# Results for the year ended 31 July 2017

Martin Hellawell, CEO
Graham Charlton, CFO

18 October 2017

# Who we are

Softcat

Leading IT infrastructure provider


**1,046**
Employees at 31 July 2017

**13,000**
Customers in FY17

**200+** vendors

**£832m**
FY17 revenue

**£136m**
FY17 gross profit

**£51.5m**
FY17 adjusted operating profit

CASH

DEBT

**97%**
FY17 cash conversion

# 2017 summary results

Softcat

**Strong growth and profitability**

- Revenue up 23.8% to £832.5m
- Gross profit up 12.9% to £136.3m (+16.2% excluding the prior year one-off)
- Adjusted operating profit* up 10.1% to £51.5m (+16.4% excluding prior year one-off)
- Gross margin down by 1.6% pts: FY16 one-off, large government contract and vendor price rises (further detail to follow)

**Significant cash generation and returns to shareholders**

- Strong cash conversion of 97%**
- The Company remains debt free with £61.6m of cash
- Final dividend of 6.1p per share and special dividend of 13.5p per share to be paid on 15 December 2017

* Adjusted operating profit is defined as operating profit before exceptional items and share-based payments charges.

** Defined as cash flow from operations before tax but after capital expenditure, as a percentage of operating profit

# Business update

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- All areas of our business are performing strongly, with double-digit growth across all key technology areas and business lines
- Security and services businesses among the strongest performers
- Cloud transition continues to present both opportunities and challenges
- Good growth from both corporate customers and public sector (the latter expanding from 29% of revenue in 2016 to 31% in 2017)
- Good growth from all six existing offices, including Glasgow which is now firmly established
- Consistent performance across both H1 and H2, with no notable impact on customer demand from Brexit
- Average headcount up 18%

# Our proven growth strategy

## Significant untapped growth potential

# Progress against plan

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## 1 Sell more to existing customers

- Strong growth from existing customer base
- Positive trends in business lines purchased per customer
- Increase of 9.6% in GP per customer (excluding FY16 one-off; 6.5% reported)
- All major business lines growing well

## 2 Win new customers

- Customer numbers up to 13.0k from 12.2k
- Increases in both corporate and public sector
- Plenty of further headroom for growth within the domestic addressable market

## 3 Build scale, develop the offering

- Excellent progress on recruitment across sales, technical areas and services
- Managed-print services continue to grow strongly
- Newly-launched vendor support services performing well
- New South Coast office to open within H1

#1 Microsoft UK LSP, Dell EMC Client Partner of the Year, Sophos Top Performer of the Year, Mimecast Partner of the Year, ISO 20000 - IT management service excellence

# 2017 financial review

Graham Charlton, CFO

# Summary income statement

Softcat

| £m | FY17 | FY16 | Growth |
|---|---|---|---|
| **Revenue** | **832.5** | **672.4** | **23.8%** |
| **Gross Profit** | **136.3** | **120.7** | **12.9%** |
| GP % | 16.4% | 18.0% | |
| Administration Expenses | (84.8) | (74.0) | 14.7% |
| **Adj operating profit** | **51.5** | **46.8** | **10.1%** |
| Adj OP % | 6.2% | 7.0% | |
| Adj OP/GP % | 37.8% | 38.7% | |
| Share-based payment charges | (1.3) | (0.9) | 46.6% |
| IPO exceptional costs | - | (3.7) | |
| **Operating profit** | **50.2** | **42.2** | **18.9%** |
| Interest | 0.1 | 0.2 | |
| **Tax** | **(10.2)** | **(9.2)** | **10.3%** |
| **Profit after tax** | **40.1** | **33.2** | **21.0%** |

- Consistent, measured investment in key areas since IPO has developed a platform for sustainable, profitable growth
- This is reflected in double-digit revenue and profit growth in 2017, despite a very tough gross profit comparative containing a significant one-off
- Excluding the 2016 one-off, underlying gross profit increase was 16.2%
- GP margin movement is detailed on the next slide

- Excluding the 2016 one-off, adjusted operating profit grew by 16.4% and adj OP/GP margin was broadly flat year-on-year

