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

Preliminary results for the year to 31 July 2022

Another year of strong organic growth, profitability, and good 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 2022. The results demonstrate continued strong growth alongside sustained investment, and both a progressive ordinary dividend and special dividend.

Financial Summary	**Year ended**		
	31 July 2022	**31 July 2021**	**Growth**
	£m	**£m**	
Revenue[a]	**1,077.9**	**784.0**	**37.5%**
Gross invoiced income[b]	**2,507.5**	**1,938.4**	**29.4%**
Gross profit	**327.2**	**276.4**	**18.4%**
Operating profit	**136.1**	**119.4**	**14.0%**
Cash conversion %[c]	**76.2%**	**89.9%**	
Total ordinary dividend (p)	**23.9p**	**20.8p**	**14.9%**
Final dividend (normalised, p)	**16.6p**	**14.4p**	**15.3%**
Special dividend (p)	**12.6p**	**20.5p**	**(38.5)%**
Basic earnings per share (p)	**55.5p**	**48.4p**	**14.7%**

Highlights for the twelve months to 31 July 2022

- Strong performance across both first and second halves of the year, extending our record of unbroken organic year-on-year growth in gross invoiced income, gross profit and operating profit.
- Further growth in both the customer base (+2.1%) and average gross profit per customer (+16.1%), demonstrating good progress against each key aim of our strategy.
- Headcount up 14.3%, delivering investment across all areas of the business.
- A final dividend of 16.6p, up 15.3%, and a special dividend of 12.6p.
- Strong balance sheet position maintained with net cash at year end of £97.3m (2021: £101.7m).
- Outlook: the company is in a strong competitive position heading into the new financial year, which has started well.

[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. Revenue for 2021 has been restated due to a change in accounting policies in relation to the recognition of software revenue during the year as detailed in Note 2.
[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.

Graeme Watt, Softcat CEO, commented,

"I am pleased to report on our 2022 results, which represent another record achievement for our business. Thanks to the hard work and dedication of our entire team, we have now achieved 68 successive quarters of organic year over year income and profit growth. Our focus on being the best place to work and delivering outstanding customer service continues to serve us well.

Our strong and unique culture enabled us to manage the challenges of the pandemic and we emerged in an even stronger competitive position, continuing to grow faster than the market. Our sales growth was delivered right across the board with double digit growth in all segments and technologies as we continued to manage hardware supply chain constraints.

We made excellent progress selling deeper into existing customers and saw gross profit per customer improve by 16.1%, while also attracting new customers driving 2.1% growth in our overall customer base.

Our people continue to be the primary focus of our investments. Despite the tough talent market, we were able to grow headcount by 14.3% and, since year end, this has grown further to 2,060 which sets us up to drive future success by continuing to take share of a growing market. We do this by providing the broadest portfolio of leading-edge technology solutions and services, listening to our customers, and leveraging the largest commercial team in our space in the UK market.

I am delighted that the Company is again able to recommend the payment of a special dividend this year.

Thank you to all those with whom we enjoy a partnership, and, of course, a huge thank you to the Softcat team for your amazing energy, ambition, execution and dedication to each other and our customers. During the challenges of the pandemic the business didn't miss a heartbeat thanks to your passion and the care you took to look after everyone around you."

Outlook

The Company is in as strong a competitive position as ever heading into the new financial year and we expect to continue to deliver double-digit gross profit growth and deliver market share gains.

Demand has remained strong and customer behaviour across all segments is normal. That said, the comparative first half period to January 2022 was exceptional and, as highlighted at the time, benefitted from a very high volume of business from our largest customer. In addition, Covid delayed the resumption of internal events and travel to see customers until March 2022, while this new year has seen the Company award significantly higher pay increases across all departments, including an increase to the starting salaries of new sales recruits to reflect market conditions. We have also increased the rate of recruitment into the Company as we remain focussed on the enormous and growing opportunity the IT infrastructure market presents.

We are confident that operating profit for the year will be in line with expectations and at levels similar to 2022, but the factors mentioned above mean cost growth is likely to outstrip gross profit growth in the first half.

To date, and throughout previous periods of market upheaval and uncertainty (including Covid), customer demand has been robust and growing but we nevertheless plan carefully for all possible scenarios. Our business model has significant agility; approximately 35% of our operating cost base is made up of sales commissions that naturally flex in a linear fashion with gross profit, while hiring plans are reviewed on a weekly basis to react to market dynamics. Our balance sheet remains strong, and the Company carries no external bank debt. Consequently, we are confident that the business is in a very strong position to continue to outperform the market.

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:
To dial in to the conference call and participate in the Q&A please click on the link below to register for the call and receive your details:
https://register.vevent.com/register/BIdbd8eb70878e4a5a901c80206c2fe11a
Please note the pin code that is provided is a unique code for you.

Webcast Link:
https://edge.media-server.com/mmc/p/ctmspknz
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.

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Forward-looking statements

This announcement includes statements that are, or may be deemed to be, "forward-looking statements". By their nature, such statements involve risk and uncertainty since they relate to future events and circumstances. Actual results may, and often do, differ materially from any forward-looking statements.

