Interim results for the 6 months to 31 January 2017

Martin Hellawell, CEO
Graham Charlton, CFO

22 March 2017

Who we are

Softcat

Leading IT infrastructure provider

UK Focused

1,050
Employees at 31 January 2017

12,200+
Customers in FY16

200+ vendors

£672m
FY16 revenue

£121m
FY16 gross profit

£47m
FY16 adjusted operating profit

CASH DEBT

113%
FY14-16 cumulative cash conversion

H1 2017 summary results

Softcat

Strong growth AND profitability

- Gross profit up 14.1% to £61.3m (+17.5% excluding the prior year one-off)
- Adjusted operating profit* up 9.4% to £21.4m (+16.4% excluding prior year one-off)
- Revenue growth 28.9%, to £378.5m
- Especially strong demand in Q2, partly due to January price rises
- Gross margin lower by 2.1%pts

Significant cash generation and returns to shareholders

- Strong cash conversion of 112%**
- The Company remains debt free with a cash balance of £46.6m
- Interim dividend of 2.9p per share to be paid on 28 April 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

- Our three core offerings of workplace technology, networking & security and datacentre infrastructure all delivered strong growth
- Strong demand and growth in both corporate and public sector markets
- Double digit growth for hardware, software and services
- Brexit related currency fluctuations have accelerated pre-price rise demand
- Despite price rises, customers’ IT budgets remain largely unchanged

Our proven growth strategy

Significant untapped growth potential

Progress against plan

Softcat

1 Sell more to existing customers

- Strong growth from existing customer base
- Increase of 8.1% in GP per customer (excluding FY16 one-off)
- All major business lines growing well, including recently developed offerings (e.g. managed print and contractual support services)

2 Win new customers

- Customer numbers up 800 (8.7%) on H1 FY16 – the fastest rate of absolute and relative growth since H1 FY14
- Increases evident in both corporate and public sector

3 Scale the platform and develop offering

- Excellent progress on recruitment
- >30% increase in services and technical staff in 12 months
- Bristol office moved to a larger city-centre location

CRN Reseller of the Year, Cisco EMEAR Partner of the Year, Adobe EMEA Partner of the Year, HPE UKI Partner of the Year, first Microsoft UK Licensing Solutions Provider to sell 1 million Office 365 Enterprise Suite licenses.

