SOFTCAT plc
("Softcat", the "Company")

Preliminary results for the twelve months to 31 July 2020

Another year of strong organic growth, profitability and cash generation

Softcat plc (LSE: SCT.L), a leading UK provider of IT infrastructure products and services, today announces its full year results to 31 July 2020. The results combine broad-based resilient growth in revenues and profits together with sustained cash generation and continuation of a progressive dividend policy, with the previously cancelled interim dividend to be paid as part of the proposed final dividend for the year.

Financial Summary	**Twelve months ended**		
	31 July 2020 [d]	**31 July 2019**[a]	**Growth**
	£m	**£m**	
Revenue[a]	**1,077.1**	**991.8**	**8.6%**
Gross invoiced income[b]	**1,646.2**	**1,414.1**	**16.4%**
Gross profit	**235.7**	**211.1**	**11.6%**
Operating profit	**93.7**	**84.5**	**10.9%**
Cash conversion %[c]	**87.8%**	**92.2%**	
Total ordinary dividend (p)[e]	**16.6**	**14.9**	**11.4%**
Final dividend (normalised, p)[e]	**11.2**	**10.4**	**7.7%**
Special dividend (p)	**7.6**	**16.0**	**(52.5%)**
Basic earnings per share (p)	**38.2**	**34.6**	**10.4%**

Highlights for the twelve months to 31 July 2020

- Strong performance across the year and, despite the impact of COVID-19, we extended our record of year-on-year growth in revenue, gross profit and operating profit to sixty consecutive quarters.
- Cash conversion after capital expenditure remains healthy at c.90%.
- Increases in both customer base and average gross profit per customer, demonstrating progress against both key elements of our strategy.
- Headcount up 15%, reflecting ongoing investment across all areas of the business, in particular in our services, technical and specialist capabilities.
- The total ordinary dividend of 16.6p includes the previously cancelled interim dividend of 5.4p. In aggregate the ordinary dividend is 11.4% up on the combined interim and final dividend of prior year (14.9p).
- A special dividend of 7.6p is also proposed and has been calculated to increase the approximate minimum cash holding of the business from £30m to £45m. This change partly reflects the increase in the size and scale of the business since IPO and is considered prudent in light of the uncertainty created by COVID-19.
- Strong balance sheet position maintained with net cash at year end of £80.1m (2019: £79.3m).

[a] Revenue is reported under IFRS 15, the international accounting standard for revenue for both FY19 and FY20. IFRS 15 requires finely balanced judgements be made to determine whether Softcat acts as principal or agent in certain trading transactions. The judgement inherent in the application of IFRS 15, coupled with slight variations of business model between IT Solutions Providers, means the impact of IFRS 15 across the peer group is not uniform. Income prior to the IFRS 15 adjustment is referred to as gross invoiced income.
[b] Gross invoiced income reflects gross income billed to customers adjusted for deferred and accrued revenue items.
[c] Cash conversion is defined as cash flow from operations before tax but after capital expenditure, as a percentage of operating profit.
[d] IFRS 16 has been adopted from 1 August 2019 using the modified retrospective approach. The impact of this transition has had an immaterial impact on the results in the current period.
[e] The interim dividend of 5.4p, declared but subsequently cancelled in March 2020, is reinstated as part of the final dividend of 16.6p. For comparability to prior year, the final dividend is also shown on a 'normalised' basis to exclude the reinstated interim payment.

Graeme Watt, Softcat CEO, commented:

"Following a very strong first half of the year we were able to seamlessly transition to 100% home working when the need arose and, despite impact on demand from corporate customers during the last four months of our financial year, we continued to deliver growth in both our third and fourth quarters. We also made continued progress with both new and existing customers and are pleased to report that our customer base grew by 3% and gross profit per customer was up 8% on a full year basis.

The robust nature of our growth and the strength of our bank debt-free balance sheet means we are well-positioned to seize the long-term opportunities within our market. We were able to deliver these results without the need for redundancies, and our plans for 2021 are to continue to invest in skills and talent to meet our growth ambitions and further enhance our market share.

I'd like to thank the team for another record-breaking performance and for making Softcat such a great place to work, and also recognise the tremendous loyalty and support of our customers and partners during these challenging times."

Outlook

During the last four months of our 2020 financial year our public sector business performed strongly, but we did experience a softening in demand from corporate customers.

This year has started well, however we do expect corporate customers to continue to be circumspect with their spending over the coming months. This may mean that market conditions remain challenging for a time, but we remain confident in our ability to gain market share and our view of the long-term opportunity is undiminished.

As a result, we will continue to pursue our strategy of organic investment in new capabilities and seek to take advantage of our financial strength and scale. We have every confidence in a bright future for our industry and Softcat in particular.

Analyst and investor call

Management will host an analyst and investor conference call and webcast at 09.30 today. Access details for the conference call and webcast are:

Conference Call Details:

UK Toll Free:	0800 2796619
UK Local:	+44 (0)20 7192 8338
Conference Code:	2864827

Webcast Link:
https://edge.media-server.com/mmc/p/k4mtz9ta
Please register approximately 10 minutes prior to the start of the event. The announcement and presentation will be available at www.softcat.com from 07.00 and 09.00, respectively.

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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

I am delighted with the outcome of this financial year given the challenges we faced. We exceeded the performance expectations we set at the start of the year and I would like to thank everybody in the team for their outstanding individual and collective contributions. It was another strong year in which we grew year-on-year revenue, gross profit and operating profit in each quarter despite the impact of the pandemic. I would like to thank the leadership team too. They worked very hard and successfully to secure the safety of our people and build financial contingency plans very early in the crisis. As a team they remained calm and pragmatic and dealt with realities, planning for the worst while managing for better and using good judgement at all times. I think that approach served us well and we continue to be guided by our company purpose – helping customers to use technology to succeed, by putting our employees first.

Gross profit, our most important measure of income, grew by 12% during 2020 to £235.7m, with operating profit up by 11% to £93.7m. Cash generation was again very healthy, with no discernible impact from COVID-19. Based on our confidence in the business and a robust 2020 performance we are announcing the resumption of our normal dividend policy, to include payment of the interim dividend previously cancelled in March 2020.

Our focus on both new and existing customers remains at the heart of our strategy and I am delighted to see our Net Promoter Score (NPS) jump from 60 to 66 in our recent customer satisfaction survey. During the year our customer base grew by 3%, similar to last year, and gross profit per customer was up a healthy 8%.

Partner and industry recognition

We received many accolades for our performance during the year including the CRN Public Sector Reseller of the year award, a great testament to the investment and advances we made in this segment over the last few years. I am always particularly delighted with awards that recognise our team and culture at Softcat so to rank 5th among great places to work from both Glassdoor and the Great Places to Work organisation was especially pleasing.

In addition, we were recognised by our vendors with some highlights being Pure Storage Global Distribution Partner of the Year, Palo Alto Customer Acquisition Partner of the Year, VMware CloudHealth EMEA Partner of the Year, and becoming an 8x8 Platinum Partner.

