



# Taking care of our people and customers



## Our goal is simple:

To be the leading IT infrastructure product and services provider in terms of employee engagement, customer satisfaction and shareholder returns. We hope our success will create opportunities for our people and deliver growth for our customers and partners.

We don't take ourselves too seriously and were founded in 1993 to be, first and foremost, a fun place to work.

In a crowded field we stand out because of the vibrancy of our culture and the passion, intelligence and attitude of our people. Now more than ever taking care of each other and our customers is our top priority.

This approach has helped us deliver 15 consecutive years of organic gross invoiced income and operating profit growth, 93% employee engagement and 97% customer satisfaction.

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Find out more at: [softcat.com](https://www.softcat.com)



## Financial highlights

### Gross profit £m

2020	235.7
2019	211.1
2018	175.2
2017	136.3
2016	120.7

### Gross profit per customer £'000<sup>2</sup>

2020	24.8
2019	23.0
2018	19.9
2017	16.4
2016	15.6

### Operating profit £m

2020	93.7
2019	84.5
2018	68.0
2017	50.2
2016	42.2

### Revenue £m<sup>1</sup>

2020	1,077.1
2019	991.8
2018	797.2

### Customer base '000<sup>2</sup>

2020	9.5
2019	9.2
2018	8.8
2017	8.3
2016	7.7

### Cash conversion %

2020	88
2019	92
2018	98
2017	97
2016	85

## FY2020 operational highlights

- Revenue growth: 9%
- Gross profit growth: 12%
- Operating profit growth: 11%
- Cash conversion: 88%
- Operations resilient to challenges of COVID-19
- Employee engagement: 93%
- Customer satisfaction: 97%
- Customer base up by 300
- Gross profit per customer growth: 8%

Pages 1 to 43 form the Strategic Report of Softcat plc for the financial year ended 31 July 2020. The Strategic Report has been approved by the Board of Softcat plc and signed on behalf of the Board by Graeme Watt, CEO, and Graham Charlton, CFO.

1 Revenue has been restated due to the adoption of IFRS 15 during 2019. As a result revenue is only available on a comparable basis for 2019 and 2018.

2 Customer base is a new measure and differs from previously disclosed 'customer numbers', being defined as the number of customers who have transacted with Softcat in both of the preceding twelve-month periods. Customer numbers were previously defined simply as the number of unique entities transacting with Softcat during the reporting period. Prior year numbers (customer base and gross profit per customer) have also been restated accordingly. References in this Annual Report to the number of customers refers to the customer base.

# A compelling INVESTMENT CASE

We help commercial and public sector organisations design, procure, implement and manage the right digital infrastructure for their needs. In doing so, we provide the underpinnings to the modern, digital economy. It's a sector that has seen terrific growth, but there is so much more to come. It's an exciting place to be.

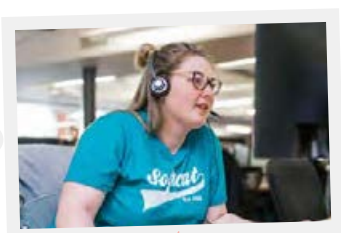
## 1 A dedicated and passionate team

We believe that if people enjoy what they do, and care about the company they work for, they will do it better. Our culture is the vital ingredient to realising our ultimate goal: to provide outstanding service to customers.

# 1,534

Number of employees at 31 July 2020

[Read more on pages 24 and 25](#)



## 2 Proven customer excellence

What really makes us different is the passion and dedication of our people to the service they provide. If a customer places their trust in us, we make it our business to never let them down.



# 97%

Customer satisfaction

● SMB ● Public sector ● Enterprise

[Read more on pages 22 and 23](#)



### 3 Market-leading growth and financial strength

We have delivered 15 consecutive years of gross invoiced income and profit growth, all of which has been organic. The business has no debt and a consistent track record of strong cash generation.

# £80.1m

Net cash at 31 July 2020

Read more on pages 28 and 29



### 4 A technology offering that is both broad and deep

We advise, design, procure, implement and manage technology for businesses and public sector organisations, ranging across software licensing, workplace technology, networking, security, cloud and datacentre.

We work with all of the leading global technology manufacturers to provide our customers with the broadest possible choice of solutions to suit their needs.

# 8%

Increase in gross profit per customer

Read more on pages 20 and 21



### 5 Strong partner relationships

We partner with hundreds of different software and hardware vendors to bring the latest and broadest range of technology to our customers, as well as numerous specialist service providers to augment the capabilities of our growing in-house teams.

# 200+

Number of significant vendor and partner relationships

Read more on pages 26 and 27



# PLAYING OUR PART

## during the COVID-19 pandemic

Softcat is a people business first and foremost and we believe our special culture has always been the beating heart of our success. In this section, we set out some of the ways in which our employees have responded to the impact of COVID-19.

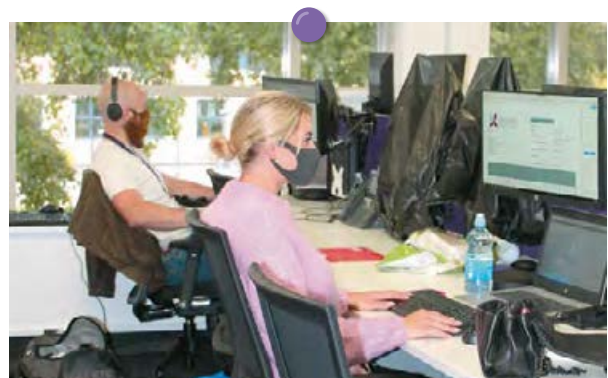
### People and culture

Each year we choose a word of the year to try and create a focus for our culture in the twelve months ahead. In September 2019 we chose the word 'care' for 2020 and with the benefit of hindsight there couldn't have made a more apt selection. We want our people to care about our customers and the partners we work with to support them. Caring for customers starts with caring about each other and the Company we work for. This is why our purpose statement is: "we help customers use technology to succeed, by putting our employees first".

Since March, we have listened to advice from the Government on COVID-19 and have put in place the protective measures recommended by the NHS. We frequently relayed these messages to employees so they understood what actions the Company had taken and what we expected from employees to keep themselves safe whilst working. Employees have settled in quickly to working effectively from home and we are using technology more than ever now to stay well connected.

To provide ongoing support, we created a one-stop online resource for employees. This included:

- the latest Company news on our response to the pandemic;
- a list of the Company's employee mental health first-aiders; (employees who are specially-trained to provide help) and mental health support available outside of the Company, for example through our Employee Assistance Programme;

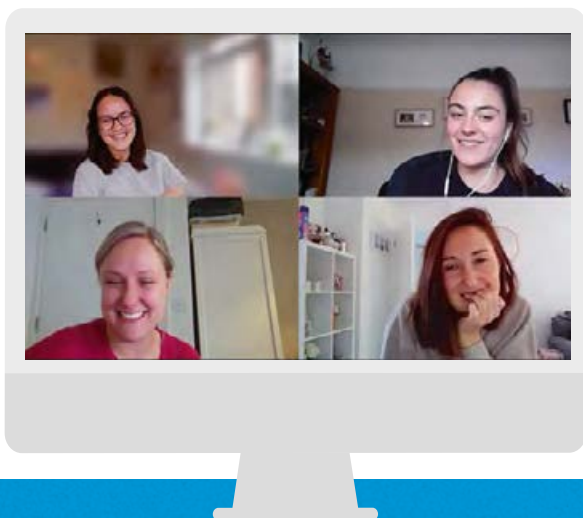


- support and guidance for employees juggling childcare, home schooling with their working commitments; and
- a list of teams which had reduced workload during the lockdown and offered to help our busier teams.

We have also taken surveys on how our employees are feeling and what support they need. We have been humbled and are grateful for the way they have responded and risen to the challenge. Also during the lockdown Vin Murria, our Designated Director for Workforce Engagement, held a virtual engagement session with employee representatives from our Dublin and Glasgow offices, with much of the discussion on how employees were adjusting to remote working.

The employees were delighted that a member of the Board had taken a direct interest to check-in on how they were adjusting to the new way of working.

We take pride in making Softcat a fun place to work and have gone to great lengths to preserve this during the pandemic. Michelin-starred chef Thomas Kerridge hosted a virtual cookery masterclass for our culinary-minded employees. Through these and other events such as our own virtual talent show and a quiz night, our employees keep making Softcat an enjoyable place to work. The importance of the good physical and mental wellbeing of our employees cannot be underestimated and we recognise that the pandemic has brought additional challenges. Some of our offices held exercise classes before the time of the lockdown which were popular and we were determined to carry that on, so we've held various virtual fitness classes to keep us fit as a fiddle. In May we held a virtual Mental Health Week with speakers and support on topics such as mindfulness and managing anxiety.





### Volunteering and the community

Softcat has a long track record of supporting charities and its communities and the pandemic presented obstacles to traditional ways of fundraising and supporting communities. However, our employees were innovative in overcoming this and we have not let the challenges posed by COVID-19 stop our desire to do good. Here are some of our activities since the lockdown started:

- We identified food poverty as a major concern during the pandemic and backed Social Bites' 'Feed the Nation in Isolation', a campaign to reach out to those impacted by food poverty. Those helped by the campaign include the homeless, families that rely on free school meals, and those who have been made redundant due to COVID-19. Together with the generosity of many other supporters, Social Bite has so far raised nearly £300,000 and produced and distributed over 500,000 food packs.
- Softcat participated in the Tech for Good initiative where we donated around £50,000 to buy tablets to enable patients in care homes to stay in touch with loved ones. We got some amazing feedback which emphasised the important part technology plays to keep in contact with family and friends.



A big thank you to everyone at Softcat for the very kind use of the iPads helping our residents at New Wycliffe Home keep in touch with their loved ones in these very challenging times. The immense joy and comfort that being able to keep in contact and see and speak to loved ones is immeasurable and greatly appreciated.

**New Wycliffe Home**

- Last year we launched our Love2Volunteer campaign. Each employee can choose two free charitable days a year at scheduled events focused on four areas: environment, community, homelessness and animals. However, we expanded the remit in response to COVID-19 by allowing employees to use their two free days to provide support to those in need. New ideas were suggested by employees on ways we could help, including:

- helping support lines which provide regular calls to elderly or lonely people that would like to have a phone conversation; and
- supporting the NHS to help with activities such as picking up and delivering medication, shopping, and critical supplies for vulnerable or self-isolating people.

➤ [Read more about managing the impact of COVID-19 on page 35](#)

## LOVE 2 VOLUNTEER



## Our attitude is based around



This year the Company has shown excellent leadership, exceptional resilience, positive attitude, care for one another and an incredible desire to succeed.

**Martin Hellawell**  
Chair



### Introduction

I think it's fair to say this financial year 2020 was anything but routine. The number of external factors facing Softcat and all businesses was unparalleled. Earlier in the financial year there were the continued uncertainties around Brexit, the general election and then the really big one, COVID-19.

I am absolutely delighted with the performance of the team and the business through this period and on behalf of the Softcat Board would like to wholeheartedly thank our CEO Graeme Watt and his team and all our employees for the remarkable job they have done throughout this year and for rising to the challenge.

I'd also like to thank and congratulate our customers and the IT vendors we represent. I don't think I've ever witnessed a period where the importance of IT has been greater. Without robust, agile IT platforms in place, I find it hard to imagine how much worse our economy and lives would have been affected.

We, as well as many of our peers, have been working with IT departments for many years to ensure companies can continue to conduct their affairs no matter what is thrown at them. I have never seen that tested in the way it has been this year. Our IT vendors, the infrastructure providers such as Softcat and the IT staff in our customers needed to be at the top of their game and the infrastructure customers have invested in for years needed to show its resilience and flexibility. I was so hugely impressed by our customers' ability to move largely very seamlessly and in a matter of hours from one working environment to another.

### Performance

We recorded yet another year of record performance.