Any forward-looking statements in this announcement reflect management's view with respect to future events as at the date of this announcement. Save as required by law or by the Listing Rules of the UK Listing Authority, the Company undertakes no obligation to publicly revise any forward-looking statements in this announcement following any change in its expectations or to reflect subsequent events or circumstances following the date of this announcement.

This announcement has been determined to contain inside information.

Softcat

Chief Executive Officer's Review

Sales Strategy

Our sales strategy remains reassuringly consistent and straight forward as we look to drive greater share of wallet in existing customers and acquire new customers. Our gross invoiced income performance was broad-based again last year, growing by 29.4% and reflecting significant market share gains. All of our key sales segments grew revenue by more than 15% and we were delighted to be awarded CRN's Public Sector VAR of the Year for the third year running. Market data from Context, an industry research body, suggests we outgrew the market by over three times.

We were able to effectively navigate the ongoing hardware supply chain challenges throughout the year. More recently there is some evidence that the supply chain situation is improving, at least for end user devices, although shortages on some storage and networking hardware lines look set to continue well into the new year.

Gross profit growth was also very strong at 18.4% and we were pleased to convert 41.6% of our gross profit to operating profit. This conversion was a little ahead of our expectations and operating profit growth overall stood at 14.0%.

We are a customer-led organisation and continue to listen to feedback and adjust our portfolio of technology and services accordingly. Our annual customer engagement survey, completed by a larger set of customers than ever before, delivered very positive results with an NPS of 55 (2021: 59) and demonstrating improvements in every category. This was despite the backdrop of industry-wide supply chain challenges and the implementation of our own new finance system.

We have the largest commercial team in the UK market and continue to invest heavily in both salespeople and supporting roles. We are always looking at ways to improve and have a number of initiatives in play including 'Elevate', our new sales training and development programme. We are also looking at ways we can use internal and external data to augment sales activities and accelerate sales and the acquisition of new customers.

Customer number growth was 2.1% and we continue to leverage the insights from engagements across our nearly 10,000-strong customer base to deliver high quality solutions and drive further investment and support from our vendor partners. Gross profit per customer, one of our most important metrics, grew by 16.1% in the year as we continued to focus on delivering high quality service and solutions for both existing and new customers. We remain very excited about the opportunity we have in our core markets for further share gains, and in 2023 we will open a further office in Newcastle which will offer career development opportunities for some of our people, extend our recruitment reach and bring us closer to local customers.

We are very pleased with the progress we have been making on our multi-national business, where we look to support the international needs of our UK and Irish customers. Our opening of a series of international branches, including an office in the US, are entirely customer-led and have augmented our sales growth by driving wallet share gains with existing customers and attracting new ones.

Our business is broad-based from both a technology and customer vertical perspective which provides resilience to any pockets of weakness in demand. Our market-leading organic growth enables continued investment and this strength relative to our competition brings opportunities to hire new talent and expertise as well as gain customers. We have less than 5% of a growing market and continue to be excited by the opportunity ahead.

We have seen similar patterns in our customers' consumption from the previous year. They continue to invest in IT infrastructure to support their growth ambitions and to remain competitive and productive. Their need to be secure, support their flexible working policies and deliver on and off-premises storage and compute solutions to their businesses are greater than ever. Customers continue to invest in digital transformations, and we are seeing increasing needs for connectivity, collaboration, IT asset management and cloud adoption.

We recognise that the UK economy is currently experiencing significant volatility and uncertainty, particularly in relation to interest rates and foreign currency exchange. These factors have the potential to impact our trading and operational activity, but our experience suggests demand for IT infrastructure is robust even in extreme circumstances. The breadth of our solutions and services means we are very well placed to deliver on our customers' needs in such changing and challenging times.

People and Culture

Our culture remains as strong as ever and we emerged from the pandemic in very positive fashion. We have transitioned well into the world of flexible working and have empowered our people to do the right thing for themselves personally and for our business. We have created a good rhythm of balancing remote and office working whilst maintaining the highest levels of internal and external customer service levels. We remain focused on giving our new employees the best possible start to their Softcat career and continue to prioritise the importance of face-to-face customer and vendor interactions. Our word of the year for the new financial year is 'Connect' and getting our people together with each other, our vendors, customers and other partners remains a fundamental element of building successful relationships.

In a really tough talent market, we continued to be resolutely focussed on investing in and growing our employee base and, as a result, were able to increase headcount by 14.3%. For the new financial year we announced a series of fixed pay adjustments and provided a clearer link between pay, responsibility, and career progression in sales. We are pleased with the profoundly positive impact these changes have already made to recruitment and retention.

Our learning and development initiatives continue to bear fruit and we are delighted with the number of employees going through our various programmes including the Sales Development Programme, the Specialist Acceleration Programme, our Tech Starter programme and various management modules.

We are delighted to have recently held our first face-to-face Kick Off event for three years which was a great success and very motivating for the 1,900 employees that attended. We are also looking forward to the re-instatement of our Partner Forum and Charity Ball events later in the year.

Our annual employee satisfaction poll is the most important survey in any given year. Being the best possible place to work is very important to us to attract great talent into the business, to retain that same talent as they grow and develop and to always provide an outstanding customer service. We are pleased to report our employee NPS at 52 as surveyed in October 2021 (FY2021: 58), clearly demonstrating that despite our growth we continue to maintain our strong culture and have a highly motivated and engaged workforce. Our employees reported that they were particularly happy with the culture, our approach to remote working, wellbeing and our community network groups.