Softcat people & culture

Our single biggest differentiator in this market is our culture and the talent we have in our team. Our culture is an enormous source of comfort and strength at all times and has undoubtedly helped us to manage through the pandemic. The way the team worked together and supported each other, our partners and our customers has been inspiring but not surprising. At the start of each new financial year we choose a word of the year. For 2020 we chose "care" and with hindsight we couldn't have picked a more appropriate sentiment. The team has demonstrated that they care in so many ways and moved quickly to build new means of staying in touch, recognising performance and having fun in a remote working environment. Never before has the power of having a strong team around us been more evident.

At Softcat we have created an environment where everyone is naturally welcomed and valued, allowing people to express themselves and play to their strengths. We have internal networking groups that promote awareness and understanding and can drive positive change, and these are well positioned to make further advances in our diversity and inclusion efforts. During the year we were delighted to launch the BAME network to sit alongside existing groups such as Pride, Supporting Women in Business, Family and Armed Forces.

Enhancing the diversity of our company is both the right thing and the smart thing to do. I am determined to further increase the diversity of the company and in parallel work towards ensuring that it is reflected in our leadership teams.

Our people and sales culture are central to the way we operate and we are fundamentally an office-based organisation. So, while we are looking to return to our premises just as soon as we can to optimise our induction, training, development and day to day management of our teams, we will continue to place their safety and well-being ahead of any other considerations. And we will be introducing further permanent flexibility to our working practices so some of the positive changes from lockdown can be maintained in the future.

Growth drivers

Technology continues to develop to support our customers' evolving needs. They want to be agile, collaborative, productive, efficient, competitive and gain further insights from their data. They all need to be secure and many are turning to consumption models. They want current technology to help them deliver all that and more.

Interestingly, we observed that the drivers for growth were much the same both before and since the impact of COVID-19, but with accelerating emphasis towards cloud computing and storage. Customers wanting to be cloud-ready, mobile-ready and secure is nothing new, but many have recognised the need to speed up their digital transformation. They want to move increasingly to consumption models where they pay for utilisation, or take advantage of third party financial service products that help ease demands on capital while enabling growth. Sustainability is also moving up the agenda in both the corporate and public sector segments. Office print, storage and datacentre were areas that, perhaps understandably, slowed in the second half as budgets shifted to new priorities.

Strategy and customer focus

Our strategy continues to be straightforward: to sell more to our existing customers and win new customers by helping them invest in technology and deliver their desired outcomes. The value we bring is in helping them navigate the complexity of available options and keeping up with the pace of change. We bring thousands of customers together with the technologies of hundreds of vendors on a daily basis. We build trust with our customers that develops into loyalty over time. We invest in talented and dedicated account managers who are supported by a growing team of experts that cover a huge range of technologies. Our large and growing service capability is among the largest in the UK and is augmented by an extensive partner network, and our distribution partners give the customer the best possible access to solutions. Our offering continues to evolve primarily based on what customers tell us they need.

We expect to see further growth from the areas we have invested in recently including Defence and Central Government, and from our newer offices in Ireland and Birmingham. We have continued to expand our multi-national fulfilment capabilities in support of our large enterprise customers, and we expect to deliver further penetration and success from our market leading cloud and cyber security offerings.

We have planned to invest once again in significant headcount growth in the year ahead, alongside the ongoing development of existing talent to build relevant skills and expertise for the benefit of our customers. We are focused on delivering desired outcomes for our customers whose overall satisfaction ratings with our service have increased this year to 93% (from 92% in 2019).

We will continue to focus on growth and taking market share and won't be thrown off course. Our strategy is clear, our business model simple and our purpose is unchanged.

Key challenges ahead

Many of our challenges remain the same. We operate in a fragmented market where it is difficult to differentiate, but we have managed to do so through our culture and the breadth of our expertise and services. We will keep making our people our number one focus, make sure there is no room for complacency, continue to look for ways to improve in all that we do and ensure that Softcat remains a great place to work. We will invest in talent and capabilities to make sure we are meeting the current needs of customers and building out our offering for the mid-term too. As customers embrace home-working we will fine-tune our approach as appropriate – something made possible by the breadth of our expertise.

Brexit is a potential challenge for the coming year but we have robust mitigation plans in place and it may bring some opportunities too. And none of us can predict what further twists and turns lie ahead as we continue to face the COVID-19 pandemic. What we do know is that we must continue to be on our toes and be ready to react quickly to anything that is thrown our way whilst prioritising the health and safety of our employees and others.

Our view of the opportunity that exists in our market is undiminished, and we are as excited as ever about our prospects in the medium and long-term. As a result, we will continue to pursue our strategy of organic investment in new capabilities and seek to take advantage of our financial strength and scale. We have every confidence in a bright future for our industry and Softcat in particular.

Chief Financial Officer's Review

Financial Summary	FY20	FY19	Growth
Revenue	£1,077.1m	£991.8m	8.6%
Revenue split			
Software	£519.5m	£476.5m	9.0%
Hardware	£442.3m	£430.9m	2.6%
Services	£115.3m	£84.4m	36.6%
Gross invoiced income (GII)	£1,646.2m	£1,414.1m	16.4%
GII split			
Software	£964.3m	£788.9m	22.2%
Hardware	£458.3m	£453.0m	1.2%
Services	£223.6m	£172.2m	29.8%
Gross profit	£235.7m	£211.1m	11.6%
Gross profit margin	21.9%	21.3%	0.6% pts
Operating profit	£93.7m	£84.5m	10.9%
Operating profit margin	8.7%	8.5%	0.2% pts
Gross profit per customer[1]	£24.8k	£23.0k	7.8%
Customer base numbers	9.5k	9.2k	3.3%
Cash conversion	87.8%	92.2%	(4.4% pts)

Gross profit, revenue and gross invoiced income

Gross profit, our primary measure of income grew by 11.6% to £235.7m, reflecting strong growth of 18.0% in the first half to January 2020, followed by robust growth of 6.5% during the second half which was impacted by COVID-19. This impact was most significant during our final quarter which nonetheless was still slightly ahead of a very tough comparative. The slow-down seen during the final quarter gives a good indication of the general net downturn in customer demand seen in response to the uncertainty created. The Company has a very broad product offering, covering all key elements of digital infrastructure, and experienced both increased and reduced demand in different areas and at different times during H2. But the net effect was that customers were generally more circumspect with expenditure from April onwards. Within this, demand from Public Sector customers was largely

[1] Customer base is a new measure and differs from previously disclosed 'customer numbers', being defined as the number of customers who have transacted with Softcat in both of the preceding twelve-month periods. Customer numbers was previously defined simply as the number of unique entities transacting with Softcat during the reporting period. Prior year numbers (customer base and gross profit per customer) have also been restated accordingly. References to the number of customers in this preliminary statement refers to the customer base.

unaffected, indeed was stronger than usual during the early part of the lockdown period between mid-March through to May. Demand from Corporate customers overall was reduced and most severely impacted in those sectors where income was significantly affected by COVID-19 restrictions. The commercial sector or vertical in which a customer operates was a far more significant determinant of activity than the customer's size, and demand did show signs of a gradual recovery as our fourth quarter progressed.

