Half-year Report

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SOFTCAT plc

("Softcat", the "Company")

Half Year Results for the six months to 31 January 2019

Softcat plc (LSE: SCT.L), a leading UK provider of IT infrastructure products and services, today publishes its half year results for the six months to 31 January 2019 ("the period"). The results reflect the Company's continued ability to gain an increasing share of the market, delivering both very strong profit growth and excellent cash generation.

Financial Summary	**Six months ended 31 January 2019**	**Six months ended 31 January 2018**	**Growth**
	£m	**£m**	**%**
Revenue[1]	**434.0**	**358.3**	**21.1**
Gross invoiced income[2]	**607.8**	**472.8**	**28.5**
Gross profit	**94.7**	**74.8**	**26.5**
Operating profit	**33.9**	**24.1**	**40.4**
Cash Conversion[3]	**103%**	**103%**	**n/a**
Interim dividend (p)	**4.5p**	**3.3p**	**36.4**
Diluted earnings per share (p)	**13.8p**	**9.8p**	**40.8**

[1]**Revenue** is reported under IFRS 15, the new international accounting standard for revenue, for the first time. 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.

[2]**Gross invoiced income** reflects gross income billed to customers adjusted for deferred and accrued revenue items and is consistent with our previously applied revenue policy. Softcat will continue to note gross invoiced income as a financial KPI going forward.

[3]**Cash conversion** is defined as cashflow from operations before tax but after capital expenditure as a percentage of operating profit.

[4]**Adjusted Operating Profit and Adjusted Diluted earnings per share** are no longer presented. See Note 2 for more information on why these alternative performance measures have been removed.

Highlights for the six months to 31 January 2019

- Gross profit up 26.5% to £94.7m (H1 2018: £74.8m)
- Operating profit up 40.4% to £33.9m (H1 2018: £24.1m)
- IFRS 15 adoption has only a presentational impact on revenue, with no impact on profit or cash flow, as previously disclosed
- Added 620 new customers, with total customers up 6.5% (H1 2018: 597 / 6.7%).
- Gross profit per customer growth of 18.7% (H1 2018: 14.5%)
- Performance was once again broad-based with growth generated across all offices, customer segments and technology lines
- London and Leeds office relocations to larger premises have been completed, one further new UK office opening is planned by the end of the calendar year
- Ireland office now has 15 salespeople and good progress is being made in winning new customers and local vendor accreditations
- The Company remains debt free with a cash balance of £52.8m
- Interim dividend of 4.5p per share (up 36%) to be paid on 10 May 2019, with the shares trading ex-dividend on 4 April 2019.

Graeme Watt, Softcat CEO, commented:

"It's been another period of very strong performance for the Company, characterised by additional market share gains. We have maintained our ongoing and long-term investment in building scale and creating new capabilities, and this has delivered further success against both of our simple strategic goals of doing more business with our existing customers and winning new customers.

We added more than 600 new customers in the period while gross profit per customer grew by almost 20%. Those metrics extended our run of unbroken year-on-year income and profit growth to a 54th quarter.

Alongside the depth and breadth of our technology offering, we believe that the greater part of our competitive advantage manifests itself in the attitude of our people. Their teamwork and collaboration is focussed on delivering outstanding results for our customers and continues to be a key driver of our success. I can't thank the Softcat team enough for their tremendous contribution so far this year.

For our shareholders, I'm pleased to report a 36% increase in our interim dividend, in line with our unchanged and progressive policy.

The Board expects a full year outcome marginally ahead of previous expectations."

Analyst meeting

A results presentation will be held for investors and analysts at the offices of FTI Consulting: 9th Floor, 200 Aldersgate, Aldersgate Street, London, EC1A 4HD on 19 March 2019. 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

Chief Executive Officer's Review

It's been another very successful period for Softcat and I'm delighted with our trading performance across all customer segments and technology areas, each of which saw growth during both the first and second quarters in roughly equal measure. I'm also pleased with the progress we've made scaling-up our operations and building new capabilities.

Our key financial metrics of 27% gross profit growth, 40% operating profit growth and 103% cash conversion illustrate significant gains in market share, the delivery of shareholder value and provide a foundation for further progress driven by ongoing reinvestment. This has been a consistent approach for us over the years and, coupled with a relentless focus on maintaining our vibrant culture, has now delivered 54 quarters of consecutive year-on-year income and profit growth. Despite that long-track record of progress and our stature now as one of the largest players in each major customer segment, our share of the overall UK market is in the region of just 6%. We operate in a large and fragmented industry which makes the opportunity for further growth in the years ahead just as strong as ever and we believe our business direction and execution are in good shape.

Customers from all verticals continue to invest in technology driven by the need to be secure, compliant and innovative to remain competitive. The demand for Hybrid Cloud, Security, Software and Services remain key drivers for growth. The complexity of IT means that our customers need our help and support more than ever.

