SOFTCAT plc

("Softcat", the "Company")

Preliminary Results for the twelve months to 31 July 2017

Strong growth and cash generation, final and special dividends totalling 19.6p proposed

Softcat plc (LSE: SCT.L), a leading UK provider of IT infrastructure products and services, today publishes its full year results to 31 July 2017. The results demonstrate strong revenue growth, profit performance and cash generation during the period.

Financial Summary	**Twelve months ended**		
	31 July 2017	**31 July 2016**	**Growth**
	£m	**£m**	**%**
Revenue	**£832.5**	**£672.4**	**23.8**
Gross profit	**£136.3**	**£120.7**	**12.9**
Operating profit	**£50.2**	**£42.2**	**18.9**
Adjusted operating profit[a]	**£51.5**	**£46.8**	**10.1**
Cash conversion[b]	**97.2%**	**85.5%**	**n/a**
Final dividend (p)	**6.1**	**3.6**	**69.4[c]**
Special dividend (p)	**13.5**	**14.2**	**(4.9)**
Diluted earnings per share (p)	**20.2**	**16.9**	**19.5**
Adjusted diluted earnings per share[d] (p)	**20.9**	**19.1**	**9.4**

[a]Adjusted operating profit is defined as operating profit before exceptional items and share-based payment charges.
[b] Cash conversion is defined as cash flow from operations before tax but after capital expenditure, as a percentage of operating profit.
[c] The high growth in the final dividend reflects the reduction applied in the prior period to account for the fact the Company was only publicly listed for approximately two thirds of the 2016 financial year.
[d]Adjusted 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 twelve months to 31 July 2017

- Revenue up 23.8% to £832.5m (2016: £672.4m)
- Gross profit up 12.9% to £136.3m (2016: £120.7m)
- Gross profit margin down 1.6% pts to 16.4% (2016: 18.0%)
- Operating profit growth of 18.9% to £50.2m (2016: £42.2m)
- Adjusted operating profit up 10.1% to £51.5m (2016: £46.8m)
- In 2016 gross profit included the benefit of a one-off procurement saving of £3.4m. Excluding this, in 2017 gross profit grew by 16.2% (2016: 14.1%) and adjusted operating profit by 16.4% (2016: 8.9%)
- Cash conversion of 97.2% (2016: 85.5%), reflecting the ongoing close management of working capital
- Net cash position at year end of £61.6m, after payment of £40.9m dividends during 2017
- Customer numbers up 6.0% to 13,000 (2016: 12,200), gross profit per customer growth of 6.5%, to £10,500 (2016: £9,900)
- Average headcount up 18%, reflecting further investment across all areas of the business, especially in our services and technical capability
- Total dividend relating to 2017 up 15% to 22.5p (2016: 19.5p)

Martin Hellawell, Softcat CEO commented

"I'm pleased to report on another very strong year for Softcat with 24% revenue growth and double-digit growth in both gross profit and operating profit.

Our simple strategy of winning new customers and selling more to existing customers was successfully executed, and we were delighted to welcome an incremental 800 customers last year and to see gross profit per customer increase by over six per cent. Once again this was achieved through unwavering focus on customer service, delivered by an outstanding team of highly engaged Softcat people.

Our search for a new CEO is progressing. In the meantime I remain fully focussed on doing the job and look forward when the time comes to continuing with the company as non-executive Chairman.

It's been a privilege to lead Softcat through a period of 48 quarters of top line and bottom line year-on-year organic growth and, while we are far from perfect and have much we can improve on, the business is in good shape and the opportunity ahead of us is clear."

Outlook

Our financial year starts on August 1st and as I write this we are approximately ten weeks into the new year. It's very early days and there is still all to play for but we are where we would like to be at this stage.

Analyst meeting

A results presentation for analysts and investors will be held today at the offices of FTI Consulting: 9th Floor, 200 Aldersgate, Aldersgate Street, London, EC1A 4HD. Registration will open at 09.15 for a 09.30 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.