Apart from the impact of COVID-19, income growth drivers, especially in the first half, showed similarities to previous years and were broad-based. Performance across all customer segments (public sector, mid-market and enterprise) and technology areas was strong and well-diversified with no individual customer accounting for more than 2% of gross profit.

Gross invoiced income ('GII') rose 16.4% to £1,646.2m (2019: £1,414.1m) with growth strongest in Public Sector (growing by 26% and comprising 39% of total GII) but mid-market (+10%) and Enterprise (+12%) also performed well. When viewed by technology type, GII grew strongly within both software and services. Hardware was flat on prior year, being most significantly impacted by COVID-19 during the second half. While harder to assess due to the volatility of the market in H2, we believe these results reflect further gains in market share.

Revenue (GII netted down for cloud-based software and other revenue streams in accordance with IFRS 15) was £1,077.1m, up 8.6% on 2019 (£991.8m).

Customer KPIs
The Company strategy continues to focus on winning new customers and nurturing individual relationships over many years to engender genuine trust and loyalty. This stems from our special internal culture and the determination to provide the very best customer service in our industry. As a result of this, we were once again able to grow average revenue and gross profit per customer, with the latter rising by 7.8% to £24.8k (2019: £23.0k), and 95% of all gross profit was earned from existing customers (2019: 95%). Notwithstanding the further progress made in these metrics, we estimate that our average share of wallet from existing customers is c.15%, and so increasing our penetration within existing customer accounts continues to be a key, long-term opportunity.

During the year the customer base expanded by 300 to a total of 9.5k, up 3.3% from 9.2k in 2019, and total gross profit earned from new customers grew by 17.3% year on year. While contributing relatively modest levels of in-year income (accounting for 5% of gross profit in both 2020 and 2019), the addition of new customers remains a strategic aim and underpins our opportunity for future growth.

Operating profitability and investment in future growth
Total cost growth for the year was 12.1%, which was in line with GP growth and so our key internal operating margin, the ratio of operating to gross profit, was relatively stable at 39.8% (2019: 40.0%).

During the latter part of the year, cost savings achieved as the result of COVID-19 restrictions (for example travel, expenses and establishment costs) were a helpful but only partial offset to reduced spending by corporate customers.

People related costs, including commissions, continue to represent c.85% of total operating costs and during the year average headcount grew by 13%. Our ongoing investment in both new and existing team members is something we plan to continue during the coming year despite external uncertainties, and reflects our confidence in the long-term opportunity our market continues to afford. As in previous years, we have continued to recruit across all areas of the company, with a significant expansion in capacity of the sales force, but also a continued focus on progressively increasing the ratio of specialist and technical staff. This commitment to investing in our skill base will continue during 2021.

Commission costs grew broadly in line with gross profit, reflecting the stability of the schemes and hence effective commission rates year on year.

Non-people related costs, comprising c.15% of the cost base, grew at a slightly lower rate than headcount at 12.0%.

Corporation tax charge
The effective tax rate for 2020 was 19.2% (2019: 19.3%), reflecting a stable statutory rate of 19.0% in both years, together with the relatively marginal impact of non-deductible expenses. Our tax strategy continues to be focused on paying the right amount of tax, in the right jurisdiction, at the right time.

Cash and balance sheet
Cash conversion, defined as operating cash flow net of capital expenditure as a percentage of operating profit, was 88% (2019: 92%). The slight reduction on prior year was expected and reflects the capital investment in the major refurbishment of both the Marlow and Manchester offices, which are now complete, partly offset by disciplined management of working capital. It is worth noting that across the period as a whole, the COVID-19 pandemic had no discernible impact on our cashflow and closing working capital balances contain no significant-one off impacts. Cumulative cash conversion in the five years since IPO is 92%. This reflects the unchanged and highly cash-generative nature of the business model, with no significant stock holding, with the inventory value at the balance sheet date mainly reflecting stock in transit between distribution partners and customers, as well as a short working capital cycle. Cash conversion for 2021 is expected to be slightly below past trend (c.85%) due to planned capital expenditure on the implementation of a new finance system.

The Company's closing cash balance was £80.1m (2019: £79.3m), reflecting the broadly offsetting impact of cash generated from trading, net of corporation tax payments, and dividend payments during the period which totalled £52.3m (2019: £56.2m). The Company remains entirely bank debt free.

Dividend
A final ordinary dividend of 16.6p per share has been recommended by the Directors and if approved by shareholders will be paid on 11 December 2020. This includes the 5.4p interim dividend that was declared in March 2020 and subsequently cancelled due to uncertainty created by COVID-19. The final ordinary dividend will be payable to shareholders whose names are on the register at the close of business on 6 November 2020. Shares in the Company will be quoted ex-dividend on 5 November 2020. The dividend reinvestment plan ('DRIP') election date is 23 November 2020.

In line with the Company's stated intention to return excess cash to shareholders, a further special dividend payment of 7.6p has been proposed. If approved this will also be paid on 11 December 2020 alongside the final ordinary dividend.

Principal Risks and Uncertainties

The principal and emerging risks facing the Company have been identified and evaluated by the Board. In summary, principal risks 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 COVID-19 consideration(s): • Potential increase in the rate of change in customer needs	• 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 COVID-19 consideration(s): • Increase in risk due to number of employees working remotely	• Company-wide information security policy • Appropriate induction and training procedures for all staff • External penetration testing programme undertaken • ISO 27001 accreditation • In-house technical expertise • Action plan to issue all employees with corporate devices and address network access risks as a result of increased home working
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 Disaster Recovery plans
Macro-economic factors including Brexit	• Short-term supply chain disruption • Reduced margins • Reduced customer demand • Reduced profit per customer COVID-19 consideration(s): • Increase in risk due to the uncertainty and economic disruption	• Close dialogue with supply-chain partners to ensure all potential Brexit scenarios are planned for • Customer-centric culture • Breadth of proposition and customer base • Additional customer credit review processes introduced in response to COVID-19 • No change in cash receipts and conversion to date • Customer base is well diversified in terms of both revenue concentration but also public and commercial sector exposure

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 • Loss of talent COVID-19 consideration(s): • Slight increase in risk due to remote working practices	• 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 • Enhanced internal communication processes and events during the pandemic
Poor leadership	• Lack of strategic direction • Deteriorating vendor relationships • Reduced staff engagement	• Succession planning process • Experienced and broad senior management team

Managing the impact of COVID-19

The COVID-19 pandemic took hold in the UK during the second half of March 2020, midway through the third quarter of our financial year. While, as discussed in other sections of this report, the crisis has softened customer demand in some segments, it has not fundamentally changed our industry and will indeed serve as a catalyst for our market over the medium and long-term.