I've already stated that our appetite for investment is undimmed and it has been another very active six months in terms of recruitment. During the period, headcount increased by 127 from year end and on average was 15% above the prior period. As in previous years, recruitment has been spread across all areas of the business with the aim of growing the sales force, expanding our technical expertise, maintaining the right levels of support and adding experience in key strategic areas. Current areas of focus include the development of the teams supporting our new Public Cloud and Security support services. Further growth in headcount is planned for the second half.

The period also saw a strong contribution from across the branch network, with our more mature offices in Marlow, Manchester and London especially making significant progress against our goal of winning a bigger share of wallet with existing customers. Growth in relative terms was strongest from the more recently opened Glasgow office, while the team in Dublin continues to build organically following the opening of that office in August 2018. In addition, growth from Public Sector was again above the Company average, expanding slightly as a share of total income.

We are delighted to report a number of recent award wins, the highlights include:

- AlienVault - EMEA Partner of the Year
- CRN Reseller of the Year
- Check Point - New Customer Partner of the Year
- Snow - Innovation Partner of the Year

- Canalys - Growth Partner of the Year EMEA

We have continued to monitor the potential impact of the Brexit process on our business and industry. Our attention is focussed on ensuring the robustness of the supply chain and remaining tactically agile in the event of currency movements and the impact that may have on customer pricing. We remain confident that we are well prepared for different scenarios, but continue to note, like many companies, that a prolonged period of uncertainty is likely to impact customer buying patterns.

Outlook

The Board expects a full year outcome marginally ahead of previous expectations.

Board changes

Lee Ginsberg, non-executive director, has notified his intention to step down from the Board, effective 30 June 2019. A process to find his replacement is underway. We would like to thank Lee for his outstanding contribution to the Softcat Board throughout his tenure. His expertise, experience, commitment, support and encouragement have been very highly valued by the Softcat team.

Chief Financial Officer's Review

Financial Summary	H1 FY19	H1 FY18	Growth
Revenue split			
Software	£200.9m	£168.3m	19.4%
Hardware	£195.0m	£156.4m	24.7%
Services	£38.1m	£33.6m	13.4%
Total Revenue	**£434.0m**	**£358.3m**	**21.1%**
Gross invoiced income split			
Software	£328.4m	£239.9m	36.9%
Hardware	£201.7m	£164.7m	22.5%
Services	£77.7m	£68.2m	13.9%
Total gross invoiced income	**£607.8m**	**£472.8m**	**28.5%**
Gross profit	£94.7m	£74.8m	26.5%
Operating profit	£33.9m	£24.1m	40.4%
OP:GP margin	35.8%	32.2%	3.6% pts
Cash conversion	103.4%	103.3%	0.1% pts

IFRS 15 revenue restatement

The Company has adopted IFRS 15 during the period. The impact on the financial statements is in line 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 record pre-IFRS 15 gross revenue, referred to above as 'gross invoiced income' as a metric to measure business mix and will continue to use that measure internally and report it externally alongside GAAP revenue. As a result, gross invoiced income will continue to be reported as a memo item to aid external understanding of performance. Further information is contained in note 2 to the condensed interim financial statements.

As previously stated, gross profit will continue to be the Company's primary measure of income performance.

Gross profit, revenue and gross invoiced income

Gross profit grew by 26.5% to £94.7m, representing a continuation of the very strong performance seen during the previous financial year. Once again, there were no unusually large individual transactions or one-off impacts in either the current or comparative periods, and so the growth reflects ongoing execution against a proven strategy.

Revenue growth of 21.1% lags gross profit growth slightly due to the higher proportion of software sales netted down compared to the prior period. This predominantly relates to an increase in the proportion of cloud-based software transacted.

Notwithstanding the shift within software towards cloud-consumption, the mix of overall gross invoiced income was broadly stable. By this measure, software actually accounted for a slightly higher proportion of the total at 54.0% (HY18: 50.7%). Datacentre and Cloud continued to be one of our fastest growing lines of business, driven by demand for both software and hardware, while Networking and Security also increased slightly as a share of gross invoicing. All customer segments saw gross invoiced income growth in excess of 25%, with Public Sector the strongest performer, up 30%.

Customer Metrics	H1 FY19	H1 FY18	Growth
Customer numbers	10.1k	9.5k	6.5%
Gross profit per customer	£9.4k	£7.9k	18.7%

Also continuing a trend from the previous financial year was the expansion of gross profit per customer, up by 18.7% to £9.4k for the period.

620 new customers were added during the six months, ahead of the net gain of 600 seen in the prior period. This represents growth of 6.5% to a total of 10,100 customers serviced during the first half of the year.