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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

We had a very satisfactory financial year 2017 and I am pleased with the outcome.

Revenue growth was really strong at 24%. I'm always most interested in our gross profit growth and that was equally pleasing for me being up 13% despite last year containing a one-off benefit that we knew would not repeat. So, excluding that, in underlying terms growth in gross profit was 16%. Our growth would indicate that once again we have taken further market share in our sector.

The gross profit growth resulted in 10% adjusted EBIT growth (16% underlying, i.e. excluding the 2016 one-off procurement-related benefit), while we continue to invest in new capabilities. That, combined with another year of strong cash generation, result in the special dividend we've proposed alongside these results.

All our major business lines showed good growth in the year. Our security and services businesses were perhaps the two stand-out performers, delivering very strong growth.

Our security business has been one of our key strengths for many years now. We saw strong underlying growth in this area which was further assisted by purchases related to organisations preparing themselves for General Data Protection Regulation (GDPR) compliance which will be enforced from 25 May 2018. This is a significant challenge for the majority of our customers and there is a lot more work required in this area, which is therefore a good opportunity for us moving forward. General security risks continue to grow in complexity and frequency and are now a major board room priority, highlighted by high profile events like the Wannacry attacks. Softcat was particularly proactive in advising and assisting customers on these types of threats.

We have invested significantly in our own services capability and we continue to work with a number of third party organisations to complement our internal offering. Particularly in areas such as hybrid cloud migration and mobility, in many cases customers are looking to Softcat to provide a complete solution rather than trying to stitch various technology components together themselves. We completed a large number of projects in these areas using tried and tested expertise and templates.

We have six existing branches and all met expectations and achieved positive growth. The stand-out performers were Manchester and London. We very much enjoyed our first full financial year in Scotland and are delighted with the number of new Scottish customers who are trading with Softcat since we became established there. We also recently announced that we intend to open a seventh location in Southampton in the first half of this new financial year.

The SMB and mid-market remains our largest segment and despite our market leadership position continues to grow well from a very large base. Our public sector business saw very strong growth again this year and the enterprise segment also outpaced overall company growth and it's pleasing to see us tapping into that opportunity. The vast majority of our business is in the UK but we assist an increasing number of our customers with their requirements outside the UK.

In terms of market and technology trends, we see an increasing proportion of our software licensing business transition to a cloud based platform. For example, we may previously have sold Microsoft licensing agreements for Office which were installed by customers on their sites. Today, many customers are choosing to consume Office from the Cloud with Office 365.

For reasons of control, security, cost and the difficulty of porting legacy applications to the cloud, customers own infrastructure and private cloud infrastructure still has its place. Indeed we have seen several instances of customers moving back from the public cloud to the private cloud environment. Overall however, we see a continuing trend from customers to transition towards the public cloud for an increasing number of workloads. Softcat has subsequently grown a strong Microsoft Azure business over recent years and is working with a number of customers on the Amazon AWS platform.

Consequently we see a growing opportunity to develop our services and support business by helping customers migrate to a hybrid and public cloud environment. We can then work with customers to support and manage those environments. This is effectively an opportunity to augment our already very large subscription licensing business, a part of the business we've been well known for throughout our history and received many plaudits for.

In particular, we want to be the best in cloud and traditional subscription software, we want to be the go to security company in the market and the partner of choice for cloud and datacentre. There's plenty to do but we're well on our way.

We continue to define our business into three broad categories – workplace technology which is all the standard technology on or around a customer's desk, networking & security, and datacentre and cloud. All areas are affording us plenty of opportunity and we continue to expand our offering in each. In the workspace area our managed print offering has gained significant traction. Last year we expanded our range of extended support services particularly in the networking area and this has added considerable incremental business and profitability for the company.