- The effective tax rate is 20.3% (FY16: 21.8%), higher than the statutory rate of 19.7% because of non-deductible expenses, but significantly lower than prior year due to the absence of non-deductible IPO-related costs

# Sales experience drives successful productivity

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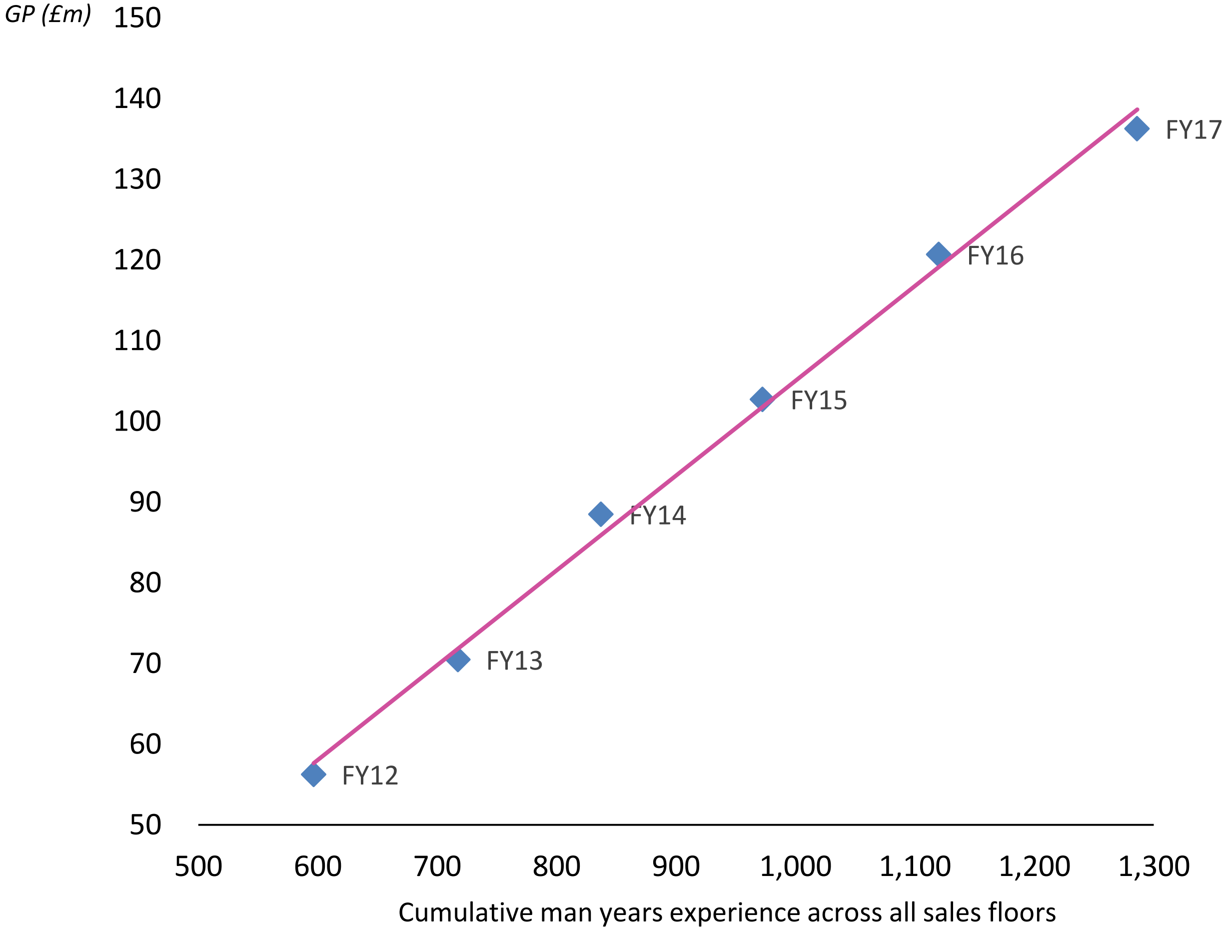

