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

Preliminary results for the twelve months to 31 July 2021

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 2021. The results demonstrate strong growth, sustained investment, a progressive ordinary dividend and a special dividend.

Financial Summary	Year ended		
	31 July 2021	31 July 2020	Growth
	£m	£m	
Revenue[a]	1,156.7	1,077.1	7.4%
Gross invoiced income[b]	1,938.4	1,646.2	17.7%
Gross profit	276.4	235.7	17.2%
Operating profit	119.4	93.7	27.4%
Cash conversion %[c]	89.9%	87.8%	
Total ordinary dividend (p)[d]	20.8p	16.6p	25.3%
Final dividend (normalised, p)[d]	14.4p	11.2p	28.6%
Special dividend (p)	20.5p	7.6p	169.7%
Basic earnings per share (p)	48.4p	38.2p	26.7%

Highlights for the twelve months to 31 July 2021

- Strong performance in both the first and second halves of the year as we extend our record of organic year-on-year growth in gross invoiced income, gross profit and operating profit to sixty-four consecutive quarters.
- Cash conversion after capital expenditure remains healthy at 89.9%.
- Further growth in both the customer base (+2.3%) and average gross profit per customer (+14.6%), demonstrating good progress against both key aims of our strategy.
- Average headcount up 11%, reflecting ongoing investment across all areas of the business.
- A final dividend of 14.4p, up 28.6%, and a special dividend of 20.5p.
- Strong balance sheet position maintained with net cash at year end of £101.7m (2020: £80.1m).
- Outlook: the new financial year has started well and we are confident of the future of our industry and especially Softcat.

[a] Revenue is reported under IFRS 15, the international accounting standard for revenue. IFRS 15 requires finely balanced judgements be made to determine whether Softcat acts as principal or agent in certain trading transactions. These judgements, coupled with slight variations of business model between IT Solutions Providers, means the impact of IFRS 15 across the peer group is not uniform. Income prior to the IFRS 15 adjustment is referred to as gross invoiced income.
[b] Gross invoiced income reflects gross income billed to customers adjusted for deferred and accrued revenue items. This is an Alternative Performance Measure (APM). For further information on this, please refer to the CFO Report on page 7.
[c] Cash conversion is defined as cash flow from operations before tax but after capital expenditure, as a percentage of operating profit. This is also an Alternative Performance Measure.
[d] The 2020 interim dividend of 5.4p, declared but subsequently cancelled in March 2020, was reinstated as part of the final dividend of 16.6p. The total ordinary dividend of 20.8p for 2021 includes the interim dividend of 6.4p declared in March 2021.

Graeme Watt, Softcat CEO, commented:

"I am pleased to report on a record set of results in our 2021 financial year.

Public sector demand remained strong throughout the period and we saw further recovery in the corporate sector with an acceleration in customer growth and order volumes as the year progressed. As previously reported, the first half of the year was particularly strong as we delivered a small number of exceptionally large value mid-market deals.

We made excellent progress selling deeper into existing customers and saw gross profit per customer improve by 14.6%, while also increasing the size of the customer base by 2.3%.

Both people and systems continue to be a focus for investment, and we ended the year with 1,681 employees, an increase of 10%. We are very well positioned to drive growth and remain focused on taking further share in a growing market.

Cash generation has remained typically robust and I'm delighted that the Company is able to recommend the payment of a special dividend.

Thank you to all our partners, without whom this performance would not have been possible. And of course, a huge thank you to the Softcat team for your amazing ability to meet the challenges of the pandemic whilst delivering fantastic performance and making a significant contribution in our local communities."

Outlook

The new financial year has started well. As noted in our Q3 update, we anticipate that the resumption of business travel and events will create a significant headwind during 2022. In the first half, this will be amplified by very strong income comparatives due to the exceptional deals we highlighted in our 2021 first half results. Consequently, operating profit performance in the year ahead will be slightly more weighted towards the second half than in 2021.

We continue to target double-digit gross profit growth, well ahead of market trend. As we maintain high levels of investment in future growth, we expect full year operating profit for 2022 to be in line with the record achieved in 2021.

While it is difficult to look too far forward, given the strength of our business, the outlook for the industry and our confidence in our people, we expect to return to strong operating profit growth thereafter.

Analyst and investor call

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

Conference Call Details:

UK Toll Free:	0800 376 7922
UK Local:	+44 (0)20 7192 8000
Conference Code:	9282819

Webcast Link:
https://edge.media-server.com/mmc/p/g838sobh
Please register approximately 10 minutes prior to the start of the event. The announcement and presentation will be available at www.softcat.com from 07.00 and 09.00, respectively.

Enquiries

Softcat plc: +44 (0)1628 403 403
Graeme Watt, Chief Executive Officer
Graham Charlton, Chief Financial Officer

FTI Consulting LLP: +44 (0)20 3727 1000
Ed Bridges
Matt Dixon

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

Our people and performance

A full year in the pandemic was a challenging period for everyone at a personal and business level, so I wanted to start by thanking everyone who provided the support that many needed throughout the year, whether that was health, social or work related. The team was not thrown off course by the pandemic and have executed on our strategies very effectively, so thank you to everyone at Softcat for contributing so magnificently to our performance this year.

We exceeded our own expectations and made further progress across all key metrics in another record year. Gross Profit (GP), our key measure of income, grew by 17.2% and in line with the growth in our Gross Invoiced Income (GII) at 17.7%. Operating profit (OP) grew by 27.4%, meaning we converted 43.2% of our GP to OP (compared with 39.8% in the prior year).

Our growth was again broad-based but I would highlight the mid-market for its strong contribution to our overall GII growth of 17.7%. It was particularly pleasing to see the corporate business continue to recover in the second half and for us to be able to drive growth for our major vendors throughout both halves of the year. Performance also benefitted from a small number of very large one-time deals in the first half, as well as Covid-related cost-savings from not being able to carry out some of our ordinary activities, mainly in the areas of travel and events.