Operating profit

Operating profit of £33.9m (H1 2018: £24.1m) grew by 40.4%, reflecting the effect of strong short-term operating leverage on higher than expected income growth. As a result, our key measure of operating efficiency, the ratio of operating profit to gross profit, increased from 32.2% to 35.8%. We expect this period-on-period improvement to normalise in the second half.

Corporation tax charge

The interim tax charge of £6.5m reflects an effective tax rate (ETR) of 19.2% (2018: 19.5%). The ETR is marginally above the statutory rate in both periods (19.0%) due to the impact of non-deductible expenses.

Cash flow and cash conversion

The Company entered the year with a cash balance of £72.8m and paid an aggregate final and special dividend of £47.3m on 14 December 2018. The Company remains debt-free and closed the period with a cash balance of £52.8m.

Operating cash flow after capital expenditure but before tax, was strong during the reporting period at £35.0m, representing a conversion rate of 103.4% of operating profit, broadly in line with both historic performance and expectations for the first half of the financial year.

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

Capital investment

The Company's immediate requirements for capital investment to fund growth remain relatively modest. Net capex of £1.3m (2018 H1: £0.6m) in the period relates mainly to computer equipment and fixtures and fittings to satisfy the demands of operational growth.

Dividend

The Board is pleased to declare an interim dividend of 4.5p per share, amounting in total to £8.9m. The interim dividend will be payable on 10 May 2019 to shareholders whose names are on the register at the close of business on 5 April 2019. Shares in the Company will be quoted ex dividend on 4 April 2019. The dividend reinvestment plan ("DRIP") election date is 16 April 2019.

Principal Risks and Uncertainties

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

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

Risk	Potential impacts	Management & mitigation
BUSINESS STRATEGY		
Customer dissatisfaction	• 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, including GDPR compliance	• Inability to deliver customer services • Reputational damage • Financial loss	• Company-wide information security policy • Appropriate induction and training procedures for all staff • External penetration testing programme undertaken • ISO 27001 accreditation
Business interruption	• Customer dissatisfaction • Business interruption • Reputational damage • Financial loss	• Operation of back-up operations centre and data centre platforms • Established processes to deal with incident management, change control, etc. • Continued investment in operations centre management and other resources • Ongoing upgrades to network • Regular testing of disaster recovery plans
Macro-economic factors including	• Short term supply chain disruption	• Close dialogue with supply chain partners to ensure all potential Brexit

Brexit	• Reduced margins • Reduced customer demand • Reduced profit per customer	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

These risks and uncertainties have not changed significantly since 31 July 2018. Further information on the risks can be found on pages 29 to 30 of Softcat's 2018 Annual Report and Accounts, which is available at https://www.softcat.com/investors/results-centre

Going Concern

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

Cautionary Statement

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

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

Directors' Responsibility Statement

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

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

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

Graeme Watt
Chief Executive Officer
18 March 2019

Graham Charlton
Chief Financial Officer
18 March 2019

Condensed Statement of profit or loss and other comprehensive income
For the six months ended 31 January 2019

	Six months ended 31 January		Year ended 31 July
	2019	**2018**	**2018**
	Unaudited	Unaudited	Unaudited[1]

	Note	£'000	£'000	£'000
Revenue	3	**433,970**	**358,304**	**797,208**
Cost of sales		(339,298)	(283,469)	(622,045)
Gross profit		**94,672**	**74,835**	**175,163**
Administrative expenses		(60,818)	(50,725)	(107,141)
Operating profit		**33,854**	**24,110**	**68,022**
Finance income		110	38	117
Profit before taxation		**33,964**	**24,148**	**68,139**
Income tax expense	4	(6,514)	(4,716)	(13,133)
Profit and total comprehensive income for the period		**27,450**	**19,432**	**55,006**
Profit attributable to:				
Owners of the Company		**27,450**	**19,432**	**55,006**
Basic earnings per Ordinary Share (pence)	9	13.9	9.8	27.9
Diluted earnings per Ordinary Share (pence)	9	13.8	9.8	27.6

All results are derived from continuing operations.

[1] The Company has made retrospective restatements during the current interim period as a result of the adoption of IFRS 15. The condensed statement of profit or loss and other comprehensive income of the Company for the preceding year (31 July 2018) presented with the condensed interim financial statements (31 January 2019) reflects the retrospective application of the new accounting principles. As the amounts differ from the amounts in the 2018 financial statements, on which the Company's auditor previously reported, the 31 July 2018 condensed statement of profit and loss and other comprehensive income is labelled as 'unaudited'.

