28 March 2023

SOFTCAT plc
("Softcat", the "Company")
Half Year Results for the six months to 31 January 2023

Softcat plc (LSE: SCT.L), a leading UK provider of IT infrastructure products and services, today publishes its half year results for the six months to 31 January 2023 (“the period”). The results reflect income and profit performance ahead of expectations, coupled with strong cash generation.

Financial Summary	Six months ended 31 January 2023	31 January 2022[4]	Growth
	£m	£m	%
Revenue[1]	512.4	577.8	(11.3%)
Gross invoiced income[2]	1,214.7	1,158.3	4.9%
Gross profit	177.1	150.2	17.9%
Operating profit	63.1	64.1	(1.7%)
Cash conversion[3]	117.8%	85.0%	32.8%pts
Interim dividend (p)	8.0p	7.3p	9.6%
Earnings per share (p)	25.0p	26.2p	(4.5%)
Diluted earnings per share (p)	25.0p	26.0p	(4.0%)

Highlights for the six months to 31 January 2023

- Growth in gross profit (GP), our key measure of income, was very strong at 17.9% and ahead of expectations despite a very challenging set of comparative numbers which included several one-off, high value transactions with a major customer.
- Operating profit was also ahead of expectations due to the strong GP performance and, as a result, only marginally below the record achieved in H1 last year, despite the return of pre-pandemic travel and events costs and further significant investment in our people.
- Gross invoiced income (GII) was up 4.9%, reflecting the impact of the high value, low margin hardware business secured with a single customer in the prior period.
- Revenue, which is GII netted down to just the margin element of software and some service income streams (see Note 3 to the Condensed Interim Financial Statements), was below the prior year due also to the reduction in hardware income from the prior period’s largest customer.
- Performance and growth drivers have again been broad-based, with strong growth seen across all customer segments and areas of technology once the impact of the prior period’s largest customer is adjusted for.
- Closing headcount was up 21.1% on the prior period as we continue to invest in building the capabilities and scale of operations for long-term market share gains, in an industry which continues to grow despite a challenging macro environment.

[1] Revenue is reported under IFRS 15, the international accounting standard for revenue. IFRS 15 requires finely balanced judgements to be made to determine whether Softcat acts as principal or agent in certain trading transactions. These judgements, coupled with slight variations of business models 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.

[2] 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 Review on page 6.

[3] 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.

[4] The half year ended 31 January 2022 revenue and cost of sales 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, Accounting policies, Change in Accounting Policies – IFRS 15.

- The customer base grew by 3.3%, the fastest rate since before the onset of the pandemic, and GP per customer was up by 17.4%, demonstrating continued progress against both key aims of our strategy.
- Cash generation was strong at 117.8% conversion from operating profit. Cash closed the period at £97.7m and the Company remains debt free.
- An interim dividend of 8.0p per share, up 9.6%, will be paid on 24 May 2023 with the shares trading ex-dividend on 13 April 2023.

Graeme Watt, Softcat CEO, commented:

I am pleased to be reporting positive numbers across a whole range of key performance indicators in a period that has exceeded expectations. We have reported strong GP growth of 17.9% on the prior year despite very tough comparative numbers, and we have again taken market share. We have increased our headcount by 21.1% on the prior period to meet this demand and underpin future growth, and we have grown our customer base by 3.3% which is the fastest rate for three years. We have reported strong cash conversion in the period, continue to be debt free, and are pleased to be declaring an interim dividend of 8.0p, up 9.6% on the prior year. All this has been achieved in an uncertain environment.

This performance would be impossible without the amazing team we have at Softcat. Everyone has played their part, supported by a strong leadership and management group. Our employee net promoter score rose from 52 to 63 in the period indicating the positive feelings they have towards Softcat and their optimism for what we can achieve in the future. A huge thank you to each and everyone of the team for another set of strong results.

Outlook

Operating profit in the first six months of the financial year is ahead of the Board's initial expectations. While there is still a lot to do in the second half and the economic environment remains uncertain, due to the out performance in the first half the Board now expects that the outturn for the full year will be slightly ahead of previous estimates.

Analyst and Investor call

The management team will host an investor and analyst conference call at 9.30am UK time, on Tuesday, 28 March 2023. To participate in the conference call, please use the following access details:

Conference Call Details:
https://register.vevent.com/register/BI3a8a3270f4504945b9e74f297c652311

Please note the pin code that is provided is a unique code for you.

A live webcast of the presentation will be available at:
https://edge.media-server.com/mmc/p/hfvg4whj

Please register approximately 10 minutes prior to the start of the call.

The announcement and presentation will be available at www.softcat.com from 7.00am and 9.00am respectively.

Enquiries

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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 Financial Conduct 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.

Chief Executive Officer's Review

Our strategic aims of driving growth from existing customers while also adding new customers remain unchanged. We continued to execute well against these targets in the period, recording GP per customer growth of 17.4% and expanding our customer base by 3.3%.

Broad-based growth

We were able to grow across all customer segments with public sector, small and medium (excluding the impact of a decline with the prior period's single largest customer) and enterprise all making good progress despite ongoing macro-economic headwinds as spending on IT infrastructure has become less and less discretionary. The need to invest in cyber security, hybrid cloud environments and end user devices has become an operational imperative and we were able to grow in each of these categories too. The external challenges of the pandemic and supply chain constraints largely dissipated in the period, during which we also successfully managed the key impacts of cost and salary inflation and vendor price increases. Our growth is ahead of projections for the industry as a whole and we are confident that we have continued to gain market share.