While we have performed well for many years now and have enjoyed 48 quarters of top line and bottom line growth, the opportunity ahead of us is clear. If you just take the list of the top 100 VARs in the UK and put our turnover against the aggregated total, that gives us around six and a half per cent market share. And there are a lot more than one hundred VARs out there. That gives us at least 93.5% of the market still to go for. Our sales force strength, the breadth and depth of our capability have never been better and there's great momentum in the company. Despite questions around the economy, our exit from the EU and public sector policy, the market for what we do feels quite buoyant. We're lucky to have a very broad portfolio and our customer centricity and flexibility allows us to move quickly to the areas in the market where there is most demand, which makes us far less vulnerable to specific technology segments.

The opportunity is there for the taking but we are well aware that only constant hard work, hunger and excellent execution will allow us to take it.

I would like to thank our employees for taking the opportunity last year and for all their tremendous support, commitment, hard work and camaraderie during 2017 and over my last eleven years with Softcat. I would also like to thank our very valued customers who continue to be a pleasure to work with and who keep pushing us on to ever greater things. And finally I would like to thank our business partners who continue to give Softcat a tremendous amount of support for which we are extremely grateful.

Chief Financial Officer's Review

Financial Summary	FY17	FY16	Growth
Revenue	£832.5m	£672.4m	23.8%
Revenue split			
Software	£414.8m	£320.0m	29.6%
Hardware	£287.4m	£250.7m	14.6%
Services	£130.3m	£101.7m	28.1%
Gross profit	£136.3m	£120.7m	12.9%
Gross profit margin	16.4%	18.0%	(1.6% pts)
Adjusted operating profit	£51.5m	£46.8m	10.1%
Adjusted operating profit margin	6.2%	7.0%	(0.8% pts)
Operating profit	£50.2m	£42.2m	18.9%
Cash conversion	97.2%	85.5%	11.7% pts

Revenue, gross profit and gross margin

Revenue growth was very strong at 23.8%, rising to £832.5m (2016: £672.4m). This reflects good progress across all customer segments with public sector business once again expanding fastest and rising as a proportion of total income to 31% (2016: 29%). Public sector revenue performance was boosted by the signing of a large central government, low margin deal during the first half worth up to £40m over 3 years, with £14m of income booked during 2017. Revenue growth was also very strong across the corporate sector by virtue of both new customer wins and cross-selling new products to existing customers.

Revenue mix across technology categories (software, hardware and services) was largely unchanged. Services expanded slightly as a proportion of the total to 15.6% (2016: 15.1%) due to good growth from both the expansion of in-house professional service capacity as well as the introduction of new vendor support services.

Gross profit grew strongly, up 12.9% to £136.3m (2016: £120.7m). Prior year gross profit includes the impact of £3.4m non-recurring procurement savings within cost of sales. Excluding this impact, gross profit grew in 2017 by 16.2% (2016: 14.1%). This acceleration in underlying growth reflects further gains in market share and pleasing returns on investment in sales and technical capabilities over the past 18 months.

Gross profit margin was down during the year from 18.0% to 16.4% due to the following key factors:

- non-recurring impact of procurement savings in 2016 (0.5% pts);
- large low margin central government contract in H1 2017 (0.3% pts)
- partial impact on Softcat margin from currency-induced vendor price rises (0.5% pts); and
- other (0.3% pts).

Customer KPIs

Customer numbers were up 6.0% to 13.0k (2016: 12.2k) reflecting the continued efforts of both new hires and existing account managers to expand our reach.

Perhaps even more pleasing, gross profit per customer rose 6.5% (2016: 9.2%), or 9.6% (2016: 6.2%) on an underlying basis (excluding the 2016 procurement benefit). This acceleration in underlying gross profit per customer growth bears close correlation with the Company's ability to cross-sell new product lines to existing customers and increase share of wallet.

Revenue remains well dispersed across the customer base, with the largest customer accounting for less than 2% of total income.

Adjusted operating profit and operating margin

Adjusted operating profit increased by 10.1% to £51.5m. Excluding the impact of the 2016 procurement upside, adjusted operating profit grew by 16.4%, referred to as underlying adjusted operating profit growth. This is a strong result in the context of significant investments in the form of new graduate account managers as well as services and technical staff. On an underlying basis, and despite these investments, the margin of adjusted operating profit to gross profit increased marginally from 37.7% to 37.8%.

