SOFTCAT plc

("Softcat", the "Company")

Preliminary results for the twelve months to 31 July 2019

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 2019. The results combine strong, broad-based growth in revenues and profits together with sustained cash generation and continuation of a progressive dividend.

Financial Summary	**Twelve months ended 31 July 2019**	**31 July 2018[a]**	**Growth**
	£m	**£m**	**%**
Revenue[a]	**£991.8**	**£797.2**	**24.4**
Gross invoiced income[b]	**£1,414.1**	**£1,081.7**	**30.7**
Gross profit	**£211.1**	**£175.2**	**20.5**
Operating profit	**£84.5**	**£68.0**	**24.3**
Cash conversion[c]	**92.2%**	**97.7%**	
Final dividend (p)	**10.4**	**8.8**	**18.2**
Special dividend (p)	**16.0**	**15.1**	**6.0**
Basic earnings per share (p)	**34.6**	**27.9**	**24.0**
Diluted earnings per share (p)	**34.4**	**27.6**	**24.6**

Highlights for the twelve months to 31 July 2019

- Strong performance year on year with both income and profits growing in excess of 20%
- Cash conversion above 90% for the third year running
- Increases in both customer numbers and average gross profit per customer, demonstrating progress against both key aims of our strategy
- Average headcount up 15%, reflecting ongoing investment across all areas of the business, in particular in our services, technical and specialist capabilities
- Final dividend of 10.4p up 18%, special dividend of 16.0p
- Strong balance sheet position maintained with net cash at year end of £79.3m (2018: £72.8m)

[a] Revenue is reported under IFRS 15, the new international accounting standard for revenue, for a full year for the first time. The prior year revenue has been restated accordingly using the full retrospective method. IFRS 15 requires some finely balanced judgements be made to determine whether Softcat acts as principal or agent in certain trading transactions. As a result, adoption of the new standard has led to the netting down of some revenue streams (recognising just the margin element of the transaction, as opposed to the recognition of gross invoiced income as revenue, offset by the cost of the resold product or service) but has no impact on any measure of profit or cashflow. 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.
[b] 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 performance measure going forward.
[c] Cash conversion is defined as cash flow from operations before tax but after capital expenditure, as a percentage of operating profit.

Graeme Watt, Softcat CEO commented

"It's been another great year for Softcat in which we have delivered strong growth and financial success, but most importantly we have continued to strive to provide a first class service to our customers while at the same time expanding our offerings to them. The basis of that success continues to be the attitude and skills of our people, and especially the way in which they collaborate and work closely together.

Their efforts resulted in revenue and operating profit growth of 24%. Gross profit per customer increased by 17% and we were delighted to trade with 400 more customers than in the previous year.

This success demonstrates how our straightforward strategy continues to be well-executed by the team. Whilst our key aims of winning new customers and selling more to existing customers remain unchanged, we are doing much to further expand our addressable market and as a result the Company enters the new financial year in a strong position and with good momentum. Customer requirements are becoming more complex and they are faced with greater choice. The opportunity for Softcat is growing and this underpins our willingness to invest in skills and expertise for the long term.

Outlook

Softcat is in great health and strategically well-positioned. We think the structural drivers for growth in our industry will continue despite current political and economic uncertainty. The Board also remains confident in the Company's ability to gain market share and targets further growth during 2020. Trading in the first eleven weeks of the new financial year has been on track and we look forward to the rest of the year with confidence.

Strengthening our board

The Board is pleased to announce today (see separate announcement) the appointment of Karen Slatford as an independent non-executive Director of the Company. It is intended that Karen's appointment will become effective from 5 December 2019 and that she will serve as Chair of the Board's Remuneration Committee and as Senior Independent non-executive Director of the Company.

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

Performance this financial year has been very pleasing. We entered the year up against some incredibly tough comparative numbers and knew we had our work cut out to grow again on top of those – especially when considering that all our growth is organic. But the Softcat team has great momentum and I would like to thank and congratulate them all for another truly outstanding effort.

Gross profit, our most important measure of income, grew by 21% during 2019 to £211.1m. Revenue and operating profit both grew by 24%, respectively, and cash generation was again very healthy, resulting in our ability to announce another special dividend.