Our multinational business has grown at a premium rate as we have invested to support our UK customers with their needs overseas. Challenges from supply chain product shortages have eased as customers across a wide variety of verticals and public sector departments demonstrate that continued investment in IT infrastructure remains high on their agenda. Our customers continue to need a lot of help and advice in selecting and implementing the right solutions as they seek to manage cloud environments alongside their on-premises infrastructure. Digital transformation and the need to deliver a secure IT environment continue to be priorities for our customers, and many tell us that their flexible working policies and supporting technology are still work in progress and need more investment.

Year-on-year operating profit performance was ahead of our expectations but, as previously signalled, also reflected the return of pre-pandemic costs and significant investment in our people to underpin future growth.

Opportunities for further growth

The breadth of our business by technology and customer segment provides resilience but more importantly there is an opportunity to grow our business in every single area. The market continues to grow and our investments in salespeople, specialists, technical experts, service delivery and partners means we have leverage to deliver further gains. Additionally, we have opportunities to help our customers in the rapidly growing areas of edge computing, artificial intelligence, and data management. Despite our long track record of growth, we still have a relatively low share of the overall market, so there is significant potential for more progress.

We are delighted with the performance of our multinational business and our office in the US. Although currently a small percentage of our overall business, the opportunity for further growth is substantial.

In the UK, we added an additional office in Newcastle earlier this month. Opening new offices allows us to get closer to our customers and serve as additional engines for recruitment and development opportunities for existing members of our team.

We continue to invest in systems, tools, and platforms to provide our customers and staff with a more refined user experience and have created strategic initiatives to enhance our digital and data capabilities. These investments will augment our offering, drive deeper customer and vendor partnerships, and accelerate growth as a result. Our new financial system and data warehouse are now fully implemented, and we look forward to driving the benefits from these investments in the coming years.

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.

Our people and our culture

We have adopted a flexible approach to where and when our staff work which is proving to be effective and has been positively embraced by our teams who have enjoyed and benefited from the time that they are now able to spend together.

Our appetite to invest today for future growth remains as strong as ever. We continue to recruit and invest in people across all functions in the Company and have added a net 375 employees since this time last year. This represents a 21.1% increase on the prior period, achieved in a market where we are finding it easier to recruit again. The pay reviews that came into effect at the start of this financial year have had a profoundly positive impact on our ability to attract new talent in a period where we have also seen attrition rates drop significantly. Our investment plans reflect confidence in our strategy and the demand environment for IT infrastructure. We believe that macroeconomic headwinds will provide opportunities to recruit and retain talented people and further enhance our ability to win more customers and gain share from competitors.

None of the performance we have delivered would have been possible without the amazing culture we have established at Softcat. The majority of our competitive advantage will continue to come from superior customer service, born out of the unique Softcat culture and our market-leading sales engine. It's the manner in which we deliver our service, advice and support that makes us stand out from the pack – culture is our strongest weapon and provides differentiation in a fragmented market in which it is difficult to stand out. We continue to prioritise and make sure we listen to how our people are feeling and we don't let anything get in the way of that as the number one priority. We want people to enjoy coming to work, to work with people whose company they appreciate and if their engagement is maintained through recognition, reward and all the other things we throw into the mix, then our customers will benefit from the service provided by the most motivated team in the industry. Our ongoing commitment to the way we act around our values and beliefs is paramount to our future success and continues to be led from the top. We are delighted with our most recent employee engagement results and the ongoing Glassdoor ratings and other accolades around culture, wellbeing, and progress with community networks.

The leadership team remains key in driving progress, and we are delighted to have been able to strengthen that team by welcoming Anna Pulisciano as Operations Director in February 2023. Katy Mecklenburgh will join us as CFO in June, shortly after which Graham Charlton will become CEO and I will succeed Martin Hellawell as Chair of the Board. These changes have been carefully thought through and communicated. We have robust transition, onboarding, and development plans in place, and I wish all those in new positions every success.

We have delivered another half of strong performance and that is down to the entire team at Softcat. The ownership, positivity, commitment and care they demonstrate to each other, our customers, partners, and the business is outstanding, and I can't thank them enough.

Chief Financial Officer's Review

Financial Summary	H1 FY23	H1 FY22*	Growth
Revenue split			
Software	£83.6m	£66.6m	25.5%
Hardware	£330.9m	£451.5m	(26.7)%
Services	£97.9m	£59.7m	64.0%
Total revenue	**£512.4m**	**£577.8m**	**(11.3)%**
Gross invoiced income split			
Software	£687.4m	£552.2m	24.5%
Hardware	£334.6m	£459.6m	(27.2)%
Services	£192.7m	£146.5m	31.5%
Total gross invoiced income	**£1,214.7m**	**£1,158.3m**	**4.9%**
Gross profit	£177.1m	£150.2m	17.9%
Operating profit	£63.1m	£64.1m	(1.7)%
OP:GP margin	35.6%	42.7%	(7.1)% pts
Cash conversion	117.8%	85.0%	32.8% pts

* The prior half 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, Accounting policies – Change in Accounting Policy – IFRS 15.

Gross profit, revenue, and gross invoiced income (GII)

Gross profit, our key financial metric, rose by 17.9% to £177.1m despite strong prior period figures which included exceptionally high value, non-recurring hardware transactions with a major customer.

Revenue was down on the prior period by 11.3%, due to a 27.2% decline in hardware GII in the period. This decline in hardware GII which is reported gross within the revenue number (unlike software and some services income which is netted down) is mainly driven by the reduction in volume of business with the major customer.