Adjusted operating profit margin to sales of 6.2% (2016: 7.0%) fell on the back of the gross margin reduction, detailed above.

<u>Operating profit</u>

Operating profit of £50.2m (2016: £42.2m) is 18.9% up due to both the growth in adjusted operating profit and the exceptional costs in the prior year related to the IPO.

<u>Corporation tax charge</u>

The effective tax rate for 2017 fell to 20.3% (2016: 21.8%), mainly reflecting the absence from the current period of the non-deductible expenses related to the IPO recognised in 2016.

<u>Cash and balance sheet</u>

Cash conversion was again strong at 97.2% (2016: 85.5%), reflecting the ongoing close management of working capital balances as the business continues to grow.

The broad composition of the balance sheet is unchanged, reflecting the simple and efficient business model. The value of stock is minimal due to the close operational partnership with distributors and the value of inventory recognised at year end mainly reflects goods in transit.

The Company's closing cash balance of £61.6m was only slightly down on the prior year figure of £62.4m, having been replenished by the results of operations following the payment of £40.9m dividends during the year.

<u>Dividend</u>

A final dividend of 6.1p per share has been recommended by the directors and if approved by shareholders will be paid on 15 December 2017. The record date will be 3 November and the shares will trade ex-dividend on 2 November.

In line with the Company's stated intention to return excess cash to shareholders over time, a further special dividend payment of 13.5p per share has been proposed. If approved by shareholders at the Company's AGM this would also be paid alongside the final dividend in December 2017, and would bring total cash returned to shareholders in the 2 years since IPO to £83.0m.

Principal Risks and Uncertainties

The principal risks facing the Company have been identified and evaluated by the Board. In summary, these include:

Risk	Potential impacts	Management & mitigation
BUSINESS STRATEGY		
Customer dissatisfaction	• Reputational damage • Loss of competitive advantage	• 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	• Loss of customers • Reduced profit per customer	• 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	• Inability to deliver customer services • Reputational damage • Financial loss	• Company-wide information security policy • Appropriate induction and training procedures for all staff • External penetration testing programme undertaken • ISO 27001 accreditation
Business interruption	• Customer dissatisfaction • Business interruption • Reputational damage • Financial loss	• 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	• Reduced margins	• 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	• Reduced staff engagement • Negative impact on customer service	• 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	• Lack of strategic direction • Deteriorating vendor relationships • Reduced staff engagement	• Succession planning process • Experienced and broad senior management team

The Company is required to value share based payments, financial instruments and apply judgment to revenue recognition and deferred tax. A more detailed description of these estimates and uncertainties are included in the prospectus and 2016 annual report, which can be obtained from the Company's registered office or from www.softcat.com.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report contained within the Annual Report. The financial position of the Company, its cash flows, and liquidity position are described in the Chief Financial Officer's Review above. In addition, note 20 to the financial statements contained within the Annual Report includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit risk and liquidity risk.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements.

Cautionary Statement

This preliminary announcement 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 preliminary announcement should not be relied on by any other party or for any other purpose.

In making this preliminary announcement, 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.

Statement of Directors' responsibilities in relation to the financial statements

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

The Directors are required to prepare financial statements for each financial year in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company as at the end of the financial year and the profit or loss of the Company, so far as concerns members of the Company, for the financial year. In preparing those financial statements, the Directors are required to:

- select and apply accounting policies in accordance with IAS 8;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- make judgements and estimates that are reasonable and prudent;
- state that applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Company's financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records which are sufficient to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Fair and balanced reporting
Having taken advice from the Audit Committee, the Board considers the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Responsibility statement pursuant to FCA's Disclosure Guidance and Transparency Rule 4 (DTR 4)

Each Director of the Company confirms that (solely for the purpose of DTR 4) to the best of his or her knowledge:
- the financial statements in this document, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report and the Directors report include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