Condensed Statement of Financial Position
As at 31 January 2019

	Note	31 January 2019	2018	31 July 2018
		Unaudited	Unaudited	Unaudited[1]
		£'000	£'000	£'000
Non-current assets				
Property, plant and equipment		5,488	5,382	5,056
Intangible assets		346	386	324
Deferred tax asset		1,563	876	1,436
		7,397	**6,644**	**6,816**
Current assets				
Inventories		35,001	12,704	8,631
Trade and other receivables	6	240,805	189,623	205,957
Cash and cash equivalents		52,774	43,318	72,831
		328,580	**245,645**	**287,419**
Total assets		**335,977**	**252,289**	**294,235**
Current liabilities				
Trade and other payables	7	(247,506)	(176,513)	(185,264)
Income tax payable		(6,524)	(5,087)	(8,155)
		(254,030)	**(181,600)**	**(193,419)**
Net assets		**81,947**	**70,689**	**100,816**
Equity				
Issued share capital	11	99	99	99
Share premium account		4,979	4,979	4,979
Retained earnings		76,869	65,611	95,738
Total equity		**81,947**	**70,689**	**100,816**

[1] The Company has made retrospective restatements during the current interim period as a result of the adoption of IFRS 15. The condensed statement of financial position of the Company for the preceding year (31 July 2018) presented with the condensed interim financial statements (31 January 2019) reflects the retrospective application of the new accounting principles. As the amounts differ from the amounts in the 2018 financial statements, on which the Company's auditor previously reported, the 31 July 2018 condensed statement of financial position is labelled as 'unaudited'.

Condensed Statement of Changes in Equity

	Share capital £'000	Share premium £'000	Retained earnings[1] £'000	Total equity £'000
Balance at 1 August 2018	**99**	**4,979**	**95,738**	**100,816**
Total comprehensive income for the period	-	-	27,450	27,450
Share-based payment transactions	-	-	898	898
Dividends paid	-	-	(47,310)	(47,310)
Dividend equivalents paid	-	-	(287)	(287)
Tax adjustments	-	-	380	380
Balance at 31 January 2019	**99**	**4,979**	**76,869**	**81,947**
Balance at 1 August 2017	**99**	**4,664**	**83,655**	**88,418**
Total comprehensive income for the period	-	-	19,432	19,432
Share-based payment transactions	-	-	989	989
Dividends paid	-	-	(38,790)	(38,790)
Shares issued in period	-	315	-	315
Tax adjustments	-	-	215	215
Own share movement during the period	-	-	110	110
Balance at 31 January 2018	**99**	**4,979**	**65,611**	**70,689**

[1] The balance previously reported in the Reserve for Own Shares as at 1 August 2017 was £3,214,000. This amount relates to shares held by the Employee Benefit Trust (EBT) and has been reclassified to Retained Earnings as all the EBT shares were issued against options previously exercised. This amendment occurred on 31 July 2018 and prior periods have been restated accordingly.

Condensed Statement of Cash Flows
For the six months ended 31 January 2019

	Note	Six months ended 31 January 2019 Unaudited £'000	Six months ended 31 January 2018 Unaudited £'000	Year ended 31 July 2018 Unaudited £'000
Net cash generated from operating activities	*10*	**28,463**	**20,592**	**57,051**
Investing activities				
Finance income		110	38	117
Purchase of property, plant and equipment		(1,175)	(553)	(965)
Purchase of intangible assets		(145)	(37)	(119)
Net cash used in investing activities		**(1,210)**	**(552)**	**(967)**
Financing activities				
Issue of share capital		-	315	315
Dividends paid	*5*	(47,310)	(38,790)	(45,321)
Own share transactions		-	110	110
Net cash used in financing activities		**(47,310)**	**(38,365)**	**(44,896)**
Net decrease in cash and cash equivalents		**(20,057)**	**(18,325)**	**11,188**
Cash and cash equivalents at beginning of period		72,831	61,643	61,643
Cash and cash equivalents at end of period		**52,774**	**43,318**	**72,831**

Notes to the Financial Information

1. **General information**

The Directors of Softcat plc (the "Company") present their Interim Report and the unaudited Condensed Interim Financial Statements for the six months ended 31 January 2019 ("Condensed Interim Financial Statements").

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

The Condensed Interim Financial Statements have been reviewed, but not audited, by Ernst & Young LLP and were approved by the Board of Directors on 18th March 2019. The financial information contained in this report does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The Condensed Interim Financial Statements should be read in conjunction with the Annual Report and Financial Statements for the year ended 31 July 2018, which were prepared in accordance with European Union endorsed International Financial Reporting Standards ("IFRS") and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Annual Report and Financial Statements for the year ended 31 July 2018 were approved by the Board of Directors on 17 October 2018 and delivered to the Registrar of Companies. The auditor's report on those financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498(2) or (3) of the Companies Act 2006.

2. **Accounting policies**

Basis of preparation

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

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

The accounting policies adopted in the preparation of the Condensed Interim Financial Statements are consistent with those applied in the preparation of the Company's Financial Statements for the year ended 31 July 2018 except where the Company has made changes in respect of IFRS 15 and IFRS 9 discussed below.