GII was up 4.9% to £1,214.7m driven by strong growth in both software (+24.5%) and services (+31.5%), partly offset by the decline in hardware volumes mentioned above. Gross profit as a proportion of GII of 14.6% was up on the prior period (H1 2022: 13.0%). Once again, this movement is also mainly related to the impact of transactions with the major customer in the prior period which diluted the 2022 margin.

Customer Metrics[1]	H1 FY23	H1 FY22	Growth
Customer base (rolling 12-month basis)	10.0k	9.7k	3.3%
Gross profit per customer (rolling 12-month basis)	£35.5k	£30.2k	17.4%

[1]Customer base and the GP per customer are calculated on a twelve-month rolling basis. This reflects the development of the business over an annual cycle which is more closely aligned to customer budget cycles than a six-month view. Customer base is defined as the number of customers who have transacted with Softcat in both preceding twelve-month periods.

During the period, gross profit per customer grew by 17.4% to an annualised £35.5k (H1 2022: £30.2k) and the customer base expanded by 3.3%, the fastest rate since the onset of the pandemic, to 10.0k (H1 2022: 9.7k). The combination of these effects has driven the gross profit growth of 17.9%.

Company analysis, using data from several sources (including Gartner, CRN and IDC), suggests our market share continues to expand but remains below c.5%. We serve approximately 1 in 5 customers in our target market with an average share of wallet of c.25%. These numbers indicate that both facets of our simple strategy, to win new customers and sell more to existing customers, continue to offer significant opportunities for future growth.

Operating costs and operating profit

Operating profit of £63.1m (H1 2022: £64.1m) declined by 1.7%, reflecting the 17.9% increase in gross profit offset by the 32.4% rise in operating costs. Cost growth was in line with expectations and is elevated by the return of travel and event activities that we were unable to perform during the pandemic.

Cost growth was also driven by increased commissions, commensurate with growth in gross profit, alongside the impact of an 18.5% increase in average headcount, and with an average pay award of 11.1% for existing staff. The increase in existing salaries reflects a 6.8% average award tied to the general inflationary environment, together with a restructuring of salaries across the sales teams to ensure we remain competitive in the graduate and apprentice markets.

Investment in people continues to be the main driver of cost growth and a 21.1% increase in closing headcount on the prior period reflects ongoing recruitment across all areas of the business. We are delighted that our operations have now returned completely to normal from the start of this financial year and while this has added to the cost base as expected, visiting customers, and running staff events play vital roles in our success.

Corporation tax charge

The half year tax charge of £13.3m reflects the effective statutory rate of 21.0% (2022: 19.0%). This effective tax rate reflects the blended rate in force across the financial year, including the increase from 19% to 25% effective from 1 April 2023.

Cash flow and cash conversion

The Company entered the period in a robust cash position with a balance of £97.3m, and then paid an aggregate final and special dividend of £58.2m in December 2022.

Cash flow from operations before tax but after capital expenditure was strong during the reporting period, generating a positive net inflow of £74.3m and, representing a conversion rate from operating profit of 117.8% (2022: 85.0%). Cash at the end of the period totalled £97.7m.

The Company targets sustainable full year operating cash conversion (after capital expenditure) in the range of 85-95% of operating profits.

Dividend

The Board is pleased to declare an interim dividend of 8.0p per share (2022: 7.3p), amounting in total to £16.0m. The interim dividend will be payable on 24 May 2023 to shareholders on the register at the close of business on 14 April 2023. Shares in the Company will be quoted ex-dividend on 13 April 2023. The last day for dividend reinvestment plan ("DRIP") elections is 2 May 2023.

Principal Risks and Uncertainties

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

In assessing the Company's likely financial performance for the second half of the current financial year, these risks and uncertainties should be considered in addition to the matters referred to regarding seasonality in Note 16 to the Condensed Interim Financial Statements, and the comments made under the heading "outlook" in the Chief Executive Officer's Review.

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 Chief Revenue Officer ('CRO') & 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 data protection and regulation (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	• Roll-out of a new ERP finance system to support growth and ease of doing business • Operation of back-up operations centre and datacentre platforms • Established and documented 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
Macroeconomic factors including the impacts of the conflict	• Short-term supply chain disruption • Reduced margins	• Close dialogue with supply-chain partners • Customer-centric culture • Breadth of proposition and customer base

in Ukraine, inflationary pressures, interest and foreign currency volatility (no change in net risk)	• Reduced customer demand • Reduced profit per customer • Higher operating costs • Customer insolvencies and cash collection challenges	• 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 regularly reviewed
FINANCIAL		
Profit margin pressure including reduction of supplier 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 reduction 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

In our consideration of emerging risks, climate change continues to receive greater analysis. We are continuing with a process to formally assess 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 Task Force on Climate-related Financial Disclosures ('TCFD'). Climate change is already a component of the failure to evolve our offering risk with regard 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 current analysis indicates that no other climate change-related risk is a principal risk which needs to be incorporated into the above.

These risks and uncertainties have not changed significantly since those published in the 31 July 2022 Annual Report.

Going Concern

As stated in Note 2 to the Condensed Interim Financial Statements, the Directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future, a period to at least 31 March 2024.

In preparing this financial information, management has considered the circumstances impacting Softcat during the period, as detailed in the Chief Financial Officer's Review, and reviewed projected performance for the period to at least 31 March 2024; being the going concern period. The Directors also considered the Company's objectives and strategy, its principal risks and uncertainties in achieving its objectives and its review of business performance and financial position.

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 twelve-month period from the date of this report (the going concern period) until 31 March 2024.