Building close relationships over time with both new and existing customers remains a top strategic priority, and one against which progress was especially strong as we saw a 14.6% increase in GP per customer over the year. While the pandemic threw out a few challenges, such as finding it more difficult to engage with new customers in some cases, we were still able to grow our customer base by 2.3% to 9,700, a slight acceleration on the prior year. In addition, analysis by Context and CRN suggests we continue to increase our market share. Global shortages of components have been and will continue to be an issue for the industry, but our sense is that despite these shortages we will continue to see structural market growth. The impact of product shortages is very difficult to quantify or forecast, but we are fortunate to have incredibly strong vendor and distributor relationships which give us options when supply is constrained.

We have continued to invest for future growth without pause and are always looking to add new skills and capabilities as well as capacity. Average headcount across the year was up 11%, with a large proportion of our new starts being graduate and apprentice recruits just beginning their working career. The development of our internal tools and platforms has also continued at pace with investment across multiple projects including our finance system, e-commerce platform and service management systems.

We have successfully bedded in a new leadership structure announced at the start of the fiscal year, welcomed a new Head of Cloud as well as a Sales Director for Public Sector, and established an office of 10 people in Virginia to focus on delivery into the North American market. This US office represents further investment in our customer-led multinational capability through which we assist UK and Irish customers with their global needs.

Our staff engagement Net Promoter Score (NPS) of 58 remains very healthy and tells us that, despite the pandemic, we continue to have a highly motivated and engaged workforce. We believe that this special culture creates outstanding customer experiences and is the key driver of our customer NPS rating of 59.

Customer demand and technology trends

The technology trends we saw are well documented and were consistent from the first half into the second half of the year. Security is top of the list and remains a central concern across all other areas whether in the context of digital workspace, datacentre, cloud, connectivity or edge computing.

After the initial scramble for mobile computing at the start of the pandemic many customers are now in a new phase and looking to make their workspace computing and networks robust, secure and scalable, for example standardising devices and replacing refurbished units. We are seeing investments in organisations' networks, devices and accessories, collaboration tools and equipment and printing as workers return to offices in greater numbers and with greater frequency. 5G roll-out is driving acceleration in the use of sensors which in turn fuels investment in edge computing and related infrastructure, particularly in areas that need to eliminate latency. The implementation of cloud-based technologies is mostly as part of hybrid multi-cloud environments and growth rates here remain very strong.

It seems to me these patterns will be with us for at least the mid term, if not longer. The majority of businesses are maintaining or increasing their IT infrastructure spend, recognising the role this plays in their competitive advantage and security. This plays into the breadth and depth we've been building into our proposition for many years and positions us perfectly for the future.

Vendor partnerships

Our focus remains on bringing the needs of our customers together with the best solutions in the market. The world of IT infrastructure is as complex as ever with a myriad of options evolving at pace. Customer needs therefore continue to be the key consideration in choosing areas for investment to maintain our relevance, and of course we couldn't do that without the support and partnerships we enjoy with over 200 vendors. Those partnerships will continue to be important as we navigate product shortages, price changes and other challenges in the year ahead.

Vendors are seeking to assist commercial and public sector organisations to manage distributed workforces, migrate workloads to the cloud in a hybrid work environment and build functionality at the edge whilst maintaining security. We now live in a hybrid world where technology is no longer discretionary and is increasingly distributed. This drives opportunity to innovate and add value throughout the channel.

Industry Awards

The value of our contribution to those partnerships has been generously recognised in a year where we have picked up over 50 vendor awards, including a number for our performance at an EMEA and global level.

We won the highly prestigious CRN Reseller of the Year and Public Sector Reseller of the Year awards, the latter for the second year in a row, while also being crowned the CRN Sustainable Reseller of the Year in the inaugural Tech Impact awards focussed on ESG credentials. Regarded as the Oscars of our industry, these accolades really lit up the organisation in challenging times.

We place special value in awards that recognise the spirit of our people too, so it meant a lot to be recognised again as a top ten employer by both Glassdoor and the Great Places to Work Institute. We were also delighted to be named Diversity Employer of the Year and Ethnic Diversity Champion in the CRN Women in Business awards.

Strategy

Reassuringly, our strategic direction remains unchanged – perhaps not surprising given our track record. We will focus on growing faster than the market and taking share through generating more business with existing customers and at the same time adding new customers. We don't take those relationships for granted and must prove ourselves worthy of trust every day in a market which remains fiercely competitive.

We will continue to make investments to ensure we have the skills and capacity to deliver best practice solutions and bring the innovations of our vendors to market. We are further developing our vertical expertise in our corporate business with a current focus on growing our presence in financial services, while in the public sector we have targeted higher penetration of central government and defence.

As customers increasingly adopt cloud technologies, we have been scaling up our resources, tools and partnerships to support them. We have invested further in device life cycle management as laptops and other mobile devices become central to how many organisations operate and connect. We will continue to invest in and expand our multi-national capabilities to assist customers in our core markets of UK&I with their global needs. This will entrench existing relationships as well as help attract new customers.

Services remain a critical part of our strategy and we continue to evolve and expand our portfolio of in-house services as well as those delivered in partnership. Our service strategy is an inherent part of our offering and does not sit separately from our product expertise and the two will continue to work in tandem.

Ease of doing business for both our employees and customers continues to be high on the agenda. Therefore, the investments already mentioned in our e-commerce portal, cloud aggregation and IT service management systems among others will continue at pace. Enabling and motivating our teams will remain central to everything we do.

Culture and hybrid working

Our special culture has held up well and served us brilliantly over the past 18 months, although our employee pulse surveys have shone a light on the challenges many have faced inside and outside of the workplace. We've taken great care and time to listen to feedback and launched a buddy scheme for those employees who needed emotional support or just someone to chat to, and that worked well for everyone involved. Despite the, sometimes relentless, grind of the pandemic, the team have maintained their boundless energy and spirit. They have shown great agility and resilience and retained a positive attitude.

We have put in place a number of initiatives to remain connected and have some fun, and the care the team have shown for one another and our business partners has been so impressive. I am very proud of them all. We have dealt with the challenges and the opportunities 'together', which appropriately was our word of the year for 2021.