Going concern

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

Critical accounting judgements and key sources of estimation uncertainty

When applying the Company's accounting policies, management must make several key judgements involving estimates and assumptions concerning the future. These estimates and judgements are based on factors considered to be relevant, including historical experience that may differ significantly from the actual outcome. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date were disclosed in the most recent annual report. Following the adoption of IFRS 15, discussed below, the following additional significant judgement is applicable:

Principal versus agent
Significant judgement is required in determining whether the Company is acting as principal, and reports revenue on a gross basis, or agent, and reports revenue on a net basis. Softcat evaluates each revenue stream against the following indicators when determining whether it is acting as principal or agent in a transaction: (i) primary responsibility for fulfilling the promise to provide the specified goods or service, (ii) inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer and (iii) discretion in establishing the price for the specified good or service. Certain revenue streams present a more balanced judgement than others when assessed against the above criteria and the conclusion may be reliant on the weighting applied to the responses to these criteria. When applying the weighting and concluding on whether principal or agent treatment is appropriate, the Company exercises significant levels of judgement due to the balanced nature of the assessment. The specific judgements made for each revenue category are discussed in the accounting policy for revenue as disclosed below.

Changes to accounting standards

IFRS 15 Revenue from Contracts with Customers

The Company 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 both the prior year interim and prior year full year numbers under the new standard.

The overall adjustments are recognised as equal reductions to both revenue and cost of sales with no impact on gross profit, operating profit or cashflow of the Company.

The size of these adjustments is in line with the guidance provided in our most recent financial statements. The overall impact is a reduction in both revenue and cost of sales of £284.5m for the year ended 31 July 2018 and £114.5m for the six months ended 31 January 2018.

When assessing whether principal or agent, 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.

In adopting IFRS 15, the Company has made changes from principal to agent for the following revenue streams;

- Public sector pass through business - impacting Hardware, Software and Services
- Cloud-hosted software - impacting Software only
- Third party support and warranty products - impacting Services only
- Security licensing - impacting Software only

Although the conclusion is a finely balanced judgement, the above revenue streams require either significant partner involvement pre-sale or vendor involvement for a prolonged period of time post-sale, and due to these characteristics, the balance of control moves away from Softcat as reseller.

Since our most recent annual report, Security Licensing has been included in the list of revenue streams moving to agent. The criticality of vendor updates to the ongoing effectiveness of the security licensing sold implies significant vendor dependency for a prolonged period post sale and therefore Softcat has determined that net (or agent) presentation is appropriate.

A summary of the impact of the adoption of IFRS 15 is as follows:

Line item	**Under previous GAAP (IAS 18)**	**IFRS 15 Principal versus Agent restatements**	**Under existing GAAP (IFRS 15)**
Year ended 31 July 2018	**£'000**	**£'000**	**£'000**
Revenue	1,081,678	(284,470)	797,208

Cost of sales	(906,515)	284,470	(622,045)
Gross profit	175,163	-	175,163
Half year ended 31 January 2018	**£'000**	**£'000**	**£'000**
Revenue	472,843	(114,539)	358,304
Cost of sales	(398,008)	114,539	(283,469)
Gross profit	74,835	-	74,835

The analysis by the Company on the impact of IFRS 15 concludes that:

- The Company acts as agent rather than principal for certain revenue streams.
- Other than the presentational changes related to principal versus agent there is no further impact following adoption.

Accordingly, the Company has modified its accounting policies and methods as follows:

Revenue Recognition

Recognition
Revenue is recognised based on the completion of performance obligations and an assessment of when control is transferred to the customer. The following indicators are used by the Company in determining when control has passed to the customer: (i) the Company has a right to payment for the product or service, (ii) the customer has legal title to the product, (iii) the Company has transferred physical possession of the product to the customer, (iv) the customer has the significant risk and rewards of ownership of the product and (v) the customer has accepted the product.

Principal versus Agent
The Company evaluates the following indicators amongst others when determining whether it is acting as a principal or agent in the transaction and recording revenue on a gross, or net, basis: (i) the Company is primarily responsible for fulfilling the promise to provide the specified goods or service, (ii) the Company has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer and (iii) the Company has discretion in establishing the price for the specified good or service.

Hardware Revenue
The Company sells hardware that is sourced from and delivered by multiple vendors and distributors. revenues from sales of hardware products are recognised on a gross basis as the Company is acting as a principal in these transactions, with the gross value of the consideration from the customer recorded as Revenue. The Company is acting as principal as It has primary responsibility for the acceptability of goods sold, through its provision of consulting services to the customer prior to the sale, is exposed to inventory risk during the delivery period and establishes the selling price itself. Revenue from the sale of these goods is recognised when the control has passed to the buyer, usually on delivery of the goods.