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 January 2023, the Company held instantly accessible cash and cash equivalents of £97.7m, while net current assets were £184.0m. Operational cash flow forecasts for the going concern period are sufficient to support the business. 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 improving and is less severe than the previous period; and
- higher risk of credit losses.

Despite the impact of these economic challenges, the Company has traded well, delivering double-digit Gross Profit 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 2022, takes into account the FY2023 budget process which includes estimated growth and increased costs across the going concern period and is consistent with the actual trading experience through to March 2023. 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 FY2022;

• 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

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. Year to date trading to the end of March 2023 is consistent with the base case forecast.

Severe but plausible

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, compared to the base case include:

• an average 8% reduction in gross invoiced income revenue;

• reduced gross profit margins of 1% in the period;

• additional bad debt write offs of £15m across the forecast period;

• extending the debtor days from historic levels achieved and no change to historic supplier payment days;

• paying a reduced final 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 Board's desired minimum cash position, should this scenario occur. The Directors are confident that they can implement these actions if required.

Mitigating actions

The primary mitigating action management could undertake would be the removal of the final ordinary and special dividends that are modelled in late 2023.

In addition, 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 an £18m cost reduction on an annualised basis, before considering the cost of delivering them and the point in time at which they were delivered.

The actions therefore, which, if implemented, would offset the reduced activity:

- bonus and commission costs scaled back in line with performance;
- savings in discretionary areas of spend;
- no final or special dividend payable in December 2023;

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:

1. reduction of 13% in gross invoiced income, compared to the base case;

2. reduced gross margin by 3%;

3. additional bad debt write offs of £30m in total across the going concern period; and

4. extending the debtor days by five 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 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 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 the twelve-month period from the date of this report (the going concern period) until 31 March 2024. Accordingly, at the March 2023 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 report has been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for those strategies to succeed. The Interim Management Report should not be relied on by any other party or for any other purpose.

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

Directors' Responsibility Statement

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

- the condensed set of financial statements, which has been prepared in accordance with UK adopted IAS 34 Interim Financial Reporting, has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the Interim Management Report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the Interim Management Report includes a fair review of the information required by DTR 4.2.8R (disclosure of relates parties' transactions and changes therein).

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

Graeme Watt	Graham Charlton
Chief Executive Officer	Chief Financial Officer
27 March 2023	27 March 2023

Condensed Statement of profit or loss and other comprehensive income
For the six months ended 31 January 2023

	Note	Six months ended 31 January		Year ended 31 July
		2023 Unaudited	2022 Unaudited*	2022 Audited
		£'000	£'000	£'000
Revenue	*3*	**512,405**	**577,820**	**1,077,946**
Cost of sales		(335,351)	(427,609)	(750,736)
Gross profit		**177,054**	**150,211**	**327,210**
Administrative expenses		(113,983)	(86,078)	(191,065)
Operating profit		**63,071**	**64,133**	**136,145**
Finance income		151	6	252
Finance cost		(99)	66	(253)
Profit before taxation		**63,123**	**64,205**	**136,144**
Income tax expense	*4*	(13,280)	(12,181)	(25,739)
Profit for the period		**49,843**	**52,024**	**110,405**
Other comprehensive income				
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:				
Foreign exchange differences on translation of foreign branches		(148)	-	3,562
Total other comprehensive income		**(148)**	-	**3,562**
Total comprehensive income for the period		**49,695**	**52,024**	**113,967**
Profit attributable to:				
Owners of the Company		**49,843**	**52,024**	**110,405**
Total comprehensive income attributable to:				
Owners of the Company		**49,695**	**52,024**	**113,967**
Basic earnings per Ordinary Share (pence)	*11*	25.0	26.2	55.5
Diluted earnings per Ordinary Share (pence)	*11*	25.0	26.0	55.3

All results are derived from continuing operations.

* The prior half 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, Accounting policies – Change in Accounting Policy – IFRS 15.

Condensed Statement of Financial Position
As at 31 January 2023

	Note	Six months ended 31 January		Year ended 31 July
		2023 Unaudited	2022 Unaudited	2022 Audited
		£'000	£'000	£'000
Non-current assets				
Property, plant and equipment		11,166	11,812	11,270
Right-of-use assets	*6*	5,849	6,550	6,162
Intangible assets		7,575	6,696	7,978
Deferred tax asset		2,306	2,511	2,508
		26,896	27,569	27,918
Current assets				
Inventories		7,157	44,367	5,104
Trade and other receivables	*7*	545,501	405,189	541,424
Cash and cash equivalents		97,722	74,283	97,316
Income tax receivable		1,415	459	296
		651,795	524,298	644,140
Total assets		678,691	551,867	672,058
Current liabilities				
Trade and other payables	*8*	(437,866)	(362,919)	(419,108)
Contract liabilities	*9*	(27,275)	(14,907)	(31,564)
Lease liabilities	6	(2,722)	(2,684)	(2,716)
		(467,863)	(380,510)	(453,388)
Non-current liabilities				
Contract liabilities	*9*	(3,426)	(3,088)	(3,620)
Lease liabilities	6	(3,707)	(5,145)	(3,950)
		(7,133)	(8,233)	(7,570)
Net assets		203,695	163,124	211,100
Equity				
Issued share capital	*13*	100	100	100
Share premium account		4,979	4,979	4,979
Reserves for own shares		-	-	-
Foreign exchange revaluation reserve		3,414	-	3,562
Retained earnings		195,202	158,045	202,459
Total equity		203,695	163,124	211,100

Condensed Statement of Changes in Equity (unaudited)