Softcat is a people business and our special culture is the beating heart of our success. Each year we choose a word of the year to try and create a focus for this culture in the twelve months ahead. In September 2019 we chose the word 'care' for 2020, and with the benefit of hindsight we couldn't have made a more apt selection.

And we have found that our culture also creates a fantastic support network in these challenging times. Since March, we have focussed on and increased our internal communications even compared to our normal levels. We have also been able to continue with much of our usual recruitment activity and are working hard to ensure new staff can be properly onboarded and made to feel welcome.

Since the end of full lockdown, we have been able to establish very safe environments in our more than ample floorspace across our nine locations in the UK and Ireland. We have operated a voluntary return to office policy, giving people the flexibility to choose an arrangement that is right for them, and carefully controlled maximum occupancy to maintain an excellent ability to socially distance. We expect this flexibility to continue for some time and, while ultimately, we will remain an office-based organisation, we are carefully evaluating permanent alterations to our flexible working model.

Softcat has a base of more than 9,000 recurring customers and trades annually with in excess of 12,000 different entities. Our normal processes to control our exposure to credit risk are carefully calibrated and the business has a very low historic rate of bad debts.

So far during the pandemic we have not seen any change to this outcome, but we have taken steps to prudently increase our control and oversight in this area. This involves a bi-weekly review of key credit exposures and metrics, and involves each of the CEO, CFO and MD, as well as key members of the finance and credit control team. The Company also operates a credit insurance policy and closely collaborates with the insurer on risk management. We also work closely with other expert third parties on the use of data to map, monitor and control our risk in this area.

As well as not seeing any COVID-19 specific incidents of bad debt so far, we have also continued to observe customer cash receipts almost exactly in line with historic norms. And for this reason, our cash generation has overall remained at our normal, very high levels.

Despite the lack of any adverse impact in working capital and debt management to date, we will continue to operate with increased scrutiny and control in these areas for the foreseeable future, ensuring that the company is as protected from risk as possible. The business remains free of any bank or other external borrowings.

While COVID-19 has created a short term impact on customer spending patterns, there is nothing that we have seen so far to suggest anything other than that our existing strategy remains correctly calibrated for the times ahead. Our straight-forward approach has always involved listening carefully to the needs of our customers and investing over the long-term to create a broad and deep set of capabilities to support them. COVID-19 seems to be accelerating the digital transformation of organisations, but we have been investing to meet the needs of that transformation for many years already.

Since our IPO in 2015, our business has approximately doubled in size – both in terms of income but also in terms of people. All of this growth has been organic, and the fastest area of growth within our employee base has been in the technical areas. So our skills as an organisation are well adapted to meet the challenges that our customers now face, whether that be deploying cloud-based software, or embracing hybrid models of datacentre infrastructure. In fact, given our size, scale and financial strength, we intend to continue with our inward, organic investment throughout these challenging times and seek to enhance our competitive advantage as a result.

Brexit risk

The Company continues to monitor the progress of negotiations with the EU and the evolving political situation in the UK. Management is committed to maintaining robust plans to ensure the Company is well prepared for any and all potential outcomes, including an abrupt and disorderly no deal exit. Since the UK's EU referendum in 2016, the Directors do not believe the Company has suffered any adverse effects from the Brexit process, but continue to assess the changing severity of associated risks. The Board has considered market and competitive factors and also carried out a detailed review of operational risks associated with Brexit. Overall the Board considers the risk of operational disruption to be low as:

• We are a UK domiciled business with limited exposure to EU customers or suppliers. Notwithstanding that limited exposure, our recent expansion into Ireland, together with our investment in multinational fulfilment capabilities, further mitigates any risk in this area.

• While many of the products we sell have a cost price which can fluctuate in relation to the strength of Sterling (especially against the US Dollar), our customers are well used to accepting such fluctuations being reflected by prices (i.e. costs can be passed on by Softcat). This situation occurred in the aftermath of the referendum vote in 2016 and the Company experienced no reduction in either profit margin or customer demand as a result.

• The risk of stock shortages resulting from customs delays is being mitigated by the efforts of our suppliers to both secure alternative import routes as well as build up additional inventory at key distribution hubs in the UK.

Our approach to managing the balance sheet has been conservative, resulting in a very simple debt-free position. We therefore have no refinancing or interest related risks.

Going Concern

Overview
In considering the going concern basis for preparing the financial statements, the Directors consider the Company's objectives and strategy, its principal risks and uncertainties in achieving its objectives and its review of business performance and financial position, which are all set out in the strategic report and financial review sections of the Annual Report. Given the economic uncertainty of the COVID-19 pandemic and the further uncertainty arising from the impact of the UK leaving the EU and taking into account the recent guidance issued by the FRC the Directors have undertaken a fully comprehensive going concern review.

The Group has modelled three scenarios in its assessment of going concern. These are:

- The base case;
- The severe but plausible case; and
- The reverse stress test case.

Further details, including the analysis performed and conclusion reached, are set out below.
The Directors have reviewed detailed financial forecasts, which is for a 12-month period of going concern from the date of the annual report. All the forecasts reflect the payment of our FY20 dividend of £47.6m which will be paid in December 2020 subject to approval at the AGM.

The Company operates in a resilient industry. Our customer base incorporates a large volume of non-discretionary spend from UK corporates as IT has become vital to establish competitive advantage in an increasingly digital age. Public Sector, a large and fast-growing area of the business, has shown no negative sensitivity to COVID-19 so far. The Company will continue to focus on increasing the customer base and spend per customer during the going concern period.

Liquidity and financing position
At 31 July 2020, the Company held instantly accessible cash and cash equivalents of £80.1m, while net current assets were £127.0m. Note 21 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 and its exposures to credit risk and liquidity risk. The Company has access to a Revolving Credit Facility (RCF) of £50m up to April 2021, but in all models and scenarios considered by management the facility is not expected to be draw down and therefore management has held no discussions on whether the facility will be extended at the date of this report. Management have further confirmed their eligibility for the Covid Corporate Financing Facility (CCFF) as a safeguard but do not anticipate needing to obtain external funding for at least 12 months post report date.

There is a sufficient level of liquidity/financing headroom post mitigation across the going concern forecast period in base and severe but plausible scenarios considered and outlined in more detail below.

Operational and business impact of COVID-19
In the strategic report within the annual report COVID-19s impact on the business has been disclosed. Management have in all three scenarios modelled the potential future impact of COVID-19 on the business and considered the impact it had during the period from March to July 2020. At this point many customers were transitioning to home working and responding to the impact COVID-19 had on their own business liquidity impacting their spending patterns. Despite this and increasingly towards the end of this period, Softcat experienced low single-digit year-on-year growth.