As announced on 12th July 2022, I will be stepping up to the Chair role at the end of the current financial year and Graham Charlton will become CEO. These changes, effective 1st August 2023, are a result of a considered selection process and represent the orderly execution of a carefully developed succession plan. We have also begun a process to appoint a new CFO and a clear transition plan is in place to ensure there is no disruption to the leadership and running of the business.

Ease of doing business

During the year we successfully implemented a new finance system which gives us a platform to deliver further growth, be more productive and provides a basis upon which to implement a strategy for the digital age, to support our customers with new offerings and to address the challenges of adopting multi-cloud and consumption-based technology.

We will also aim to capitalise on the new data storage and management infrastructure, created alongside the development of the finance system, to augment our sales capabilities. Further system developments are also planned, including a major upgrade of our service management system which is likely to begin in the second half.

Addressable market

We are very pleased to have opened a small US office in Arlington, Virginia. The team there is focused on delivering local sales and support to customers with whom we have a relationship in the UK and Ireland. As well as delivering more business to existing customers we think that over time, we will be able to attract new UK and Irish customers who have needs in North America as well as take on North American customers with international operations. This presence in the US will enable us to better understand that market, providing insights that will benefit our wider operations and inform future strategy.

We will continue to monitor inorganic expansion opportunities too, both the possibility of entering a new market or to add emerging capabilities in our core domestic UK market.

Diversity, Inclusion and Sustainability

Our word of the year was community, and it has been really pleasing to see so many employees getting involved in our, now seven, community network groups. We have made further progress this year with over 1,000 employees participating in our Allyship programme and we were very pleased to be ranked 4th in the UK's Great Places to Work for Women. From a gender diversity perspective, we are getting very close to our first stage target of 35% women in the business, well ahead of schedule, and we would be very pleased to raise this bar to a new target next year. We continue to work hard to achieve greater diversity in our leadership team and are aiming for this to be representative of the of the company as a whole.

Despite being unable to hold our annual Charity Ball again in 2022, we were delighted that our teams across the company were able to raise more than £96,000 for charitable causes.

With carbon reduction high on our agenda, Softcat has made environmental sustainability a core element of our business strategy. We are committed to helping develop a more efficient industry, pledging to become carbon net-zero across scopes 1,2 and operational scope 3 by 2030 and have a net-zero value circle by 2040. We have been pleased with the initial adoption of Enexo, our in-house developed carbon emissions reporting platform, which launched this year and enables organisations to quantify, monitor and plan reduction strategies for their emissions. We now have over 150 users from 120 customers and partners taking advantage of the value this platform offers. We are delighted that the Science Based Targets initiative (SBTi) has officially approved our targets to take urgent climate action and contribute to halting the rise in global temperatures. We are the first IT company in Europe to receive this and one of only 35 companies in the world to have their net-zero targets approved by the SBTi. This is a significant achievement especially as only six companies, across all sectors, in the UK have had their targets approved. Finally, we were awarded the Tech Sustainability Partner of the Year at both of the two recent main industry awards: CRN (for the second year in a row) and Candefero (on an EMEA-wide basis), recognising the industry leadership we are generating in this space. In addition, we continue to work towards full compliance with new TCFD disclosures.

Chief Financial Officer's Review

Financial Summary (restated)	FY22	FY21[1]	Growth
Revenue	£1,077.9m	£784.0m	37.5%
Revenue split			
Software	£150.0m	£128.4m	16.8%
Hardware	£797.9m	£556.5m	43.4%
Services	£130.0m	£99.1m	31.2%
Gross invoiced income (GII)	£2,507.5m	£1,938.4m	29.4%
GII split			
Software	£1,365.3m	£1,109.2m	23.1%
Hardware	£810.2m	£566.3m	43.1%
Services	£332.0m	£262.9m	26.2%
Gross profit (GP)	£327.2m	£276.4m	18.4%
Gross profit margin	30.4%	35.2%	(4.8)% pts
Operating profit	£136.1m	£119.4m	14.0%
Operating profit margin	12.6%	15.2%	(2.6)% pts
Gross profit per customer[2]	£33.0k	£28.4k	16.1%
Customer base[3]	9.9k	9.7k	2.1%
Cash conversion	76.2%	89.9%	(13.7)% pts

Gross profit, revenue and gross invoiced income

Gross profit (GP), our primary measure of income, grew by 18.4% to £327.2m, reflecting strong growth in both the first and second halves of the financial year. Customer demand was robust and consistent, with double-digit gross invoiced income (GII) and GP growth generated across each of software, hardware and services.

Revenue was up 37.5% due to a strong performance across all areas of technology, with each of software, hardware and services growing in excess of 15%. The application of IFRS 15 to revenue was amended during the year in response to a clarification issued by the IFRS Interpretation Committee. This is detailed in note 2 but, in summary involves a switch from recognising some elements of software income on a gross basis as if Softcat were principal in the transaction, to recognising all software income streams on a net basis with Softcat acting as an agent to the transaction. As a result, revenue figures for 2021 have been restated in line with this new treatment.

We continue to report GII, which is unaffected, alongside revenue as taken together this allows a fuller understanding of commercial profit margins and cash flow dynamics.