Our plans for hybrid working will evolve and be refined over time. We have introduced a flexible policy and all employees can choose how they split their time between the office and other locations within an expectation that on average we have a slight bias towards the office. We have asked our staff to use good judgement balancing their own needs with those of their teams and the wider business. Within this policy we aim to keep the culture as vibrant as ever while being able to operate even more effectively. In essence we want everyone to enjoy the best of both worlds and trust we can iron out any wrinkles as we go along.

Sustainability

Over the last year we have deepened our focus on diversity and inclusion, on volunteering and charity fund raising as well as our efforts to be environmentally responsible where we now have clear and ambitious goals. Our employees have started two new network groups this year to bring people together to discuss faith and neurodiversity and I am pleased that we are making progress on our gender and ethnic diversity.

As well as the evolution of our culture and ways of working in a post-Covid world, we are also committed to advancing the sustainability of our industry in terms of its impact on the climate. We've been able to significantly reduce the carbon footprint of our own business in recent years despite our growth, but as we look ahead, we have a strong desire to become a leader in the journey towards carbon neutrality. Earlier this year we were the first FTSE 250 company to be awarded 5-star status from the Support the Goals initiative, supporting the UN Global Goals of 2015 and we are only one of five UK companies to win a Sustainable Impact award from HP. We have already achieved net zero carbon on our own scope 1 and 2 emissions through the conversion to renewable energy sources and carbon offsetting, and we are now engaged with the World Resource Institute's Science Based Targets initiative, using their resources to help us develop an action plan to meet our goal of a net zero supply chain by 2040.

Positive momentum

We are very positive about 2022 and expect to maintain the momentum we have built coming into this new financial year. At around 4% we still have a relatively low share of a huge and growing market, so we are not limited by opportunity. Some challenges such as supply constraints and the pace and strength of the economic rebound remain, while recruiting talent is likely to be tougher as demand for skills surges. But these factors are more than outweighed by optimism across the industry. Areas such as datacentre, storage and print will grow strongly as staff return to offices in greater numbers and those especially hampered by the pandemic begin to resume operations. We are perfectly placed to capitalise on the demand this will create.

Thank you to my leadership team, the Board and everyone at Softcat for being so brilliant and making our company such a great place to work.

Chief Financial Officer's Review

<u>**Financial Summary**</u>	**FY21**	**FY20**	**Growth**
Revenue	£1,156.7m	£1,077.1m	7.4%
<u>Revenue split</u>			
Software	£501.1m	£519.5m	(3.6)%
Hardware	£556.5m	£442.3m	25.8%
Services	£99.1m	£115.3m	(14.1)%
Gross invoiced income (GII)	£1,938.4m	£1,646.2m	17.7%
<u>GII split</u>			
Software	£1,109.2m	£964.3m	15.0%
Hardware	£566.3m	£458.3m	23.6%
Services	£262.9m	£223.6m	17.6%
Gross profit (GP)	£276.4m	£235.7m	17.2%
Gross profit margin	23.9%	21.9%	2.0% pts
Operating profit	£119.4m	£93.7m	27.4%
Operating profit margin	10.3%	8.7%	1.6% pts
Gross profit per customer[1]	£28.4k	£24.8k	14.6%
Customer base[2]	9.7k	9.5k	2.3%
Cash conversion	89.9%	87.8%	2.1% pts

Gross profit, revenue and gross invoiced income

Gross profit, our primary measure of income, grew by 17.2% to £276.4m, reflecting strong growth in both the first and second halves of the financial year. Despite successive waves of the pandemic and fluctuating nature of social restrictions, customer demand has been robust, and the Company has been able to operate effectively throughout.

As also noted in our half-year report, revenue growth of 7.4% to £1,156.7m lagged GII expansion due to the continued shift towards cloud-based software. Cloud solutions as well as third-party services are recognised net of product costs under IFRS 15 and this shift in mix accounts for the difference in growth rates between GII and GAAP revenue. We expect this trend to continue in future periods. The company continues to report on GII as well as GAAP revenue since the former is most closely linked to working capital movements and also provides insight to the relative gross spend by different customer segments and across different technology areas. The IFRS 15 reconciliation between revenue and gross invoiced income is included below and in note 2 of the annual report.

[1] Gross profit per customer is defined as GP divided by the customer base.

[2] Customer base is defined as the number of customers who have transacted with Softcat in both of the preceding twelve-month periods.

GII grew by 17.7%, closely matching the expansion in GP and reflecting relatively stable product and customer segment mix with margin in line with prior year at 14.3%. Within the corporate customer segment, we saw a slight shift towards mid-market which grew very strongly by 25.4% and comprised 43.3% of total GII (FY20: 40.7%). Income from enterprise customers (>2,000 employees) was in line with prior year and made up 17.3% of GII (FY20: 20.6%). Gross invoiced income from public sector customers grew by 19.5% and comprised 39.4% of the total (FY20: 38.7%).

GII performance was also very strong and consistent across all areas of technology, showing double-digit growth in each of software, hardware and services in both the first and second halves of the year.

Income concentration was slightly higher than in previous years due to a small number of exceptionally large deals in the first half. Despite that, income remains well diversified with the top 100 customers contributing 38.5% of GII (FY20: 36.2%).

Customer KPIs

The Company strategy remains unchanged and is focused on winning new customers and then nurturing those relationships over many years to engender trust and loyalty. Our special culture coupled with a determination to provide the very best customer service in our industry has been especially important during the pandemic. Along with the breadth of our offering these factors have enabled us to deliver the advice and assurance customers have come to place such reliance upon.

During the year average gross profit per customer grew by 14.6% to £28.4k (2020: £24.8k) and, as has been the case in each of the past three years, 95% of all gross profit was earned from existing customers. Despite this progress, our average wallet share is estimated to be just 20% of customer's IT infrastructure spend and so further growth with existing customers remains our most accessible and exciting prospect in the years ahead.

We also managed to expand the customer base during the year by 2.3% to 9.7k, (2020: 9.5k). While contributing relatively modest levels of in-year income (accounting for just 5% of GP in 2021), the addition of new customers makes an important contribution to sustainable future growth.