Vendors typically provide standard warranties on most of the hardware products the Company sells. These manufacturer warranties are assurance-type warranties and are not considered separate performance obligations. The warranties are not sold separately and only provide assurance that products will conform with the manufacturer's specifications.

Software Revenue
Revenue from most software license sales is recognised on a gross basis as the Company is acting as a principal in these transactions at the point the software license is delivered to the customer. The Company is deemed to be acting as principal in these transactions as the Company has primary responsibility for the acceptability of software sold, through its provision of consulting services to the customer prior to the sale, as well as the autonomy to establish the selling price for the transaction. Generally, software licenses are sold with the ability to access that vendor's latest technology via product updates. The Company evaluates whether the access to updates is a separate performance obligation by assessing if the third-party delivered updates is critical to the core functionality of the software.

Where updates are critical to the effectiveness of the product then the Company will recognise the revenue on a net, or agent, basis. Where updates are not considered to be critical to the effectiveness of the product and the customer can continue to benefit from the core product without employing the updates then the Company recognises this revenue on a gross, or principal, basis. In practice, Software licensing of security type products will require the latest updates to maintain their effectiveness and are therefore reported on a net basis.

The Company sells cloud computing solutions which include Software as a Service ("SaaS"). SaaS solutions utilise third-party partners to offer the Company's customers access to software in the cloud that enhances office productivity, provides security or assists in collaboration. The Company recognises revenue for cloud computing solutions at the time of invoice on a net basis as the Company is acting as an agent in the transaction.

The Company sells, for a single vendor, access to corporate enterprise agreements which is a certain licensing program for customers who are eligible. For these transactions the Company introduces the customer to the vendor who then fulfils the sale, including transfer of licensing, invoicing and cash collection, without further involvement of the Company. In return for this introduction the vendor compensates the Company with a fee. This fee is recognised net as the Company is acting as an agent in these transactions.

Service Revenue
Softcat sells professional services days which are fulfilled by either Softcat's own internal team of consultants or by consultants provided by third parties. The Company recognises the revenue on these transactions, irrespective of whether they are fulfilled internally or externally, when

confirmation has been received from the customer that the work has been satisfactorily completed. In most cases there is a short timeframe between a customer order and subsequent delivery of the sold service days. As such, the Company does not recognise revenue on a percentage completion basis as this would not have a material impact.

On very rare occasions the Company will sell professional service days which cover an extended period. For these transactions, management assess the individual contract, and if required, recognise the revenue over time according to the output method. Softcat recognise revenue on the basis of direct measurements of the value to the customer which for professional days would be days completed as a percentage of total days. Revenue is recognised on a gross basis; the Company is deemed to be acting as principal in these transactions as it is responsible for selecting the external party, where relevant, for the acceptability of the services and for determining the price charged to the customer.

The Company also provides hosted managed services to its customers offering Infrastructure as a Service ('IAAS') and managed print services among others. The Company hosts these services using internal resources and recognises revenue on a straight-line basis over the contractual service period. The Company recognises the respective revenue on a gross basis as the Company is acting as a principal in the transaction as it has both managerial involvement and effective control over the services being provided throughout the contract period.

Softcat also sells extended or enhanced warranty products provided by third parties. These warranties are sold separately to hardware and provide the customer with a service in addition to assurance that the product will function as expected. For these enhanced warranty products, the Company is arranging for those services to be provided by the third-party over an extended period and therefore is acting as an agent in the transaction and records revenue on a net basis at the point of sale. Revenue from such services is recognised in full at the point of service commencement, as the Company has no ongoing obligation in relation to delivery of the underlying service.

Public Sector Partner Business Revenue
The Company transacts with several partners in the public-sector where the partner is responsible for the solution and customer relationship. These transactions incorporate the provision of hardware, software or services to the end customer. For this business, the Companies responsibilities of invoicing and cash collection are more aligned to those of an agent and therefore this business is recognised as agent and presented net of cost of sales.

Contract Assets & Liabilities
When a contract results in payments received from customers in advance of providing the product or performing services, a contract liability is recorded on the balance sheet. Contract assets are not material to the Company.

IFRS 9 Financial Instruments

IFRS 9 is effective for accounting periods beginning on or after 1 January 2018 and therefore is effective for Softcat from 1 August 2018. IFRS 9 replaces the classification and measurement models for financial instruments in IAS 39. Following a review of IFRS 9, no changes to the classification and measurements of the Company's financial assets or liabilities were required. IFRS 9 has been applied on a modified basis and there is no restatement of the comparative balance.