Base case
The base case, which was approved by the Board in October 2020, takes into account the estimated impact of the COVID-19 pandemic across the going concern period and reflects the actual trading experience through September 2020. The key inputs and assumptions in the base case include:

- Revenue growth in the low to mid-single digit range in line with the growth experienced in last two quarters of FY20 which reflected the impact of COVID-19;
- Rebate income continues to be received in proportion to sales as in FY20;

- Employee commission is incurred in line with the gross margin; and
- Similar level of costs as incurred in prior year, with an increase in bad debt expense modelled to account for a potential increase in credit risk.

The Company has taken a measured approach to the base case and has balanced the expected trading conditions with available opportunities in an increasingly resilient area of customer spend, which is supported by the current financial position. All employees were able to relatively easily move to working remotely and which did not impact our ability to meet customer needs. We continue to work largely remotely, and this is not expected to have an impact on the operational performance of the Company. Year to date trading to the end of September 2020 shows growth in line with the base case forecast.

Severe but plausible case

Given the uncertainty around impact of COVID -19, and the continuing uncertainty around the impact of the UK leaving the EU, we have considered a severe but plausible scenario. In this case we have modelled a decline in revenues which is significantly below any historic trend and more severe than experience during the period of March 2020 up to July 2020.

The key inputs and assumptions include:

- an average 8% year-on-year reduction in revenue and gross invoiced income;
- reduced gross profit margins of between 1% and 2% in the period;
- bad debt writes offs of £15m across the forecast period;
- extending the debtor days by three days from historic levels achieved and no change to historic supplier payment days; and
- paying an FY21 interim dividend in line with lower level of profitability.

The purpose of this scenario was to consider if there was a significant risk that the Company would move to being cash negative in any of the months in the going concern period. Even at these lower levels of activity, which the Directors believe is a highly unlikely outcome, we continue to be profitable and the Company would still have available cash. We have modelled cost savings and further working capital action (see mitigating actions below) that will enable us to mitigate the impact of reduced cash generation should this scenario occur. The Directors are confident that they can implement these actions if required.

Mitigating actions

There are several potential management actions that have not been included in the severe but plausible forecast and it is estimated that the total cash impact of these actions is in excess of £18 million cost reduction on an annualised basis and £20 million working capital impact, before taking into account the cost of delivering them and the point at time at which they were delivered. The actions which if implemented would offset the reduced activity:

- Commission and bonus scaled back in line with performance;
- Reduced salary costs, through recruitment restrictions on new heads and not replacing leavers;
- No interim dividend in H2 of FY21;
- Savings in discretionary areas of spend;
- Delayed payment to suppliers foregoing early settlement discount; and
- Short term supplier payment management.

The mitigations are deemed achievable as the Company benefits from a flexible business model with a high proportion of costs linked to performance. If this scenario arose and the Company implemented the mitigating actions, we expect that available cash would not fall significantly below the £45m cash liquidity floor set by Board.

Reverse stress test

The Directors have performed a reverse stress test exercise to see how extreme conditions would need to be for the Company to become cash negative within a 12-month period. The conditions go significantly further than the severe but plausible scenario and reflect a scenario that the business consider remote. The five combined stresses modelled are as follows:

1. Reduction of 45% in Gross invoiced income;

2. Reduced achievable gross margin by 5%;
3. Large and immediate bad debt write offs of £25m;
4. Substantial increase in debtor days;

All five inputs are greater than the business has ever experienced in its history. In the modelled scenario, prior to mitigations, the business could become cash negative within 12 months. Whilst the Board considers such a scenario to be extremely remote a programme of further actions to mitigate the impact, in excess of those set out above, would be actioned should the likelihood of such a scenario increase. The Board consider the forecasts and assumptions used in the reverse stress test, as well as the event that could lead to it, to be extremely remote.

Going concern conclusion
Based on the forecast and the scenarios modelled, together with the performance of the Company to date in 2020/21, the Directors consider that the Company has significant liquidity headroom to continue in operational existence for 12 months post the date of this report. Accordingly, at the October 2020 Board meeting, the Directors concluded from this analysis it was appropriate to continue to adopt the going concern basis in preparing the financial statements. The long-term impact of COVID-19 is uncertain and should the impact of the pandemic on trading conditions be more prolonged or severe than currently forecast by the Directors under the severe but plausible case scenario, the Company would need to implement additional operational or financial measures.

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 2020

	Note	2020	2019
		£'000	£'000
Revenue	*3*	**1,077,127**	**991,849**
Cost of sales		(841,422)	(780,706)
Gross profit		**235,705**	**211,143**
Administrative expenses		(141,972)	(126,657)
Operating profit		**93,733**	**84,486**
Finance income		200	333
Finance cost		(316)	-
Profit before taxation		**93,617**	**84,819**
Income tax expense	*4*	(17,953)	(16,358)
Profit for the year attributable to owners of the Company being total comprehensive income		**75,664**	**68,461**
Basic earnings per ordinary share (pence)	*10*	38.2	34.6
Diluted earnings per ordinary share (pence)	*10*	38.0	34.3

All results are derived from continuing operations.

Statement of Financial Position[2]
As at 31 July 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Property, plant and equipment		11,897	5,761
Right-of-use-assets	*6*	8,698	-
Intangible assets		1,301	240
Deferred tax asset		2,408	2,485
		24,304	**8,486**
Current assets			
Inventories		11,744	11,084
Trade and other receivables	*7*	314,123	285,307
Income tax receivable		636	-
Cash and cash equivalents		80,139	79,263
		406,642	**375,654**
Total assets		**430,946**	**384,140**
Current liabilities			
Trade and other payables	*8*	(263,866)	(244,468)
Contract liabilities	*9*	(13,929)	(15,165)
Income tax payable		-	(9,115)
Lease liabilities	*6*	(1,867)	-
		(279,662)	**(268,748)**
Non-current liabilities			
Contract liabilities	9	(2,565)	-
Lease liabilities	*6*	(7,972)	-
		(10,537)	**-**
Total liabilities		**(290,199)**	**(268,748)**
Net assets		**140,747**	**115,392**
Equity			
Issued share capital	*12*	100	99
Share premium account		4,979	4,979
Reserves for own shares		-	-
Retained earnings		135,668	110,314
Total equity		**140,747**	**115,392**

[2] The 2019 'Deferred income' balance of £15.2m has been reclassified to 'Contract liabilities' from 'Trade and other payables'. Refer to note 12 for further detail.