Operating profitability and investment in future growth

Total cost growth for the year was significantly lower than GP growth at 10.5%, and so our key internal measure of operating profit margin, the ratio of operating to gross profit, increased to 43.2% (2020: 39.8%). This increase in margin reflects the constraints placed on our operations as a result of the pandemic – mainly the inability for our people to travel and spend time on customer sites, as well as the unavoidable cancellation of internal events. This has resulted in cost savings of c.£1m per month throughout 2021, compared with just three months of similar savings in the prior year. While beneficial to operating profit in the short-term, we very much hope and expect that these activities will begin again during the year ahead.

Unlike the constraints forced upon travel and events, the pandemic had no impact on our ability to invest in our people and drive new recruitment. Average headcount was up by 11% to 1,636, closing the year at 1,681. Investment in both new and existing team members has been a consistent element of our strategy for many years and will continue into 2022 and beyond. Commission costs grew broadly in line with gross profit.

Corporation tax charge

The effective tax rate for 2021 was 19.2% (2020: 19.2%), reflecting a stable UK statutory rate of 19.0% in both years, together with the relatively marginal impact of non-deductible expenses. Our tax strategy continues to be focussed on paying the right amount of tax in the right jurisdiction, at the right time.

Cash and balance sheet

Cash conversion, defined as cash flow from operations before tax but after capital expenditure, as a percentage of operating profit, was 89.9% (2020: 87.8%). The small increase on prior year is due to slightly lower capital expenditure as major office refurbishments were completed in 2020, partially offset by implementation costs of the new finance system which is ongoing. To date, £4.8m has been invested in the new finance system. Overall, our business model remains unchanged and the inventory value at the balance sheet date reflects stock in transit between distribution partners and customers. The Company's closing cash balance was £101.7m (2020: £80.1m).

Dividend

A final ordinary dividend of 14.4p per share has been recommended by the Directors and if approved by shareholders will be paid on 20 December 2021. The final ordinary dividend will be payable to shareholders whose names are on the register at the close of business on 12 November 2021. Shares in the Company will be quoted ex-dividend on 11 November 2021. The dividend reinvestment plan ('DRIP') election date is 29 November 2021.

In line with the Company's stated intention to return excess cash to shareholders, defined as net cash in excess of £45m, a further special dividend payment of 20.5p has been proposed. If approved this will also be paid on 20 December 2021 alongside the final ordinary dividend.

Alternative Performance Measures

The Company uses two non-Generally Accepted Accounting Practice (non-GAAP) financial measures in addition to those reported in accordance with IFRS. The Directors believe that these non-GAAP measures, set out below, assist in providing additional useful information on the underlying trends, sales performance and position of the Company.

Consequently, non-GAAP measures are used by the Directors and management for performance analysis, planning and reporting and have remained consistent with the prior year. These non-GAAP measures comprise gross invoiced income and cash conversion.

1. **Gross invoiced income** is a measure which correlates closely to the cash received by the business and therefore aids the users understanding of working capital movements in the statement of financial position and the relationship to sales performance and the mix of products sold. Gross invoiced income reflects gross income billed to customers adjusted for deferred and accrued revenue as reported in the IFRS measure. A reconciliation of IFRS Revenue to Gross invoiced income is provided within note 2 of the financial statements.
2. **Cash conversion ratio** is cash flow from operations, net of capital expenditure, as a percentage of operating profit. A reconciliation to the adjusted measure for cash conversion is provided below:

	2021 £'000	2020 £'000
Cash generated from operations	**113,797**	91,287
Purchase of property, plant and equipment	(2,265)	(7,664)
Purchase of intangible assets	(4,199)	(1,293)
Cash generated from operations, net of capital expenditure	**107,333**	82,330
Operating Profit	**119,416**	93,733
Cash conversion ratio	**89.9%**	87.8%

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 (slight increase in net risk from prior year)	• 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 (no change in net risk)	• 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 (slight increase in net risk from prior year)	• 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 • All employees issued with corporate devices with standardised access monitoring and controls
Business interruption (no change in net risk)	• 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 and business continuity plans
Macro-economic factors including Brexit and the Covid-19 outbreak (no change in net risk)	• Short-term supply chain disruption • Reduced margins • Reduced customer demand • Reduced profit per customer	• Close dialogue with supply-chain partners • Customer-centric culture • Breadth of proposition and customer base • Additional customer credit review processes introduced • Customer base is well diversified in terms of both revenue concentration but also public and commercial sector exposure
FINANCIAL		
Profit margin pressure including rebates (no change in net risk)	• 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 (slight increase in net risk from prior year)	• Reduced staff engagement • Negative impact on customer service • Loss of talent	• Culture embedded in the organisation over a long history • Branch structure with empowered local management • Quarterly staff satisfaction survey with feedback acted upon • Regular staff events and incentives • Enhanced internal communication processes and events
Poor leadership (no change in net risk)	• Lack of strategic direction • Deteriorating vendor relationships • Reduced staff engagement	• Succession planning process • Experienced and broad senior management team

In our consideration of emerging risks, climate change was identified as an area requiring greater analysis. This is already a component of the 'failure to evolve our offering' risk with regards to the products and services our customers consume and how they might be affected by the drive towards carbon neutrality. In the year ahead, further consideration will take into account the potential impact of our business and supply chain on the global climate, as well as the potential risks and impact of climate change upon our business activities. Our analysis will support more comprehensive future reporting in line with the five pillars approach of the Task Force on Climate-related Financial Disclosures (TCFD).

Going Concern

Overview

In considering the going concern basis for preparing the financial statements, the Directors consider the Company's objectives and strategy, its principal risks and uncertainties in achieving its objectives and its review of business performance and financial position, which are all set out in the Strategic Report (see pages 2 to 27) and Financial Review sections (see pages 28 and 34 to 35) of the Annual Report. Given the ongoing economic uncertainty of the COVID-19 pandemic and considering the latest guidance issued by the FRC the Directors have undertaken a fully comprehensive going concern review.

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

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

Further details, including the analysis performed and conclusion reached, are set out below.