A notable aspect of our growth was once again how broad-based it was. All eight of our regional offices that were operating throughout the year showed positive progression, and similarly all customer segments and technology categories were up on 2018.

Partner and industry recognition

We also saw strong growth in all our key vendors and received recognition for our performance from partners and other external parties. Dell awarded Softcat "Transformation Partner of the Year" across EMEA, and Sophos, Mimecast, VMware, Varonis, Ivanti and AlienVault all rated us their "Partner of the Year". We won the coveted "CRN Reseller of the Year" award, and were named "Best Performing Company for Infrastructure Services" and "EMEA Growth Partner" of the Year by Megabuyte and Canalys, respectively. We were also awarded "Company of the Year" at the PLC awards. Perhaps most pleasingly, CRN recognised a number of outstanding contributions from Softcat people in their inaugural Women in the Channel awards.

Softcat people

Our key differentiator continues to be the attitude and ability of our people. As technology infrastructure continues to develop at pace it opens-up myriad, and at times quite daunting, options for customers. More than ever, both customers and vendors look for a partner who can advise across a wide range of technology, piecing together multi-faceted solutions and, where necessary, helping implement and manage this new technology. This requires deep understanding of the customers' existing platform, as well as whole-of-market technical expertise. I think that much of our success in 2019 was born of our long-term strategy of investment in capability as well as scale. Each year we develop greater customer intimacy and extend and deepen our technical know-how. For example, this year we launched new services in areas such as cyber assurance and cloud consumption management. This continual augmentation of our offering serves to increase our relevance to both customers and suppliers. But all this capability is useless if our people can't work together effectively. That's why, first and foremost, we focus on building and maintaining world-class employee engagement. We give them a great amount of freedom and support, but I continue to be amazed by the spirit in which they work together and use the Company's resources to deliver first class customer service. I am in no doubt that once again the attitude of our people has been the major factor in our success. Our culture is designed to create an environment that gets the best out of us all.

As a result of their efforts, customers place ever greater trust in us and our capabilities. Existing customers contributed 95% of total gross invoiced income during 2019 while gross profit from new customers grew 16% year on year. Overall gross profit per customer grew by 17%. Our annual customer survey was our largest ever and delivered an overall satisfaction score of 96%, with customers highlighting our people and their proactivity as our greatest strength.

Good market conditions continued

Market conditions have been good again this year. We previously reported that 2018 was a strong year for structural growth in our industry, which we saw again during 2019. Furthermore, this is a trend we think will continue over the medium-term. The world is becoming ever more connected and the demand for digital infrastructure will only continue to grow.

Excellent customer service alongside investment in technical capabilities

This growth is exciting for us, but it also means we must continue to listen carefully to the changing needs of both customers and vendors. Customer IT teams understand the opportunities afforded to them by new models of compute and storage, for example, and they look for partners to help design and deploy the right solutions for them from a complex array of technology offerings and pricing. They also need help evaluating the risks this change brings, including how they deliver that change while continuing to secure and manage their data in a manner compliant with new regulations.

The array of options has never been greater, and so vendors also rely on us to communicate the value of their innovations to customers. In each year since our IPO in 2015, we have invested most heavily in our technical and specialist teams, including our design, delivery and service areas. We are also in the process of building up our multi-national fulfilment capabilities. In the course of the year we have established four branches outside the UK and Ireland to help our UK and Irish customers deploy technology solutions across their organisations into other countries. This is net new business for us with a significant opportunity for growth in the near term. The expansion of further low cost, operational branches will continue to be customer led. Taken together these investments have significantly increased our capability to support both partners and customers in this exciting but challenging new landscape. We feel this is the beginning of a tendency towards greater reliance by customers on fewer, larger partners – a trend we think we are well-positioned to benefit from given our broad range of technology and services.

Our customers are on a journey, investing at different speeds in their workspace, hybrid infrastructure and cybersecurity environments. They need help to design and deploy the right solutions for them from a complex array of technology offerings and pricing. The technology infrastructure of a company has become part of the fabric it requires to remain relevant and competitive in its given industry. Drivers for growth continue to be mobile workforce, security, hyperconvergence, software defined management, edge computing, analytics and cloud adoption, often to a hybrid multi-cloud environment. The arrival of the 5G network will drive further demand for devices, security, analytics, storage and compute at the edge of the network – the pace of technology innovation and adoption continues unabated.