Growth in gross profit, our primary measure of income, was 12% to £235.7m. Growth in operating profit was 11% to £93.7m. Revenue growth was 9%.





While we were impacted by the pandemic notably in the period from April to July, we still grew top line and bottom line in each of our four quarters. In Q4 we did see some customers pausing on capital spend but this was at least partially offset by continuing strong spend in areas such as security and software as customers adapted to their new environments.

We continued to make high levels of investment in our people, which will position us well for growth over the longer term. We hired just under 400 recruits in the 2020 financial year. Given our belief in the longer-term growth opportunity for our business and continuing levels of strong activity, the leadership team took the decision not to furlough any staff and to continue with plans for further recruitment.

We have always put a lot of effort in getting our apprentices off to a good start and I was delighted to see this recognised when we were rated as the Best Apprenticeship Employer in the UK by RateMyApprenticeship.

A lot of the business we do is triggered by digital transformation projects in the companies and organisations we work with. While on the downside there will be an impact from reducing headcount in some of our customers' organisations and a reassessment of their IT spend, I think the positive long-term upside is far greater. Recent events have only served to further demonstrate the importance of IT and the criticality for organisations to continually improve their digital capability at an even more accelerated pace.

This continues to be a great industry to be in and most of our listed peers continue to perform well which we see as a real positive.

More information on how we performed can be found in the Chief Executive Officer's Statement on pages 10 to 12 and Chief Financial Officer's Review on pages 28 and 29

## Employees

Softcat has always placed tremendous importance on our workplace culture, our employee engagement and camaraderie and how we think this results in motivated employees providing outstanding levels of customer service. We have always seen that as our key differentiator. We were concerned how this would be impacted by all employees working from home during this period. Yet again I can only commend the leadership team and the employees for recognising its importance and ensuring we continue what we are best known for in this very different environment. Led by Graeme, I have been so impressed by the amount and transparency of our Company communications throughout this period. Online Zumba classes, culinary classes with expert chefs, celebrity guest fireside chats, wellbeing sessions, quiz nights, an abundance of charity activities and a very long list of other Company-wide activities provided for our staff have all brought a very big and much needed smile to my face.

That said, the teams have missed physically working together and while we recognise certain working practices have probably changed forever, we look forward to working together safely in the office environment when the timing is right.

## PLC Board matters

We have an excellent Board with a strong mix of skills, experience and tenure. This makes for a well-functioning Board which is always engaged and brings a range of views to the table. I was particularly pleased with the amount of challenge, encouragement and support the non-executive directors provided to the executive directors during the lockdown period.

During the financial year Peter Ventress stepped down as a Non-Executive Director and I thank him for his contributions. I was very pleased to welcome Karen Slatford as Peter's replacement. Karen has significant experience in technology and business sectors, which is very much welcome. Karen also has a wealth of experience on remuneration and was therefore the best choice to succeed Peter as Chair of the Remuneration Committee. Karen was also appointed as Senior Independent Director.

The addition of Karen this year and Robyn Perriss last year means that we have a complementary blend of new thinking, which provides additional perspectives for some of the longer-standing Board members. I would like to take this opportunity to thank Robyn, Karen and our longest serving NED, Vin Murria as well as Graeme our CEO and Graham our CFO for their excellent work and for making the Board a highly productive, positive and enjoyable experience.

A diverse composition on the Board makes sense from every perspective. We now have 50% gender diversity, well ahead of the recommended target of 33%. The Parker Review recommends a target for FTSE 250 companies of at least one director from a BAME background by 2024 and we also meet this criteria.





It is very important to us that all employees can be proud of their gender, sexuality, ethnic background, religion or other form of diversity, within the organisation, and jointly, we can celebrate and benefit from this diversity within the Company.

#### PLC Board matters continued

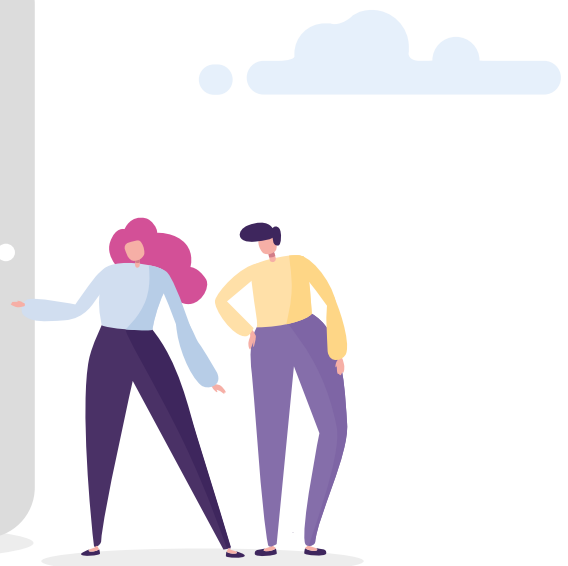
I have continued an engagement programme on governance with our largest shareholders. At the beginning of the calendar year, I wrote to our top 50 shareholders and to the main proxy voting agencies offering to meet or speak with them to discuss anything they wish to outside of operational and performance matters. I was pleased by the overall positive responses when I met those who responded and I have taken on much of the feedback. Partly in response to some of the feedback, the Board agreed it would be better practice for an independent director to chair the Nomination Committee and during the year we agreed that Vin Murria should take on this additional duty.

Vin has taken on this additional role with her usual vigour. I thank our shareholders for their continued support and engagement.

This year we conducted an internal Board effectiveness review, the results of which were once again very positive. This reflects on the strong composition and dedication of the Board, for which I am ever grateful. We continue to work well together by leveraging on our skills and experience, being supportive, asking the right questions and debating the right topics. There will always be ways we can be an even better Board and we will work on this. More information on how the Board operates is in the Corporate Governance Report on pages 48 to 54.

This is the second full year of my role as Chair and I consider my role to be very clear to myself, the Board, our shareholders and the employees of the organisation. We remain conscious that it is not seen as best practice for a former CEO to be Chair of the same Company. However, all of the Board has confirmed they believe this is working well and there remains a clear separation between the CEO and Chair. I am not involved in any operational matters other than acting as an occasional sounding Board for Graeme, a point I re-emphasise when I meet with the Company's shareholders on governance matters. Graeme is very clearly 'the boss' of the Company – which is incredibly evident as he continues to take the business forward. The Board considers that my position continues to be very much supported by most of our larger shareholders, as evidenced at the last AGM, where shareholders voted 95.8% in favour for my reappointment.

We continued as a Board to check the pulse of the business even during the lockdown, for example, each quarter we received detailed employee feedback. The feedback showed the tremendous support, understanding and leadership to make sure employees could adjust to all aspects of working outside of the office during the pandemic.





This was the first year of our employee engagement committee on our Board led by Vin Murria which has been highly beneficial and Vin has continued to run virtual employee feedback sessions during this period.

The Board supports and very much encourages the desire for the Company to consider its responsibilities to wider society. We have made contributions to charities and other worthy causes during the year, some of which is further explained on page 41. We commend our employees for taking a wider view of the way Softcat can add value, beyond financial measures.

We continue to encourage the executive team to do everything it reasonably can to help the environment. The Company is exerting greater influence on its supply chain where real gains can be made as well as engaging more with our customers on IT sustainability advice and guidance. We took advantage of various office refurbishments to improve our internal energy efficiency.

The Board commends the team for the amount of time and energy put into the wide-ranging topic of diversity this year. It is very important to us that all employees can be proud of their gender, sexuality, ethnic background, religion or other form of diversity within the organisation and jointly we can celebrate and benefit from this diversity within the Company. Many positive steps have been made but we encourage a lot more progress particularly in diversity in senior roles.

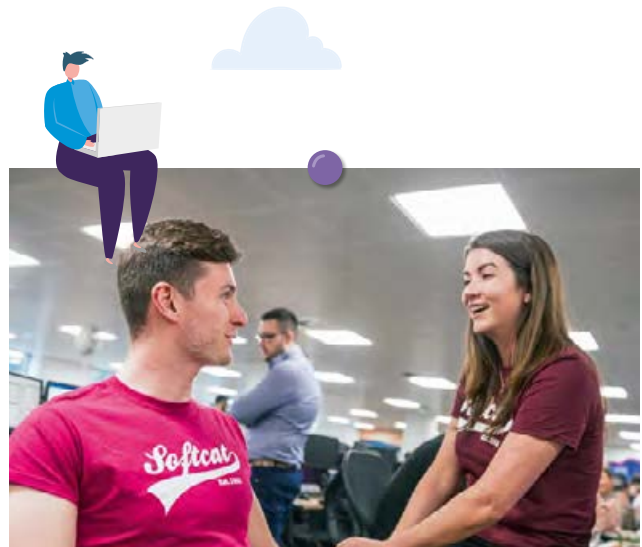
### Dividend

The Board took the precautionary step in March to cancel the FY2020 interim dividend. This was in response to the uncertainty created by the pandemic and the Board's prudent decision to protect the Company's cash position.

Following the decision to cancel the interim dividend, the Board closely monitored the performance of the business, and we are pleased to announce that as cash generation remains strong, we resume our dividend policy.

Our dividend policy remains a progressive one which targets an annual dividend of between 40% and 50% of the Company's profits after tax in each financial year before any exceptional items. Subject to any cash requirements for ongoing investment, the Board will consider returning excess cash to shareholders over time.

We recommend a final dividend of 16.6p per ordinary share, which includes the previously cancelled interim dividend of 5.4p per ordinary share. In addition, we recommend a special dividend of 7.6p per ordinary share is paid at the same time as the final dividend. Shareholders will be asked to approve the final and special dividends at the AGM on 10 December 2020.



### Looking ahead

The business is in very good shape as is the industry.

We are highly confident about the future prospects for the industry and the opportunities it will continue to give us. The appetite for competitive advantage through IT and digital transformation has never been greater.

We see certain risks and opportunities coming from Brexit and we are prepared for all eventualities.

The bigger imponderable is we simply don't know how the pandemic will play out and the ultimate impact it will have on our lives and our economy.

While we can't ignore that, we know whatever turn it may take, there is still an abundance of IT infrastructure business out there and we are extremely well positioned to continue to take market share. We intend to continue to invest in the business to ensure we fully capitalise on that opportunity.

This year the Company has shown excellent leadership, exceptional resilience, positive attitude, care for one another and an incredible desire to succeed.

For those reasons we have every confidence in the future.

Thank you to all our employees, customers and partners particularly in recent months.

**Martin Hellawell**  
Non-Executive Chair  
19 October 2020

## Showing how much we

# CARE



I'd like to thank the team for another record-breaking performance and for making Softcat such a great place to work.

**Graeme Watt**  
Chief Executive Officer

Following a very strong first half of the year we were able to seamlessly transition to 100% home working when the need arose and, despite impact on demand from corporate customers during the last four months of our financial year, we continued to deliver growth in both our third and fourth quarters. We also made continued progress with both new and existing customers and are pleased to report that our customer base grew by 3% and gross profit per customer was up 8% on a full year basis.

The robust nature of our growth and the strength of our bank debt-free balance sheet means we are well-positioned to seize the long-term opportunities within our market. We were able to deliver these results without the need for redundancies and our plans for 2021 are to continue to invest in skills and talent to meet our growth ambitions and further enhance our market share.

I'd like to thank the team for another record-breaking performance and for making Softcat such a great place to work, and also recognise the tremendous loyalty and support of our customers and partners during these challenging times.

I am delighted with the outcome of this financial year given the challenges we faced. We exceeded the performance expectations we set at the start of the year and I would like to thank everybody in the team for their outstanding individual and collective contributions. It was another strong year in which we grew year-on-year revenue, gross profit and operating profit in each quarter despite the impact of the pandemic. I would like to thank the leadership team too. They worked very hard and successfully to secure the safety of our people and build financial contingency plans very early in the crisis. As a team they remained calm and pragmatic and dealt with realities, planning for the worst while managing for better and using good judgement at all times. I think that approach served us well and we continue to be guided by our company purpose – helping customers to use technology to succeed, by putting our employees first.