Statement of Changes in Equity
For the year ended 31 July 2020

	Share capital £'000	Share premium £'000	Reserves for own shares £'000	Retained earnings £'000	Total equity £'000
Balance at 1 August 2018	**99**	**4,979**	**-**	**95,738**	**100,816**
Total comprehensive income for the year	-	-	-	68,461	68,461
Share-based payment transactions	-	-	-	1,732	1,732
Dividends paid	-	-	-	(56,231)	(56,231)
Shares issued in the year	-	-	-	-	-
Tax adjustments	-	-	-	(287)	(287)
Own share movement during the year	-	-	-	901	901
Balance at 31 July 2019	**99**	**4,979**	**-**	**110,314**	**115,392**
Balance at 1 August 2019	**99**	**4,979**	**-**	**110,314**	**115,392**
Effect of adoption of IFRS 16	-	-	-	(179)	(179)
Balance at 1 August 2019 (adjusted)	**99**	**4,979**	**-**	**110,135**	**115,213**
Total comprehensive income for the year	-	-	-	75,664	75,664
Share-based payment transactions	-	-	-	1,958	1,958
Dividends paid	-	-	-	(52,338)	(52,338)
Shares issued in the year	1	-	-	-	1
Dividend equivalents paid	-	-	-	(259)	(259)
Tax adjustments	-	-	-	508	508
Balance at 31 July 2030	**100**	**4,979**	**-**	**135,668**	**140,747**

Statement of Cash Flows
For the year ended 31 July 2020

	Note	2020 £'000	2019 £'000
Net cash generated from operating activities	*11*	**64,170**	**64,659**
Cash flows from investing activities			
Finance income		200	333
Purchase of property, plant and equipment		(7,664)	(2,168)
Purchase of intangible assets		(1,293)	(161)
Net cash used in investing activities		**(8,757)**	**(1,996)**
Cash flows from financing activities			
Issue of share capital		(1)	-
Dividends paid	*5*	(52,338)	(56,231)
Payment of principal portion of lease liabilities		(1,882)	-
Payment of interest portion of lease liabilities		(316)	-
Net cash used in financing activities		**(54,537)**	**(56,231)**
Net increase in cash and cash equivalents		**876**	**6,432**
Cash and cash equivalents at beginning of year		79,263	72,831
Cash and cash equivalents at end of year		**80,139**	**79,263**

Notes to the Financial Information

1.1 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 2020 or 2019 but is based on, and consistent with, that in the audited financial statements for the year ended 31 July 2020, 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.

Presentation

"Deferred income and contract liabilities" of £15.2m, included within "Trade and other payables" at 31 July 2019, have now been separately disclosed on the face of the statement of financial position as "Contract Liabilities" as required by IFRS 15 "Revenue from Contracts with Customers". The opening comparative period statement of financial position at 1 August 2018 has not been provided as the only balances impacted would have been to reduce Trade and other payables by £11.2m and presented as Contract liabilities.

This reclassification had no impact on the Company's net assets, income statement or net cash flow from operating activities reported in 2019.

Going concern

The financial information has been prepared on the going concern basis which assumes that the Company will continue to be able to meet its liability as it falls due for the foreseeable future, being a period of at least 12 months from the date of signing these financial statements.

In considering the going concern basis for preparing the financial statements, the Directors consider the Company's objectives and strategy, its principal risks and uncertainties in achieving its objectives and its review of business performance and financial position, which are all set out in the strategic report and financial review sections of the Annual Report. Given the economic uncertainty of the COVID-19 pandemic and the further uncertainty arising from the impact of the UK leaving the EU and taking into account the recent guidance issued by the FRC the Directors have undertaken a fully comprehensive going concern review.

The Group has modelled three scenarios in its assessment of going concern. These are:

- The base case;
- The severe but plausible case; and
- The reverse stress test case.

Further details, including the analysis performed and conclusion reached, are set out below.
The Directors have reviewed detailed financial forecasts, which is for a 12-month period of going concern from the date of the annual report. All the forecasts reflect the payment of our FY20 dividend of £47.6m which will be paid in December 2020 subject to approval at the AGM.

The Company operates in a resilient industry. Our customer base incorporates a large volume of non-discretionary spend from UK corporates as IT has become vital to establish competitive advantage in an increasingly digital age. Public Sector, a large and fast-growing area of the business, has shown no negative sensitivity to COVID-19 so far. The Company will continue to focus on increasing the customer base and spend per customer during the going concern period.

Liquidity and financing position
At 31 July 2020, the Company held instantly accessible cash and cash equivalents of £80.1m, while net current assets were £127.0m. Note 21 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 and its exposures to credit risk and liquidity risk. The Company has access to a Revolving Credit Facility (RCF) of £50m up to April 2021, but in all models and scenarios considered by management the facility is not expected to be draw down and therefore management has held no discussions on whether the facility will be extended at the date of this report. Management have further confirmed their eligibility for the Covid Corporate Financing Facility (CCFF) as a safeguard but do not anticipate needing to obtain external funding for at least 12 months post report date.

There is a sufficient level of liquidity/financing headroom post mitigation across the going concern forecast period in base and severe but plausible scenarios considered and outlined in more detail below.

Operational and business impact of COVID-19
In the strategic report within the annual report COVID-19s impact on the business has been disclosed. Management have in all three scenarios modelled the potential future impact of COVID-19 on the business and considered the impact it had during the period from March to July 2020. At this point many customers were transitioning to home working and responding to the impact COVID-19 had on their own business liquidity impacting their spending patterns. Despite this and increasingly towards the end of this period, Softcat experienced low single-digit year-on-year growth.

Base case
The base case, which was approved by the Board in October 2020, takes into account the estimated impact of the COVID-19 pandemic across the going concern period and reflects the actual trading experience through September 2020. The key inputs and assumptions in the base case include:

- Revenue growth in the low to mid-single digit range in line with the growth experienced in last two quarters of FY20 which reflected the impact of COVID-19;
- Rebate income continues to be received in proportion to sales as in FY20;
- Employee commission is incurred in line with the gross margin; and
- Similar level of costs as incurred in prior year, with an increase in bad debt expense modelled to account for a potential increase in credit risk.

The Company has taken a measured approach to the base case and has balanced the expected trading conditions with available opportunities in an increasingly resilient area of customer spend, which is supported by the current financial position. All employees were able to relatively easily move to working remotely and which did not impact our ability to meet customer needs. We continue to work largely remotely, and this is not expected to have an impact on the operational performance of the Company. Year to date trading to the end of September 2020 shows growth in line with the base case forecast.

Severe but plausible case
Given the uncertainty around impact of COVID -19, and the continuing uncertainty around the impact of the UK leaving the EU, we have considered a severe but plausible scenario. In this case we have modelled a decline in revenues which is significantly below any historic trend and more severe than experience during the period of March 2020 up to July 2020.
The key inputs and assumptions include:

- an average 8% year-on-year reduction in revenue and gross invoiced income;
- reduced gross profit margins of between 1% and 2% in the period;

- bad debt writes offs of £15m across the forecast period;
- extending the debtor days by three days from historic levels achieved and no change to historic supplier payment days; and
- paying an FY21 interim dividend in line with lower level of profitability.

The purpose of this scenario was to consider if there was a significant risk that the Company would move to being cash negative in any of the months in the going concern period. Even at these lower levels of activity, which the Directors believe is a highly unlikely outcome, we continue to be profitable and the Company would still have available cash. We have modelled cost savings and further working capital action (see mitigating actions below) that will enable us to mitigate the impact of reduced cash generation should this scenario occur. The Directors are confident that they can implement these actions if required.