The Directors have reviewed detailed financial forecasts for a thirteen month period from the date of this report (the going concern period) until 30 November 2022. All the forecasts reflect the payment of the FY21 dividend of £69.5m which will be paid in December 2021 subject to approval at the AGM.

The Company operates in a resilient industry. Our UK Corporate customer base spend is increasingly non-discretionary as IT continues to be vital to gain competitive advantage in an increasingly digital age. Public Sector, a large and fast-growing area of the business, continues to show no negative sensitivity to COVID-19. The Company strategy remains unchanged and will continue to focus on increasing the customer base and spend per customer during the going concern period.

Liquidity and financing position

At 31 July 2021, the Company held instantly accessible cash and cash equivalents of £101.7m, while net current assets were £161.3m. Note 21 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management and its exposures to credit risk and liquidity risk. The Revolving Credit Facility ('RCF') and Covid Corporate

Financing Facility ('CCFF') were both cancelled in the year as at no point did the Company require them to be drawn down. Operational cashflow forecasts for the going concern period are sufficient to support the business with the £45m cash floor set by the Board not being breached.
There is a sufficient level of liquidity headroom post mitigation across the going concern forecast period in base and severe but plausible scenarios considered and outlined in more detail below.

Continued operational and business impact of COVID-19
Please see page 2 in the Strategic Report in the Annual Report where the impact on the business has been disclosed. Management have, in all three scenarios, modelled the potential future impact of COVID-19 on the business and considered the impact it had during the period from March 2020 to July 2021. Despite the continued lockdowns in the UK, the Company has traded well delivering double-digit year-on-year growth. COVID-19 is expected to have an ongoing impact on the customer base with a potential increased credit risk as a result of the government aid schemes announced over the last 18 months ending and on the supply chain with disruptions related to a worldwide shortage of semiconductors. The Board continue to monitor the global and national economic environment and organise operations accordingly.

Base case
The base case, which was approved by the Board in October 2021, takes into account the FY22 budget process which includes estimated growth and increased cost across the going concern period and is consistent with the actual trading experience through to September 2021. The key inputs and assumptions in the base case include:

- Revenue growth in mid-single digit range in line with historic rates pre COVID-19;
- rebate income continues to be received in proportion to cost of sales as in FY21;
- employee commission is incurred in line with the gross margin; and
- increased levels of cost to reflect continued investment in the business IT infrastructure as well as a return of travel and staff entertainment costs which were put on hold during the last twelve months due to travel restrictions and social distancing/lockdowns.

The Company has taken a measured approach to the base case and has balanced the expected trading conditions with available opportunities in an increasingly resilient area of customer spend, which is supported by the current financial position. In making our forecasts we balanced our customer needs alongside employee welfare. We will offer a hybrid working model with a balance of remote working and return to the office. This is not expected to have a significant impact on the operational performance of the Company. Year to date trading to the end of September 2021 is consistent with the base case forecast.

Severe but plausible case
Given the continued impact of COVID-19 on our customer base and supply chain, we have modelled a severe but plausible scenario. In this case we have modelled a decline in revenue, versus the base case, which is significantly below any historic trend and more severe than experienced during the height of the pandemic. The complications as a result of COVID-19, being an increased risk of longer hardware lead times and potential increased credit risk have been factored into these models as deemed appropriate.

The key inputs and assumptions include:

- an average 10% reduction in revenue, compared to the base case;
- reduced gross profit margins of 1% in the period;
- additional bad debt write offs of £5m across the forecast period;
- extending the debtor days by one day from historic levels achieved and no change to historic supplier payment days;
- paying a reduced interim dividend in line with lower profitability but still within the range set out in the dividend policy; and
- both commission cost and rebate income adjusted downwards in line with reduced profitability and cost of sales, but at the same percentage rates as in the base case.

The purpose of this scenario was to consider if there was a significant risk that the Company would move to being cash negative in any of the months in the going concern period. Even at these lower levels of activity, which the Directors believe is a highly unlikely outcome, the Company continues to be profitable, and the Company would still have sufficient cash reserves to meet the Board's minimum requirements. Despite this, management have modelled further cost saving and working capital action (see mitigating actions) that will enable the Company to mitigate the impact of reduced cash generation further, should this scenario occur. The Directors are confident that they can implement these actions if required.

Mitigating actions

There are several potential management actions that have not been included in the severe but plausible forecast and it is estimated that the total cash impact of these actions is in excess of a £20m cost reduction on an annualised basis and additional annual working capital savings of £25m, before considering the cost of delivering them and the point at time at which they were delivered. The actions which if implemented would offset the reduced activity:

- bonus costs scaled back in line with performance;
- no interim dividend in H2 of FY22;
- savings in discretionary areas of spend;
- delayed payment to suppliers foregoing early settlement discount; and
- short term supplier payment management.

The mitigations are deemed achievable and reasonable as the Company benefits from a flexible business model with a high proportion of costs linked to performance.

Reverse stress test

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

- reduction of 20% in Gross invoiced income, compared to the base case;
- reduced achievable gross margin by 4%;
- large and immediate bad debt write offs of £30m; and
- substantial increase in debtor days.

All four inputs are greater than the business has ever experienced in its history. In the modelled scenario, prior to mitigations, the business could become cash negative within twelve months.

Whilst the Board considers such a scenario to be extremely remote a programme of further actions to mitigate the impact, in excess of those set out above, would be actioned should the likelihood of such a scenario increase. The Board considers the forecasts and assumptions used in the reverse stress test, as well as the event that could lead to it, to be extremely remote.

Going concern conclusion

Based on the forecast and the scenarios modelled, together with the performance of the Company to date in 2021/22, the Directors consider that the Company has significant liquidity headroom to continue in operational existence for twelve months post the date of this report. Accordingly, at the October 2021 Board meeting, the Directors concluded from this analysis it was appropriate to continue to adopt the going concern basis in preparing the financial statements. The direct or indirect impacts of COVID-19 on both our customer base and vendors continues to be uncertain and should the impact of the pandemic on trading conditions be more prolonged or severe than currently forecast by the Directors under the severe but plausible case scenario, the Company would need to implement additional operational or financial measures.