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[1] The prior year financial comparatives have been restated where relevant in line with the change in accounting policy – IFRS 15 Revenue from Contracts with Customers, treatment of Software revenue as agent revenue. Further information can be found in Note 2.

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

[3] 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 29.4%, ahead of the 18.4% expansion in GP due mainly to a series of large, low-margin hardware projects completed with a major customer. Hardware comprised 32.3% of total GII, up from 29.2% in the prior year.

Overall performance was once again very well diversified, with each area of technology and each customer segment delivering growth in both GII and GP. The large hardware projects with the major customer comprised mainly datacentre projects, but we saw very strong performance across the customer base in networking, security and workplace technologies too. Double-digit growth was delivered in both GII and GP from the public sector, enterprise and mid-market customer segments. Growth was strongest in mid-market which comprised 46.6% GII in the period, up from 43.3% in the prior year. Growth in GII from enterprise customers was 27.2% and public sector delivered 19.4% growth in GII for the second year in a row; a very similar rate of expansion to that seen in the prior year.

Customer KPIs

During the year average GP per customer grew by 16.1% to £33.0k (2021: £28.4k) and the customer base increased to 9,922, up 2.1% on the prior year.

Despite this further strong progress and being confirmed as the largest reseller in the UK by CRN, our industry remains highly fragmented. Our latest estimates, based on multiple industry sources including CRN and Gartner, suggest we have less than a five percent share of total addressable market value. This comprises a trading relationship with c.20% of potential customers with whom we have an average share of wallet of c.20-25%. As a result, we continue to have a fantastic opportunity for future growth by continuing to concentrate on our simple strategy of seeking to sell deeper into existing accounts by building trust and loyalty over time, while gradually expanding our customer base year on year.

Operating profitability and investment in future growth

Total operating costs for the year were up 21.7% reflecting headcount growth of 14.3% and the return of events and travel costs during the second half of the year. The post-pandemic restart of these activities is a significant boost to our operations, comprising as they do a material element of our business culture and enabling us to deepen our interaction with customers.

Headcount growth of 14.3% reflects our ongoing investment across all areas of the business, both in building scale and capacity to our sales operations as well as expanding our technical capabilities. We continue to recruit contemporary skills across the full range of infrastructure specialisms, including for example security and cloud services.

As a result of our headcount investment and the return of events and travel costs our operating to GP margin fell slightly year on year to 41.6% (2021: 43.2%). This is expected to reduce again in the year ahead reflecting the annualisation of the headcount investment and the normalisation of event related costs in the first half. This is expected to then increase in H2 following the anniversary of the end of lockdown restrictions in March 2023.

Corporation tax charge

The effective tax rate for 2022 was 18.9% (2021: 19.2%), reflecting a stable UK statutory rate of 19.0% in both years, together with the relatively marginal impact of non-deductible expenses and share based payment transactions. 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 76.2% (2021: 89.9%). The reduction on prior year reflects a transient expansion in year-end trade receivables following the implementation in the fourth quarter of a new finance system. Whilst successful, the system implementation created some temporary disruption to collection procedures, but this is expected to return to normal during the first half of the new year with collections already strengthening in August and September.

Dividend

A final ordinary dividend of 16.6p per share has been recommended by the Directors and if approved by shareholders will be paid on 19 December 2022. The final ordinary dividend will be payable to shareholders whose names are on the register at the close of business on 11 November 2022. Shares in the Company will be quoted ex-dividend on 10 November 2022. The last day for dividend reinvestment plan ('DRIP') elections to be received is 28 November 2022.

In line with the Company's stated intention to return excess cash to shareholders a further special dividend payment of 12.6p has been proposed. This has been calculated to increase the minimum cash holding of the business from £45m to £60m and is due to the significant increase in GII since this was last adjusted in 2020. If approved this will also be paid on 19 December 2022 alongside the final ordinary dividend. This will bring the total amount returned to shareholders since becoming a public company to £401.2m.

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 (or 'GII') 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:

	2022	2021
	£'000	£'000
Cash generated from operations	**108,988**	113,797
Purchase of property, plant and equipment	(1,890)	(2,265)
Purchase of intangible assets	(3,334)	(4,199)
Cash generated from operations, net of capital expenditure	**103,764**	107,333
Operating Profit	**136,145**	119,416
Cash conversion ratio	**76.2%**	89.9%

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 (no change in net risk)	• 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 (no change in net risk)	• 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 the conflict in Ukraine, inflationary pressures, interest and foreign currency volatility (slight increase due to ongoing external factors outside of the Company's control)	• Short-term supply chain disruption • Reduced margins • Reduced customer demand • Reduced profit per customer • Higher operating costs • Customer insolvencies and cash collection challenges	• Close dialogue with supply-chain partners • Customer-centric culture • Breadth of proposition and customer base • Additional customer credit review processes introduced • Focus and resources allocated to cash collection procedures • Customer base is well diversified in terms of both revenue concentration but also public and commercial sector exposure • Operating costs are budgeted and reviewed regularly

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 (no change in net risk)	• 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

Climate change

In our consideration of emerging risks, climate change continues as an area requiring greater analysis. During the year, we started a formal assessment of the potential impact of climate change to our business and supply chain. Our analysis will support more comprehensive evaluation and reporting in line with the approach of the Task Force on Climate-related Financial Disclosures ('TCFD'). Climate change 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. We also have robust business interruption plans in the event of a disruption to our business. Our initial analysis suggests that no other climate change-related risk is a principal risk which needs to be incorporated into the above.