Mitigating actions

There are several potential management actions that have not been included in the severe but plausible forecast and it is estimated that the total cash impact of these actions is in excess of £18 million cost reduction on an annualised basis and £20 million working capital impact, before taking into account the cost of delivering them and the point at time at which they were delivered. The actions which if implemented would offset the reduced activity:

- Commission and bonus scaled back in line with performance;
- Reduced salary costs, through recruitment restrictions on new heads and not replacing leavers;
- No interim dividend in H2 of FY21;
- Savings in discretionary areas of spend;
- Delayed payment to suppliers foregoing early settlement discount; and
- Short term supplier payment management.

The mitigations are deemed achievable as the Company benefits from a flexible business model with a high proportion of costs linked to performance. If this scenario arose and the Company implemented the mitigating actions, we expect that available cash would not fall significantly below the £45m cash liquidity floor set by Board.

Reverse stress test

The Directors have performed a reverse stress test exercise to see how extreme conditions would need to be for the Company to become cash negative within a 12-month period. The conditions go significantly further than the severe but plausible scenario and reflect a scenario that the business consider remote. The five combined stresses modelled are as follows:

5. Reduction of 45% in Gross invoiced income;
6. Reduced achievable gross margin by 5%;
7. Large and immediate bad debt write offs of £25m;
8. Substantial increase in debtor days;

All five inputs are greater than the business has ever experienced in its history. In the modelled scenario, prior to mitigations, the business could become cash negative within 12 months.
Whilst the Board considers such a scenario to be extremely remote a programme of further actions to mitigate the impact, in excess of those set out above, would be actioned should the likelihood of such a scenario increase. The Board consider the forecasts and assumptions used in the reverse stress test, as well as the event that could lead to it, to be extremely remote.

Going concern conclusion

Based on the forecast and the scenarios modelled, together with the performance of the Company to date in 2020/21, the Directors consider that the Company has significant liquidity headroom to continue in operational existence for 12 months post the date of this report. Accordingly, at the October 2020 Board meeting, the Directors concluded from this analysis it was appropriate to continue to adopt the going concern basis in preparing the financial statements. The long-term impact of COVID-19 is uncertain and should the impact of the pandemic on trading conditions be more prolonged or severe than currently forecast by the Directors under the severe but plausible case scenario, the Company would need to implement additional operational or financial measures.

Changes to accounting standards

Softcat plc has adopted the following standards and amendments for the first time in the year commencing 1 August 2019:

- IFRS 16 Leases
- IFRIC 23 Uncertainty over income tax treatment

IFRS 16 Leases

Softcat has applied IFRS 16 Leases for the first time for the year ended 31 July 2020, commencing 1 August 2019. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Statement of Financial Position.

Softcat adopted IFRS 16 using the modified retrospective approach, with an initial date of application of 1 August 2019. Though lessor accounting is substantially unchanged under IFRS 16, Softcat is not a lessor in any arrangements and therefore no impact noted. Softcat is a lessee under IFRS 16 and has measured the right-of-use assets at the amount as if the standard applied from the commencement date but discounted using the incremental borrowing rate ('IBR') at the transition date. Softcat elected to use the transition practical expedient to not reassess if a contract is, or contains, a lease at 1 August 2019. Instead, Softcat applied the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Softcat have elected to use the recognition exemptions for short term and low value assets as stated in the lease accounting policy. Softcat has also taken the expedient under IFRS 16 to use a single discount rate to a portfolio of leases with reasonably similar characteristics.

The right-of-use asset was considered for any impairment at initial recognition with no issues noted, nor any adjustments required to be made.

A summary of the effects of adopting IFRS 16 Leases as at 1 August 2019 is, as follows:

	Property Leases £'000
Right-of-use assets	7,024
Lease liabilities	(8,077)
Accruals brought forward derecognised	874
Retained earnings brought forward	179

Upon adoption of IFRS 16, the following changes have been made:

- Right-of-use assets of £7,024,436 were recognised upon transition and presented in the Statement of Financial Position.
- Lease liabilities of £8,076,564 were recognised on transition and presented in the Statement of Financial Position.
- The net effect of these transition entries to the right-of-use asset and lease liability adjusted to opening retained earnings is a debit of £1,052,128.
- Accruals of £873,612 related to previous operating leases were derecognised.
- The overall net effect of all transition entries to opening reserves is a debit of £178,516 and the associated impact on deferred tax is immaterial.

For the year ended 31 July 2020:

- Depreciation expense increased because of the depreciation of right-of-use assets recognised. This resulted in an additional depreciation of £1,968,712 for the year ended 31 July 2020.
- If IAS 17 had continued to apply, rent expenses included in administrative expenses, relating to previous operating leases would have been £1,788,136.
- The net effect to administrative expenses for the year ended 31 July 2020 was an increase of £180,576.
- Finance costs increased by £316,421 relating to the interest expense on the lease liabilities.

Reconciliation of opening lease commitments under IAS 17 to opening lease liability under IFRS 16 :

	Property Leases £'000
Operating lease commitment as at 31 July 2019 under IAS 17	7,997
Weighted average incremental borrowing rate as at 1 August 2019	2.70%
Discounted operating lease commitments as at 1 August 2019	7,395
Lease payments and commitments relating to renewal periods not included in operating lease commitments as at 1 August 2019	682
Opening lease liability as at 1 August 2019 under IFRS 16	8,077
Operating lease commitment as at 31 July 2019 under IAS 17	7,997

IFRIC 23 Uncertainty over income tax treatment

Softcat has applied IFRIC 23 Uncertainty over income tax treatment for the first time for the year ended 31 July 2020. IFRIC 23 requires an entity to assess whether it is probable a taxation authority will accept an uncertain tax treatment.

Softcat applies judgement in identifying uncertainties over income tax treatments and has assessed whether the Interpretation had an impact on its financial statements. Upon adoption of the Interpretation, Softcat considered whether it has any uncertain tax positions and determined that it is highly probable that its tax treatments will be accepted by the taxation authorities. The Interpretation did not have an impact on the financial statements.

Accounting policies

The preliminary announcement for the year ended 31 July 2020 has been prepared in accordance with the accounting policies as disclosed in Softcat plc's Annual Report and Accounts 2020, as updated to take effect of any new accounting standards applicable for the year.

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

	2020 £'000	2019 £'000
Software	519,520	476,461
Hardware	442,349	430,933
Services	115,258	84,455
	1,077,127	**991,849**

Gross invoiced income by type

	2020 £'000	2019 £'000
Software	964,280	788,903
Hardware	458,297	452,971
Services	223,614	172,190
	1,646,191	**1,414,064**

Revenue and gross invoiced income can also be disaggregated by type of business:

Revenue by type of business

	2020 £'000	2019 £'000
Small and medium	530,573	499,033
Enterprise	257,478	236,262
Public sector	289,076	256,554
	1,077,127	**991,849**

Gross invoiced income by type of business

	2020 £'000	2019 £'000
Small and medium	669,607	607,032
Enterprise	338,312	301,998
Public sector	638,272	505,034
	1,646,191	**1,414,064**

Gross invoiced income reflects gross income billed to customers adjusted for deferred and accrued revenue items and is consistent with our previous application of IAS 18. Softcat will continue to report gross invoiced income as an alternative financial KPI as this measure allows a better understanding of business performance and position. The impact of IFRS 15 and principal versus agent consideration is an equal reduction to both revenue and cost of sales.