H1 2017 financial review

Graham Charlton, CFO

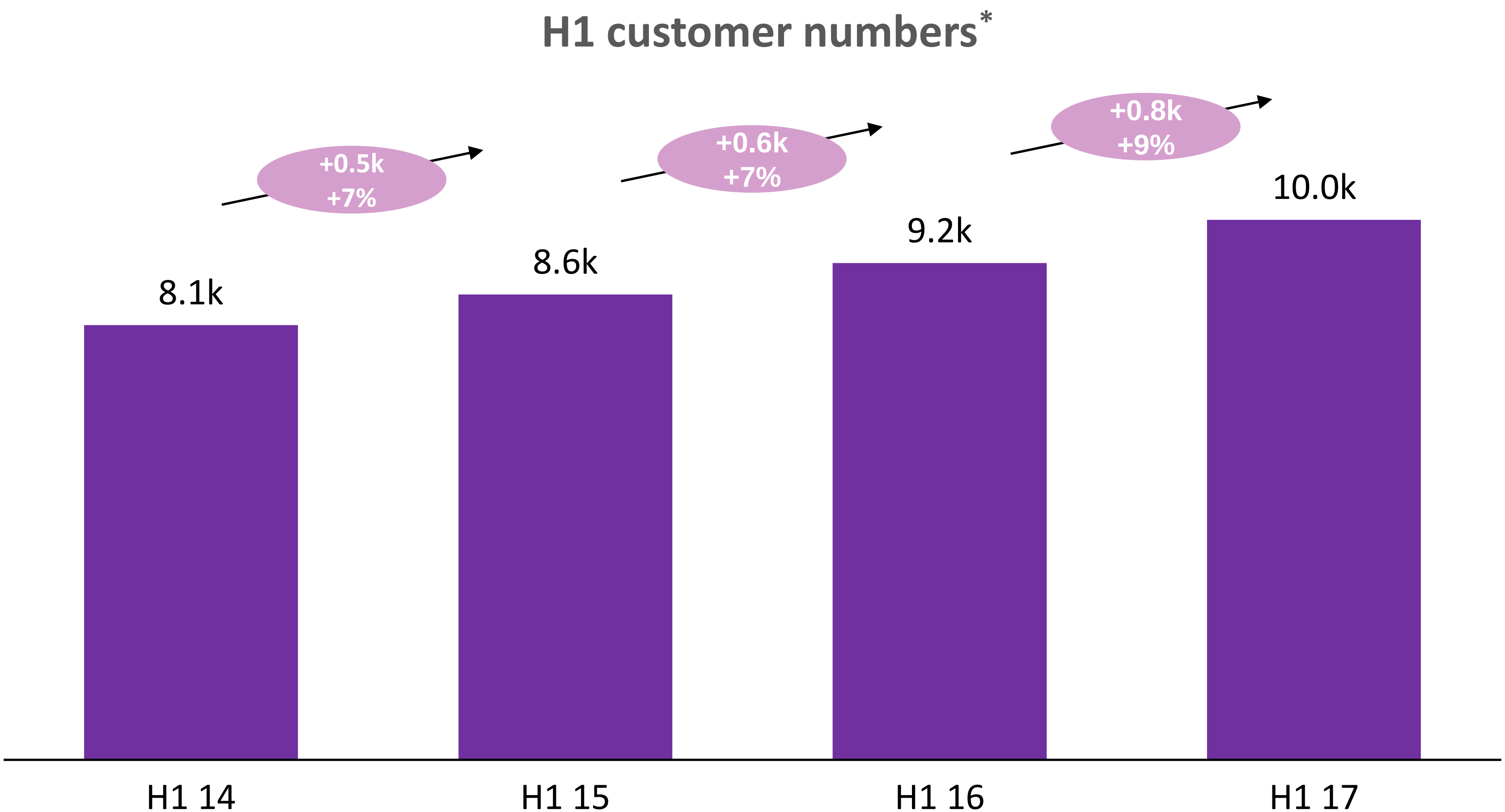
Summary income statement

Softcat

£m	H1 FY17	H1 FY16	Growth
Revenue	**378.5**	**293.6**	**28.9%**
Gross profit	**61.3**	**53.7**	**14.1%**
GP %	16.2%	18.3%	
Administrative expenses	(39.9)	(34.1)	16.3%
Adj operating profit	**21.4**	**19.5**	**9.4%**
Adj OP %	5.6%	6.7%	
Adj OP/GP %	34.9%	36.4%	
Share-based payment charges	(0.5)	(0.5)	6.3%
IPO exceptional costs	-	(3.7)	
Operating profit	**20.9**	**15.3**	**36.3%**
Interest	0.1	0.1	
Tax	(4.2)	(3.5)	21.0%
Profit after tax	**16.7**	**11.9**	**40.3%**