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 1 to 64 of the Annual Report) and Chief Financial Officer's review sections (see pages 32 and 33) of the Annual Report. Given the current macro-economic environment 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 2023. All the forecasts reflect the payment of the FY22 dividend of £58.2m which will be paid in December 2022 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 invest in technology to provide efficient services to the public and this has continued apace despite the pandemic and recent turbulence in the UK economy. 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 2022, the Company held instantly accessible cash and cash equivalents of £97.3m, while net current assets were £190.7m. Note 21 to the financial statements in 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. Operational cash flow forecasts for the going concern period are sufficient to support the business with the £60m 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.

Challenging economic environment
Management have, in all three scenarios, considered the principal challenges to short term business performance which are expected to be;
- An economic downturn in the UK economy, aided by high broad-based inflation and increasing interest rates;
- Continued impact of hardware supply constraints, resulting from the global semi-conductor shortage, although this is forecast to improve and is isolated to a select few vendors; and
- Higher risk of credit losses

Despite the impact of Omicron and further lockdown period on the year just finished, the Company has traded well, delivering double-digit year-on-year growth. 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 2022, takes into account the FY23 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 2022. The key inputs and assumptions in the base case include:

- Continued revenue growth in line with historic rates;
- rebate income continues to be received in proportion to cost of sales as in FY22;
- employee commission is incurred in line with the gross margin; and
- increased levels of cost to reflect continued investment in our people, the businesses IT infrastructure as well as a return of travel and staff entertainment costs more in line with pre-covid levels than we have seen in the past twelve months.

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 have in place a hybrid working model with a balance of remote working and return to the office, which has not had a noticeable impact on the operational performance of the Company. Year to date trading to the end of September 2022 is consistent with the base case forecast.

Severe but plausible case

Given the current economic challenges facing 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 below any historic trend and more severe than experienced during the height of the pandemic. Further impacts of this scenario such as reduced margins and greater credit losses have also been considered.

The key inputs and assumptions include:

- an average 7.5% 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 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 maintains a positive cash balance at all times. 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 and achieve the Boards desired minimum cash position, 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 £18m cost reduction on an annualised basis and additional annual working capital savings of £30m, 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 FY23;
- 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 15% in Gross invoiced income, compared to the base case;
- reduced achievable gross margin by 3%;
- additional bad debt write offs of £10m per year across the forecast period; and
- extending the debtor days by three days from historic levels achieved and no change to historic supplier payment 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, 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 2022 Board meeting, the Directors concluded from this analysis it was appropriate to continue to adopt the going concern basis in preparing the financial statements. Should the impact of these conditions be even 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 United Kingdom law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Company's financial statements in accordance with UK-adopted international accounting standards ('IFRSs').

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 suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- 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 Company's financial position and financial performance;
- state that UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the 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:

- the financial statements, prepared in accordance with UK-adopted international accounting standards give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Annual Report, including the Strategic Report, includes 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 they face; and
- they consider the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 July 2022

	Note	2022 £'000	2021* £'000
Revenue	*3*	**1,077,946**	**784,049**
Cost of sales		(750,736)	(507,691)
Gross profit		**327,210**	**276,358**
Administrative expenses		(191,065)	(156,942)
Operating profit		**136,145**	**119,416**
Finance income		252	28
Finance cost		(253)	(477)
Profit before taxation		**136,144**	**118,967**
Income tax expense	*4*	(25,739)	(22,782)
Profit for the year		**110,405**	**96,185**
Foreign exchange differences on translation of foreign branches		3,562	-
		3,562	-
Total comprehensive income for the year		113,967	96,185
Profit attributable to:			
Owners of the Company		110,405	96,185
Total comprehensive income attributable to:			
Owners of the Company		113,967	96,185
Basic earnings per ordinary share (pence)	*10*	55.5	48.4
Diluted earnings per ordinary share (pence)	*10*	55.3	48.2

All results are derived from continuing operations.

*The prior year financial comparatives have been restated where relevant in line with the change in accounting policy – IFRS 15 Revenue from Contracts with Customers, treatment of Software revenue as agent revenue. Further information can be found in Note 2.

Statement of Financial Position
As at 31 July 2022

	Note	2022 £'000	2021 £'000
Non-current assets			
Property, plant and equipment		11,270	11,753
Right-of-use-assets		6,162	7,022
Intangible assets		7,978	5,202
Deferred tax asset		2,508	3,149
		27,918	**27,126**
Current assets			
Inventories	*6*	5,104	38,411
Trade and other receivables	*7*	541,424	329,666
Income tax receivable		296	432
Cash and cash equivalents		97,316	101,724
		644,140	**470,233**
Total assets		**672,058**	**497,359**
Current liabilities			
Trade and other payables	*8*	(419,108)	(293,528)
Contract liabilities	*9*	(31,564)	(12,759)
Lease liabilities		(2,716)	(2,598)
		(453,388)	**(308,885)**
Non-current liabilities			
Contract liabilities	*9*	(3,620)	(3,626)
Lease liabilities		(3,950)	(5,704)
		(7,570)	(9,330)
Total liabilities		**(460,958)**	**(318,215)**
Net assets		**211,100**	**179,144**
Equity			
Issued share capital	*12*	100	100
Share premium account		4,979	4,979
Reserves for own shares		-	-
Foreign exchange translation reserve		3,562	-
Retained earnings		202,459	174,065
Total equity		**211,100**	**179,144**