Simple but effective growth strategy

We have a straight-forward, proven strategy that remains largely unchanged and which we continue to execute well. We will continue to invest in our team to manage growth and deliver further gains by meeting and exceeding our customers' expectations. Customers will continue to invest in infrastructure technology and need help to navigate through the complexities they are faced with and we will continue to listen to our customers and vendors to make sure our offering remains relevant and competitive. We have a relatively modest share of a highly fragmented market and see opportunities to partner deeper with our existing customers and attract new customers who have not historically bought from us.

Global macroeconomic factors may have some impact on the overall demand environment going forward, but we remain primarily focussed on the things we can control. We will continue to deliver the highest levels of service whilst investing across the Company. We are well aware of the challenges that rapid organic growth might bring to our special culture and our service capabilities but are well-practised in managing those risks too. We are also well-prepared to cope with whatever the Brexit process may bring.

Diversity and social responsibility

We have worked hard this year on creating a diverse and inclusive environment by establishing a Supporting Women in Business network, a Family network and a Softcat Pride network. We are in the process of launching two further networks namely a BAME network and a disability network. I am constantly amazed by the extraordinary levels of energy and support that go into such initiatives from our people all over the Company.

Softcat cares about things outside of the Company too: we have a Green Team Committee that constantly drives environmental initiatives and our charitable efforts astonish me. At our annual Spring Charity Ball this year, a record £0.3m was raised in support of several charities including our lead charities MIND, focused on mental health, and Bethesda Khanko Foundation, focused on the education of under-privileged children in a village in North East India.

Thank you to all our staff, customers and partners for your help and support towards our performance this financial year – we couldn't do it without you.

Chief Financial Officer's Review

Financial Summary	FY19	FY18	Growth
Revenue	£991.8m	£797.2m	24.4%
Revenue split			
Software	£476.5m	£378.8m	25.8%
Hardware	£430.9m	£349.1m	23.4%
Services	£84.4m	£69.3m	21.8%
Gross invoiced income (GII)	£1,414.1m	£1,081.7m	30.7%
GII split			
Software	£788.9m	£563.7m	40.0%
Hardware	£453.0m	£366.9m	23.5%
Services	£172.2m	£151.1m	14.0%
Gross profit	£211.1m	£175.2m	20.5%
Gross profit margin	21.3%	22.0%	(0.7% pts)
Operating profit	£84.5m	£68.0m	24.3%
Operating profit margin	8.5%	8.5%	0.0% pts
Gross profit per customer	£17.2k	£14.7k	17.0%
Customer numbers	12.3k	11.9k	3.4%
Cash conversion	92.2%	97.7%	(5.5% pts)

IFRS 15 revenue restatement

The Company has adopted IFRS 15, the new international accounting standard for revenue, during the 2019 financial year. The impact on the financial statements is consistent with the disclosures made in our 2018 Annual Report and Accounts, creating an equal and opposite reduction in both revenue and cost of sales, such that gross profit, operating profit and cash flow are unchanged. Management continue to regard pre-IFRS 15 gross revenue, referred to within this 2019 Report and Accounts as 'gross invoiced income', as a key measure of business mix and will continue to use this measure for internal reporting. As a result, gross invoiced income will continue to be reported externally as an alternative KPI alongside GAAP revenue. This alternative performance measure enables a better year-on-year comparison of invoiced sales trends and also allows for a better understanding of the movements in both trade receivables and trade payables, which are more reflective of the movements in gross invoicing. Further information is contained in note 2 to the financial statements.

As previously stated, gross profit continues to be the Company's primary measure of income performance and growth.

Gross profit, revenue and gross invoiced income

Gross profit grew by 20.5% to £211.1m, up from £175.2m in the prior year, and from £136.3m in 2017. This performance over the past two financial years represents an acceleration in the level of growth within an unbroken 14 year-long sequence of consecutive, entirely organic growth. As our primary indicator of income, gross profit growth reflects the customer metrics discussed below, resulting from a relentless focus on customer service alongside long-term investment in our technical proposition. As in previous periods, the growth has been broad-based, with no single customer accounting for more than 2% of gross profit.