Cautionary Statement

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

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

Statement of Directors' responsibilities in relation to the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

The Directors are required to prepare financial statements for each financial year in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in 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 and of the profit or loss of the Company for that period.

In preparing these 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 that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company financial statements comply with the Companies Act 2006. 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

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:

- that the financial statements, prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, 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 2021

	Note	2021 £'000	2020 £'000
Revenue	*3*	**1,156,667**	**1,077,127**
Cost of sales		(880,309)	(841,422)
Gross profit		**276,358**	**235,705**
Administrative expenses		(156,942)	(141,972)
Operating profit		**119,416**	**93,733**
Finance income		28	200
Finance cost		(477)	(316)
Profit before taxation		**118,967**	**93,617**
Income tax expense	*4*	(22,782)	(17,953)
Profit for the year attributable to owners of the Company being total comprehensive income		**96,185**	**75,664**
Basic earnings per ordinary share (pence)	*10*	48.4	38.2
Diluted earnings per ordinary share (pence)	*10*	48.2	38.0

All results are derived from continuing operations.

Statement of Financial Position
As at 31 July 2021

	Note	2021 £'000	2020 £'000
Non-current assets			
Property, plant and equipment		11,753	11,897
Right-of-use-assets		7,022	8,698
Intangible assets		5,202	1,301
Deferred tax asset		3,149	2,408
		27,126	**24,304**
Current assets			
Inventories	*6*	38,411	11,744
Trade and other receivables	*7*	329,666	314,123
Income tax receivable		432	636
Cash and cash equivalents		101,724	80,139
		470,233	**406,642**
Total assets		**497,359**	**430,946**
Current liabilities			
Trade and other payables	*8*	(293,528)	(263,866)
Contract liabilities	*9*	(12,759)	(13,929)
Lease liabilities		(2,598)	(1,867)
		(308,885)	**(279,662)**
Non-current liabilities			
Contract liabilities	*9*	(3,626)	(2,565)
Lease liabilities		(5,704)	(7,972)
		(9,330)	(**10,537**)
Total liabilities		**(318,215)**	**(290,199)**
Net assets		**179,144**	**140,747**
Equity			
Issued share capital	*12*	100	100
Share premium account		4,979	4,979
Reserves for own shares		-	-
Retained earnings		174,065	135,668
Total equity		**179,144**	**140,747**

Statement of Changes in Equity
For the year ended 31 July 2021

	Share capital £'000	Share premium £'000	Reserves for own shares £'000	Retained earnings £'000	Total equity £'000
Balance at 1 August 2019	**99**	**4,979**	**-**	**110,135**	**115,213**
Total comprehensive income for the year	-	-	-	75,664	75,664
Share-based payment transactions	-	-	-	1,958	1,958
Dividends paid	-	-	-	(52,338)	(52,338)
Shares issued in the year	1	-	-	-	1
Dividends equivalents paid	-	-	-	(259)	(259)
Tax adjustments	-	-	-	508	508
Balance at 31 July 2020	**100**	**4,979**	**-**	**135,668**	**140,747**
Balance at 1 August 2020	**100**	**4,979**	**-**	**135,668**	**140,747**
Total comprehensive income for the year	-	-	-	96,185	96,185
Share-based payment transactions	-	-	-	2,267	2,267
Dividends paid	-	-	-	(60,815)	(60,815)
Dividend equivalents paid	-	-	-	(196)	(196)
Tax adjustments	-	-	-	1,117	1,117
Other	-	-	-	(161)	(161)
Balance at 31 July 2021	**100**	**4,979**	**-**	**174,065**	**179,144**

Statement of Cash Flows
For the year ended 31 July 2021

	Note	2021 £'000	2020 £'000
Net cash generated from operating activities	*11*	**91,252**	**64,170**
Cash flows from investing activities			
Finance income		28	200
Purchase of property, plant and equipment		(2,265)	(7,664)
Purchase of intangible assets		(4,199)	(1,293)
Net cash used in investing activities		**(6,436)**	**(8,757)**
Cash flows from financing activities			
Issue of share capital		-	(1)
Dividends paid	*5*	(60,815)	(52,338)
Payment of principal portion of lease liabilities		(2,125)	(1,882)
Payment of interest portion of lease liabilities		(291)	(316)
Net cash used in financing activities		**(63,231)**	**(54,537)**
Net increase in cash and cash equivalents		**21,585**	**876**
Cash and cash equivalents at beginning of year		80,139	79,263
Cash and cash equivalents at end of year		**101,724**	**80,139**

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 2021 or 2020 but is based on, and consistent with, that in the audited financial statements for the year ended 31 July 2021, 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") in conformity with the requirements of the Companies Act 2006 this announcement does not itself contain sufficient information to comply with IFRS. International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union.

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

Overview

In considering the going concern basis for preparing the financial statements, the Directors consider the Company's objectives and strategy, its principal risks and uncertainties in achieving its objectives and its review of business performance and financial position, which are all set out in the Strategic Report (see pages 2 to 27) and Financial Review sections (see pages 28 and 34 to 35) of the Annual Report. Given the ongoing economic uncertainty of the COVID-19 pandemic and considering the latest guidance issued by the FRC the Directors have undertaken a fully comprehensive going concern review.

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

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

Further details, including the analysis performed and conclusion reached, are set out below.

The Directors have reviewed detailed financial forecasts for a thirteen month period from the date of this report (the going concern period) until 30 November 2022. All the forecasts reflect the payment of the FY21 dividend of £69.5m which will be paid in December 2021 subject to approval at the AGM.

The Company operates in a resilient industry. Our UK Corporate customer base spend is increasingly non-discretionary as IT continues to be vital to gain competitive advantage in an increasingly digital age. Public Sector, a large and fast-growing area of the business, continues to show no negative sensitivity to COVID-19. The Company strategy remains unchanged and will continue to focus on increasing the customer base and spend per customer during the going concern period.