Softcat

Statement of Changes in Equity
For the year ended 31 July 2022

	Share capital £'000	Share premium £'000	Translation reserve £'000	Reserves for own shares £'000	Retained earnings £'000	Total equity £'000
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**
Balance at 1 August 2021	**100**	**4,979**	**-**	**-**	**174,065**	**179,144**
Profit for the period	-	-	-	-	110,405	110,405
Impact of foreign exchange reserves	-	-	3,562	-	-	3,562
Total comprehensive income for the year	-	-	**3,562**	-	**110,405**	**113,967**
Share-based payment transactions	-	-	-	-	2,541	2,541
Dividends paid	-	-	-	-	(84,020)	(84,020)
Dividend equivalents paid	-	-	-	-	(215)	(215)
Tax adjustments	-	-	-	-	(317)	(317)
Other	-	-	-	-	-	-
Balance at 31 July 2022	**100**	**4,979**	**3,562**	**-**	**202,459**	**211,100**

Statement of Cash Flows
For the year ended 31 July 2022

	Note	2022 £'000	2021 £'000
Net cash generated from operating activities	*11*	**83,644**	**91,252**
Cash flows from investing activities			
Finance income		252	28
Purchase of property, plant and equipment		(1,890)	(2,265)
Purchase of intangible assets		(3,334)	(4,199)
Net cash used in investing activities		**(4,972)**	**(6,436)**
Cash flows from financing activities			
Issue of share capital		-	-
Dividends paid	*5*	(84,020)	(60,815)
Payment of principal portion of lease liabilities		(2,369)	(2,125)
Payment of interest portion of lease liabilities		(253)	(291)
Net cash used in financing activities		**(86,642)**	**(63,231)**
Net increase in cash and cash equivalents		**(7,970)**	**21,585**
Exchange gains/losses on cash and cash equivalents		**3,562**	**-**
Cash and cash equivalents at beginning of year		101,724	80,139
Cash and cash equivalents at end of year		**97,316**	**101,724**

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 2022 or 2021 but is based on, and consistent with, that in the audited financial statements for the year ended 31 July 2022, 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

These financial statements have been prepared in accordance with UK-adopted international accounting standards (IFRS) in accordance with the requirements of the Companies Act 2006. IFRS includes the application of International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and the IFRS Interpretations Committee ('IFRIC') interpretations.

These financial statements have been prepared under the historical cost convention and are presented in the Company's presentational and functional currency of Pounds Sterling and all values are rounded to the nearest thousand ('£'000'), except when otherwise stated.

The Company applied all standards and interpretations issued by the IASB that were effective as at 1 August 2021. The accounting policies set out below have, unless otherwise stated (see below), been applied consistently to all periods presented in these financial statements.

The potential climate change-related risks and opportunities to which the Company is exposed, as identified by management, are disclosed in the Company's TCFD disclosures in the annual report. Management has assessed the potential financial impacts relating to the identified risks and exercised judgement in concluding that there are no further material financial impacts of the Company's climate related risks and opportunities on the financial statements. These judgements will be kept under review by management as the future impacts of climate change depend on environmental, regulatory and other factors outside of the Company's control which are not all currently known.

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 1 to 64 of the Annual Report) and Chief Financial Officer's review sections (see pages 32 and 33) of the Annual Report. Given the current macro-economic environment 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 2023. All the forecasts reflect the payment of the FY22 dividend of £58.2m which will be paid in December 2022 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 invest in technology to provide efficient services to the public and this has continued apace despite the pandemic and recent turbulence in the UK economy. 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 2022, the Company held instantly accessible cash and cash equivalents of £97.3m, while net current assets were £190.7m. Note 21 to the financial statements in 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. Operational cash flow forecasts for the going concern period are sufficient to support the business with the £60m 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.

Challenging economic environment

Management have, in all three scenarios, considered the principal challenges to short term business performance which are expected to be;

- An economic downturn in the UK economy, aided by high broad-based inflation and increasing interest rates;
- Continued impact of hardware supply constraints, resulting from the global semi-conductor shortage, although this is forecast to improve and is isolated to a select few vendors; and
- Higher risk of credit losses

Despite the impact of Omicron and further lockdown period on the year just finished, the Company has traded well, delivering double-digit year-on-year growth. 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 2022, takes into account the FY23 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 2022. The key inputs and assumptions in the base case include:

- Continued revenue growth in line with historic rates;
- rebate income continues to be received in proportion to cost of sales as in FY22;
- employee commission is incurred in line with the gross margin; and
- increased levels of cost to reflect continued investment in our people, the businesses IT infrastructure as well as a return of travel and staff entertainment costs more in line with pre-covid levels than we have seen in the past twelve months.

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 have in place a hybrid working model with a balance of remote working and return to the office, which has not had a noticeable impact on the operational performance of the Company. Year to date trading to the end of September 2022 is consistent with the base case forecast.