Gross invoiced income ("GII") rose 31% to £1,414m (2018: £1,082m). This reflects double-digit growth across all technology areas and customer segments. Growth was especially strong in both Enterprise (comprising 21% of total GII) and Public Sector (comprising 35% of total GII) which are the most recently-developed elements of our offering and continue to catch up with our share of the mid-market. These results reflect market share gains which, in part, result from our growing stature with larger customers for complex engagements. GII growth across the different technology categories (Workplace, Data Centre & Cloud Infrastructure, and Networking & Security) were each in excess of 25% and mix was relatively stable, reflecting the broad nature of customer investment in their IT platforms and our ability to provide support across the full stack.

Revenue as reported under IFRS 15 was £991.8m, up 24.4% on the restated comparative from 2018 of £797.2m.

Customer KPIs

Investment in our technical skills, coupled with sales initiatives to promote cross-selling efforts, once again led to very strong growth in average revenue and gross profit per customer, with the latter rising by 17% to £17.2k (2018: £14.7k). Despite this growth, we estimate that our average share of wallet from existing customers is no more than 30%. Selling more to existing customers continues therefore to be a key aim of our strategy for the coming years.

While the nature of our business does not lend itself to the generation of contracted revenue, we believe that the trust we establish with customers over many years of working together provides an even stronger platform for repeat business. During 2019, 95% of gross profit was earned from existing customers and grew year-on-year by 21%.

Total customer numbers also continue to be a key indicator of strategic progress. During the year we traded with an additional 400 customers for a total of 12.3k, up 3.4% from 11.9k in 2018, and gross profit earned from new customers grew by 16% year-on-year. While contributing relatively modest levels of in-year income (accounting for 5% of gross profit in 2019), the addition of new customers underpins our opportunity for future growth.

Investments for growth and operating profitability

Our strategy of ongoing investment in scale and capability manifests in our efforts to recruit and retain people with great skills and attitude. During the year average headcount grew 15% and we closed the year with 1,330 people. Investment in both new and existing team members, together with increased sales commissions reflecting the growth in income, combined to increase overheads by 18% year over year. This was outstripped by growth in gross profit of 21%, and as a result operating profit grew by 24% to £84.5m (2018: £68.0m).

That meant that our key measure of operating profitability, the ratio between operating and gross profit, rose for the second consecutive year to 40.0%, up from 38.8% in 2018 and 36.8% in 2017. This upward trend is the result of the acceleration in gross profit growth in the last two years. Our long-term plan continues to involve significant investment in people and capabilities, together with expansion and upgrade of our internal systems and processes. As a result, we expect this ratio to fall back over the medium term as we build both scale and additional capability, rather than seek to maximise short-term profitability. With an estimated 7% share of the UK digital infrastructure market, our plans for growth span the medium term and our investment in people will continue to cover all areas of the business as we build for the future.

Corporation tax charge
The effective tax rate for 2019 was 19.3% (2018: 19.3%), reflecting a stable statutory rate of 19.0% in both years, together with the relatively marginal impact of non-deductible expenses.

Cash and balance sheet
Cash conversion, defined as operating cash flow net of capital expenditure as a percentage of operating profit, was above 90% for the third consecutive year at 92% (2018: 98%). Cumulative cash conversion in the four years since IPO now stands at 94%. This reflects the unchanged and highly liquid 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.

The Company's closing cash balance was £79.3m (2018: £72.8m), reflecting the broadly offsetting impact of cash generated from trading, net of corporation tax payments, and dividend payments during the period which totalled £56.2m (2018: £45.3m). The Company remains entirely debt free.

Dividend
A final dividend of 10.4p per share has been recommended by the Directors and if approved by shareholders will be paid on 13 December 2019. The final ordinary dividend will be payable to shareholders whose names are on the register at the close of business on 8 November 2019. Shares in the Company will be quoted ex-dividend on 7 November 2019. The dividend reinvestment plan ('DRIP') election date is 22 November 2019.

In line with the Company's stated intention to return excess cash to shareholders, a further special dividend payment of 16.0p has been proposed. If approved this will also be paid on 13 December 2019 alongside the final ordinary dividend. Together these two payments will bring total cash returned to shareholders since the 2015 IPO to £197.9m.

