.0k	6.0%
Gross profit per customer	£7.1k	£6.1k	15.3%

The expansion of gross profit per customer, which grew by 15.3%, was also a key feature of the period. This reflects in part the success achieved across the 6 months by cross-sell initiatives into some of our existing customers by more experienced account managers.

600 new customers were also added during the 6 months, compared to the prior period, representing growth of 6.0% and a solid continuation of an expansion which dates back to 2007.

Adjusted operating profit

Adjusted operating profit increased by 19.1% to £25.4m, reflecting the growth in gross profit partly offset by our continued investment in new people, capabilities and capacity.

Operating profit

Operating profit of £24.1m (H1 2017: £20.9m) grew by 15.4%, due to the growth in adjusted operating profit partly offset by an increase in share-based payments charges. Share-based payment charges have increased by £0.9m to £1.3m (H1 2017: £0.5m) as the award schemes introduced following the IPO develop in line with the plans set out at that time.

Corporation tax charge

The interim tax charge of £4.7m reflects an effective tax rate of 19.5% (2017: 20.2%). The lower effective tax rate compared to the prior period is mostly the result of a fall in the blended corporation tax rate from 19.7% to 19.0% in the period. The effective tax rate is also marginally above the statutory rate in both periods due to the impact of non-deductible expenses.

Cash flow and cash conversion

The Company entered the year with a cash balance of £61.6m and paid an aggregate final and special dividend of £38.8m on 15 December 2017. The Company remains debt-free and closed the period with a cash balance of £43.3m.

Operating cash flow after capital expenditure but before tax, was strong during the reporting period at £24.9m, representing a conversion rate of 103.3% of operating profit, broadly in line with both historic performance and expectations for the first half of the financial year. The value of inventory increased from year end due to some short-term timing factors around the completion of two relatively large transactions, but the profile of net current assets is very similar to prior periods.

The Company continues to target sustainable full year operating cash conversion (after capital expenditure) in the range of 90-95% of operating profits.

Capital investment

The Company's immediate requirements for capital investment to fund growth remain relatively modest. Net capex of £0.6m (2017 H1: £1.1m) in the period relates mainly to computer equipment and fixtures and fittings to satisfy the demands of operational growth.

Dividend

The Board is pleased to declare an interim dividend of 3.3p per share, amounting in total to £6.5m. The interim dividend will be payable on 11 May 2018 to shareholders whose names are on the register at the close of business on 3 April 2018. Shares in the Company will be quoted ex dividend on 29 March 2018. The dividend reinvestment plan ("DRIP") election date is 16 April 2018. The interim dividend is in line with the stated dividend policy which remains unchanged since IPO.

Principal Risks and Uncertainties

Like most businesses, there is a range of risks and uncertainties facing the Company. A summary is given below detailing the specific risks and uncertainties that the Directors believe could have a significant effect on the Company's financial performance.

In assessing the Company's likely financial performance for the second half of the current financial year, these risks and uncertainties should be considered in addition to the matters referred to regarding seasonality in note 14 to the condensed interim financial statements, and the comments made under the heading "outlook" in the Chief Executive's Review.

Risk	Potential impacts	Management & mitigation
BUSINESS STRATEGY		
Customer dissatisfaction	<ul style="list-style-type: none"> • Reputational damage • Loss of competitive advantage 	<ul style="list-style-type: none"> • Graduate training programme • Ongoing vendor training for sales staff • Annual customer survey with detailed follow-up on negative responses • Process for escalating cases of dissatisfaction to MD & CEO
Failure to evolve our technology offering with changing customer needs	<ul style="list-style-type: none"> • Loss of customers • Reduced profit per customer 	<ul style="list-style-type: none"> • Processes in place to act on customer feedback about new technologies • Training and development programme for all technical staff • Regular business reviews with all vendors • Sales specialist teams aligned to emerging technologies to support general account managers • Regular specialist and service offering reviews with senior management
OPERATIONAL		
Cyber and data security	<ul style="list-style-type: none"> • Inability to deliver customer services • Reputational damage • Financial loss 	<ul style="list-style-type: none"> • Company-wide information security policy • Appropriate induction and training procedures for all staff • External penetration testing programme undertaken • ISO 27001 accreditation
Business interruption	<ul style="list-style-type: none"> • Customer dissatisfaction • Business interruption • Reputational damage • Financial loss 	<ul style="list-style-type: none"> • Operation of back-up operations centre and data centre platforms • Established processes to deal with incident management, change control, etc. • Continued investment in operations centre management and other resources • Ongoing upgrades to network • Regular testing of DR plans
FINANCIAL		
Profit margin pressure including rebates	<ul style="list-style-type: none"> • Reduced margins 	<ul style="list-style-type: none"> • Ongoing training to sales and operations team to keep pace with new vendor programmes • Rebate programmes are industry standard and not specific to the Company • Rebates form an important but only minority element of total operating profits