Equally, there is no significant impact from the application of the new 'expected loss' model for the assessment of impairment of financial assets, including accrued income, trade receivables and cash. The simplified approach to valuing the expected credit loss allowance has been applied to trade receivables and accrued income. The application of the expected credit loss allowance, when applied to all financial assets of the Company, has resulted in an immaterial change when compared to previous GAAP.

The analysis by the Company on the impact of IFRS 9 concludes that:

- Softcat will use the simplified approach to measuring expected credit losses on trade receivables and accrued income, the general approach for expected credit losses is applied to other financial assets;
- Due to the short-term nature and quality of receivables and other financial assets, no material change in value of impairment has been recognised.

The Company has modified its accounting policies and methods as follows:

Financial Instruments

Financial Assets - Trade Receivables

Trade receivables are recognised and measured at the transaction price less allowance for expected credit losses. Trade receivables do not carry interest.

As required under IFRS 9, the simplified approach for trade receivables has been used as there is not a significant financing component to these assets. In accordance with the simplified approach for impairment of trade receivables and accrued income under IFRS 9, the loss allowance for trade receivables is always measured at an amount equal to lifetime expected credit losses and includes a forward-looking element as well as an assessment based on history and experience.

Due to the size of the receivables ledger and the volume of smaller balances, it is not possible to review all balances individually and therefore a portion of the ledger is reviewed collectively and provided for as such. More material or higher risk balances are reviewed individually looking at specific circumstances including payment history, sector, communication quality and future expected losses and are provided for individually with respect to the perceived level of risk. Equally, any entities that are in administration or have been passed to debt collection are provided for individually.

IFRS 16 Leases

IFRS 16 specifies how to recognise, measure, present and disclose leases. The standard provides a single lease accounting model, requiring lessees to recognise assets and liabilities for all leases with the exception of those with a lease term of less than twelve months or where the underlying asset has a low value.

The Company is assessing the impact of the standard, which is effective for periods commencing on or after 1 January 2019.

Alternative performance measures

Adjusted operating profit
Consistent with disclosure made in the most recent Financial Statements, the Company has removed reference to adjusted operating profit, as an alternative profit measure, in the period ended 31 January 2019. As a result, the references to adjusted basic and diluted earnings per share, which were based on the adjusted profit measure, have also been removed. The adjusted profit measure was previously used to display performance excluding the impact of share-based payment charges. Now that these charges have reached a broadly consistent level year-on-year, the adjusted measure has been removed.

Gross invoiced income
Following the implementation of IFRS 15, a material reduction in revenue has been recognised due to an increase in the proportion of income now recognised as agent, under IFRS 15, which is presented net of cost of sales. Internally, the business continues to use gross invoiced income (equivalent to pre-IFRS 15 revenue), to measure business mix, margin performance and when understanding working capital movements. As such the business has introduced gross invoiced income as an alternative performance measure and will present this alongside GAAP revenue. Management are clear that this alternative performance measure is not superior to the GAAP measure and may not be comparable to other companies who use similarly named alternative performance measures.

3. **Segmental information**

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

	Six months ended 31 January		Year ended 31 July
	2019	**2018**	**2018**
	£'000	**£'000**	**£'000**
Revenue by type			
Software	200,930	168,349	378,811
Hardware	194,970	156,363	349,119
Services	38,070	33,592	69,278
	433,970	**358,304**	**797,208**
Gross invoiced income by type			
Software	328,355	239,911	563,709
Hardware	201,719	164,693	366,877
Services	77,682	68,239	151,092
	607,756	**472,843**	**1,081,678**

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

4. **Taxation**

	Six months ended 31 January		Year ended 31 July
	2019	**2018**	**2018**
	£'000	**£'000**	**£'000**
Current Tax			
Current period	6,514	4,722	13,515
Adjustment in respect of current income tax in previous years.	-	-	(119)
Deferred Tax			
Temporary differences	-	(6)	(263)
Total tax charge for the period	**6,514**	**4,716**	**13,133**

The income tax expense was recognised based on management's best estimate of the annual income tax rate expected for the full financial year, applied to the profit before tax for the half year ended 31 January 2019. On this basis, the Company's tax charge was £6.5m (H1 2018: £4.7m). The applicable statutory tax rate for the full year is 19.0% (H1 2018: 19.0%). Following adjusting items which relate to client entertaining and non-qualifying depreciation, the effective tax rate is 19.2% (H1 2018: 19.5%).

5. **Dividends**

	Six months ended 31 January		Year ended 31 July

	2019	2018	2018
	£'000	£'000	£'000
Declared and paid during the period			
Interim dividend	-	-	6,531
Final dividend	17,419	12,064	12,064
Special dividend	29,891	26,726	26,726
	47,310	**38,790**	**45,321**

An interim dividend of 4.5p per share, amounting to a total dividend of £8.9m, was declared post period end and is to be paid on 10 May 2019 to those on the share register on 5 April 2019.