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	• 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 • In-house technical expertise
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	• Close dialogue with supply-chain partners to ensure all potential Brexit scenarios are planned for • Customer-centric culture • Breadth of proposition and customer base
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

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

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 19 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 2019

	Note	2019 £'000	2018 As restated [a] £'000
Revenue[a]	3	**991,849**	**797,208**
Cost of sales		(780,706)	(622,045)
Gross profit		**211,143**	**175,163**
Administrative expenses		(126,657)	(107,141)
Operating profit		**84,486**	**68,022**
Finance income		333	117
Profit before taxation		**84,819**	**68,139**
Income tax expense	4	(16,358)	(13,133)
Profit for the year attributable to owners of the Company being total comprehensive income		**68,461**	**55,006**
Basic earnings per ordinary share (pence)	8	34.6	27.9
Diluted earnings per ordinary share (pence)	8	34.4	27.6

All results are derived from continuing operations.

[a] Revenue is reported under IFRS 15, the new international accounting standard for revenue, for a full year for the first time. The prior year revenue has been restated accordingly using the full retrospective method. IFRS 15 requires some finely balanced judgements be made to determine whether Softcat acts as principal or agent in certain trading transactions. As a result, adoption of the new standard has led to the netting down of some revenue streams (recognising just the margin element of the transaction, as opposed to the recognition of gross invoiced income as revenue, offset by the cost of the resold product or service) but has no impact on any measure of profit or cashflow. 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.

Statement of Financial Position
As at 31 July 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Property, plant and equipment		5,761	5,056
Intangible assets		240	324
Deferred tax asset		2,485	1,436
		8,486	**6,816**
Current assets			
Inventories		11,084	8,631
Trade and other receivables	*6*	285,307	205,957
Cash and cash equivalents		79,263	72,831
		375,654	**287,419**
Total assets		**384,140**	**294,235**
Current liabilities			
Trade and other payables	*7*	(259,633)	(185,264)
Income tax payable		(9,115)	(8,155)
		(268,748)	**(193,419)**
Net assets		**115,392**	**100,816**
Equity			
Issued share capital	*10*	99	99
Share premium account		4,979	4,979
Reserves for own shares		-	-
Retained earnings		110,314	95,738
Total equity		**115,392**	**100,816**

Statement of Changes in Equity
For the year ended 31 July 2019

	Share capital £'000	Share premium £'000	Reserves for own shares £'000	Retained earnings £'000	Total equity £'000
Balance at 1 August 2017	**99**	**4,664**	**-**	**83,655**	**88,418**
Total comprehensive income for the year	-	-	-	55,006	55,006
Share-based payment transactions	-	-	-	1,759	1,759
Dividends paid	-	-	-	(45,321)	(45,321)
Shares issued in the year	-	315	-	-	315
Tax adjustments	-	-	-	529	529
Own share movement during the year	-	-	-	110	110
Balance at 31 July 2018	**99**	**4,979**	**-**	**95,738**	**100,816**
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	-	-	-	-	-
Dividend equivalents paid	-	-	-	(287)	(287)
Tax adjustments	-	-	-	901	901
Balance at 31 July 2019	**99**	**4,979**	**-**	**110,314**	**115,392**

Statement of Cash Flows
For the year ended 31 July 2019

	Note	2019 £'000	2018 £'000
Net cash generated from operating activities	*9*	**64,659**	**57,051**
Cash flows from investing activities			
Finance income		333	117
Purchase of property, plant and equipment		(2,168)	(965)
Purchase of intangible assets		(161)	(119)
Net cash used in investing activities		**(1,996)**	**(967)**
Cash flows from financing activities			
Issue of share capital		-	315
Dividends paid	*5*	(56,231)	(45,321)
Own share transactions		-	110
Net cash used in financing activities		**(56,231)**	**(44,896)**
Net increase in cash and cash equivalents		**6,432**	**11,188**
Cash and cash equivalents at beginning of year		72,831	61,643
Cash and cash equivalents at end of year		**79,263**	**72,831**

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 2019 or 2018 but is based on, and consistent with, that in the audited financial statements for the year ended 31 July 2019, 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

Softcat plc has adopted the following standards and amendments for the first time in the year commencing 1 August 2018:

- IFRS 9 Financial instruments;
- IFRS 15 Revenue from contracts with customers; and
- IFRS 2 (Amendments) Share- based payments

IFRS 9 Financial Instruments
IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 Financial Instruments from 1 August 2018 resulted in changes in accounting policies, but no material adjustments to amounts recognised in the financial statements. The total impact on retained earnings from the adoption of the standard is £Nil.