	Issued share capital	Share premium account	Foreign exchange revaluation translation	Reserves for own shares	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 August 2022	100	4,979	3,562	-	202,459	211,100
Profit for the period	-	-	-	-	49,843	49,843
Impact of foreign exchange on reserves	-	-	(148)	-	-	(148)
Total comprehensive income for the period	-	-	(148)	-	49,843	49,695
Share-based payment transactions	-	-	-	-	1,591	1,591
Dividends paid	-	-	-	-	(58,220)	(58,220)
Shares issued in the year	-	-	-	-	-	-
Dividend equivalents paid	-	-	-	-	(66)	(66)
Tax adjustments	-	-	-	-	(104)	(104)
Other	-	-	-	-	(301)	(301)
Balance at 31 January 2023	**100**	**4,979**	**3,414**	**-**	**195,202**	**203,695**
Balance at 1 August 2021	100	4,979	-	-	174,065	179,144
Total comprehensive income for the period	-	-	-	-	52,024	52,024
Share-based payment transactions	-	-	-	-	1,416	1,416
Dividends paid	-	-	-	-	(69,469)	(69,469)
Shares issued in the year	-	-	-	-	-	-
Dividend equivalents paid	-	-	-	-	(214)	(214)
Tax adjustments	-	-	-	-	(84)	(84)
Other	-	-	-	-	307	307
Balance at 31 January 2022	**100**	**4,979**	**-**	**-**	**158,045**	**163,124**

Condensed Statement of Cash Flows
For the six months ended 31 January 2023

	Note	Six months ended 31 January 2023 Unaudited £'000	Six months ended 31 January 2022 Unaudited £'000	Year ended 31 July 2022 Audited £'000
Net cash generated from operating activities	*12*	**61,118**	**46,168**	**83,644**
Investing activities				
Finance income		151	6	252
Purchase of property, plant and equipment		(1,052)	(1,242)	(1,890)
Purchase of intangible assets		(361)	(1,572)	(3,334)
Net cash used in investing activities		**(1,262)**	**(2,808)**	**(4,972)**
Financing activities				
Issue of share capital		-	-	-
Dividends paid	*5*	(58,220)	(69,469)	(84,020)
Payment of principal portion of lease liabilities		(983)	(1,206)	(2,369)
Payment of interest portion of lease liabilities		(99)	(126)	(253)
Net cash used in financing activities		**(59,302)**	**(70,801)**	**(86,642)**
Net increase/(decrease) in cash and cash equivalents		**554**	**(27,441)**	**(7,970)**
Exchange (losses)/gains on cash and cash equivalents		(148)	-	3,562
Cash and cash equivalents at beginning of period		97,316	101,724	101,724
Cash and cash equivalents at end of period		**97,722**	**74,283**	**97,316**

Notes to the Financial Information

1. General information

The Directors of Softcat plc (the "Company") present their Interim Report and the unaudited Condensed Interim Financial Statements for the six months ended 31 January 2023 ("Condensed Interim Financial Statements").

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

The Condensed Interim Financial Statements have been reviewed, but not audited, by Ernst & Young LLP and were approved by the Board of Directors on 27 March 2023. The financial information contained in this report does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The Condensed Interim Financial Statements should be read in conjunction with the Annual Report and Financial Statements for the year ended 31 July 2022, which have been prepared in accordance with UK-adopted international accounting standards (IFRS) in accordance with the requirements of the Companies Act 2006. The Annual Report and Financial Statements for the year ended 31 July 2022 were approved by the Board of Directors on 25 October 2022 and delivered to the Registrar of Companies. The auditor's report on those financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498(2) or (3) of the Companies Act 2006.

2. Accounting policies

Basis of preparation

These Condensed Interim Financial Statements have been prepared in accordance with UK adopted International Accounting Standard ("IAS") 34 Interim Financial Reporting and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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

The accounting policies adopted in the preparation of the Condensed Interim Financial Statements are consistent with those applied in the preparation of the Company's Financial Statements for the year ended 31 July 2022.

Going Concern

The Directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future, a period to at least 31 March 2024.

In preparing this financial information, management has considered the circumstances impacting Softcat during the period, as detailed in the Chief Financial Officer's Review, and reviewed projected performance for the period to at least 31 March 2024; being the going concern period. The Directors also considered the Company's objectives and strategy, its principal risks and uncertainties in achieving its objectives and its review of business performance and financial position.

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 twelve-month period from the date of this report (the going concern period) until 31 March 2024.

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 January 2023, the Company held instantly accessible cash and cash equivalents of £97.7m, while net current assets were £184.0m. Operational cash flow forecasts for the going concern period are sufficient to support the business. 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 improving and is less severe than the previous period; and

• higher risk of credit losses.

Despite the impact of these economic challenges, the Company has traded well, delivering double-digit Gross Profit 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 2022, takes into account the FY2023 budget process which includes estimated growth and increased costs across the going concern period and is consistent with the actual trading experience through to March 2023. 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 FY2022;

• 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

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. Year to date trading to the end of March 2023 is consistent with the base case forecast.

Severe but plausible

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, compared to the base case include:

• an average 8% reduction in gross invoiced income;

• reduced gross profit margins of 1% in the period;

• additional bad debt write offs of £15m across the forecast period;

• extending the debtor days from historic levels achieved and no change to historic supplier payment days;

• paying a reduced final 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 Board's desired minimum cash position, should this scenario occur. The Directors are confident that they can implement these actions if required.

Mitigating actions

The primary mitigating action management could undertake would be the removal of the final ordinary and special dividends that are modelled in late 2023.