Gross profit, our most important measure of income, grew by 12% during 2020 to £235.7m, with operating profit up by 11% to £93.7m. Cash generation was again very healthy, with no discernible impact from COVID-19. Based on our confidence in the business and a robust 2020 performance we are announcing the resumption of our normal dividend policy, to include payment of the interim dividend previously cancelled in March 2020.



Our focus on both new and existing customers remains at the heart of our strategy and I am delighted to see our Net Promoter Score (NPS) jump from 60 to 66 in our recent customer satisfaction survey. During the year our customer base grew by 3%, similar to last year, and gross profit per customer was up a healthy 8%.

**Partner and industry recognition**

We received many accolades for our performance during the year including the CRN Public Sector Reseller of the year award, a great testament to the investment and advances we made in this segment over the last few years. I am always particularly delighted with awards that recognise our team and culture at Softcat so to rank 5th among great places to work from both Glassdoor and the Great Place to Work organisation was especially pleasing.

In addition, we were recognised by our vendors with some highlights being Pure Storage Global Distribution Partner of the Year, Palo Alto Customer Acquisition Partner of the Year, VMware CloudHealth EMEA Partner of the Year, and becoming an 8x8 Platinum Partner.

**Softcat people and culture**

Our single biggest differentiator in this market is our culture and the talent we have in our team. Our culture is an enormous source of comfort and strength at all times and has undoubtedly helped us to manage through the pandemic. The way the team worked together and supported each other, our partners and our customers has been inspiring but not surprising. At the start of each new financial year we choose a word of the year. For 2020 we chose “care” and with hindsight we couldn’t have picked a more appropriate sentiment. The team has demonstrated that they care in so many ways and moved quickly to build new means of staying in touch, recognising performance and having fun in a remote working environment. Never before has the power of having a strong team around us been more evident.

At Softcat we have created an environment where everyone is naturally welcomed and valued, allowing people to express themselves and play to their strengths. We have internal networking groups that promote awareness and understanding to drive positive change and these are well positioned to make further advances in our diversity and inclusion efforts. During the year we were delighted to launch the BAME network to sit alongside existing groups such as Pride, Supporting Women in Business, Family and Armed Forces.

Enhancing the diversity of our Company is both right thing and the smart thing to do. I am determined to further increase the diversity of the Company and in parallel work towards ensuring that it is reflected it in our leadership teams.

Our people and sales culture are central to the way we operate and we are fundamentally an office-based organisation. So, while we are looking to return to our premises just as soon as we can to optimise our induction, training, development and day to day management of our teams, we will continue to place their safety and well-being ahead of any other considerations. We will be introducing further permanent flexibility to our working practices so some of the positive changes from lockdown can be maintained in the future.

**Growth drivers**

Technology continues to develop to support our customers evolving needs. They want to be agile, collaborative, productive, efficient, competitive and gain further insights from their data. They need to be secure and many are turning to consumption models. They want current technology to help them deliver all that and more.

Interestingly, we observed that the drivers for growth were much the same both before and since the impact of COVID-19, but with accelerating emphasis towards cloud computing and storage. Customers wanting to be cloud-ready, mobile-ready and secure is nothing new, but many have recognised the need to speed up their digital transformation. They want to move increasingly to consumption models where they pay for utilisation, or take advantage of third party financial service products that help ease demands on capital while enabling growth. Sustainability is also moving up the agenda in both the corporate and public sector segments. Office print, storage and datacentre were areas that, perhaps understandably, slowed in the second half as budgets shifted to new priorities.

**9,500**  
**customer base**  
(9,200 in FY19)



### Strategy and customer focus

Our strategy continues to be straightforward: to sell more to our existing customers and win new customers by helping them invest in technology and deliver their desired outcomes. The value we bring is in helping them navigate the complexity of available options and keeping up with the pace of change. We bring thousands of customers together with the technologies of hundreds of vendors on a daily basis. We build trust with our customers that develops into loyalty over time. We invest in talented and dedicated account managers who are supported by a growing team of experts that cover a huge range of technologies. Our large and growing service capability is among the largest in the UK and is augmented by an extensive partner network, and our distribution partners give the customer the best possible access to solutions. Our offering continues to evolve primarily based on what customers tell us they need.

We expect to see further growth from the areas we have invested in recently including Defence and Central Government, and from our newer offices in Ireland and Birmingham. We have continued to expand our multi-national fulfilment capabilities in support of our large enterprise customers, and we expect to deliver further penetration and success from our market leading cloud and cyber security offerings.

We have planned to invest once again in significant headcount growth in the year ahead, alongside the ongoing development of existing talent to build relevant skills and expertise for the benefit of our customers. We are focused on delivering desired outcomes for our customers whose overall satisfaction ratings with our service have increased this year to 97% (from 96% in 2019).

We will continue to focus on growth and taking market share and won't be thrown off course. Our strategy is clear, our business model simple and our purpose is unchanged.



Our strategy is clear, our business model simple and our purpose is unchanged – we will help customers use technology to succeed, by putting our employees first.

### Key challenges ahead

Many of our challenges remain the same. We operate in a fragmented market where it is difficult to differentiate, but we have managed to do so through our culture and the breadth of our expertise and services. We will keep making our people our number one focus, make sure there is no room for complacency, continue to look for ways to improve in all that we do and ensure that Softcat remains a great place to work. We will invest in talent and capabilities to make sure we are meeting the current needs of customers and building out our offering for the mid-term too. As customers embrace home-working we will fine-tune our approach as appropriate – something made possible by the breadth of our expertise.

Brexit is a potential challenge for the coming year but we have robust mitigation plans in place and it may bring some opportunities too. None of us can predict what further twists and turns lie ahead as we continue to face the COVID-19 pandemic. What we do know is that we must continue to be on our toes and be ready to react quickly to anything that is thrown our way whilst prioritising the health and safety of our employees and others.

Our view of the opportunity that exists in our market is undiminished, and we are as excited as ever about our prospects in the medium and long-term. As a result, we will continue to pursue our strategy of organic investment in new capabilities and seek to take advantage of our financial strength and scale.

### Finally, how do you assess the outlook for the year ahead?

During the last four months of our 2020 financial year our public sector business performed strongly, but we did experience a softening in demand from corporate customers.

This year has started well, however we do expect corporate customers to continue to be circumspect with their spending over the coming months. This may mean that market conditions remain challenging for a time, but we remain confident in our ability to gain market share and our view of the long-term opportunity is undiminished.

As a result, we will continue to pursue our strategy of organic investment in new capabilities and seek to take advantage of our financial strength and scale. We have every confidence in a bright future for our industry and Softcat in particular.

A handwritten signature in black ink, appearing to read 'Graeme Watt'.

**Graeme Watt**  
Chief Executive Officer  
19 October 2020



# A simple purpose and STRATEGY

Our purpose is to help customers use technology to succeed, by putting our employees first. In seeking to do this, we set ourselves two simple goals each year: to win new customers and to sell more to existing customers. If we can do that, we will be able to invest more in our offering and continue to invest in our people, build scale and expand our reach.

## Acquire more customers

**In 2020 customer numbers grew organically for the thirteenth year in succession, but we still only serve around one in five from our target market.**

### Progress in 2020

A net 300 new customers were added during the year, with success across each of our key segments: mid-market, enterprise and public sector. Gross profit from new customers grew 17% year on year.

### Future focus

Our customer base of 9,500 in 2020 represents approximately 20% of the addressable market. We will continue to target new accounts through further investment in our sales force.

### KPIs

- Customer base increased by 300 to 9,500
- Gross profit from new customers up 17% year on year
- 97% customer satisfaction

## Sell more to existing customers

**Customers of all sizes and from all segments must harness the power of new technology, but are faced with greater choice and complexity than ever before. That's where we come in.**

### Progress in 2020

New capabilities such as cloud and security services have continued to mature and place us front of mind with both customers and vendors. Continued recruitment of technical specialists to support our frontline sales people during 2020 has further deepened our average product line penetration.

### Future focus

Future growth in business line penetration and gross profit per customer is targeted for 2021 as we continue to leverage investments in our offering and customers need to modernise their infrastructure.

### KPIs

- Gross profit per customer increased by 8% during the year
- 97% customer satisfaction

## Enabled by our...



### People and culture

- Average headcount up 13% year on year
- 93% employee engagement
- Ongoing focus on diversity and inclusion initiatives



### Operational excellence

- Further vendor awards during the period
- Ongoing investment in customer e-commerce portal
- Significant back-office systems, data and processes investment programme



### Addressable market expansion

- Security and public cloud practices gaining traction with customers
- Multinational sales capability expanded with the addition of a new branch in the Netherlands



# Opportunity and potential for **GROWTH**

We work with a diverse customer base in the UK and Ireland across both domestic and multinational operations. Whether SMB, large or public sector organisations, we continue to evolve our offering, our resources and the skills, expertise and capacity to continuously improve on ways to deliver on business needs. Our goal is to provide the digital infrastructure and excellence in customer service that today's competitive commercial environment demands and that establishes us as the foremost technology partner for our customers.

## Hybrid infrastructure and multi-cloud perspectives

Hybrid infrastructure can be on-premise or hosted in the cloud and considerations for our customers include how applications are delivered, how they are operated, how they interact and how the seamless integration of data can be achieved to make better and faster business decisions to deliver effective outcomes. All of this, as with any technology, needs to be secure, managed and monitored within an organisation.

We are seeing that hybrid infrastructure is evolving and shifting towards a multi-cloud world, which is quickly becoming a priority for organisations. The emergence of multi-cloud focuses on a drive to become cloud native through an application-first approach, whereby seamless integration of data and workload mobility is critical to that success. But there is also a shift towards incorporating the expanding independent software vendor (ISV) market, whereby software-as-a-service (SaaS) use is also accelerating as part of organisations' digital shift.

Overall, multi-cloud is a series of technology decisions but has a big effect on an organisation's people and business outcomes and therefore we take risk, cost, security and operational excellence as key considerations to deliver a successful outcome when moving to a multi-cloud strategy.

Flexera's 'State of the Cloud' survey (2020) points out that

# 93%

of enterprises have a multi-cloud strategy;  
87% have a hybrid cloud strategy

Millennials, who are already emerging as leaders in technology and other industries, will comprise

# 75%

of the global workforce by 2025 (Deloitte)

## Digital workspace

People deliver outcomes, so we believe in putting people first. We recognise that 'people' are not just the employee, but also the employer. By achieving a balance, we can enable both to succeed with a superior mix of technology to optimise the digital workspace. We improve experiences and enable outcomes by securely connecting people, apps, data and devices putting key aspects such as workstyle flexibility, employee and employer choice, and collaborative workspaces at the core of our customer solutions.

We do this by deploying technology that enables outcomes, based on all, or some of the following: platform & OS, devices, applications, collaboration tools, data and security and compliance.







## Cyber security

As our customers become increasingly diverse in their delivery and consumption of services, Softcat has never been in a better position to address the increased requirement for security solutions, from customer transformation to a hybrid cloud and workspace model to augmenting internal capabilities with a managed service that addresses the complexity of operating a modern cyber security environment.

With security services predicted to account for 50% of cyber security budgets in 2020 (Gartner), our Softcat security team continues to be a key area of investment and differentiation.

# 60%

of UK organisations say their security budgets had risen in the last year. A quarter of organisations reported that the increase over the previous 12 months had been 'significant'

Globally around 60% of organisations are reporting increases in their IT security budget by an average of

# 13%

Source: IDG Security Priorities 2019

Good software asset management will cut spending on software by as much as

# 30%

(Source: Gartner)



## Asset management

Asset intelligence is the evolution of traditional IT asset management, a term we use at Softcat to describe a collection of services focused on the creation of 'actionable recommendations' that come from the information and data customers produce. When events are likely to have a longer-term impact on the economy, ensuring technology spend (e.g. software, SaaS, IaaS, hardware, etc) is truly optimised is critical to save money and remain compliant, all whilst ensuring remote workers remain productive.