Statement of profit or loss and other comprehensive income
For the year ended 31 July 2017

	Note	2017 £'000	2016 £'000
Revenue	3	**832,486**	**672,351**
Cost of sales		(696,173)	(551,634)
Gross profit		**136,313**	**120,717**
Administrative expenses		(86,151)	(78,527)
Operating profit		**50,162**	**42,190**
Adjusted operating profit		**51,464**	**46,751**
Exceptional items	4	-	(3,673)
Share – based payments charge		(1,302)	(888)
Finance income		142	213
Profit before taxation		**50,304**	**42,403**
Income tax expense	5	(10,196)	(9,245)
Profit for the year attributable to owners of the Company		**40,108**	**33,158**
Total comprehensive income for the year attributable to owners of the Company		**40,108**	**33,158**
Basic earnings per Ordinary Share (pence)	9	20.4	16.9
Diluted earnings per Ordinary Share (pence)	9	20.2	16.9
Adjusted basic earnings per Ordinary Share (pence)	9	21.0	19.2
Adjusted diluted earnings per Ordinary Share (pence)	9	20.9	19.1

All results are derived from continuing operations.

Statement of Financial Position
As at 31 July 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Property, plant and equipment		5,579	6,391
Intangible assets		504	667
Deferred tax asset		895	426
		6,978	**7,484**
Current assets			
Inventories		6,975	4,611
Trade and other receivables	*7*	173,506	132,787
Cash and cash equivalents		61,643	62,361
		242,124	**199,759**
Total assets		**249,102**	**207,243**
Current liabilities			
Trade and other payables	*8*	(155,174)	(115,527)
Income tax payable		(5,510)	(4,352)
		(160,684)	**(119,879)**
Net assets		**88,418**	**87,364**
Equity			
Issued share capital		99	99
Share premium account		4,664	4,454
Other reserves		(3,214)	(3,531)
Retained earnings		86,869	86,342
Total equity		**88,418**	**87,364**

Statement of Changes in Equity
For the year ended 31 July 2017

	Share capital	Share premium	Reserve for own shares	Retained earnings	Total equity
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 August 2015	**98**	**3,942**	**(3,994)**	**95,770**	**95,816**
Total comprehensive income for the year	-	-	-	33,158	33,158
Share-based payment transactions	-	-	-	572	572
Dividends paid	-	-	-	(43,453)	(43,453)
Shares issued in year	1	512	-	-	513
Tax adjustments	-	-	-	295	295
Own share movement during the year	-	-	463	-	463
Balance at 31 July 2016	**99**	**4,454**	**(3,531)**	**86,342**	**87,364**
Balance at 31 July 2016	**99**	**4,454**	**(3,531)**	**86,342**	**87,364**
Total comprehensive income for the year	-	-	-	40,108	40,108
Share-based payment transactions	-	-	-	1,070	1,070
Dividends paid	-	-	-	(40,904)	(40,904)
Shares issued in the year	-	210	-	-	210
Tax adjustments	-	-	-	253	253
Own share movement during the year	-	-	317	-	317
Balance at 31 July 2017	**99**	**4,664**	**(3,214)**	**86,869**	**88,418**

Statement of Cash Flows
For the year ended 31 July 2017

	Note	2017 £'000	2016 £'000
Net cash generated from operating activities	*10*	**40,971**	**29,925**
Cash flows from investing activities			
Finance income		142	213
Purchase of property, plant and equipment		(945)	(1,190)
Purchase of intangible assets		(516)	(536)
Proceeds from asset disposals		7	11
Net cash used in investing activities		**(1,312)**	**(1,502)**
Cash flows from financing activities			
Issue of share capital		210	513
Deferred purchase share proceeds		-	1,773
Dividends paid	*6*	(40,904)	(43,453)
Own share transactions		317	463
Net cash used in financing activities		**(40,377)**	**(40,704)**
Net decrease in cash and cash equivalents		**(718)**	**(12,281)**
Cash and cash equivalents at beginning of year		62,361	74,642
Cash and cash equivalents at end of year		**61,643**	**62,361**

Notes to the Financial Information

1. General information

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

The annual financial information presented in this preliminary announcement does not constitute the Company's statutory accounts for the years ended 31 July 2017 or 2016 but is based on, and consistent with, that in the audited financial statements for the year ended 31 July 2017, and those financial statements will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditor's report on those financial statements was unmodified, 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

Whilst the financial information included in this announcement has been compiled in accordance with International Financial Reporting Standards ("IFRS") this announcement does not itself contain sufficient information to comply with IFRS.