Severe but plausible case
Given the current economic challenges facing 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 below any historic trend and more severe than experienced during the height of the pandemic. Further impacts of this scenario such as reduced margins and greater credit losses have also been considered.

The key inputs and assumptions include:

- an average 7.5% 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 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 maintains a positive cash balance at all times. 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 and achieve the Boards desired minimum cash position, 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 £18m cost reduction on an annualised basis and additional annual working capital savings of £30m, 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 FY23;
- 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 15% in Gross invoiced income, compared to the base case;
- reduced achievable gross margin by 3%;
- additional bad debt write offs of £10m per year across the forecast period; and
- extending the debtor days by three days from historic levels achieved and no change to historic supplier payment 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, 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 2022 Board meeting, the Directors concluded from this analysis it was appropriate to continue to adopt the going concern basis in preparing the financial statements. Should the impact of these conditions be even 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 2022 has been prepared in accordance with the accounting policies as disclosed in Softcat plc's Annual Report and Accounts 2022, as updated to take effect of any new accounting standards applicable for the year.

Change in accounting policy – IFRS 15

The IFRS Interpretation Committee (IC) recently concluded on a response to an industry request to clarify whether a company should recognise revenue from the resale of standard software licenses on a gross or net basis under IFRS 15 – Revenue from Contracts with Customers. The fact pattern provided to the IC was very similar to that faced by the Company when transacting software sales with customers. Whilst not providing a direct clarification on the topic, as they stated that the specifics of each case may vary and must be analysed in detail, the IC provided further guidance on the "control" criteria which is used to determine whether revenue is recognised on a principal or agent basis. The staff paper, the published discussions within the IFRS IC and the ultimate decision indicates, in managements view, support of revenue recognition on a net basis.

Prior to this conclusion, Softcat recognised cloud-hosted and security software revenue on a "net" basis, together with other lines of business where its role is considered more aligned to that of a billing agent or introducer. The remaining software lines of business were recorded on a "gross" basis. However, this gross conclusion required significant judgement and consisted of elements that were indicative of either net or agent treatment with the ultimate conclusion being dependent on an assessment of the relative weighting of the various factors.

The guidance provided by the IC set out the following factors that previously aided the principal conclusion for software, specifically:

- The removal of pre-sales advice as an explicit or implicit promise in a contract. Softcat did not previously consider pre-sales advice as a separate performance obligation but factored these services into the consideration of control of licenses.
- In the case of software products, there is no inventory risk before the customer is provided with the licences, the risk arises after that point until the customer accepts the licences.
- In the case of software products, the software manufacturer is responsible for the software's functionality, in addition to issuing and activating the licenses, and is therefore responsible in those respects for fulfilling the promise to provide the licenses to the customer.

As a result of this guidance in favour of agent, the Company has amended its finely balanced judgement in favour of principal (and gross) presentation and concluded, considering the facts presented, that an accounting policy change in favour of agent (and net) presentation should be adopted for all software products that were previously recorded as principal and presented gross.

As prescribed in IAS 8, the business has applied this accounting policy change retrospectively, so the prior year and current year are presented consistently.

The impact of this change in accounting policy on the prior year financial statements is as follows.

- Revenue and cost of sales would decrease by a further £372.6m on top of the current IFRS 15 software adjustment net down; and
- Gross profit, operating profit, and profit before and after taxes will be unchanged in all periods. The Statement of financial position, Statement of cashflows and the Statement of changes in equity also remain unchanged.

Year ended 31 July 2021	Revenue as reported under IFRS 15 £'000	Estimated increase in net down £'000	Revised revenue under IFRS 15 £'000
Software revenue	501,058	(372,618)	128,440

Balance at 1 August 2021	31 July 2021 As originally presented £'000	Impact of change of policy £'000	31 July 2021 as restated £'000
Revenue	1,156,667	(372,618)	784,049
Cost of Sales	(880,309)	372,618	(507,691)
Gross Profit	276,358	-	276,358
Administrative expenses	(156,942)	-	(156,942)
Operating Profit	119,416	-	119,416
Finance Income	28	-	28
Finance Cost	(477)	-	(477)
Profit before tax	118,967	-	118,967
Income tax expense	(22,782)	-	(22,782)
Profit and total comprehensive income for the year	96,185		96,185
Profit attributable to:			
Owners of the company	**96,185**	**206,919**	**96,185**

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

	2022 £'000	2021 £'000
Software	150,000	128,440
Hardware	797,897	556,472
Services	130,049	99,137
	1,077,946	**784,049**

Gross invoiced income by type

	2022 £'000	2021 £'000
Software	1,365,343	1,109,198
Hardware	810,241	566,305
Services	331,953	262,937
	2,507,537	**1,938,440**

The prior year revenue comparatives have been restated where relevant in line with the change in accounting policy – IFRS 15 Revenue from Contracts with Customers, treatment of Software revenue as agent revenue. Further information has been included in the accounting policies.

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

Revenue by type of business

	2022 £'000	2021 £'000
Small and medium	535,823	471,076
Enterprise	222,064	164,468
Public sector	320,059	148,505
	1,077,946	**784,049**

Gross invoiced income by type of business

	2022 £'000	2021 £'000
Small and medium	1,169,255	839,398
Enterprise	427,249	336,013
Public sector	911,033	763,029
	2,507,537	**1,938,440**

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.