Liquidity and financing position

At 31 July 2021, the Company held instantly accessible cash and cash equivalents of £101.7m, while net current assets were £161.3m. Note 21 of the Annual Report includes the Company's objectives,

policies and processes for managing its capital, its financial risk management and its exposures to credit risk and liquidity risk. The Revolving Credit Facility ('RCF') and Covid Corporate Financing Facility ('CCFF') were both cancelled in the year as at no point did the Company require them to be drawn down. Operational cashflow forecasts for the going concern period are sufficient to support the business with the £45m cash floor set by the Board not being breached.
There is a sufficient level of liquidity headroom post mitigation across the going concern forecast period in base and severe but plausible scenarios considered and outlined in more detail below.

Continued operational and business impact of COVID-19
Please see page 2 in the Strategic Report in the Annual Report where the impact on the business has been disclosed. Management have, in all three scenarios, modelled the potential future impact of COVID-19 on the business and considered the impact it had during the period from March 2020 to July 2021. Despite the continued lockdowns in the UK, the Company has traded well delivering double-digit year-on-year growth. COVID-19 is expected to have an ongoing impact on the customer base with a potential increased credit risk as a result of the government aid schemes announced over the last 18 months ending and on the supply chain with disruptions related to a worldwide shortage of semiconductors. The Board continue to monitor the global and national economic environment and organise operations accordingly.

Base case
The base case, which was approved by the Board in October 2021, takes into account the FY22 budget process which includes estimated growth and increased cost across the going concern period and is consistent with the actual trading experience through to September 2021. The key inputs and assumptions in the base case include:

- Revenue growth in mid-single digit range in line with historic rates pre COVID-19;
- rebate income continues to be received in proportion to cost of sales as in FY21;
- employee commission is incurred in line with the gross margin; and
- increased levels of cost to reflect continued investment in the business IT infrastructure as well as a return of travel and staff entertainment costs which were put on hold during the last twelve months due to travel restrictions and social distancing/lockdowns.

The Company has taken a measured approach to the base case and has balanced the expected trading conditions with available opportunities in an increasingly resilient area of customer spend, which is supported by the current financial position. In making our forecasts we balanced our customer needs alongside employee welfare. We will offer a hybrid working model with a balance of remote working and return to the office. This is not expected to have a significant impact on the operational performance of the Company. Year to date trading to the end of September 2021 is consistent with the base case forecast.

Severe but plausible case
Given the continued impact of COVID-19 on our customer base and supply chain, we have modelled a severe but plausible scenario. In this case we have modelled a decline in revenue, versus the base case, which is significantly below any historic trend and more severe than experienced during the height of the pandemic. The complications as a result of COVID-19, being an increased risk of longer hardware lead times and potential increased credit risk have been factored into these models as deemed appropriate.

The key inputs and assumptions include:

- an average 10% reduction in revenue, compared to the base case;
- reduced gross profit margins of 1% in the period;
- additional bad debt write offs of £5m across the forecast period;
- extending the debtor days by one day from historic levels achieved and no change to historic supplier payment days;
- paying a reduced interim dividend in line with lower profitability but still within the range set out in the dividend policy; and

- both commission cost and rebate income adjusted downwards in line with reduced profitability and cost of sales, but at the same percentage rates as in the base case.

The purpose of this scenario was to consider if there was a significant risk that the Company would move to being cash negative in any of the months in the going concern period. Even at these lower levels of activity, which the Directors believe is a highly unlikely outcome, the Company continues to be profitable, and the Company would still have sufficient cash reserves to meet the Board's minimum requirements. Despite this, management have modelled further cost saving and working capital action (see mitigating actions) that will enable the Company to mitigate the impact of reduced cash generation further, should this scenario occur. The Directors are confident that they can implement these actions if required.

Mitigating actions

There are several potential management actions that have not been included in the severe but plausible forecast and it is estimated that the total cash impact of these actions is in excess of a £20m cost reduction on an annualised basis and additional annual working capital savings of £25m, before considering the cost of delivering them and the point at time at which they were delivered. The actions which if implemented would offset the reduced activity:

- bonus costs scaled back in line with performance;
- no interim dividend in H2 of FY22;
- savings in discretionary areas of spend;
- delayed payment to suppliers foregoing early settlement discount; and
- short term supplier payment management.

The mitigations are deemed achievable and reasonable as the Company benefits from a flexible business model with a high proportion of costs linked to performance.

Reverse stress test

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

- reduction of 20% in Gross invoiced income, compared to the base case;
- reduced achievable gross margin by 4%;
- large and immediate bad debt write offs of £30m; and
- substantial increase in debtor days.

All four inputs are greater than the business has ever experienced in its history. In the modelled scenario, prior to mitigations, the business could become cash negative within twelve months.

Whilst the Board considers such a scenario to be extremely remote a programme of further actions to mitigate the impact, in excess of those set out above, would be actioned should the likelihood of such a scenario increase. The Board considers the forecasts and assumptions used in the reverse stress test, as well as the event that could lead to it, to be extremely remote.

Going concern conclusion

Based on the forecast and the scenarios modelled, together with the performance of the Company to date in 2021/22, the Directors consider that the Company has significant liquidity headroom to continue in operational existence for twelve months post the date of this report. Accordingly, at the October 2021 Board meeting, the Directors concluded from this analysis it was appropriate to continue to adopt the going concern basis in preparing the financial statements. The direct or indirect impacts of COVID-19 on both our customer base and vendors continues to be uncertain and should the impact of the pandemic on trading conditions be more prolonged or severe than currently forecast by the Directors under the severe but plausible case scenario, the Company would need to implement additional operational or financial measures.