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

Going concern

For reasons noted above, the financial information has been prepared on the going concern basis, which assumes that the Company will continue to be able to meet its liabilities as they fall due for the foreseeable future, being a period of at least twelve months from the date of signing the financial statements. At the date of approving the financial statements, the Directors are not aware of any circumstances that could lead to the Company being unable to settle commitments as they fall due during the twelve months from the date of signing these financial statements.

Changes to accounting standards

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

Accounting policies

The preliminary announcement for the year ended 31 July 2017 has been prepared in accordance with the accounting policies as disclosed in Softcat plc's Annual Report and Accounts 2017, as updated to take effect of any new accounting standards applicable for the year.

Exceptional items

Items that are material in size and unusual in nature are included within operating profit and disclosed separately in the income statement. The separate reporting of these items helps to provide a more accurate indication of the underlying business performance. These costs related to the Company's Listing on the premium main market of the London Stock Exchange in November 2015.

Share based payment charges

The share based payment charge includes a fair value charge of £1,070,486 (2016: £572,156) and a charge for employer's national insurance contributions of £231,600 (2016: £315,794), which become payable on exercise of share options and long-term incentive awards.

Adjusted operating profit

In arriving at adjusted operating profit, both exceptional items and share based payment charges are removed in order to help present a more accurate picture of the Company's underlying performance.

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 profit or loss and other 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

	2017	**2016**
	£’000	**£’000**
Software	414,781	319,978
Hardware	287,424	250,692
Services	130,281	101,681
	832,486	**672,351**

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. **Exceptional items**

Operating profit for the year has been arrived at after charging:

	2017	**2016**
	£’000	**£’000**
IPO costs	-	3,673

All IPO costs incurred relate to the Company’s listing on the London Stock Exchange in November 2015.

5. Taxation

	2017 £'000	2016 £'000
Current Tax		
Current income tax charge in the year	10,393	9,179
Adjustment in respect of current income tax in previous years	88	(7)
Deferred Tax		
Temporary differences	(285)	73
Total tax charge for the year	**10,196**	**9,245**

6. Ordinary Dividends

	2017 £'000	2016 £'000
Declared and paid during the year, prior to IPO and share reorganisation:		
Ordinary dividend on ordinary shares		36,765
Ordinary dividend on 'MR' shares		864
Ordinary dividend on 'A' ordinary shares		2,469
		40,098
Declared and paid during the year, post IPO and share reorganisation:		
Special dividend on ordinary shares (14.2p per share)	28,060	
Final dividend on ordinary shares (3.6p per share)	7,114	
Interim dividend on ordinary shares (2.9p per share (2016:1.7p))	5,730	3,355
	40,904	3,355
	40,904	**43,453**

The dividends paid prior to the IPO in November 2015 were paid prior to the reorganisation of share capital, see note 11, and therefore are shown as dividends split between the pre-reorganisation share classes.

The Board recommends a final dividend of 6.1p per ordinary share and a special dividend of 13.5p per ordinary share to be paid on 15 December 2017 to all ordinary shareholders who were on the register of members at the close of business on 3 November 2017. Shareholders will be asked to approve the final and special dividends at the AGM on 8 December 2017.