During the period there was one direct customer (FY21: none) that individually accounted for greater than 10% of both the Company's total revenue and gross invoiced income, and a considerably lower proportion of Gross Profit. Gross invoiced income and revenue generated from this customer in FY22 was £251.3m and £227.5m respectively. (FY21 £80.3m and £74.2m).

Reconciliation of gross invoiced income to revenue

	2022 £'000	2021 £'000
Gross invoiced income	2,507,537	1,938,440
Income to be recognised as agent under IFRS 15	(1,429,573)	(1,154,391)
Revenue	**1,077,964**	**784,049**

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**

	2022 £'000	2021 £'000
Current Tax		
Current income tax charge in the year	25,979	22,909
Adjustment in respect of current income tax in previous years	52	80
Foreign tax effects	1	-
Deferred Tax		
Temporary differences	(293)	(207)
Total tax charge for the year	**25,739**	**22,782**

5. **Dividends**

	2022 £'000	2021 £'000
Declared and paid during the year:		
Special dividend on ordinary shares (20.6p per share (2021: 7.6p))	40,806	15,100
Final dividend on ordinary shares (14.4p per share (2021: 16.6p))	28,663	32,981
Interim dividend on ordinary shares (7.3p per share (2021: 6.4p))	14,551	12,734
	84,020	**60,815**

A final dividend of 16.6p per share has been recommended by the Directors and if approved by shareholders will be paid on 19 December 2022. The final ordinary dividend will be payable to shareholders whose names are on the register at the close of business on 11 November 2022. Shares in the Company will be quoted ex-dividend on 10 November 2022. The dividend reinvestment plan ('DRIP') election date is 28 November 2022.

In line with the Company's stated intention to return excess cash to shareholders, a further special dividend payment of 12.6p has been proposed. If approved this will also be paid on 19 December 2022 alongside the final ordinary dividend.

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

6. **Inventory**

	2022 £'000	2021 £'000
Finished goods and goods for resale	5,104	38,411

The decrease in stock is predominantly driven by stock in transit for a specific customer yet to be delivered as at the end of FY21 as well as timing of the balance sheet date.

The amount of any write down of inventory recognised as an expense in the year was £Nil (2021: £Nil).

7. Trade and other receivables

	2022 £'000	2021 £'000
Trade and other receivables	497,308	300,058
Provision against receivables	(4,958)	(3,415)
Net trade receivables	**492,350**	**296,643**
Unbilled receivables	26,192	10,500
Prepayments	4,338	3,584
Accrued income	10,534	8,171
Deferred costs	8,010	10,768
	541,424	**329,666**

8. Trade and other payables

	2022 £'000	2021 £'000
Trade payables	280,769	220,305
Other taxes and social security	23,078	12,378
Accruals	115,261	60,845
	419,108	**293,528**

9. Contract liabilities

Contract liabilities are comprised:

	2022 £'000	2021 £'000
Deferred income	35,184	16,385

Deferred income is further broken down as:	2022 £'000	2021 £'000
Short term deferred income	31,564	12,759
Long term deferred income	3,620	3,626
	35,184	**16,385**

10. Earnings per share

	2022 Pence	2021 Pence
Earnings per share		
Basic	55.5	48.4
Diluted	55.3	48.2

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

	2022 £'000	2021 £'000
Earnings		
Earnings for the purposes of earnings per share being profit for the year	110,405	96,185

The weighted average number of shares is given below:

	2022 000's	2021 000's
Number of shares used for basic earnings per share	198,976	198,559
Number of shares deemed to be issued at nil consideration following exercise of share options	656	884
Number of shares used for diluted earnings per share	**199,632**	**199,443**

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

	2022 £'000	2021 £'000
Cash flow from operating activities		
Operating profit	136,145	119,416
Depreciation of property, plant and equipment	2,373	2,332
Depreciation of right-of-use assets	1,594	2,263
Amortisation of intangibles	558	297
Loss on disposal of fixed assets	-	76
Dividend equivalents paid	(215)	(196)
Cost of equity settled employee share schemes	2,541	2,267
Operating cash flow before movements in working capital	**142,996**	**126,455**
Increase in inventories	33,307	(26,667)
Increase in trade and other receivables	(211,694)	(15,544)
Increase in trade and other payables	144,379	29,553
Cash generated from operations	**108,988**	**113,797**
Income taxes paid	(25,344)	(22,545)
Net cash generated from operating activities	**83,644**	**91,252**

12. **Share capital**

	2022 £'000	2021 £'000
Allotted and called up		
Ordinary shares of 0.05p each	100	100
Deferred shares* of 1p each	-	-
	100	**100**

*At 31 July 2022 deferred shares had an aggregate nominal value of £189.33 (2021: £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 16.6p per share has been recommended by the Directors and if approved by shareholders will be paid on 19 December 2022. The final ordinary dividend will be payable to shareholders whose names are on the register at the close of business on 11 November 2022. Shares in the Company will be quoted ex-dividend on 10 November 2022. The dividend reinvestment plan ('DRIP') election date is 28 November 2022.

In line with the Company's stated intention to return excess cash to shareholders, a further special dividend payment of 12.6p has been proposed. If approved this will also be paid on 19 December 2022 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.

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