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# Gross margin movement

Softcat

- Overall decline in GP margin from 18.0% to 16.4%
  - (0.5% pts) due to 2016 non-recurring procurement benefits
  - (0.3% pts) due to largest ever licensing deal for an 80,000-user central government department at very low initial margin - £14m revenue in 2017, and expected to deliver a similar impact in 2018 and 2019
  - (0.5% pts) due to currency-driven price rises. Prices rose c. 15% and as anticipated we have passed on the vast majority of that to customers
  - (0.3% pts) other
- Gross margin going forward will continue to be variable depending on technology and customer mix

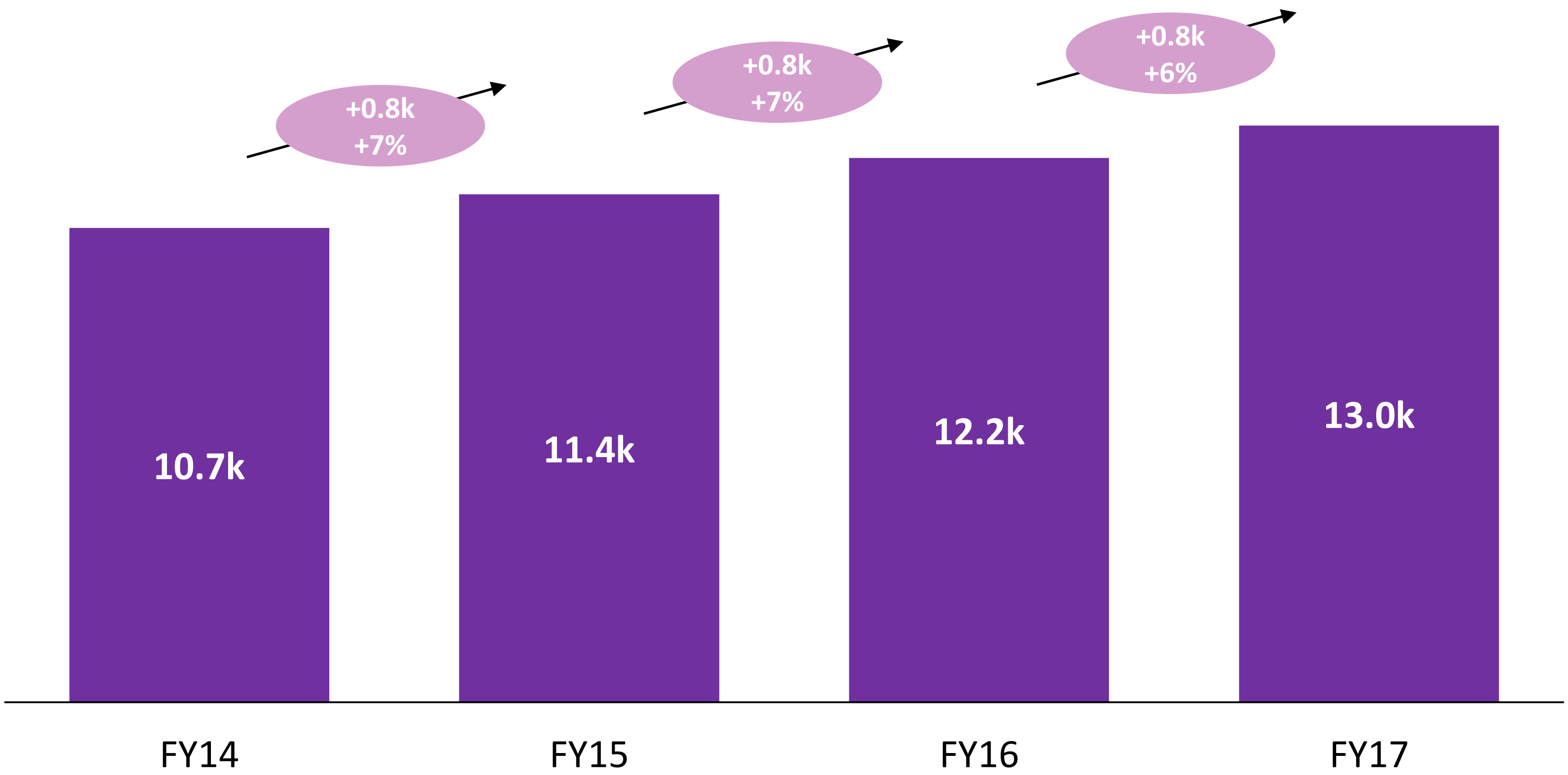
# Impact of FY16 one-off

Softcat

| £m (reported) | FY17 | FY16 | FY17 Growth | FY15 | FY16 Growth |
|---|---|---|---|---|---|
| **Revenue** | **832.5** | **672.4** | **23.8%** | **596.1** | **12.8%** |