In order to address this point, Softcat Asset Intelligence Services and assessments take complex information such as cloud consumption data and software entitlement data and analyse it to provide intelligence. These assessments and services help organisations drive transformation and improvements in areas such as IT asset management, public cloud optimisation, visibility and software licensing, ultimately driving down costs and improving end user experience.

## Multinational coverage – Softcat offices/branches



# Our COMPETITIVE EDGE

Our people are bright, motivated, driven and enthusiastic. Most importantly they care about the Company they work for and the customers they serve.

## What sets us apart

### Our market share and offerings

Despite more than a decade of unbroken organic growth, our market share of just c.3% still affords us huge potential for growth. The investments we have made in our product and service offering have created a comprehensive and, we think, market-leading, technical proposition.

➤ To read more see pages 20 and 21

### Our people

Our people are the keystone of our competitive edge. Their passion, intelligence, sense of fun and commitment to the long-term success of our customers are what really makes us stand out from the crowd.

➤ To read more see pages 24 and 25

### Our customers

The foundation of our growth has always been the longevity of our customer relationships. Softcat has delivered organic growth for 15 consecutive years and during that time the number of customers we serve has more than trebled. So alongside our people, the most precious asset we have is the trust of our customers.

➤ To read more see pages 22 and 23

### Our vendor partnerships

Technology vendors face intense competition and need partners that can accurately, reliably and credibly represent their value to tens of thousands of target organisations in the UK and Ireland. With our scale and expertise, we offer unrivalled access for both global and local partners to the UK and Irish markets. This reach is being further expanded through investment in our multinational branch network.

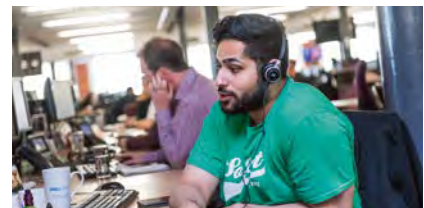
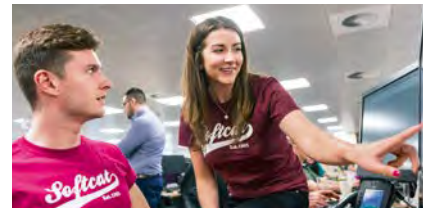
➤ To read more see pages 26 and 27

### Our financial strength

In a world of risk and leverage, we are proud to be a bit different. We have never had any debt and maintain a strong balance sheet. We have a highly liquid business model and can comfortably fund both a progressive dividend policy and long-term organic business investment.

➤ To read more see pages 28 and 29

## Strategy for delivery



Underpinned by our values:



RESPONSIBLE



INTELLIGENT



Creating value for our stakeholders

**We recruit and train great people with high potential**

We work with universities and schools across the country and see thousands of candidates each year before selecting those that are right for Softcat. We look for exceptional people with the right attitude.

**We incentivise and engage our people to perform**

We create a great place to work where people are recognised and rewarded for success. We are known for our unique culture and it is without doubt the basis of our success.

**We deliver outstanding customer service**

Only great people who are highly motivated and care about the business they work for can provide truly outstanding levels of customer service over the long term. That, in a nutshell, is why we come to work.

**We win new customers and sell more to existing customers**

Our goal is to win new customers and nurture the relationship over many years. In building trust by never letting our customers down we create genuine loyalty. Everyone wins!

**Addressable market expansion**

We have a strong track record of developing new revenue streams and are fast to move as the market evolves. Despite our success to date it's hard to imagine a time when there won't still be huge opportunity for growth.

**Customers**

**97%**

Customer satisfaction

**People**

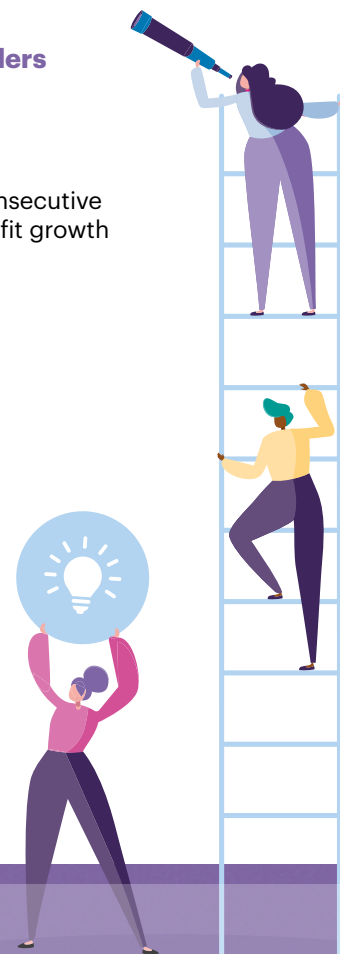
**93%**

Employee engagement

**Shareholders**

**15**

Years of consecutive organic profit growth



FUN



PASSIONATE

# Building strong PARTNERSHIPS

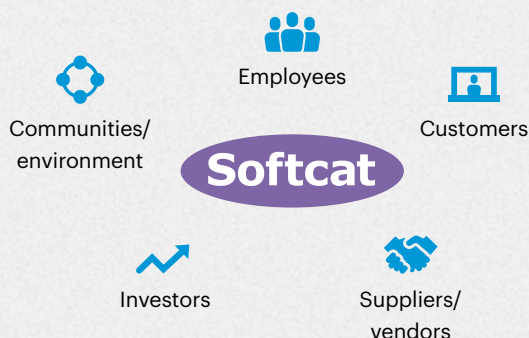
Certain companies, such as Softcat, are required to explain how the directors have discharged their responsibilities by engaging with the Company's key stakeholders. We define our key stakeholders as individuals or groups who have an interest in, or are affected by, the activities of our business and the Board believes a good understanding of our key stakeholders and their needs will help to deliver sustainable value and benefit to shareholders and stakeholders.

## Engaging with our stakeholders

Our key stakeholders have an important role to play in the successful operation of our business and our Directors are fully aware of their responsibilities to the Company's stakeholders under Section 172 (1) of the Companies Act 2006 (the Act) and take their responsibilities seriously. These responsibilities are rooted in our culture, values and our Company purpose – helping enable customers to use technology to succeed, by putting our employees first. The Board considers that in its decisions and actions taken, it has acted in a way that would promote the success of the Company for the benefit of its members as a whole, whilst having regard to stakeholders and matters set out in Section 172 (1) (a-f) of the Act. The Board has identified Softcat's key stakeholders to be our employees, customers, suppliers, investors, and the communities we operate in. The Board receives regular updates on each matter so it is well-informed and the potential impact on our stakeholders is a consideration as appropriate for the Board when deciding Softcat's strategy or other actions. The following table sets out how our stakeholders have been engaged with, and how their interests have influenced decisions by the Board.

➤ Read more in our governance section, see pages 48 to 54

## Our key stakeholders:



## Employees

### How we have engaged

- Annual employee survey
- COVID-19 working from home survey
- Employee Q&A sessions with the Board
- Quarterly management team surveys
- Appointment of a Designated Non-Executive Director for Workforce Engagement – employee engagement sessions
- Weekly email to all employees, updating on any major developments and accomplishments

### Key topics of engagement

- The Board's response to the COVID-19 outbreak and how it has considered the impact on employees
- Flexible working
- Employee remuneration
- Diversity and inclusion

### Outcomes

The Board reviewed, approved or endorsed outcomes, including:

- Action plans following the annual survey to further increase employee engagement
- Introduction of a more flexible working policy following employee feedback
- Improvements for the South Coast, Marlow and Manchester offices
- More frequent Q&A sessions between employees and the Board
- Commitments to further improve employee diversity

## Customers

### How we have engaged

- Annual customer satisfaction survey
- Online and event engagements, for example case studies, interactive blog posts, through our website and social media
- Our 'Explain IT' podcast

### Key topics of engagement

- Understanding of customer satisfaction and areas for improvement
- Customer wins
- Analysis of sales performance
- Focus on sales model

### Outcomes

The Board reviewed, approved or endorsed outcomes, including:

- Action plans following the annual survey to further improve customer satisfaction
- Changes in the Executive Leadership Team to increase the focus on sales
- Strategic review of sales model evolution



 **Suppliers/vendors**

**How we have engaged**

- Frequent business reviews with our major vendors
- Internal dedicated Vendor Alliance Teams to manage relationships with key vendors
- We maintain fair payment terms with our suppliers

**Key topics of engagement**

- Board reports provide vendor briefings
- Multiple vendor accreditations and awards

**Outcomes**

The Board reviewed, approved or endorsed outcomes, including:

- Monthly revenue performance of Softcat's largest vendors to deepen their understanding
- A better understanding of the market context/performance for vendors
- Our payment practices to our trade suppliers in order to ensure the Company's reputation remained safeguarded

 **Investors**

**How we have engaged**

- The CFO and CEO regularly engage with major shareholders and analysts in respect of Company performance
- The Company Chair undertakes an annual engagement programme with major shareholders on governance issues
- The Chair of the Remuneration Committee engages with major shareholders on executive remuneration matters

**Key topics of engagement**

- Company performance
- Mutual understanding of views on governance

**Outcomes**

The Board reviewed, approved or endorsed outcomes, including:

- Feedback from investors/analysts on Company performance and on our strategy
- Views on governance - this in part led to the Nomination Committee agreeing the appointment of an independent Director as the Committee's Chair
- A new Remuneration Policy which received significant (98.6%) support from shareholders

 **Communities/environment**

**How we have engaged**

- Our Charity Team's work, and the connections it builds, allow Softcat to understand how best we can help our communities
- In building our sustainability strategy, employees helped to prioritise proposed key goals for Softcat under the United Nations Sustainable Development Goals
- Our Green Team is active in each of the office's local community, with relationships with local charities and initiatives

**Key topics of engagement**

- How Softcat can help communities during the COVID-19 lockdown
- Building a formal strategy for sustainability
- Local environment issues

**Outcomes**

The Board reviewed, approved or endorsed outcomes, including:

- Significant community support during the COVID-19 lockdown, such as the donation of computer tablets to a local care home to help combat loneliness
- Adoption of a formal strategy and enhanced oversight on sustainability, with commitments to reduce Softcat's carbon footprint
- Local community activities, such as clean-ups, which will improve the environment and recognise our wider support for corporate responsibilities



# Driving the DIGITAL REVOLUTION

Today's ever-changing IT-driven environment means that organisations must keep up to date with the latest trends, technologies and threats. At Softcat, your priorities are our priorities. We help you tackle the challenges in your IT environment and ensure you make the most of your IT assets, identify opportunities to maximise and improve performance, and minimise your costs and risks. Softcat's four IT priorities are hybrid infrastructure, digital workspace, cyber security and IT intelligence.



## Hybrid infrastructure

The combination of on-premise datacentre and public cloud offering is a hot topic for most organisations. As businesses start to move out of the age of physical machines holding data, they enter a new era where everything is in the cloud. Our hybrid infrastructure offering ensures that our customers can look forward to efficient infrastructure and excellent user experiences, while keeping business goals front of mind.

Whether a customer is starting at the beginning, with a need for a full assessment of their existing infrastructure, through one of our health assessment services or simply lacks the bandwidth to manage their platform, we have the right solution and resources to offer.

We know that it's different from customer to customer. Some will rely on their on-premise machines to do the leg work, whilst others may whole-heartedly embrace the cloud. Finding the right mix is where Softcat excels. Using gap analysis to understand more about customer business goals and importantly, where the opportunities are for infrastructure strategy evolution to maintain longevity in investment, we can provide a customer with complete control over their infrastructure at a cost that works for them.

### Benefits we deliver

- **Agility** – adapt and change quickly.
- **Scalability** – scale up and down with cloud.
- **Control** – retain all critical internal operations.
- **Cost** – only pay for what you need in public cloud.