Reconciliation of gross invoiced income to revenue

	2020 £'000	2019 £'000
Gross invoiced income	1,646,191	1,414,064
Income to be recognised as agent under IFRS 15	(569,064)	(422,215)
Revenue	**1,077,127**	**991,849**

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

	2020 £'000	2019 £'000
Current Tax		
Current income tax charge in the year	18,154	16,801
Adjustment in respect of current income tax in previous years	(36)	10
Foreign tax effects	6	-
Deferred Tax		
Temporary differences	(171)	(453)
Total tax charge for the year	**17,953**	**16,358**

5. Ordinary Dividends

	2020 £'000	2019 £'000
Declared and paid during the year:		
Special dividend on ordinary shares (16.0p per share (2019: 15.1p))	31,720	29,891
Final dividend on ordinary shares (10.4p per share (2019: 8.8p))	20,618	17,419
Interim dividend on ordinary shares (0.0p per share (2019: 4.5p))	-	8,921
	52,338	**56,231**

A final dividend of 16.6p per share has been recommended by the Directors and if approved by shareholders will be paid on 11 December 2020. This includes the 5.4p interim dividend that was declared in March 2020 and subsequently cancelled due to uncertainty created by COVID-19. The final ordinary dividend will be payable to shareholders whose names are on the register at the close of business on 6 November 2020. Shares in the Company will be quoted ex-dividend on 5 November 2020. The dividend reinvestment plan ('DRIP') election date is 23 November 2020.

In line with the Company's stated intention to return excess cash to shareholders, a further special dividend payment of 7.6p has been proposed. If approved this will also be paid on 11 December 2020 alongside the final ordinary dividend.

6. **Right-of-use assets**

Leases – as a lessee

Softcat has lease contracts for various properties and offices across the country used for its operations. Property leases generally have lease terms of between 3 and 10 years. A number of these contracts include extension and termination options which are discussed below.

Set out below are the carrying amounts of right-of-use assets recognised and movements during the period:

	Property Leases £'000
As at 1 August 2019	7,024
Lease modifications	3,644
Depreciation	(1,970)
As at 31 July 2020	8,698

The weighted average incremental borrowing rate as used for the period is 2.7%.

Set out below are the carrying amounts of lease liabilities included under current and non-current liabilities and the movements during the period:

	Property Leases £'000
As at 1 August 2019	8,077
Lease modifications	3,644
Accretion of interest	316
Payments	(2,198)
As at 31 July 2020	9,839
Split as:	
Short-term	1,867
Long-term	7,972

Lease modifications in the year were in respect of extension of specific lease terms of existing property leases, as well as the rental of additional space.

Softcat had no variable leases expenses or income from sub-leases charged to the Statement of Profit or Loss and Other Comprehensive Income, nor any sale and leaseback transactions.

Softcat has several lease contracts that include termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio to align to business needs. Management exercise significant judgement in determining whether these options are reasonably certain to be exercised.

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of termination options that are not included in lease term:

As at 31 July 2020	Within five years £'000	**More than five years** £'000	Total £'000
Termination options expected to be exercised	2,210	3,867	6,077

The total value of lease charges for low value and short-term leases to Statement of Profit or Loss and Other Comprehensive Income for the year was £73,310.

7. Trade and other receivables

	2020 £'000	2019 £'000
Trade and other receivables	296,286	260,272
Provision against receivables	(2,863)	(2,199)
Net trade receivables	**293,423**	**258,073**
Unbilled receivables	5,104	1,939
Prepayments	2,700	4,361
Accrued income	5,951	12,013
Deferred costs	6,945	8,921
	314,123	**285,307**

8. Trade and other payables

	2020 £'000	2019 £'000
Trade payables	198,171	185,384
Other taxes and social security	16,799	17,328
Accruals	48,896	41,756
	263,866	**244,468**

During FY20, Trade and other payables has been restated to exclude contract liabilities from the prior year figure totalling £15.2m.

9. Contract liabilities

Contract liabilities are comprised:

	2020 £'000	2019 £'000
Deferred income	16,494	15,165

Deferred income is further broken down as:	2020 £'000	2019 £'000
Short term deferred income	13,929	15,165
Long term deferred income	2,565	-
	16,494	**15,165**

10. **Earnings per share**

	2020 Pence	2019 Pence
Earnings per share		
Basic	38.2	34.6
Diluted	38.0	34.4

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

	2020 £'000	2019 £'000
Earnings		
Earnings for the purposes of earnings per share being profit for the year	75,664	68,461

The weighted average number of shares is given below:

	2020 000's	2019 000's
Number of shares used for basic earnings per share	198,127	197,643
Number of shares deemed to be issued at nil consideration following exercise of share options	1,007	1,209
Number of shares used for diluted earnings per share	**199,134**	**198,852**

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

	2020 £'000	2019 £'000
Cash flow from operating activities		
Operating profit	93,733	84,486
Depreciation of property, plant and equipment	1,382	1,275
Depreciation of right-of-use assets	1,970	-
Amortisation of intangibles	232	245
Loss on disposal of fixed assets	146	188
Dividend equivalents paid	(259)	(287)
Cost of equity settled employee share schemes	1,958	1,732
Operating cash flow before movements in working capital	**99,162**	**87,639**
Increase in inventories	(660)	(2,453)
Increase in trade and other receivables	(28,816)	(79,350)
Increase in trade and other payables	21,601	74,369
Cash generated from operations	**91,287**	**80,205**
Income taxes paid	(27,117)	(15,546)
Net cash generated from operating activities	**64,170**	**64,659**

12. **Share capital**

	2020 £'000	2019 £'000
Allotted and called up		
Ordinary shares of 0.05p each	100	99
Deferred shares* of 1p each	-	-
	100	**99**

*At 31 July 2020 deferred shares had an aggregate nominal value of £189.33 (2019: £189.33).

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

13. **Post balance sheet events**

Dividend

A final dividend of 16.6p per share has been recommended by the Directors and if approved by shareholders will be paid on 11 December 2020. This includes the 5.4p interim dividend that was declared in March 2020 and subsequently cancelled due to uncertainty created by COVID-19. The final ordinary dividend will be payable to shareholders whose names are on the register at the close of business on 6 November 2020. Shares in the Company will be quoted ex-dividend on 5 November 2020. The dividend reinvestment plan ('DRIP') election date is 23 November 2020.

In line with the Company's stated intention to return excess cash to shareholders, a further special dividend payment of 7.6p has been proposed. If approved this will also be paid on 11 December 2020 alongside the final ordinary dividend.

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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