| **Gross Profit** | **136.3** | **120.7** | **12.9%** | **102.8** | **17.5%** |
| GP% | 16.4% | 18.0% | | 17.2% | |
| Administrative expenses | (84.8) | (74.0) | 14.7% | (62.2) | 18.9% |
| **Adj Operating profit** | **51.5** | **46.8** | **10.1%** | **40.6** | **15.2%** |
| Adj OP % | 6.2% | 7.0% | | 6.8% | |
| Adj OP/GP % | 37.8% | 38.7% | | 39.5% | |

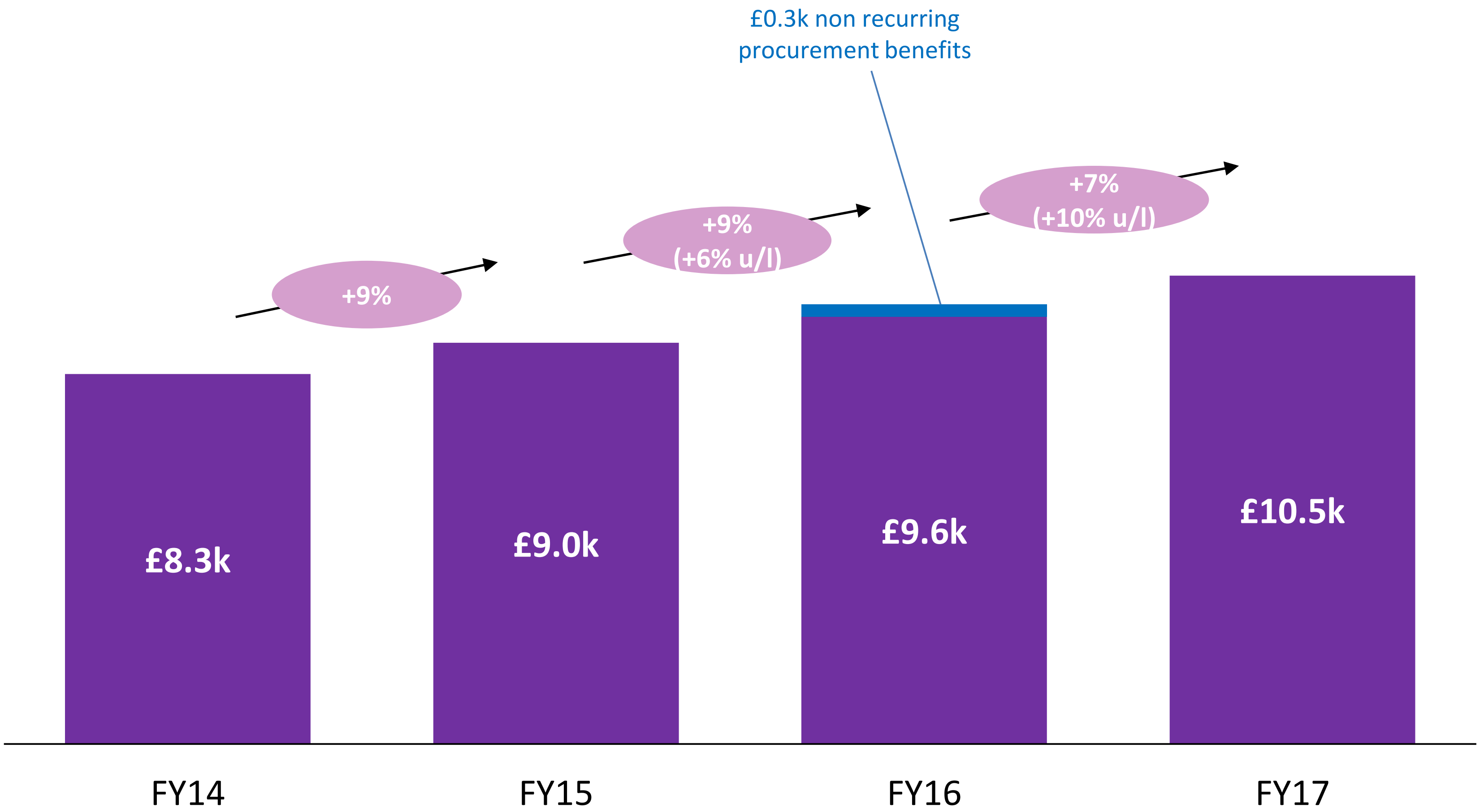
| £m (excluding FY16 one-off) | FY17 | FY16 | FY17 Growth | FY15 | FY16 Growth |
|---|---|---|---|---|---|
| **Revenue** | **832.5** | **672.4** | **23.8%** | **596.1** | **12.8%** |
| **Gross Profit** | **136.3** | **117.3** | **16.2%** | **102.8** | **14.1%** |
| GP% | 16.4% | 17.5% | | 17.2% | |
| Administrative expenses | (84.8) | (73.1) | 16.1% | (62.2) | 17.5% |
| **Adj Operating profit** | **51.5** | **44.2** | **16.4%** | **40.6** | **8.9%** |
| Adj OP % | 6.2% | 6.6% | | 6.8% | |
| Adj OP/GP % | 37.8% | 37.7% | | 39.5% | |