## Digital workspace

With five generations in the workforce, organisations are challenged more than ever to deliver the highest employee productivity, attract the best talent, maximise collaboration and embrace new ways of working. Softcat's culture embraces a 'people first, technology second' approach and we know first-hand, that secure connections to each other, together with reliable access to everything employees need, are imperative to achieving a successful workspace environment.

We work closely with our customers to fully understand desired outcomes and strategic goals in order to identify the best course of action. Bespoke technology solutions can be tailored to an organisation around their specific constraints or our customers can choose from a range of services to get them going.

Device as a service provides a flexible way to manage IT hardware, reducing purchasing complexity and getting end users ready to go, from the press of a power button, irrespective of location. Where more complex digital workspace transformation is needed, our teams step in with our tried and tested Define and Design methodology, taking a customer from point A to Z, to help deliver the most productive and agile workspace environment that maximises potential on both employee and business levels.

### Benefits we deliver

- **Flexibility** – users can work anywhere, from any device.
- **Productivity** – boosted due to ease of access.
- **Collaboration** – easy interaction and sharing across the workforce.
- **Security** – data is secured centrally in a datacentre, not on the device.



### Cyber security

We know that the one certainty is that each business day presents an opportunity for a new cyber threat and our annual customer satisfaction survey has endorsed this with 85% of respondents highlighting cyber security as their number one priority. That's why we are committed to working with our customers to deliver a 360-degree approach from strategic consultation, assessment, identification of the right solutions to implementation and management.

We work with our customers to understand the risks they face in detail. The goal is to be in the best position to help protect organisations by fully understanding what defences are in place currently and where the gaps may be.

Whether customers need us to manage defences already in place or help to redesign a new virtual fortress, we're the people to talk to.



### IT intelligence

Data and IT assets are inherent to organisational value and investment. To help customers understand the decisions that need to be made to evolve and improve how an IT strategy can better support business health and growth ambitions, our specialist teams help unlock cost savings, identify ways to increase agility in the workforce and boost efficiency across the customer IT estate.

Softcat's IT intelligence proposition identifies and translates the right data, allowing customers to make informed decisions about cloud, IT assets, software licencing and much, much more. It's about working together to build a greater picture of what the right decisions might be when implementing a long-term strategy for the most effective IT infrastructure.

IT intelligence can touch all areas of the IT landscape. Our vast range of services and expertise means we aim to be the first port of call for customers to help them navigate through the complexity of data masses and help provide clarity on the right course of action towards implementing technology infrastructures that meet their business needs, now and into the future.

#### Benefits we deliver

- **Protection** – against attacks and breaches.
- **Compliance** – keeps you in line with regulatory requirements.
- **Privacy** – reassures users that their information is protected.
- **Scalability** – your solution adapts to your changing requirements.

#### Benefits we deliver

- **Costs** – reduction in costs due to efficiency savings.
- **Efficiency** – streamlining services with effective management of assets.
- **Agility** – an intelligent IT estate allows increased flexibility.
- **Risks managed** – a clearer overview gives a better sight of potential risk.

# Creating competitive ADVANTAGE



If there is a single reason why we have been able to deliver sustainable growth, then the strength of our customer relationships and attention to delivering a positive customer experience journey is it. We have tripled our customer count since 2007 and 95% of our gross invoiced income in 2020 came from existing customers. But despite our success, we are still only working with approximately one in five customers from our target market in the UK and Ireland. Our strategy therefore continues to focus on both winning new customers and providing more technology solutions to existing customers.

## Case studies



### Lincolnshire City Council (LCC)

#### The challenge

Lincolnshire City Council faced a tight time schedule when the end of their existing Microsoft Enterprise Agreement was due within the year. They needed to find a cost-effective, ongoing software management solution for their 5,000+ users without incurring a considerable price increase due to Microsoft's changing licensing models.

#### The solution

Softcat worked closely with the LCC's IT team to better understand their current position and formulate a specific solution for them, ensuring to provide optimal functionality and the best value for all of their stakeholders. Through workshops and close contact, our team was able to clarify their questions, communicate what a licence is and how to get the best out of it. In the end a complete remodel of their licencing agreement was undertaken to ensure it fit LCC's needs, guiding them through new opportunities leading to future investments.



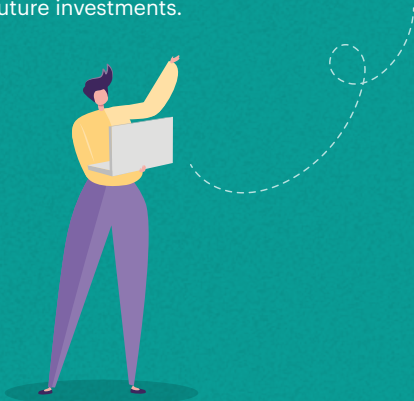
### Aberdeen Football Club

#### The challenge

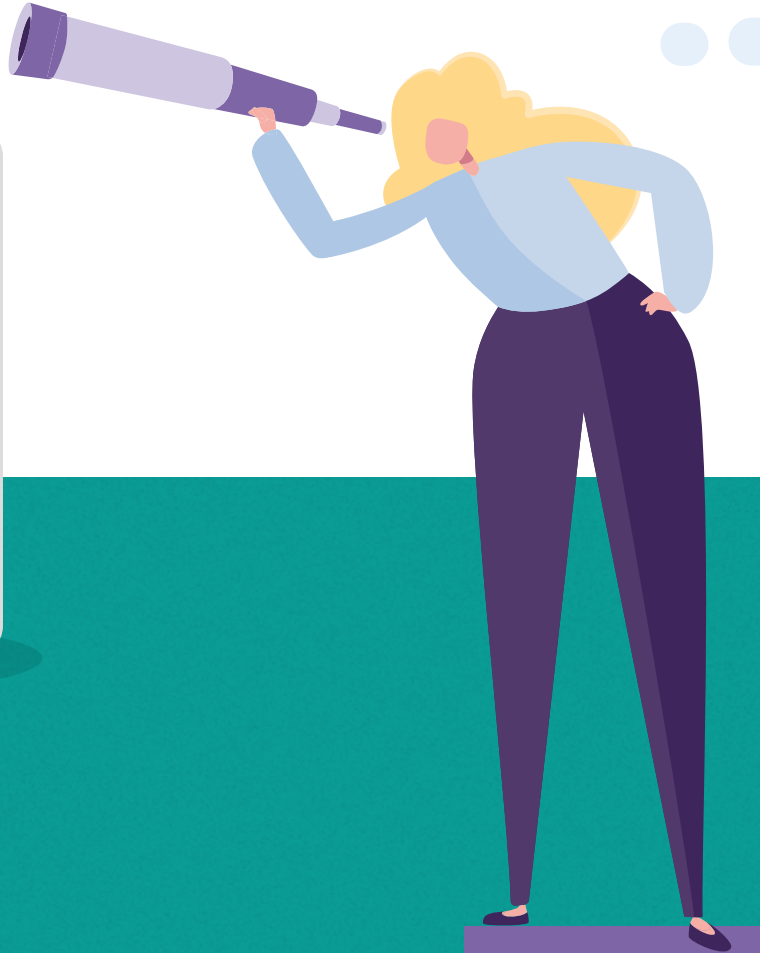
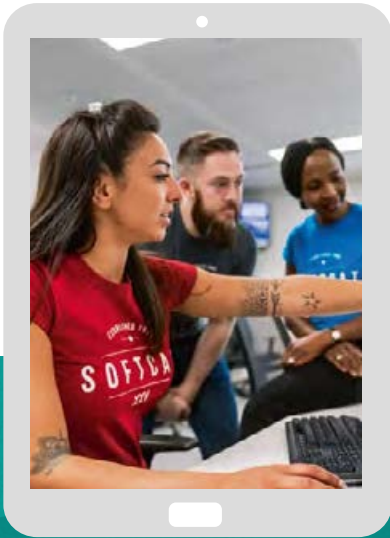
Most of Aberdeen Football Club's users were still on desktop computers, having a significant impact on the ability to introduce flexible and remote working to their culture. Furthermore, the computers were not up to scratch, incompatible with Windows 10 and suffering from poor performance. A significant hardware refresh was required and with so many options out there, Softcat was there to support and advise on what the best steps were.

#### The solution

Wanting solid, reliable hardware that allowed their users to increase productivity and reduce the strain on their support desk was a top priority. With so many locations to choose from, flexibility for remote working was another one of their key goals. Softcat introduced Device as a Service with HP. Leasing options from HP combining software, hardware and support allowed the club to upgrade their computers with a flexible finance arrangement and upgrade plan. The final solution provided them with greater insights than ever before, enabling them to optimally plan and manage their devices going forward. Combined with Softcat's enhanced support they are covered 24/7 should they need some assistance.







**97%**

Customer satisfaction rating

“

The team at Softcat care, and although business income is always a priority, Softcat do not “make money” as the goal, but instead provide the best solution for the budget I work to. I have tried other suppliers, and I didn’t get the same results or working relationship. Softcat understands the importance of our business and treat it like their own. You do not get that from other suppliers.

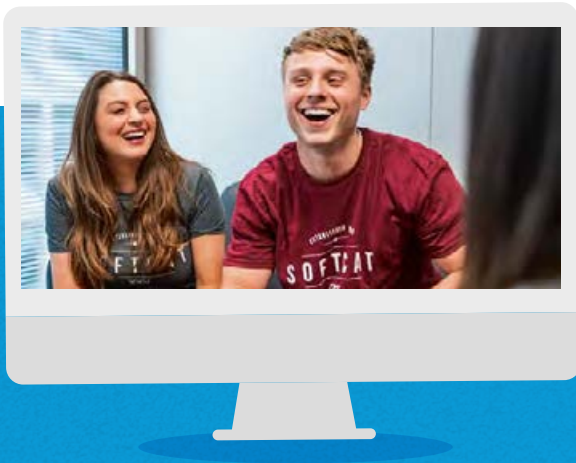
**Egton Medical Information Systems Ltd**



# Putting our people **FIRST**



Our people always come first at Softcat and we don't just say that ourselves. We recently ranked fifth in the UK's Best Workplaces 2020 Super Large category. It's our commitment to our people that leads to the incredible customer satisfaction that we pride ourselves on. Keeping our customers happy generates the strong Company results that we keep producing year after year. People. Customers. Results. It's that simple.



At Softcat we have consistently achieved incredible employee engagement results throughout our history. But how do we maintain this? In our latest survey, our employees told us that our open communication and transparency about the business and how we make decisions make them feel valued, trusted and respected. Despite the challenging external circumstances caused by the pandemic, we continue to prioritise our employees by keeping their jobs safe, supporting their wellbeing and ensuring their mental health is looked after with a range of care options.

Not only that, but it's still business as usual at Softcat in many ways. We're continuing to grow our headcount as fast as ever, with just under 400 new recruits joining us in the last financial year. By continuing to focus on our employees' learning, personal development, career ambitions, reward and recognition, we're staying true to the Softcat spirit.



I couldn't be prouder to work for Softcat right now. We're making decisions every day that are right for the business, and just as importantly, are right for our people too.

**Rebecca Monk**  
HR Director



**Best Apprenticeship Employer in the UK**



“

I have learnt lots of new skills while being at Softcat. Softcat are always putting on new training sessions so I have learnt lots about all the different vendors that we work with and how the products that they sell work. Also, my customer service skills have improved massively since being at Softcat.

source: a review on [www.ratemyapprenticeship.co.uk](http://www.ratemyapprenticeship.co.uk)

# Partnership is a key part of our **STRATEGY**

We pride ourselves on working with the broadest network of top technology vendors and partners, with whom we share a common goal to deliver nothing less than the best solutions and services to our customers. We choose and develop our partnerships by listening to our customers, understanding their IT priorities and insights, to inform continuous improvement of our partner strategy.