In addition, 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, before considering the cost of delivering them and the point in time at which they were delivered.

The actions therefore, which, if implemented, would offset the reduced activity:

• bonus and commission costs scaled back in line with performance;
• savings in discretionary areas of spend;
• no final or special dividend payable in December 2023;

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:

1. reduction of 13% in gross invoiced income, compared to the base case;

2. reduced gross margin by 3%;

3. additional bad debt write offs of £30m in total across the going concern period; and

4. extending the debtor days by five 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 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 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 the twelve-month period from the date of this report (the going concern period) until 31 March 2024. Accordingly, at the March 2023 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.

Critical accounting judgements and key sources of estimation uncertainty

When applying the Company's accounting policies, management must make several key judgements involving estimates and assumptions concerning the future. Key judgements management have made are those which have the most significant effect on the amounts recognised in the financial statements. Key sources of estimation uncertainty are those assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The key judgements and sources of estimation uncertainty reported in the financial statements for the year ended 31 July 2022 are still relevant. There have been no new areas of significant accounting judgement or key sources of estimation uncertainly arising from operations in the first six months of the financial year to 31 July 2023, nor in the months to the date of publication of this interim report.

Changes to accounting standards

There have been no new standards effective in the period to 31 January 2023. In the period to 31 July 2022 there was a change in accounting policy and the financial comparatives have been restated where relevant in line with this change in accounting policy – IFRS 15 Revenue from Contracts with Customers, treatment of Software revenue as agent revenue.

Other than those mentioned below, there are no further changes to accounting policies applicable in the prior period.

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 indicate, in management's 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 interim financial statements is as follows;

• revenue and cost of sales would decrease by a further £193.1m 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 cash flows and the Statement of changes in equity also remain unchanged.

Period ended 31 January 2022	Revenue as reported IFRS 15 £'000	Increase in net down £'000	Revised revenue £'000
Software revenue	259,722	(193,113)	66,609
Revenue	770,903	(193,113)	577,820
Cost of sales	(620,722)	193,113	(477,609)
Gross profit	**150,211**	**-**	**150,211**
Administrative expenses	86,078	-	86,078
Operating profit	**64,133**	**-**	**64,133**
Finance income	6	-	6
Finance cost	66	-	66
Profit before tax	**64,205**	**-**	**64,205**
Income tax expenses	(12,181)	-	(12,181)
Profit and total comprehensive income for the period	52,024	-	52,024
Profit attributable to:			
Owners of the Company	52,024	-	52,024

Adjusted performance measures

The Company uses three 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. 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. Cash conversion illustrates how efficiently the business has converted its operating profits to cash and highlights any significant movements in the balance of working capital. It is shown after capital expenditure due to the relatively capital light business model. Gross profit as a proportion of gross invoiced income is presented to reflect the margin on the gross sales price to the customer. Due to the evolving mix of business that is recorded as principal or agent (see note 3), the gross profit as a proportion of revenue metric would be influenced by this mix as well as the change in margins charged to the customer.

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 of gross invoiced income and cash conversion.

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 3 of the Condensed Interim Financial Statements .

Cash conversion ratio comprises of cash flows from operations net of capital expenditure as a percentage of operating profit. A reconciliation to the adjusted measure for cash conversion is provided below.

Gross profit as a proportion of GII is presented to reflect the margin on the gross sales price to the customer.

	Six months ended 31 January		Year ended 31 July
	2023	2022	2022
	Unaudited £’000	Unaudited £’000	Audited £’000
Cash generated from operations	75,718	57,323	108,988
Purchase of property, plant and equipment	(1,052)	(1,242)	(1,890)
Purchase of intangible assets	(361)	(1,572)	(3,334)
Cash generated from operations, net of capital expenditure	74,305	54,509	103,764
Operating profit	63,071	64,133	136,145
Cash conversion ratio	117.8%	85.0%	76.2%

3. **Segmental information**

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

	Six months ended 31 January		Year ended 31 July
	2023	2022*	2022
	Unaudited £’000	Unaudited £’000	Audited £’000
Revenue by type			
Software	83,661	66,609	150,000
Hardware	330,891	451,510	797,897
Services	97,853	59,701	130,049
	512,405	577,820	1,077,946
Gross invoiced income by type			
Software	687,462	552,183	1,365,343
Hardware	334,580	459,627	810,241
Services	192,686	146,531	331,953
	1,214,728	1,158,341	2,507,537

	Six months ended 31 January		Year ended 31 July
	2023	2022*	2022
	Unaudited £’000	Unaudited £’000	Audited £’000
Revenue by type of business			
Small and medium	313,891	413,022	535,823
Enterprise	129,712	96,948	222,064
Public sector	68,802	67,850	320,059
	512,405	577,820	1,077,946

Gross invoiced income by type of business			
Small and medium	584,318	643,312	1,169,255
Enterprise	259,352	206,495	427,249
Public sector	371,058	308,534	911,033
	1,214,728	**1,158,341**	**2,507,537**

Gross invoiced income reflects gross income billed to customers adjusted for deferred and accrued revenue items. Softcat continues to report gross invoiced income as an alternative financial KPI as this measure allows a consistent, year on year, understanding of gross income billed, business performance and position and correlates closely to working capital movements. 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

	Six months ended 31 January		Year ended 31 July
	2023	2022*	2022
	Unaudited £'000	Unaudited £'000	Audited £'000
Gross invoiced income	1,214,728	1,158,341	2,507,537
Income recognised as agent under IFRS 15	(702,323)	(580,522)	(1,429,573)
Revenue	512,405	577,820	1,077,964

* The prior half 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, Accounting policies – Change in Accounting Policy – IFRS 15.