PEOPLE		
Culture change	<ul style="list-style-type: none"> • Reduced staff engagement • Negative impact on customer service 	<ul style="list-style-type: none"> • Culture embedded in the organisation over a long history • Branch structure with empowered local management • Quarterly staff survey with feedback acted upon • Regular staff events and incentives
Poor leadership	<ul style="list-style-type: none"> • Lack of strategic direction • Deteriorating vendor relationships • Reduced staff engagement 	<ul style="list-style-type: none"> • Succession planning process • Experienced and broad senior management team

These risks and uncertainties have not changed significantly since 31 July 2017. Further information on the risks can be found on pages 24 to 25 of Softcat 2017 Annual Report and Accounts, which is available at <https://www.softcat.com/investors/results-centre>

Going Concern

As stated in note 2 to the Condensed Interim Financial Statements, the Directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future, a period of at least 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the Condensed Interim Financial Statements.

Cautionary Statement

This report has been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for those strategies to succeed. The Interim Management Report should not be relied on by any other party or for any other purpose.

In making this report, the Company is not seeking to encourage any investor to either buy or sell shares in the Company. Any investor in any doubt about what action to take is recommended to seek financial advice from an independent financial advisor authorised by the Financial Services and Markets Act 2000.

Directors' Responsibility Statement

The Directors confirm that, to the best of their knowledge:

- the unaudited Condensed Interim Financial Statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as adopted by the European Union;
- the Interim Management Report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the Interim Management Report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

Neither the Company nor the directors accept any liability to any person in relation to the half-year financial report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A and schedule 10A of the Financial Services and Markets Act 2000.

Martin Hellowell

Chief Executive Officer

21 March 2018

Graham Charlton

Chief Financial Officer

21 March 2018

**Condensed Statement of profit or loss and other comprehensive income
For the six months ended 31 January 2018**

	<i>Note</i>	Six months ended 31 January		Year ended 31 July 2017
		2018	2017	Audited
		Unaudited	Unaudited	
		£'000	£'000	£'000
Revenue	3	472,843	378,450	832,486
Cost of sales		<u>(398,008)</u>	<u>(317,200)</u>	<u>(696,173)</u>
Gross profit		74,835	61,250	136,313
Administrative expenses		<u>(50,725)</u>	<u>(40,358)</u>	<u>(86,151)</u>
Operating profit		24,110	20,892	50,162
Adjusted operating profit		25,438	21,366	51,464
Share – based payments charge	2	<u>(1,328)</u>	<u>(474)</u>	<u>(1,302)</u>
Finance income		<u>38</u>	<u>88</u>	<u>142</u>
Profit before taxation		24,148	20,980	50,304
Income tax expense	4	<u>(4,716)</u>	<u>(4,235)</u>	<u>(10,196)</u>
Profit for the year attributable to owners of the Company		19,432	16,745	40,108
Total comprehensive income for the year attributable to owners of the Company		19,432	16,745	40,108
Basic earnings per Ordinary Share (pence)	9	9.8	8.5	20.4
Diluted earnings per Ordinary Share (pence)	9	9.8	8.5	20.2
Adjusted basic earnings per Ordinary Share (pence)	9	10.5	8.7	21.0
Adjusted diluted earnings per Ordinary Share (pence)	9	10.4	8.7	20.9

All results are derived from continuing operations.

**Condensed Statement of Financial Position
As at 31 January 2018**

		31 January		31 July
		2018	2017	2017
		Unaudited	Unaudited	Audited
	<i>Note</i>	£'000	£'000	£'000
Non-current assets				
Property, plant and equipment		5,382	6,143	5,579
Intangible assets		386	944	504
Deferred tax asset		876	419	895
		<u>6,644</u>	<u>7,506</u>	<u>6,978</u>
Current assets				
Inventories		12,704	5,622	6,975
Trade and other receivables	6	189,623	151,673	173,506
Cash and cash equivalents		43,318	46,620	61,643
		<u>245,645</u>	<u>203,915</u>	<u>242,124</u>
Total assets		<u>252,289</u>	<u>211,421</u>	<u>249,102</u>
Current liabilities				
Trade and other payables	7	(176,513)	(137,583)	(155,174)
Income tax payable		(5,087)	(4,086)	(5,510)
		<u>(181,600)</u>	<u>(141,669)</u>	<u>(160,684)</u>
Net assets		<u>70,689</u>	<u>69,752</u>	<u>88,418</u>
Equity				
Issued share capital	11	99	99	99
Share premium account		4,979	4,664	4,664
Other reserves		(3,104)	(3,423)	(3,214)
Retained earnings		68,715	68,412	86,869
Total equity		<u>70,689</u>	<u>69,752</u>	<u>88,418</u>