## Some of our awards:



EMEA Growth  
Partner of the Year



M365 and Surface  
Partner of the Year



Customer Acquisition  
Partner of the Year



EMEA  
Partner of the Year



Global Disruptor  
Partner of the Year



Public Sector  
Reseller of the Year





Softcat is an established AWS Advanced Consulting partner whose continued focus on, and investment in, new services, training and skills, is helping customers to innovate faster, have lower IT costs, and to scale their business. We're excited to collaborate with Softcat as they continue to guide businesses on their cloud adoption journey.

**Amanda Sleight**  
 EMEA SI Partner Lead  
 Amazon Web Services (AWS)



**200+**  
 Vendors

**Vendor partnerships:**



# Profitable organic growth funding both investment and **CASH RETURNS**

Financial summary	FY20	FY19	Growth
Revenue	<b>£1,077.1m</b>	£991.8m	8.6%
<b>Revenue split</b>			
Software	<b>£519.5m</b>	£476.5m	9.0%
Hardware	<b>£442.3m</b>	£430.9m	2.6%
Services	<b>£115.3m</b>	£84.4m	36.6%
Gross invoiced income ('GII')	<b>£1,646.2m</b>	£1,414.1m	16.4%
<b>GII split</b>			
Software	<b>£964.3m</b>	£788.9m	22.2%
Hardware	<b>£458.3m</b>	£453.0m	1.2%
Services	<b>£223.6m</b>	£172.2m	29.8%
Gross profit	<b>£235.7m</b>	£211.1m	11.6%
Gross profit margin	<b>21.9%</b>	21.3%	0.6% pts
Operating profit	<b>£93.7m</b>	£84.5m	10.9%
Operating profit margin	<b>8.7%</b>	8.5%	0.2% pts
Gross profit per customer	<b>£24.8k</b>	£23.0k	7.8%
Customer base	<b>9.5k</b>	9.2k	3.3%
Cash conversion	<b>87.8%</b>	92.2%	(4.4)% pts



Our balance sheet strength, robust market and compelling long-term opportunity put us in a great position to thrive during the years to come.

**Graham Charlton**  
Chief Financial Officer

### Gross profit, revenue and gross invoiced income

Gross profit, our primary measure of income grew by 11.6% to £235.7m, reflecting strong growth of 18.0% in the first half to January 2020, followed by robust growth of 6.5% during the second half which was impacted by COVID-19. This impact was most significant during our final quarter which nonetheless was still slightly ahead of a very tough comparative. The slow-down seen during the final quarter gives a good indication of the general net downturn in customer demand seen in response to the uncertainty created. The Company has a very broad product offering, covering all key elements of digital infrastructure, and experienced both increased and reduced demand in different areas and at different times during H2. But the net effect was that customers were generally more circumspect with expenditure from April onwards. Within this, demand from Public Sector customers was largely unaffected, indeed was stronger than usual during the early part of the lockdown period between



mid-March through to May. Demand from Corporate customers overall was reduced and most severely impacted in those sectors where income was significantly affected by COVID-19 restrictions. The commercial sector or vertical in which a customer operates was a far more significant determinant of activity than the customer's size, and demand did show signs of a gradual recovery as our fourth quarter progressed.

Apart from the impact of Coronavirus, income growth drivers, especially in the first half, showed similarities to previous years and were broad-based. Performance across all customer segments (public sector, mid-market and enterprise) and technology areas was strong and well-diversified with no individual customer accounting for more than 2% of gross profit.

Gross invoiced income ('GII') rose 16.4% to £1,646.2m (2019: £1,414.1m), with growth strongest in Public Sector (growing by 26% and comprising 39% of total GII) but mid-market (+10%) and Enterprise (+12%) also performed well. When viewed by technology type, GII grew strongly within both software and services. Hardware was flat on prior year, being most significantly impacted by COVID-19 during the second half. While harder to assess due to the volatility of the market in H2, we believe these results reflect further gains in market share.

Revenue (GII netted down for cloud-based software and other revenue streams in accordance with IFRS 15) was £1,077.1m, up 8.6% on 2019 (£991.8m).

### Customer KPIs

The Company strategy continues to focus on winning new customers and nurturing individual relationships over many years to engender genuine trust and loyalty. This stems from our special internal culture and the determination to provide the very best customer service in our industry. As a result of this, we were once again able to grow average revenue and gross profit per customer, with the latter rising by 7.8% to £24.8k (2019: £23.0k), and 95% of all gross profit was earned from existing customers (2019: 94%). Notwithstanding the further progress made in these metrics, we estimate that our average share of wallet from existing customers is c.15%, and so increasing our penetration within existing customer accounts continues to be a key, long-term opportunity.

During the year the customer base expanded by 300 to a total of 9.5k, up 3.3% from 9.2k in 2019, and total gross profit earned from new customers grew by 17.3% year on year. While contributing relatively modest levels of in-year income (accounting for 5% of gross profit in both 2020 and 2019), the addition of new customers remains a strategic aim and underpins our opportunity for future growth.

### Operating profitability and investment in future growth

Total cost growth for the year was 12.1%, which was in line with GP growth and so our key internal operating margin, the ratio of operating to gross profit, was relatively stable at 39.8% (2019: 40.0%).

During the latter part of the year, cost savings achieved as the result of COVID-19 restrictions (for example travel, expenses and establishment costs) were a helpful but only partial offset to reduced spending by corporate customers.

People related costs, including commissions, continue to represent c.85% of total operating costs and during the year average headcount grew by 13%. Our ongoing investment in both new and existing team members is something we will continue with during the coming year despite external uncertainties, and reflects our confidence in the long-term opportunity our market continues to afford. As in previous years, we have continued to

recruit across all areas of the company, with a significant expansion in capacity of the sales force, but also a continued focus on progressively increasing the ratio of specialist and technical staff. This commitment to investing in our skill base will continue during 2021.

Commission costs grew broadly in line with gross profit, reflecting the stability of the schemes and hence effective commission rates year on year.

Non-people related costs, comprising c.15% of the cost base, grew at a slightly lower rate than headcount at 12%.

### Corporation tax charge

The effective tax rate for 2020 was 19.2% (2019: 19.3%), reflecting a stable statutory rate of 19.0% in both years, together with the relatively marginal impact of non-deductible expenses. Our tax strategy continues to be focused on paying the right amount of tax, in the right jurisdiction, at the right time.

### Cash and balance sheet

Cash conversion, defined as operating cash flow net of capital expenditure as a percentage of operating profit, was 88% (2019: 92%). The slight reduction on prior year was expected and reflects the capital investment in the major refurbishment of both the Marlow and Manchester offices, which are now complete, partly offset by disciplined management of working capital. It is worth noting that across the period as a whole, the COVID-19 pandemic had no discernible impact on our cash flow and closing working capital balances contain no significant one-off impacts. Cumulative cash conversion in the five years since IPO is 92%. This reflects the unchanged and highly cash-generative nature of the business model, with no significant stock holding, with the inventory value at the balance sheet date mainly reflecting stock in transit between distribution partners and customers, as well as a short working capital cycle. Cash conversion for 2021 is expected to be slightly below past trend (c.85%) due to planned capital expenditure on the implementation of a new finance system.

The Company's closing cash balance was £80.1m (2019: £79.3m), reflecting the broadly offsetting impact of cash generated from trading, net of corporation tax payments, and dividend payments during the period which totalled £52.3m (2019: £56.2m). The Company remains entirely bank debt free.

### 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 11 December 2020. This includes the 5.4p interim dividend that was declared in March 2020 and subsequently cancelled due to uncertainty created by Coronavirus. The final ordinary dividend will be payable to shareholders whose names are on the register at the close of business on 6 November 2020. Shares in the Company will be quoted ex-dividend on 5 November 2020. The dividend reinvestment plan ('DRIP') election date is 23 November 2020.

In line with the Company's stated intention to return excess cash to shareholders, a further special dividend payment of 7.6p has been proposed. If approved this will also be paid on 11 December 2020 alongside the final ordinary dividend.

**Graham Charlton**  
Chief Financial Officer  
19 October 2020

# Summary results and KPIs

The financial and non-financial key performance indicators, shown below, demonstrate the Company's progress against strategic goals and delivery of financial performance and shareholder value. These metrics are referred to throughout this report and each is discussed in more detail within the Chief Financial Officer's Review on pages 28 and 29.

## Financial

### Revenue £m

2020	1,077.1
2019	991.8
2018	797.2

#### Strategic link



#### Comments

- Revenue includes all income from the resale of third party software, hardware and services, as well as the sale of the Company's own services.

### Gross profit £m

2020	235.7
2019	211.1
2018	175.2

#### Strategic link



#### Comments

- Gross profit comprises revenue net of third party product costs, supplier rebates and certain internal direct costs.

### Operating profit £m

2020	93.7
2019	84.5
2018	68.0

#### Strategic link



#### Comments

- Operating profit comprises gross profit net of administrative expenses.

#### Link to Directors' remuneration

- Operating profit is the sole KPI of reference for the Executive Directors' bonus, reflecting its central role in measuring the delivery of in-year shareholder value.

### Gross invoiced income £m

2020	1,646.2
2019	1,414.1
2018	1,081.7

#### Comments

- Gross invoiced income reflects gross income billed to customers adjusted for deferred and accrued items and is consistent with our previously applied revenue policy.

### Basic earnings per share p

2020	38.2
2019	34.6
2018	27.9

#### Comments

- Basic earnings per share ('EPS') is defined as profit after tax divided by the number of shares in issue at the balance sheet date.

#### Link to Directors' remuneration

- Basic EPS forms 50% of the weighting of the Executive Directors' LTIP targets.
- Delivery of EPS growth will also contribute indirectly to share price performance, an important element in total shareholder return ('TSR'). TSR also forms 50% of the weighting of the LTIP targets.

### Cash conversion %

2020	88
2019	92
2018	98

#### Comments

- Cash conversion is defined as operating cash flow before tax but after capital expenditure, as a percentage of operating profit.
- The five-year average for cash conversion is in excess of 90%, reflecting the highly liquid nature of the business operations and a disciplined approach to working capital management.
- Conversion was slightly lower in 2020 as planned due to extensive refurbishment of the Marlow and Manchester offices.





## Non-financial

### Employee engagement score %

2020	93
2019	92
2018	95

#### Strategic link



#### Comments

- The employee engagement score is derived from responses to an annual survey of all staff.
- Enthusiastic and highly motivated people form the very core of the Softcat business model and customer proposition.

### Customer satisfaction %

2020	97
2019	96
2018	97

#### Strategic link



#### Comments

- Customer satisfaction is defined as the percentage of customers who rate themselves as either 'satisfied' or 'very satisfied' in response to an annual survey (possible responses also include 'dissatisfied' and 'very dissatisfied'). In 2020 the survey had 1,583 respondents (2019: 1,526).

### Gross profit per customer £'000

2020	24.8
2019	23.0
2018	19.9

#### Strategic link



#### Comments

- Gross profit per customer is defined as gross profit divided by the number of customers.
- New customers are included in the calculation and tend to create dilution of the metric, but to a similar degree from one financial year to another.
- The growth in this metric therefore demonstrates the value created by ever-deepening long-term relationships, and the Company's ability to sell an increasing range of technologies based upon genuine trust and loyalty.

### Customer base '000

2020	9.5
2019	9.2
2018	8.8

#### Strategic link



#### Comments

- Customer base is defined as the number of customers who have transacted with Softcat in both of the preceding twelve-month periods.
- Growth in this metric demonstrates the ability of the sales force to win new customers while also retaining existing relationships.
- Important for both in-year performance but also underpins future growth.

#### Link to strategy:



Acquire more customers



Sell more to existing customers



People and culture



Operational excellence



Addressable market expansion

Read more in our Chief Financial Officer's Review; see pages 28 and 29



# Risk management AND SECURITY

The Board has established mechanisms to identify, evaluate and manage risks with the aim of protecting its employees, customers and partners and safeguarding the interests of the Company and its shareholders.