IFRS 9 also introduces an 'expected credit loss' model for the assessment of the impairment of financial assets. IAS 39 required the entity to recognise impairment losses on an "incurred loss" model when there was objective evidence that an asset was impaired. Anticipated credit losses are now recorded under IFRS 9, even in the absence of a default event or objective evidence of impairment. The Company has adopted the simplified approach to trade receivables and contractual assets under IFRS 9 and has been able to adopt the simplified approach as a result of the short term nature of the balance and general quality of the assets.

IFRS 15 Revenue from contracts with customers
IFRS 15 has replaced IAS 18 Revenue (IAS 18) and IAS 11 Construction Contracts (IAS 11). Softcat plc has adopted IFRS 15 from 1 August 2018 which has resulted in changes to the accounting policies and adjustments to the amounts recognised in the financial statements. The Company has chosen to apply IFRS 15 using the full retrospective approach and has therefore restated the prior year under the new standard. The new standard has also resulted in reclassification of items included within other receivables in the Statement of Financial Position. A total of £3.3m has been reclassified out of prepayments and in to deferred costs in the prior year disclosure.

The key consideration for the Company has been principal versus agent classification, with all remaining aspects of IFRS 15 having no significant impact. Management's assessment has shown IFRS 15 has impacted Softcat in the following ways:

- Some revenue streams are adjusted to be recorded on a net income rather than a gross income basis.
- IFRS 15 moves away from the previous risk-based measures (such as credit risk) and instead focuses on the control principle. The nature of Softcat's business inherently makes a control-based assessment more judgemental than a risk-based assessment, and whilst some revenue streams are clearly unchanged, others present more balanced arguments and the conclusion requires significant levels of judgement.
- Reclassification of deferred costs out of prepayments in notes to the financial statements
- Reclassification of unbilled receivables out of accrued income in notes to the financial statements
- All remaining aspects of IFRS 15 have had no material impact.

The overall adjustments are recognised as equal reductions to both revenue and cost of sales with no impact on gross profit, operating profit, cash flow or net assets.

Accounting standards not yet adopted – IFRS 16

At the date of authorisation, IFRS 16 Leases, was in issue but not yet effective. This standard will be adopted for the year ended 31 July 2020 with an effective date of 1 August 2019. The new standard will require the Company's leased assets to be recorded as 'right of use assets' in the Statement of Financial Position within Property, Plant and Equipment and a corresponding lease liability, based on the present value of the future payments required under each lease. At transition to IFRS 16, the right of use asset is intended to be measured using the modified retrospective approach.

The impact of IFRS 16 on the Statement of Profit or Loss and Other Comprehensive Income will be immaterial; though the right of use asset and lease liability on the Statement of Financial Position will be considerable. Any impact on retained earnings will be offset against the release of the rent free accrual as previously recognised under IAS 17.

The Company has completed its impact assessment and determined that the application of the new standard will have an impact on its opening balance sheet as at 1 August 2019 comprising of a right of use asset of £6.45m and lease liability of £7.43m. There will be a decrease in retained earnings of £0.98m. There will also be an impact on the Statement of Profit or Loss and Other Comprehensive Income, resulting in an increase to operating profit through the removal of the operating lease expense and replacement with a smaller depreciation charge. There will be an interest expense under the new accounting, that would not have occurred under IAS 17, which will substantially offset the increase in operating profit and result in an immaterial difference to profit before tax. The impact to the Statement of Profit or Loss and Other Comprehensive Income and net assets is deemed to be immaterial.