Condensed Statement of Changes in Equity

	Share capital	Share premium	Reserve for own shares	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance at 1 August 2017	99	4,664	(3,214)	86,869	88,418
Total comprehensive income for the period	-	-	-	19,432	19,432
Share-based payment transactions	-	-	-	989	989
Dividends paid	-	-	-	(38,790)	(38,790)
Shares issued in period	-	315	-	-	315
Tax adjustments	-	-	-	215	215
Own share movement during the period	-	-	110	-	110
Balance at 31 January 2018	99	4,979	(3,104)	68,715	70,689
Balance at 1 August 2016	99	4,454	(3,531)	86,342	87,364
Total comprehensive income for the period	-	-	-	16,745	16,745
Share-based payment transactions	-	-	-	436	436
Dividends paid	-	-	-	(35,174)	(35,174)
Shares issued in period	-	210	-	-	210
Tax adjustments	-	-	-	63	63
Own share movement during the period	-	-	108	-	108
Balance at 31 January 2017	99	4,664	(3,423)	68,412	69,752

Condensed Statement of Cash Flows
For the six months ended 31 January 2018

	<i>Note</i>	Six months ended		Year
		31 January		ended
		2018	2017	31 July
		Unaudited	Unaudited	Audited
		£'000	£'000	£'000
Net cash generated from operating activities	10	20,592	20,120	40,971
Investing activities				
Finance income		38	88	142
Purchase of property, plant and equipment		(553)	(657)	(945)
Purchase of intangible assets		(37)	(443)	(516)
Proceeds from asset disposals		-	7	7
Net cash used in investing activities		(552)	(1,005)	(1,312)
Financing activities				
Issue of share capital		315	210	210
Dividends paid	5	(38,790)	(35,174)	(40,904)
Own share transactions		110	108	317
Net cash used in financing activities		(38,365)	(34,856)	(40,377)
Net decrease in cash and cash equivalents		(18,325)	(15,741)	(718)
Cash and cash equivalents at beginning of period		61,643	62,361	62,361
Cash and cash equivalents at end of period		43,318	46,620	61,643

Notes to the Financial Information

1. General information

The Directors of Softcat plc (the “Company”) present their Interim Report and the unaudited Condensed Interim Financial Statements for the six months ended 31 January 2018 (“Condensed Interim Financial Statements”).

The Company is a public limited company, incorporated and domiciled in the UK. Its registered address is Fieldhouse Lane, Marlow, Buckinghamshire, SL7 1LW.

The Condensed Interim Financial Statements have been reviewed, but not audited, by Ernst & Young LLP and were approved by the Board of Directors on 21 March 2018. The financial information contained in this report does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The Condensed Interim Financial Statements should be read in conjunction with the Annual Report and Financial Statements for the year ended 31 July 2017, which were prepared in accordance with European Union endorsed International Financial Reporting Standards (“IFRS”) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Annual Report and Financial Statements for the year ended 31 July 2017 were approved by the Board of Directors on 18 October 2017 and delivered to the Registrar of Companies. The auditor’s report on those financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498(2) or (3) of the Companies Act 2006.

2. Accounting policies

2.1 Basis of preparation

These Condensed Interim Financial Statements have been prepared in accordance with International Accounting Standard 34, ‘Interim Financial Reporting’ as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

The Condensed Interim Financial Statements are presented in Pounds Sterling, rounded to the nearest thousand (£’000’), unless otherwise stated. They were prepared under the historical cost convention.

Going concern

The Directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future, a period of at least 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the Condensed Interim Financial statements.

Changes to accounting standards

There have been no changes to accounting standards during the period which have had or are expected to have any significant impact on the Company.

Accounting policies

The accounting policies adopted in the preparation of the Condensed Interim Financial Statements are consistent with those applied in the preparation of the Company’s Financial Statements for the year ended 31 July 2017.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 becomes effective for the Company on 1 August 2018. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognised at the date of initial application (the cumulative catch-up transition method).

IFRS 15 has introduced new guidance for assessing if an entity is the principal or agent in an arrangement. To recognise revenue as principal an entity must conclude that control of goods or

services was established prior to delivery to the customer, with a key consideration being whether the entity was primarily responsible for fulfilling the contract.