## Our approach

The Board has overall responsibility for ensuring that risk is managed and has identified the risks facing the Company and considered the likely impact that each could have on the business. This has enabled the Board to target risks on a prioritised basis.

Consideration of risks is set against a backdrop of a 'risk appetite', which the Board considered during the year. The Company operates a cautious approach to risk and in general its risk appetite is relatively low. However, we also have a strong desire to grow our technical capabilities, our customer base and our income. As a result, we rely on our open culture to empower our employees to develop the business and will review individual opportunities as they arise. In situations where our financial and/or reputational exposure is limited or can be mitigated, our appetite for risk in order to achieve strategic growth may be higher.

Ownership for each risk has been assigned to a member of the senior management team based upon alignment with operational duties. Risk owners take responsibility for designing appropriate internal controls and policies to mitigate the likelihood and potential impact of the risk materialising.

A risk register is maintained which captures the assessment of each risk together with existing controls and further actions in progress. The risk register is reviewed periodically by both the Board and the senior management team to ensure that it remains current as the business and its markets evolve, and that controls remain effective and actions are progressed. This process also identifies any emerging risks.

Consideration of the risk profile is factored into strategic planning and annual budgeting.

The Company's internal control framework is based on a three lines of defence model. The first line of defence comprises operational

management, which is responsible for the direct management of risk. This includes ensuring appropriate mitigating controls are in place and that they are operating effectively. The second line of defence is made up of the Company's internal compliance and oversight functions such as company secretariat, finance and legal. The third line includes both internal and external audit reporting to the Audit Committee.

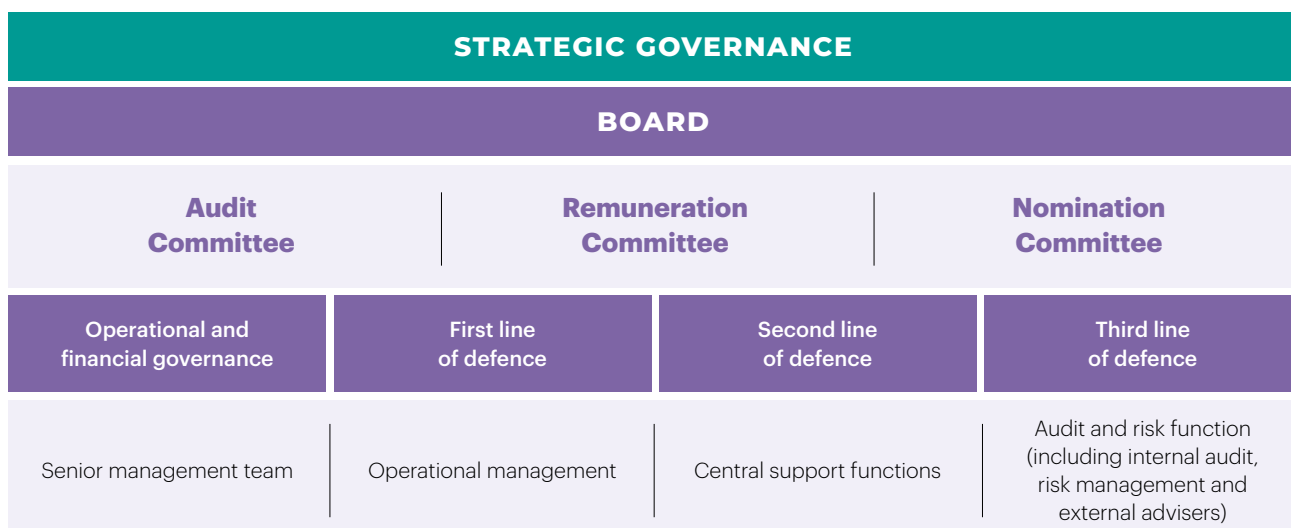
As part of our second line of defence, the Company has also established an Internal Controls Committee which meets twice a year to review the findings of the internal audit function and ensure follow-up on identified improvements, update key policies and procedures and ensure internal training processes are adapting designed provisioned. This Committee is led by the CFO and includes representation from all key departments.

The Audit Committee receives reports from management and the outsourced internal audit function on key areas of risk and control and challenges management on the timelines and effectiveness of corrective action. The Audit Committee also considers the findings and recommendations of the external auditor with regards to financial controls.

Set out below is the Board's view of key risks currently facing the Company, along with commentary on how this might impact us and impact on our strategic goals and an explanation of how the risks are managed or mitigated. We provide a view on the change in risk compared to the prior year's assessment. The Board confirms that it has carried out a robust assessment of the Company's emerging and principal risks. There is a process in place to escalate promptly any material emerging risk to the Chief Financial Officer so it may be brought to the attention of the Board.

An explanation of how the Company manages financial risks is also provided in note 21 to the financial statements.

## Risk management framework





Link to strategy:



Acquire more customers



Sell more to existing customers



People and culture



Operational Excellence



Addressable market expansion

Principal risks and uncertainties

Business strategy		Operational	
<p><b>Customer dissatisfaction</b></p> <hr/> <p><b>Change from 2019</b></p> <p>— No change</p> <p><b>Potential impacts</b></p> <ul style="list-style-type: none"> <li>• Reputational damage</li> <li>• Loss of competitive advantage</li> </ul> <p><b>Management and mitigation</b></p> <ul style="list-style-type: none"> <li>• Graduate training programme</li> <li>• Ongoing vendor training for sales staff</li> <li>• Annual customer survey with detailed follow-up on negative responses</li> <li>• Process for escalating cases of dissatisfaction to MD and CEO</li> </ul> <p>Link to strategy</p>	<p><b>Failure to evolve our technology offering with changing customer needs</b></p> <hr/> <p><b>Change from 2019</b></p> <p>↗ Slight increase</p> <p><b>Potential impacts</b></p> <ul style="list-style-type: none"> <li>• Loss of customers</li> <li>• Reduced profit per customer</li> </ul> <p><b>COVID-19 consideration(s):</b></p> <ul style="list-style-type: none"> <li>• Potential increase in the rate of change in customer needs</li> </ul> <p><b>Management and mitigation</b></p> <ul style="list-style-type: none"> <li>• Processes in place to act on customer feedback about new technologies</li> <li>• Training and development programme for all technical staff</li> <li>• Regular business reviews with all vendors</li> <li>• Sales specialist teams aligned to emerging technologies to support general account managers</li> <li>• Regular specialist and service offering reviews with senior management</li> </ul> <p>Link to strategy</p>	<p><b>Cyber and data security, including GDPR compliance</b></p> <hr/> <p><b>Change from 2019</b></p> <p>↗ Slight increase</p> <p><b>Potential impacts</b></p> <ul style="list-style-type: none"> <li>• Inability to deliver customer services</li> <li>• Reputational damage</li> <li>• Financial loss</li> </ul> <p><b>COVID-19 consideration(s):</b></p> <ul style="list-style-type: none"> <li>• Increase in risk due to number of employees working remotely</li> </ul> <p><b>Management and mitigation</b></p> <ul style="list-style-type: none"> <li>• Company-wide information security policy</li> <li>• Appropriate induction and training procedures for all staff</li> <li>• External penetration testing programme undertaken</li> <li>• ISO 27001 accreditation</li> <li>• In-house technical expertise</li> <li>• Action plan to issue all employees with corporate devices and address network access risks as a result of increased home working</li> </ul> <p>Link to strategy</p>	<p><b>Business interruption</b></p> <hr/> <p><b>Change from 2019</b></p> <p>↙ Slight decrease</p> <p><b>Potential impacts</b></p> <ul style="list-style-type: none"> <li>• Customer dissatisfaction</li> <li>• Business interruption</li> <li>• Reputational damage</li> <li>• Financial loss</li> </ul> <p><b>Management and mitigation</b></p> <ul style="list-style-type: none"> <li>• Operation of backup operations centre and datacentre platforms</li> <li>• Established processes to deal with incident management, change of control, etc.</li> <li>• Continued investment in operations centre management and other resources</li> <li>• Ongoing upgrades to network</li> <li>• Regular testing of disaster recovery plans</li> </ul> <p>Link to strategy</p>

## Risk management continued

### Link to strategy:



Acquire more customers



Sell more to existing customers



People and culture



Operational Excellence



Addressable market expansion

## Principal risks and uncertainties continued

Operational continued	Financial	People	
<b>Macroeconomic factors including COVID-19 and Brexit</b>	<b>Profit margin pressure including rebates</b>	<b>Culture change</b>	<b>Poor leadership</b>
<b>Change from 2019</b>	<b>Change from 2019</b>	<b>Change from 2019</b>	<b>Change from 2019</b>
Increase	No change	Slight increase	No change
<b>Potential impacts</b>	<b>Potential impacts</b>	<b>Potential impacts</b>	<b>Potential impacts</b>
<ul style="list-style-type: none"> <li>• Short-term supply chain disruption</li> <li>• Reduced margins</li> <li>• Reduced customer demand</li> <li>• Reduced profit per customer</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced margins</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced staff engagement</li> <li>• Negative impact on customer service</li> <li>• Loss of talent</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of strategic direction</li> <li>• Deteriorating vendor relationships</li> <li>• Reduced staff engagement</li> </ul>
<b>COVID-19 consideration(s):</b>	<b>Management and mitigation</b>	<b>COVID-19 consideration(s):</b>	<b>Management and mitigation</b>
<ul style="list-style-type: none"> <li>• Increase in risk due to the uncertainty and economic disruption</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing training for sales and operations teams to keep pace with new vendor programmes</li> <li>• Rebate programmes are industry standard and not specific to the Company</li> <li>• Rebates form an important, albeit minority, element of total operating profits</li> </ul>	<ul style="list-style-type: none"> <li>• Slight increase in risk due to remote working practices</li> </ul>	<ul style="list-style-type: none"> <li>• Succession planning process</li> <li>• Experienced and broad senior management team</li> </ul>
<b>Management and mitigation</b>	<ul style="list-style-type: none"> <li>• Close dialogue with supply chain partners to ensure all potential Brexit scenarios are planned for</li> <li>• Customer-centric culture</li> <li>• Breadth of proposition and customer base</li> <li>• Additional customer credit review process introduced in response to COVID-19</li> <li>• No change in cash receipts and conversion to date</li> <li>• Customer base is well diversified in terms of both revenue concentration but also public and commercial sector exposure</li> </ul>	<b>Management and mitigation</b>	<ul style="list-style-type: none"> <li>• Culture embedded in the organisation over a long history</li> <li>• Branch structure with empowered local management</li> <li>• Quarterly staff survey with feedback acted upon</li> <li>• Regular staff events and incentives</li> <li>• Enhanced internal communication processes and events during the pandemic</li> </ul>
<b>Link to strategy</b>	<b>Link to strategy</b>	<b>Link to strategy</b>	<b>Link to strategy</b>



## Managing the impact of COVID-19

The COVID-19 pandemic took hold in the UK during the second half of March 2020, midway through the third quarter of our financial year. While, as discussed in other sections of this report, the crisis has softened customer demand in some segments, it has not fundamentally changed our industry and will indeed serve as a catalyst for our market over the medium and long-term.

Softcat is a people business and our special culture is the beating heart of our success. Each year we choose a word of the year to try and create a focus for this culture in the twelve months ahead. In September 2019 we chose the word 'care' for 2020, and with the benefit of hindsight we couldn't have made a more apt selection.

And we have found that our culture also creates a fantastic support network in these challenging times. Since March, we have focused on and increased our internal communications even compared to our normal levels. We have also been able to continue with much of our usual recruitment activity, and are working hard to ensure new staff can be properly onboarded and made to feel welcome.