Accounting policies

The preliminary announcement for the year ended 31 July 2019 has been prepared in accordance with the accounting policies as disclosed in Softcat plc's Annual Report and Accounts 2019, 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

	2019	**2018**
	£'000	**£'000**
Software	476,461	378,811
Hardware	430,933	349,119
Services	84,455	69,278
	991,849	**797,208**

Gross invoiced income by type

	2019	**2018**
	£'000	**£'000**
Software	788,903	563,709
Hardware	452,971	366,877
Services	172,190	151,092
	1,414,064	**1,081,678**

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

	2019	**2018**
	£'000	**£'000**
Gross invoiced income	1,414,064	1,081,678
Income to be recognised as agent under IFRS 15	(422,215)	(284,470)
Revenue	**991,849**	**797,208**

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**

	2019 £'000	2018 £'000
Current Tax		
Current income tax charge in the year	16,801	13,515
Adjustment in respect of current income tax in previous years	10	(119)
Deferred Tax		
Temporary differences	(453)	(263)
Total tax charge for the year	**16,358**	**13,133**

5. **Ordinary Dividends**

	2019 £'000	2018 £'000
Declared and paid during the year:		
Special dividend on ordinary shares (15.1p per share (2018: 13.5p))	29,891	26,726
Final dividend on ordinary shares (8.8p per share (2018: 6.1p))	17,419	12,064
Interim dividend on ordinary shares (4.5p per share (2018: 3.3p))	8,921	6,531
	56,231	**45,321**

The Board recommends a final dividend of 10.4p per ordinary share and a special dividend of 16.0p per ordinary share to be paid on 13 December 2019 to all ordinary shareholders who were on the register of members at the close of business on 8 November 2019. Shareholders will be asked to approve the final and special dividends at the AGM on 5 December 2019.

6. **Trade and other receivables**

	2019 £'000	2018 £'000
Trade and other receivables	260,272	190,730
Provision against receivables	(2,199)	(1,867)
Net trade receivables	**258,073**	**188,863**
Unbilled receivables	1,939	1,754
Prepayments	4,361	2,804
Accrued income	12,013	9,230
Deferred costs	8,921	3,306
	285,307	**205,957**

7. Trade and other payables

	2019 £'000	2018 £'000
Trade payables	185,384	131,115
Other taxes and social security	17,328	9,642
Accruals	41,756	33,291
Deferred Income	15,165	11,216
	259,633	**185,264**

8. Earnings per share

	2019 Pence	2018 Pence
Earnings per share		
Basic	34.6	27.9
Diluted	34.4	27.6

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

	2019 £'000	2018 £'000
Earnings		
Earnings for the purposes of earnings per share being profit for the year	68,461	55,006

The weighted average number of shares is given below:

	2019 000's	2018 000's
Number of shares used for basic earnings per share	197,643	197,338
Number of shares deemed to be issued at nil consideration following exercise of share options	1,209	1,668
Number of shares used for diluted earnings per share	**198,852**	**199,006**

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

	2019 £'000	2018 £'000
Cash flow from operating activities		
Operating profit	84,486	68,022
Depreciation of property, plant and equipment	1,275	1,460
Amortisation of intangibles	245	299
Loss on disposal of fixed assets	188	28
Loss on disposal of intangible assets	-	-
Dividend equivalents paid	(287)	-
Cost of equity settled employee share schemes	1,732	1,759
Operating cash flow before movements in working capital	**87,639**	**71,568**
Increase in inventory	(2,453)	(1,656)
Increase in trade and other receivables	(79,350)	(32,451)
Increase in trade and other payables	74,369	30,090
Cash generated from operations	**80,205**	**67,551**
Income taxes paid	(15,546)	(10,500)
Net cash generated from operating activities	**64,659**	**57,051**

10. **Share capital**

	2019 £'000	2018 £'000
Allotted and called up		
Ordinary shares of 0.05p each	99	99
Deferred shares* of 1p each	-	-
	99	**99**

*At 31 July 2019 deferred shares had an aggregate nominal value of £189.33 (2018: £189.33).

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

11. **Post balance sheet events**

Dividend

The Board recommends a final dividend of 10.4p per ordinary share and a special dividend of 16.0p per ordinary share to be paid on 13 December 2019 to all ordinary shareholders who were on the register of members at the close of business on 8 November 2019. Shareholders will be asked to approve the final and special dividends at the AGM on 5 December 2019.

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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