In our 2017 Annual Report and Accounts, we disclosed that work had commenced on establishing which revenue streams may be classified as ‘agency’ and presented on a net basis, as opposed to the current treatment as gross, or ‘principal’ revenue. Our assessment and associated documentation continues to progress and we expect to be in a position to conclude on the treatment of revenue under IFRS 15, in our 2018 Annual Report and Accounts.

Should changes in accounting for revenue be required, the impact is likely to be material to the revenue and profit margins in any given financial year, however there will be no impact on cash in any given year nor is there expected to be any ultimate long-term impact on the cumulative profits of the Company.

Outside of the principal versus agent impact, Softcat does not expect any further material adjustments resulting from the application of IFRS 15.

Share based payment charges

The share-based payment charge includes a fair value charge of £988,898 (H1 2017: £436,468) and an accrual for employer’s national insurance contributions of £339,380 (H1 2017: £37,460), which become payable on exercise of share options and long term incentive awards.

Adjusted operating profit

The Company discloses an adjusted operating profit measure as this is used by management to measure performance and it also provides a useful metric for shareholders. Management use this metric as it removes the impact of one-off or variable non-trading expenses which, when included, may distract the user from understanding the underlying performance of the Company. The term adjusted operating profit is not a defined term under IFRS and may not therefore be comparable with similarly titled profit measurements reported by other companies. It is not intended to be a substitute for, or superior to, IFRS measures of profit.

3. Segmental information

The information reported to the Company's Chief Executive Officer, who is considered to be the chief operating decision maker for the purposes of resource allocation and assessment of performance, is based wholly on the overall activities of the Company. The Company has therefore determined that it has only one reportable segment under IFRS 8, which is that of “value-added IT reseller and IT infrastructure solutions provider”. The Company's revenue, results and assets for this one reportable segment can be determined by reference to the statement of comprehensive income and statement of financial position. An analysis of revenues by product, which form one reportable segment, is set out below:

Revenue by type	Six months ended 31 January		Year ended 31 July
	2018 £'000	2017 £'000	2017 £'000
Software	239,911	193,398	414,781
Hardware	164,693	126,312	287,424
Services	68,239	58,740	130,281
	472,843	378,450	832,486

The total revenue for the Company has been derived from its principal activity as an IT reseller. Substantially all of this revenue relates to trading undertaken in the United Kingdom.

4. Taxation

	Six months ended 31 January		Year ended 31 July
	2018	2017	2017
	£'000	£'000	£'000
Current Tax			
Current period	4,722	4,243	10,393
Adjustment in respect of current income tax in previous years.	-	-	88
Deferred Tax			
Temporary differences	(6)	(8)	(285)
Total tax charge for the period	4,716	4,235	10,196

The income tax expense was recognised based on management's best estimate of the annual income tax rate expected for the full financial year, applied to the profit before tax for the half year ended 31 January 2018. On this basis, the Company's tax charge was £4.7m (H1 2017: £4.2m). The applicable statutory tax rate for the full year is 19.0% (H1 2017: 19.7%). Following adjusting items which relate to client entertaining and non-qualifying depreciation, the effective tax rate is 19.5% (H1 2017: 20.2%).

5. Ordinary Dividends

	Six months ended 31 January		Year ended 31 July
	2018	2017	2017
	£'000	£'000	£'000
Declared and paid during the period			
Interim dividend	-	-	5,730
Final dividend	12,064	7,114	7,114
Special dividend	26,726	28,060	28,060
	38,790	35,174	40,904

An interim dividend of 3.3p per share, amounting to a total dividend of £6.5m was declared post period end and is to be paid on 11 May 2018 to those on the share register on 3 April 2018.

6. Trade and other receivables

	Six months ended 31 January		Year ended 31 July
	2018	2017	2017
	£'000	£'000	£'000
Trade receivables	178,152	143,194	162,089
Provision against receivables	(1,638)	(1,150)	(1,263)
Net trade receivables	176,514	142,044	160,826
Other debtors	41	276	59
Prepayments	6,475	3,914	5,415
Accrued Income	6,593	5,439	7,206
	189,623	151,673	173,506

7. **Trade and other payables**

	Six months ended 31 January		Year ended 31 July
	2018	2017	2017
	£'000	£'000	£'000
Trade payables	119,279	91,774	100,312
Other taxes and social security	14,018	12,927	12,153
Accruals	30,964	27,786	28,708
Deferred Income	12,252	5,096	14,001
	176,513	137,583	155,174

8. **Financial Instruments**

The Company's principal financial liabilities comprise trade and other payables. The primary purpose of these financial liabilities is to finance the Company's operations. The Company has trade and other receivables and cash that derive directly from its operations.