7. **Trade and other receivables**

	2017	2016
	£'000	**£'000**
Trade and other receivables	162,089	123,833
Provision against receivables	(1,263)	(1,265)
Net trade receivables	**160,826**	**122,568**
Other debtors	59	59
Prepayments	5,415	4,764
Accrued Income	7,206	5,396
	173,506	**132,787**

8. **Trade and other payables**

	2017	2016
	£'000	**£'000**
Trade payables	100,312	67,759
Other taxes and social security	12,153	11,778
Accruals	28,708	24,000
Deferred Income	14,001	11,990
	155,174	**115,527**

9. Earnings per share

	2017	2016
	Pence	**Pence**
Earnings per share		
Basic	20.4	16.9
Diluted	20.2	16.9
Adjusted earnings per share		
Basic	21.0	19.2
Diluted	20.9	19.1

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

	2017	2016
	£'000	**£'000**
Earnings		
Earnings for the purposes of earnings per share being profit for the year	40,108	33,158
Adjusted Earnings		
Profit for the year	40,108	33,158
Exceptional costs	-	3,673
Share based payment charge	1,302	888
Tax effect of adjusting items	(47)	(97)
Earnings for the purposes of adjusted earnings per share	**41,363**	**37,622**

The weighted average number of shares is given below:

	2017	2016
	000's	**000's**
Number of shares used for basic earnings per share	196,959	196,040
Number of shares deemed to be issued at nil consideration following exercise of share options	1,137	696
Number of shares used for diluted earnings per share	**198,096**	**196,736**

10. **Notes to the cash flow statement**

	2017	2016
	£'000	**£'000**
Cash flow from operating activities		
Operating profit	50,162	42,190
Depreciation of property, plant and equipment	1,641	1,796
Amortisation of intangibles	367	327
Loss/(profit) on disposal of fixed assets	109	(9)
Loss on disposal of intangible assets	312	-
Cost of equity settled employee share schemes	1,070	572
Operating cash flow before movements in working capital	**53,661**	**44,876**
Increase in inventory	(2,364)	(1,961)
Increase in trade and other receivables	(40,719)	(12,608)
Increase in trade and other payables	39,647	7,474
Cash generated from operations	**50,225**	**37,781**
Income taxes paid	(9,254)	(7,856)
Net cash generated from operating activities	**40,971**	**29,925**

11. **Share capital**

	2015
	£'000
Authorised	
Pre- reorganisation	
Ordinary shares of 1p each	112
'MR' shares of 1p each	2
'A' ordinary shares of 1p each	6
	120

Limits on authorised share capital were removed on re-registration as a public limited company.

Allotted and called up			2015
			£'000
Pre- reorganisation			
Ordinary shares of 1p each			90
'MR' shares of 1p each			2
'A' ordinary shares of 1p each			6
			98
	2017	**2016**	
	£'000	**£'000**	
Post- reorganisation			
Ordinary shares of 0.05p each	99	99	
Deferred shares* of 1p each	-	-	
	99	**99**	

*At 31 July 2017 deferred shares had an aggregate nominal value of £189.33 (2016: £189.33).

On 12 November 2015, pursuant to special resolutions of the Company and conditional upon admission to the official list of the FCA (which took place on 18 November 2015), it was resolved that:

- 188,500 'MR' shares of £0.01 each be redesignated as ordinary shares of £0.01 each and their rights varied accordingly;
- 588,322 'A' ordinary shares of £0.01 each be redesignated as ordinary shares of £0.01 each and their rights varied accordingly;
- 18,933 'A' ordinary shares of £0.01 each be redesignated as deferred shares of £0.01 each; and
- each ordinary share of £0.01 be sub-divided into 20 ordinary shares of £0.0005 each.

No issued ordinary shares of £0.0005 each were unpaid at 31 July 2017 (2016: nil unpaid).

Deferred shares do not have rights to dividends and do not carry voting rights.

12. **Post balance sheet events**

Dividend

The Board recommends a final dividend of 6.1p per ordinary share and a special dividend of 13.5p per ordinary share to be paid on 15 December 2017 to all ordinary shareholders who were on the register of members at the close of business on 3 November 2017. Shareholders will be asked to approve the final and special dividends at the AGM on 8 December 2017.

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.

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