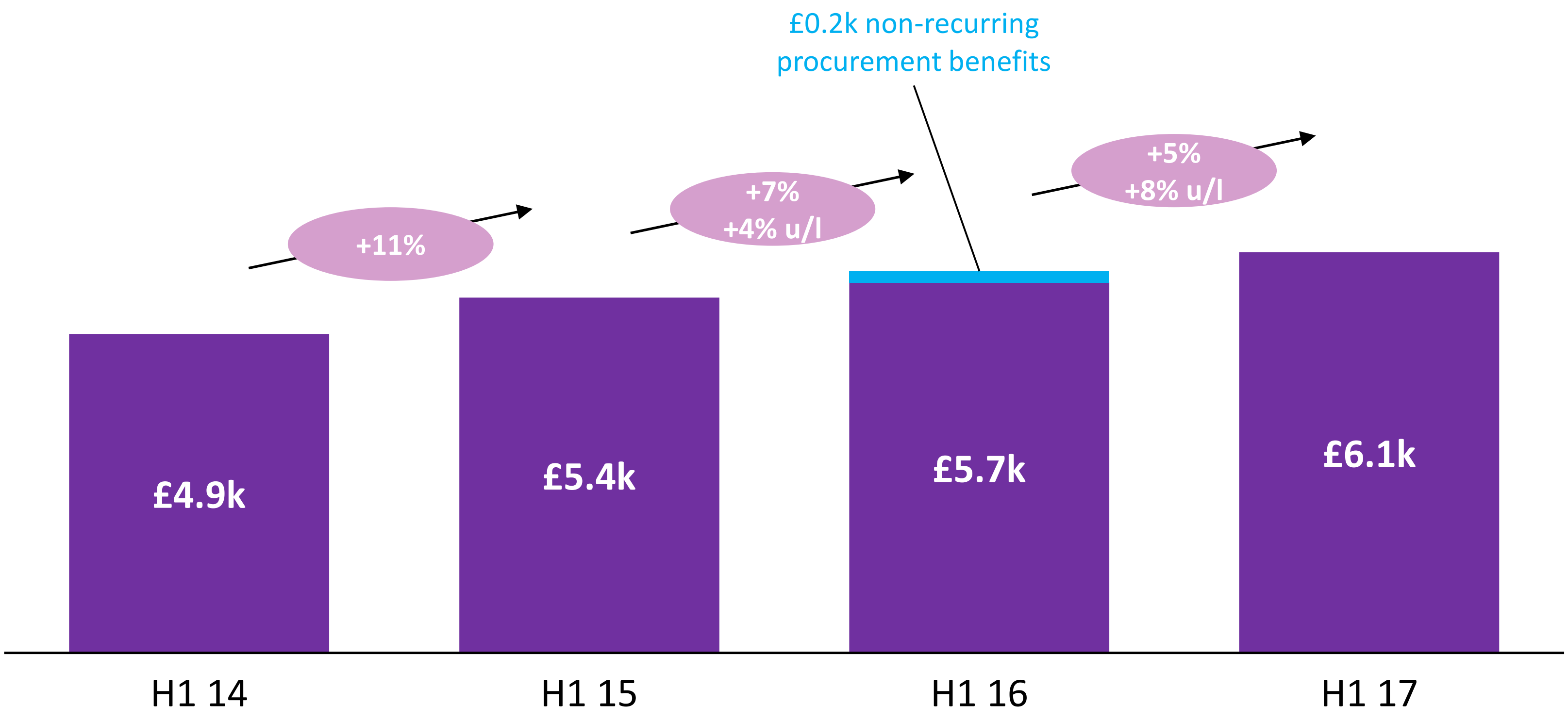
- Strong gross profit growth reflects success of investment in sales and technical staff, together with heightened customer demand during Q2 ahead of vendor price rises.
- GP margin movement:
  - (0.6% pts) due to FY16 non-recurring procurement benefits;
  - (0.6% pts) due to largest ever licensing deal for an 80,000-user central government department at very low initial margin; and
  - (0.9% pts) other, including change in hardware mix, etc
- Underlying adj operating profit growth, excluding the net-benefit of the FY16 non-recurring procurement benefits, is 16.4% (c.f. 17.5% underlying gross profit growth)
- Adj OP/GP % is down 1.6% pts on prior period mainly due to the prior year one-off benefit but also reflecting on-going investments
- The effective tax rate for H1 and expected for the full year FY17 is 20.2% (H1 FY16: 22.7%). Reduction because of the impact of non-deductible IPO expenses in FY16, supported by a drop in the statutory rate of tax from 20.0% to 19.7%

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

£m	H1 FY17	H1 FY16
Operating profit	**20.9**	**15.3**
Depreciation and amortisation	1.0	1.1
Net capital expenditure	(1.1)	(1.0)
Movements in working capital	2.3	6.2
Other	0.5	0.2
Cash from operations before tax, after capex	**23.6**	**21.7**
As % of operating profit	112%	142%
Income taxes paid	(4.4)	(4.3)
Finance income	0.1	0.1
Net proceeds from equity transactions	0.2	2.7
Dividends paid	(35.2)	(40.1)
Net decrease in cash during the period	**(15.7)**	**(19.8)**
Closing cash balance	**46.6**	**54.9**

- Net movement in fixed assets close to nil continues to illustrate the relatively low capital intensity of the model
- Net working capital inflow reflects disciplined management and control of trading cash flows. £14m impact on both gross debtors/creditors following 80k user central government deal at the end of H1
- Comparative boosted by timing of IPO exceptional costs payment
- Cash conversion in line with prior period (when FY16 is adjusted for unpaid IPO costs). Target full year conversion in the range of 90-95%
- Prior year inflow reflects employee options exercised pre IPO
- £35.2m payment in H1 FY17 represents the final full year dividend of 3.6p and special dividend of 14.2p per share

Dividend

- An interim dividend of 2.9p (2016: 1.7p) per share
- Total dividend payment will be £5.7m (2016: £3.3m)
- Ex dividend date is 30 March 2017
- Record date is 31 March 2017
- Payment date is 28 April 2017

Closing remarks

Martin Hellawell, CEO

Summary

- Strategy unchanged – focus on UK organic growth
- Strong gross profit growth
- Good conversion to the bottom line and into cash despite ongoing investment
- Acceleration in customer number growth
- Reduction in gross profit margin is not a concern, given strong growth
- All areas of the business showing good growth
- Both corporate and public sector showing strong growth

Outlook

- Strong momentum in the business and a good start to H2
- But as always a long way to go
- Confident of meeting the Board’s expectations for the full year