	Six months ended 31 January		Year ended 31 July
	2018	2017	2017
	£'000	£'000	£'000

Financial assets

The financial assets of the Company were as follows:

Cash at bank and in hand	43,318	46,620	61,643
Trade receivables, other debtors and accrued income	183,148	147,759	168,091
	226,466	194,379	229,734

Financial liabilities

The financial liabilities of the Company were as follows:

Trade payables	(119,279)	(91,774)	(100,312)
Accruals	(30,964)	(27,786)	(28,708)
	(150,243)	(119,560)	(129,020)

The Directors consider that the carrying amount for all financial assets and liabilities approximate to their fair value.

9. Earnings per share

	Six months ended 31 January		Year ended 31 July
	2018	2017	2017
	Pence	Pence	Pence
Earnings per share			
Basic	9.8	8.5	20.4
Diluted	9.8	8.5	20.2
Adjusted earnings per share			
Basic	10.5	8.7	21.0
Diluted	10.4	8.7	20.9

The calculation of the basic and adjusted earnings per share and diluted earnings per share is based on the following data:

	Six months ended 31 January		Year ended 31 July
	2018	2017	2017
	£'000	£'000	£'000
Earnings			
Earnings for the purposes of earnings per share being profit for the period	19,432	16,745	40,108
Adjusted Earnings			
Profit for the period	19,432	16,745	40,108
Share based payment charge	1,328	474	1,302
Tax effect of adjusting items	(66)	(7)	(47)
Earnings for the purposes of adjusted earnings per share	20,694	17,212	41,363

The weighted average number of shares is given below:

	Six months ended 31 January		Year ended 31 July
	2018	2017	2017
	000's	000's	000's
Number of shares used for basic earnings per share	197,241	196,887	196,959
Number of shares deemed to be issued at nil consideration following exercise of share options	1,326	515	1,137
Number of shares used for diluted earnings per share	198,567	197,402	198,096

10. Notes to the cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities

	Six months ended 31 January		Year ended 31 July
	2018	2017	2017
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Operating profit	24,110	20,892	50,162
Depreciation of property, plant and equipment	745	824	1,641
Amortisation of intangibles	154	165	367
Loss on disposal of fixed assets	-	73	109
Loss on disposal of intangible assets	-	-	312
Cost of equity-settled employee share schemes	989	436	1,070
Operating cash flow before movements in working capital	25,998	22,390	53,661
Increase in inventories	(5,729)	(1,008)	(2,364)
Increase in trade and other receivables	(16,117)	(18,886)	(40,719)
Increase in trade and other payables	21,340	22,057	39,647
Cash generated from operations	25,492	24,553	50,225
Income taxes paid	(4,900)	(4,433)	(9,254)
Net cash generated from operating activities	20,592	20,120	40,971

11. Share capital

	Six months ended 31 January		Year ended 31 July
	2018	2017	2017
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Ordinary shares of 0.05p each	99	99	99
Deferred shares of 1p each	-	-	-
	<u>99</u>	<u>99</u>	<u>99</u>

12. Related party transactions

Dividends to Directors

The following Directors, who served as Directors for either the whole or part of the interim period, were paid the following dividends:

	Six months ended 31 January		Year ended 31 July
	2018 £'000	2017 £'000	2017 £'000
M J Hellawell	2,898	2,632	3,060
B Wallace	169	153	178
L Ginsberg	4	4	4
V Murria	58	5	6
P Ventress	9	5	6
	3,138	2,799	3,254

With the exception of the above, there were no other significant related party transactions.

13. Post balance sheet events

Dividend

An interim dividend of 3.3p per share, amounting to a total dividend of £6.5m was declared post period end and is to be paid on 11 May 2018 to those on the share register on 3 April 2018.

14. Seasonality of operations

Historically, revenues have been marginally higher in the second half of the year than in the first six months. This is principally driven by customer buying behaviour in the markets in which we operate. This increased revenue weighting in the second half of the year has traditionally resulted in higher operating profit in the second half.

INDEPENDENT REVIEW REPORT TO SOFTCAT PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended January 31, 2018, which comprises the condensed statement of financial position as at January 31, 2018 and the related condensed statement of profit or loss and other comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the six-month period then ended and explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) *'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'* issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in notes 1 and 2, the annual financial statements of the Company are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, *'Interim Financial Reporting'*, as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"* issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 January 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

London

21 March 2018

Corporate Information

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

Directors

G L Charlton
M J Hellawell
L Ginsberg
V Murria
P Ventress
B Wallace

Secretary

W Chime

Company registration number

02174990

Registered office

Solar House
Fieldhouse Lane
Marlow
Buckinghamshire
SL7 1LW