6. **Trade and other receivables**

	Six months ended 31 January		Year ended 31 July
	2019	2018	2018
	£'000	£'000	£'000
Trade receivables	222,953	178,152	190,730
Allowance for expected credit losses	(2,030)	(1,638)	(1,867)
Net trade receivables	**220,923**	**176,514**	**188,863**
Other debtors	37	41	40
Prepayments	8,402	6,475	6,110
Accrued Income	11,443	6,593	10,944
	240,805	**189,623**	**205,957**

7. **Trade and other payables**

	Six months ended 31 January		Year ended 31 July
	2019	2018	2018
	£'000	£'000	£'000
Trade payables	164,489	119,279	131,115
Other taxes and social security	13,049	14,018	9,642
Accruals	40,001	30,964	33,291
Deferred Income	29,967	12,252	11,216
	247,506	**176,513**	**185,264**

8. **Financial instruments**

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

	Six months ended 31 January		Year ended 31 July
	2019	2018	2018
	£'000	£'000	£'000
Financial assets			
The financial assets of the Company were as follows:			
Cash at bank and in hand	52,774	43,318	72,831
Trade receivables, other debtors and accrued income	232,403	183,148	199,847
	285,177	**226,466**	**272,678**
Financial liabilities			
The financial liabilities of the Company were as follows:			
Trade payables	(164,489)	(119,279)	(131,115)
Accruals	(40,001)	(30,964)	(33,291)
	(204,490)	**(150,243)**	**(164,406)**

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

9. **Earnings per share**

	Six months ended 31 January		Year ended 31 July
	2019	2018	2018
	Pence	Pence	Pence
Earnings per share			
Basic	13.9	9.8	27.9
Diluted	13.8	9.8	27.6

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

	Six months ended 31 January 2019 £'000	Six months ended 31 January 2018 £'000	Year ended 31 July 2018 £'000
Earnings			
Earnings for the purposes of earnings per share being profit for the period	27,450	19,432	55,006

The weighted average number of shares is given below:

	Six months ended 31 January 2019 000's	Six months ended 31 January 2018 000's	Year ended 31 July 2018 000's
Number of shares used for basic earnings per share	197,523	197,241	197,338
Number of shares deemed to be issued at nil consideration following exercise of share options	1,255	1,326	1,668
Number of shares used for diluted earnings per share	**198,778**	**198,567**	**199,006**

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

Reconciliation of operating profit to net cash inflow from operating activities

	Six months ended 31 January 2019 £'000	Six months ended 31 January 2018 £'000	Year ended 31 July 2018 £'000
Operating profit	33,854	24,110	68,022
Depreciation of property, plant and equipment	646	745	1,460
Amortisation of intangibles	121	154	299
Loss on disposal of fixed assets	77	-	28
Dividend equivalents paid	(287)	-	-
Cost of equity-settled employee share schemes	898	989	1,759
Operating cash flow before movements in working capital	**35,309**	**25,998**	**71,568**
Increase in inventories	(26,370)	(5,729)	(1,656)
Increase in trade and other receivables	(34,848)	(16,117)	(32,451)
Increase in trade and other payables	62,241	21,340	30,090
Cash generated from operations	**36,332**	**25,492**	**67,551**
Income taxes paid	(7,869)	(4,900)	(10,500)
Net cash generated from operating activities	**28,463**	**20,592**	**57,051**

11. **Share capital**

	Six months ended 31 January 2019 £'000	Six months ended 31 January 2018 £'000	Year ended 31 July 2018 £'000
Ordinary shares of 0.05p each	99	99	99
Deferred shares of 1p each	-	-	-
	99	**99**	**99**

12. **Related party transactions**

Dividends to Directors

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

	Six months ended 31 January 2019 £'000	Six months ended 31 January 2018 £'000	Year ended 31 July 2018 £'000
G Watt	-	-	-
G L Charlton	-	-	-
M J Hellawell	2,335	2,898	3,326
L Ginsberg	5	4	67
V Murria	71	58	5
P Ventress	12	9	11

	2,423	**2,969**	**3,409**

Except for the above, there were no other significant related party transactions.

13. **Post balance sheet events**

Dividend

An interim dividend of 4.5p per share, amounting to a total dividend of £8.9m was declared post period end and is to be paid on 10 May 2019 to those on the share register on 5 April 2019.

14. **Seasonality of operations**

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

INDEPENDENT REVIEW REPORT TO SOFTCAT PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 January 2019, which comprises the condensed statement of financial position as at 31 January 2019 and the related condensed statement of profit or loss and other comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the six-month period then ended and explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 January 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
18 March 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.

Directors
G Watt
G L Charlton
M J Hellawell

L Ginsberg
V Murria
P Ventress

Secretary
L Thomas

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