# Customer numbers




* A customer is defined as a unique trading entity that has transacted with Softcat during the period.

# Gross profit per customer



# Cash flow

Softcat

| £m | 2017 | 2016 |
|---|---|---|
| **Operating profit** | **50.2** | **42.2** |
| Depreciation and amortisation | 2.0 | 2.1 |
| Net capital expenditure | (1.5) | (1.7) |
| Movements in working capital | (3.4) | (7.1) |
| Other | 1.5 | 0.6 |
| **Cash from operations before tax, after capex** | **48.8** | **36.1** |
| As % of operating profit | 97% | 85% |
| Income taxes paid | (9.3) | (7.9) |
| Finance income | 0.1 | 0.2 |
| Net proceeds from equity transactions | 0.5 | 2.7 |
| Dividends paid | (40.9) | (43.5) |
| **Net decrease in cash during the period** | **(0.7)** | **(12.3)** |
| **Closing cash balance** | **61.6** | **62.4** |

- Net movement in fixed assets slightly negative over the last two years reflects our lack of exposure to a capital intensive, highly competitive IaaS landscape.
- Net working capital outflow is proportionate with growth in income and costs, through disciplined management and control of transaction processing.
- Cash conversion in line with the stated aim of preserving a long-run average in the range of 90-95% - cumulative conversion over 2016 and 2017 is 92%
- Prior year inflow reflects employee options exercised pre-IPO
- Consistency in closing cash balance reflects high liquidity and sustainable dividend policy

# Dividend

| | 2017 | 2016 |
|---|---|---|
| Interim | 2.9p | 1.7p |
| Final | 6.1p | 3.6p |
| Special | 13.5p | 14.2p |
| **Total** | **22.5p** | **19.5p** |
| Ex dividend | 2 November | |
| Payment | 15 December | |

**If approved, since IPO in November 2015 total cash returned to shareholders will rise to £83m**

# Closing remarks

Martin Hellawell, CEO

# Summary

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- Strategy unchanged – sell more to existing customers, win new customers
- Very strong revenue growth at 24%; helpful but not our most important measure
- GP and OP growth of 16% excluding one-off benefit in FY 2016
- Strong cash conversion
- All business lines, customer segments and branches performing
- Continued investment in capability and sales for future growth
- Double digit bottom line growth and 22.5p per share dividend provide for strong shareholder returns
- **Outlook** – very early days in the new financial year and there is still all to play for but we are where we would like to be at this stage