Accounting policies

The preliminary announcement for the year ended 31 July 2021 has been prepared in accordance with the accounting policies as disclosed in Softcat plc's Annual Report and Accounts 2021, 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 and gross invoiced income by product, which form one reportable segment, is set out below:

Revenue by type

	2021	**2020**
	£'000	**£'000**
Software	501,058	519,520
Hardware	556,472	442,349
Services	99,137	115,258
	1,156,667	**1,077,127**

Gross invoiced income by type

	2021	**2020**
	£'000	**£'000**
Software	1,109,198	964,280
Hardware	566,305	458,297
Services	262,937	223,614
	1,938,440	**1,646,191**

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

Revenue by type of business

	2021	**2020**
	£'000	**£'000**
Small and medium	635,511	530,573
Enterprise	237,649	257,478
Public sector	283,507	289,076
	1,156,667	**1,077,127**

Gross invoiced income by type of business

	2021	**2020**
	£'000	**£'000**
Small and medium	839,398	669,607
Enterprise	336,013	338,312
Public sector	763,029	638,272
	1,938,440	**1,646,191**

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 is a measure which correlates closely to the cash received by the business and therefore aids the users understanding of working capital movements in the statement of financial position and the relationship to sales performance and the mix of products sold. 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

	2021 £'000	2020 £'000
Gross invoiced income	1,938,440	1,646,191
Income to be recognised as agent under IFRS 15	(781,773)	(569,064)
Revenue	**1,156,667**	**1,077,127**

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

	2021 £'000	2020 £'000
Current Tax		
Current income tax charge in the year	22,909	18,154
Adjustment in respect of current income tax in previous years	80	(36)
Foreign tax effects	-	6
Deferred Tax		
Temporary differences	(207)	(171)
Total tax charge for the year	**22,782**	**17,953**

5. Dividends

	2021 £'000	2020 £'000
Declared and paid during the year:		
Special dividend on ordinary shares (7.6p per share (2020: 16.0p))	15,100	31,720
Final dividend on ordinary shares (16.6p per share (2020: 10.4p))	32,981	20,618
Interim dividend on ordinary shares (6.4p per share (2020: 0.0p))	12,734	-
	60,815	**52,338**

A final dividend of 14.4p per share has been recommended by the Directors and if approved by shareholders will be paid on 20 December 2021. The final ordinary dividend will be payable to shareholders whose names are on the register at the close of business on 12 November 2021. Shares in the Company will be quoted ex-dividend on 11 November 2021. The dividend reinvestment plan ('DRIP') election date is 29 November 2021.

In line with the Company's stated intention to return excess cash to shareholders, a further special dividend payment of 20.5p has been proposed. If approved this will also be paid on 20 December 2021 alongside the final ordinary dividend.

The Board recommends the final and special dividend for shareholders' approval.

6. **Inventory**

	2021 £'000	2020 £'000
Finished goods and goods for resale	38,411	11,744

The increase in stock is predominantly driven by stock in transit for a specific customer yet to be delivered.

The amount of any write down of inventory recognised as an expense in the year was £Nil (2020: £Nil).

7. **Trade and other receivables**

	2021 £'000	2020 £'000
Trade and other receivables	300,058	296,286
Provision against receivables	(3,415)	(2,863)
Net trade receivables	**296,643**	**293,423**
Unbilled receivables	10,500	5,104
Prepayments	3,584	2,700
Accrued income	8,171	5,951
Deferred costs	10,768	6,945
	329,666	**314,123**

8. **Trade and other payables**

	2021 £'000	2020 £'000
Trade payables	220,305	198,171
Other taxes and social security	12,378	16,799
Accruals	60,845	48,896
	293,528	**263,866**

9. **Contract liabilities**

Contract liabilities are comprised:

	2021 £'000	2020 £'000
Deferred income	16,385	16,494

Deferred income is further broken down as:	2021 £'000	2020 £'000
Short term deferred income	12,759	13,929
Long term deferred income	3,626	2,565
	16,385	**16,494**

10. Earnings per share

	2021 Pence	2020 Pence
Earnings per share		
Basic	48.4	38.2
Diluted	48.2	38.0

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

	2021 £'000	2020 £'000
Earnings		
Earnings for the purposes of earnings per share being profit for the year	96,185	75,664

The weighted average number of shares is given below:

	2021 000's	2020 000's
Number of shares used for basic earnings per share	198,559	198,127
Number of shares deemed to be issued at nil consideration following exercise of share options	884	1,007
Number of shares used for diluted earnings per share	**199,443**	**199,134**

11. Notes to the cash flow statement

	2021 £'000	2020 £'000
Cash flow from operating activities		
Operating profit	119,416	93,733
Depreciation of property, plant and equipment	2,332	1,382
Depreciation of right-of-use assets	2,263	1,970
Amortisation of intangibles	297	232
Loss on disposal of fixed assets	76	146
Dividend equivalents paid	(196)	(259)
Cost of equity settled employee share schemes	2,267	1,958
Operating cash flow before movements in working capital	**126,455**	**99,162**
Increase in inventories	(26,667)	(660)
Increase in trade and other receivables	(15,544)	(28,816)
Increase in trade and other payables	29,553	21,601
Cash generated from operations	**113,797**	**91,287**
Income taxes paid	(22,545)	(27,117)
Net cash generated from operating activities	**91,252**	**64,170**

12. Share capital

	2021 £'000	2020 £'000
Allotted and called up		
Ordinary shares of 0.05p each	100	100
Deferred shares* of 1p each	-	-
	100	**100**

*At 31 July 2021 deferred shares had an aggregate nominal value of £189.33 (2020: £189.33).

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

13. **Post balance sheet events**

Dividend

A final dividend of 14.4p per share has been recommended by the Directors and if approved by shareholders will be paid on 20 December 2021. The final ordinary dividend will be payable to shareholders whose names are on the register at the close of business on 12 November 2021. Shares in the Company will be quoted ex-dividend on 11 November 2021. The dividend reinvestment plan ('DRIP') election date is 29 November 2021.

In line with the Company's stated intention to return excess cash to shareholders, a further special dividend payment of 20.5p has been proposed. If approved this will also be paid on 20 December 2021 alongside the final ordinary dividend.

Corporate Information

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

Directors
M Hellawell
G Watt
G Charlton
R Perriss
V Murria
K Slatford

Secretary
Luke Thomas

Company registration number
02174990

Registered office
Solar House
Fieldhouse Lane
Marlow
Buckinghamshire
SL7 1LW

Auditor
Ernst & Young LLP
1 More London Place
London
SE1 2AF

Softcat plc LEI
213800N42YZLR9GLVC42