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

During the period, there were no direct customers (H1 2022: one) that individually accounted for greater than 10% of both the Company's total revenue and gross invoiced income. In the prior year gross invoiced income and revenue generated from the largest individual direct customer was £184.4m and £167.3m respectively. The revenues related to this direct customer in the prior year were derived within the USA branch of the Company. Substantially all of the remaining trading of the Company is undertaken in the United Kingdom.

4. Taxation

	Six months ended 31 January		Year ended 31 July
	2023 Unaudited £'000	2022 Unaudited £'000	2022 Audited £'000
Current Tax			
Current period	13,322	12,232	25,979
Adjustment in respect of current income tax in previous years.	-	-	52
Foreign tax effects	-	-	1
Deferred Tax			
Temporary differences	(42)	(51)	(293)
Total tax charge for the period	**13,280**	**12,181**	**25,739**

The income tax expense was recognised based on management's best estimate of the annual income tax rate expected for the full financial year, applied to the profit before tax for the half year ended 31 January 2023. On this basis, the Company's tax charge was £13.3m (H1 2022: £12.2m). The half year tax charge of 21.0% (2022: 19.0%) reflects the blended rate in force across the financial year, including the increase from 19% to 25% effective from 1 April 2023.

5. **Dividends**

	Six months ended 31 January		Year ended 31 July
	2023	2022	2022
Declared and paid during the period	Unaudited £'000	Unaudited £'000	Audited £'000
Interim dividend	-	-	14,551
Final dividend	33,098	28,663	28,663
Special dividend	25,122	40,806	40,806
	58,220	**69,469**	**84,020**

An interim dividend of 8.0p per share, amounting to a total dividend of £16.0m, was declared post period end and is to be paid on 24 May 2023 to those on the share register on 14 April 2023.

6. **Right-of-use assets and lease liabilities**

Leases - as a lessee
Softcat has lease contracts for various properties and offices across the country, used for its operations. Property leases generally have lease terms of between 3 and 10 years. A number of these contracts include extension and termination options which are discussed below.

Set out below are the carrying amounts of right-of-use assets recognised and movements during the period:

	Six months ended 31 January		Year ended 31 July
	2023	2022	2022
	Unaudited £'000	Unaudited £'000	Audited £'000
Property leases			
Opening right-of-use asset	6,162	7,022	7,022
Additions	746	734	734
Depreciation	(1,059)	(1,206)	(1,594)
Closing right-of-use asset	**5,849**	**6,550**	**6,162**

The weighted average incremental borrowing rate as used for the period is 2.7%.

Set out below are the carrying amounts of lease liabilities included under current and non-current liabilities and the movements during the period:

	Six months ended 31 January		Year ended 31 July
Property leases	**2023**	**2022**	**2022**
	Unaudited	**Unaudited**	**Audited**
	£'000	**£'000**	**£'000**
Opening lease liability	6,666	8,302	8,302
Additions	746	734	734
Accretion of interest	99	126	253
Payments	(1,082)	(1,333)	(2,623)
Closing lease liability	6,429	7,829	6,666
Current lease liability	2,722	2,684	2,716
Non-current lease liability	3,707	5,145	3,950
	6,429	7,829	6,666

Softcat had no variable lease expenses or income from sub-leases charged to the Statement of profit or loss and other comprehensive income, nor any sale and leaseback transactions.

Softcat has several lease contracts that include termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio to align to business needs. Management exercise significant judgement in determining whether these options are reasonably certain to be exercised.

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of termination options that are not included in lease term:

As at 31 January 2023 (unaudited)	**Within five years £'000**	**More than five years £'000**	**Total £'000**
Termination options expected to be exercised	4,951	704	5,655
	4,951	**704**	**5,655**

As at 31 January 2022 (unaudited)	**Within five years £'000**	**More than five years £'000**	**Total £'000**
Termination options expected to be exercised	3,802	1,854	5,656
	3,802	**1,854**	**5,656**

Lease charges related to low value and short-term leases recognised in the Statement of profit or loss and other comprehensive income was £nil in both periods.

7. Trade and other receivables

	Six months ended 31 January		Year ended 31 July
	2023	2022	2022
	Unaudited £'000	Unaudited £'000	Audited £'000
Trade receivables	486,326	365,826	497,308
Allowance for expected credit losses	(5,767)	(3,514)	(4,958)
Net trade receivables	**480,559**	**362,312**	**492,350**
Unbilled receivables	35,132	18,951	26,192
Prepayments	3,910	4,540	4,338
Accrued income	8,570	8,641	10,534
Deferred costs	17,330	10,745	8,010
	545,501	**405,189**	**541,424**

8. Trade and other payables

	Six months ended 31 January		Year ended 31 July
	2023	2022	2022
	Unaudited £'000	Unaudited £'000	Audited £'000
Trade payables	330,934	232,550	280,769
Other taxes and social security	17,938	22,483	23,078
Accruals	88,994	107,886	115,261
	437,866	**362,919**	**419,108**

9. Contract liabilities

	Six months ended 31 January		Year ended 31 July
	2023	2022	2022
	Unaudited £'000	Unaudited £'000	Audited £'000
Deferred income	30,701	17,995	35,184
	30,701	**17,995**	**35,184**

Deferred income is split as:

	Six months ended 31 January		Year ended 31 July
	2023	2022	2022
	Unaudited £'000	Unaudited £'000	Audited £'000
Current deferred income	27,275	14,907	31,564
Non-current deferred income	3,426	3,088	3,620
	30,701	**17,995**	**35,184**

Contract balances

Deferred income includes short-term and long-term goods or services to be delivered to customers by Softcat for which there is a contractual obligation arising from receipt of consideration or amounts due from the customer. The outstanding balances on these accounts has moved in line with the activity of the business and customer base. As at 31 January 2023, £30.7m remains on the Statement of Financial Position as a contract liability. Softcat expects that £27.3m of the balance as at 31 January 2023 will be released in the following 12 months with the balance released within 2-5 years of the end of 31 January 2023. Of the existing balance as at 31 July 2022, £28.5m has been recognised in FY23.

10. Financial instruments

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

	Six months ended 31 January		Year ended 31 July
	2023	2022	2022
	Unaudited £'000	Unaudited £'000	Audited £'000
Financial assets			
The financial assets of the Company were as follows:			
Cash at bank and in hand	97,722	74,283	97,316
Trade receivables, other debtors and accrued income	524,261	389,904	529,076
	621,983	**464,187**	**626,392**
Financial liabilities			
The financial liabilities of the Company were as follows:			
Trade payables	(330,934)	(232,550)	(280,769)
Accruals	(88,994)	(107,886)	(115,261)
Lease liabilities	(6,429)	(7,829)	(6,666)
	(426,357)	**(348,265)**	**(402,696)**

The Directors consider that the carrying amounts for all financial assets and liabilities (excluding lease liabilities) approximate to their fair value.

11. Earnings per share (EPS)

	Six months ended 31 January		Year ended 31 July
	2023	2022	2022
Earnings per share	Unaudited Pence	Unaudited Pence	Audited Pence
Basic	25.0	26.2	55.5
Diluted	25.0	26.0	55.3

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

	Six months ended 31 January		Year ended 31 July
	2023	2022	2022
	Unaudited £'000	Unaudited £'000	Audited £'000
Earnings			
Earnings for the purposes of EPS being profit for the period	49,843	52,024	110,405

The weighted average number of shares is given below:

	Six months ended 31 January		Year ended 31 July
	2023	2022	2022
	Unaudited 000's	Unaudited 000's	Audited 000's
Number of shares used for basic earnings per share	199,157	198,873	198,976
Number of shares deemed to be issued at nil consideration following exercise of share options	499	844	656
Number of shares used for diluted earnings per share	**199,656**	**199,717**	**199,632**

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

Reconciliation of operating profit to net cash inflow from operating activities

	Six months ended 31 January		Year ended 31 July
	2023	2022	2022
	Unaudited £'000	Unaudited £'000	Audited £'000
Operating profit	63,071	64,133	136,145
Depreciation of property, plant and equipment	1,155	1,182	2,373
Depreciation of right-of-use assets	1,059	1,206	1,594
Amortisation of intangibles	763	78	558
Dividend equivalents paid	(66)	(214)	(215)
Cost of equity-settled employee share schemes	1,591	1,416	2,541
Operating cash flow before movements in working capital	**67,573**	**67,801**	**142,996**
(Increase)/decrease in inventories	(2,053)	(5,956)	33,307
(Increase) in trade and other receivables	(4,077)	(75,523)	(211,694)
Increase in trade and other payables and contract liabilities	14,275	71,001	144,379
Cash generated from operations	**75,718**	**57,323**	**108,988**
Income taxes paid	(14,600)	(11,155)	(25,344)
Net cash generated from operating activities	**61,118**	**46,168**	**83,644**

13. **Share capital**

	Six months ended 31 January		Year ended 31 July
	2023	2022	2022
	Unaudited £'000	Unaudited £'000	Audited £'000
Ordinary shares of 0.05p each	100	100	100
Deferred shares of 1p each	-	-	-
	100	**100**	**100**

14. **Related party transactions**

Dividends to Directors

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

	Six months ended 31 January		Year ended 31 July
	2023	2022	2022
	Unaudited £'000	Unaudited £'000	Audited £'000
M Hellawell	1,227	1,466	1,773
G Watt	23	12	18
G Charlton	33	29	37
R Perriss	4	5	6
V Murria	48	58	70
K Slatford	-	-	-
L Weedall	-	-	-
	1,335	**1,570**	**1,904**

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

15. **Post balance sheet events**

Dividend

An interim dividend of 8.0p per share, amounting to a total dividend of £16.0m was declared post period end and is to be paid on 24 May 2023 to those on the share register on 14 April 2023.

16. **Seasonality of operations**

Historically, revenue and profits have been marginally higher in the second half of the year than in the first six months. This is principally driven by customer buying behaviour in the markets in which we operate. This increased weighting in the second half of the year has traditionally resulted in higher operating profit in the second half of the financial year. Customer buying behaviour is again expected to follow these patterns in the current year.

INDEPENDENT REVIEW REPORT TO SOFTCAT PLC

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 January 2023 which comprises the Condensed Statement of Profit or Loss and Other Comprehensive Income, Condensed Statement of Financial Position, Condensed Statement of Changes in Equity, Condensed Statement of Cash Flows and Explanatory Notes 1 to 16. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 January 2023 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

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

As disclosed in Notes 1 and 2, the annual financial statements of the Company are prepared in accordance with UK adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusions Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of Conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with this ISRE, however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.
In preparing the half-yearly financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

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

Ernst & Young LLP
London
27 March 2023

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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M Hellawell
G Watt
G Charlton
R Perriss
V Murria
L Weedall

Secretary
L Thomas

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