Since the end of full lockdown we have been able to establish very safe environments in our more than ample floorspace across our nine locations in the UK and Ireland. We have operated a voluntary return to office policy, giving people the flexibility to choose an arrangement that is right for them, and carefully controlled maximum occupancy to maintain an excellent ability to socially distance. We expect this flexibility to continue for some time and, while ultimately we will remain an office-based organisation, we are carefully evaluating permanent alterations to our flexible working model.

Softcat has a base of more than 9,000 recurring customers and trades annually with in excess of 12,000 different entities. Our normal processes to control our exposure to credit risk are carefully calibrated and the business has a very low historic rate of bad debts.

So far during the pandemic we have not seen any change to this outcome, but we have taken steps to prudently increase our control and oversight in this area. This involves a bi-weekly review of key credit exposures and metrics, and involves each of the CEO, CFO and MD, as well as key members of the finance and credit control team. The Company also operates a credit insurance policy and closely collaborates with the insurer on risk management. We also work closely with other expert third parties on the use of data to map, monitor and control our risk in this area.

As well as not seeing any COVID-19 specific incidents of bad debt so far, we have also continued to observe customer cash receipts almost exactly in line with historic norms. And for this reason, our cash generation has overall remained at our normal, very high levels.

Despite the lack of any adverse impact in working capital and debt management to date, we will continue to operate with increased scrutiny and control in these areas for the foreseeable future, ensuring that the Company is as protected from risk as possible. The business remains free of any bank or other external borrowings.

While COVID-19 has created a short term impact on customer spending patterns, there is nothing that we have seen so far to suggest anything other than that our existing strategy remains correctly calibrated for the times ahead. Our straight-forward approach has always involved listening carefully to the needs of our customers, and investing over the long-term to create a broad and deep set of capabilities to support them. COVID-19 seems to be accelerating the digital transformation of organisations, but we have been investing to meet the needs of that transformation for many years already.

Since our IPO in 2015, our business has approximately doubled in size – both in terms of income but also in terms of people. All of this growth has been organic, and the fastest area of growth within our employee base has been in the technical areas. So our skills as an organisation are well adapted to meet the challenges that our customers now face, whether that be deploying cloud-based software, or embracing hybrid models of datacentre infrastructure. In fact, given our size, scale and financial strength, we intend to continue with our inward, organic investment throughout these challenging times and seek to enhance our competitive advantage as a result.

## Managing the impact of Brexit

The Company continues to monitor the progress of negotiations with the EU and the evolving political situation in the UK. Management is committed to maintaining robust plans to ensure the Company is well prepared for any and all potential outcomes, including an abrupt and disorderly no deal exit. Since the UK's EU referendum in 2016, the Directors do not believe the Company has suffered any adverse effects from the Brexit process, but continue to assess the changing severity of associated risks.

In particular, the Board has considered the following market and competitive factors:

- Softcat operates in a highly fragmented but growing market. Industry estimates place our market share to be c.3% with market growth in recent years at 5–12%. As such, even in very difficult market conditions our key strategic goals of winning new customers and selling more to existing customers will remain valid opportunities for growth.
- A significant proportion of Softcat's revenue (c.30%) comes from software renewals and subscriptions. In addition, much of the income the Company earns from service and warranty contracts is considered to be non-discretionary spend. These factors may mitigate any downturn in customers' IT budgets.
- Softcat competes in the UK labour market for graduate and other new talent. Any downturn in the job market would potentially increase our ability to recruit new team members. We are committed to our long-term investment and growth strategy and would not reduce our own recruitment efforts as the result of macroeconomic shock.

### Managing the impact of Brexit continued

The Company has also carried out a detailed review of operational risks associated with Brexit. Overall the Board considers the risk of operational disruption to be low as:

- We are a UK domiciled business with limited exposure to EU customers or suppliers. Notwithstanding that limited exposure, our office in Ireland, and our recently established base in the Netherlands together with our continuing investment in multinational fulfilment capabilities, further mitigates any risk in this area.
- While many of the products we sell have a cost price which can fluctuate in relation to the strength of Sterling (especially against the US Dollar), our customers are well used to accepting such fluctuations being reflected by prices (i.e. costs can be passed on by Softcat). This situation occurred in the aftermath of the referendum vote in 2016 and the Company experienced no reduction in either profit margin or customer demand as a result.
- Our working assumption is that WTO tariffs will apply to UK imports and exports with immediate effect from the end of the Brexit transition period. The vast majority of the goods that we supply will not be subject to tariffs but, where these do apply, we anticipate that pricing changes will be passed down the supply chain to customers.
- The risk of stock shortages resulting from customs delays is being mitigated by the efforts of our suppliers to both secure alternative import routes and build up additional inventory at key distribution hubs in the UK. The response to the COVID-19 pandemic has demonstrated how we can work with our supply chain to alleviate the impact of limited stock availability through offering in-stock alternatives and expediting critical orders.

Our approach to managing the balance sheet has been conservative and currently we have no bank debt. We therefore have no refinancing or interest-related risks.

### Viability statement

In accordance with the UK Corporate Governance Code, the Directors have assessed the viability of the Group over a three-year period to 31 July 2023, which is a longer period than the 12-month outlook required in adopting the going concern basis of accounting. This assessment period remains appropriate given the timescale of the Company's planning and investment cycle, including the impacts in the short term caused by the COVID-19 pandemic. The Directors confirm that they have performed a robust assessment of the principal risks facing the Company as detailed on pages 32 to 34, including those that will threaten its business model, future performance and solvency or liquidity.

The Company's revenue has grown on average 17% in the last three years and GII has grown on average 25% in last three years. This has been achieved by gaining market share through increasing the number of customers as well as increasing spend per customer year on year. The Directors note that the majority of Company's customers operate in sectors considered essential and which may be less impacted by COVID-19. Against a backdrop of a global response to COVID-19 the Company enjoys a large degree of resilience to consequential downturns. The year to date trading to the end of September 2020 shows growth in line with the base case forecast.

The key factors supporting Softcat's prospects, including COVID-19, are included in the Strategic Report. Following the UK outbreak of COVID-19 and subsequent lockdown period, the Board reviewed and approved a recalibrated three-year forecast which incorporated the expected impact of COVID-19 and this is the base case for the viability assessment.

The assessment of the Company's viability considers severe but plausible scenarios aligned to the principal risks and uncertainties set out on pages 32 to 34, and the assessment was based on the severe but plausible scenario set out in our going concern assessment, with modest growth forecast for FY22 and FY23. The realisation of these risks is considered remote, considering the effectiveness of the Company's risk management and control systems and current risk appetite. COVID-19 has been factored into these risks and although the forecasted impact of the virus has not changed the nature of the stresses applied to the base case, it has increased their severity. The testing goes above and beyond the impacts seen to date from COVID-19, including during the first lockdown period.

The degree of severity applied in the viability scenarios was based on management's experience and knowledge of the industry to determine plausible changes in assumptions. The most relevant potential impact of the key risks on viability are:

- a substantial and sustained shortfall in revenue and gross invoiced income compared to the budget and strategic three-year plan resulting from, principally, a strong second wave of COVID-19 in Q2/Q3 and thereafter a sustained economic downturn;
- a substantial fall in achievable gross margins resulting from margin pressure associated with an economic downturn and increased competition for existing and new business;
- significantly increased levels of bad debt losses throughout the modelled period; and
- an ongoing increase in the working capital cycle, specifically driven by a delay in customer payments versus historical levels.



The following stress testing over a three-year period has been performed. (i) against the budget approved by the Board for the 2021 financial year; and (ii) against the remaining two financial years (i.e. 2022 and 2022) of the three-year plan:

- an average 13% year-on-year reduction, compared to the original budget and three-year strategic plan, in revenue and gross invoiced income;
- reduced gross profit margins of between 1% and 2% year on year;
- bad debt writes offs of £35m across the forecast period; and
- extending the length of debtor days by three days for each of the three years (thus negatively impacting on working capital).

The modelled stressed scenario above continues to include both ordinary and special dividends in line with the dividend policy and historical pay-out rates across the three-year period. Depending on the severity of impact, if necessary, immediate mitigating actions (for example, the ability to adjust the level of discretionary special dividend) would be available for the Board's consideration providing opportunities for the business to make further decisions on the cost base of the business.

Given the proximity of the December 2020 dividend payment, the business also modelled mitigating actions that would be possible to bring cash levels back in line with the desired minimum cash level, following payment of both a final and special dividend. In this scenario management could maintain the desired minimum cash level for the 2021 financial year through the following:

- commission and bonus scaled back in line with performance;
- reduced salary costs, through recruitment restrictions on new heads and replacing leavers;
- no interim dividend in H2 of FY21;
- savings in discretionary areas of spend;
- delay payments to suppliers foregoing early settlement payments; and
- short term supplier payment management.

The Company benefits from a flexible business model with a high proportion of costs linked to performance, no warehousing of unsold products and a low operating cost base, consisting of mostly staff costs. The Company operates in a resilient industry that incorporates an increasing level of non-discretionary spend from UK corporates as IT has become vital to establish competitive advantage in an increasingly digital age. In Public Sector, a fast-growing area of the business, spending has also continued to be strong in recent months and is expected to continue and be less sensitive to COVID-19 in the short term than the Corporate market.

Financially, significant free cash flow generation and the strength of the Company's balance sheet provides comfort around the ability to absorb the impact of the stress tests outlined above.

#### Confirmation of viability

Based on the analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

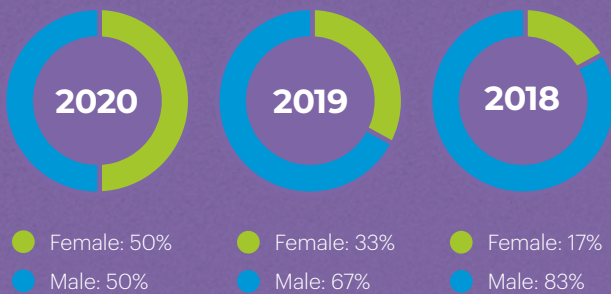


# Investing for our SUSTAINABLE FUTURE

At Softcat we are taking more steps to ensure our business is a sustainable one. This includes for the first time setting goals to reduce the impact we have on the environment.

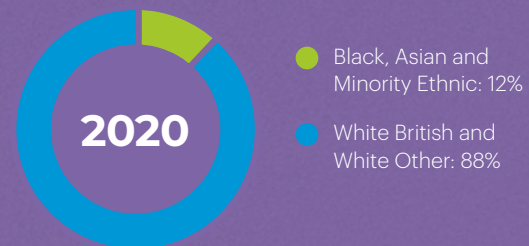
## Gender breakdown (as at 31 July)

### BOARD OF DIRECTORS

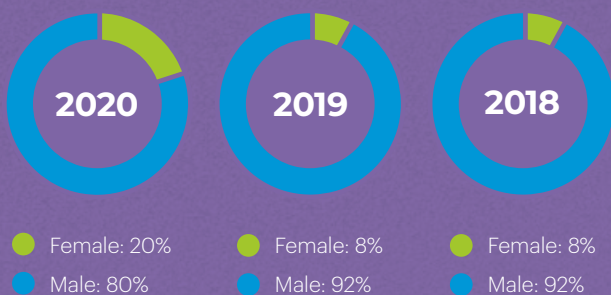


## Ethnicity breakdown (as at 31 July)

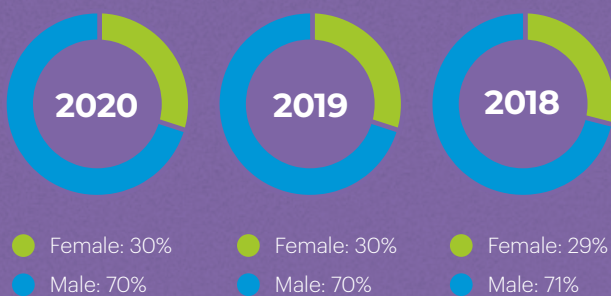
### TOTAL PERMANENT EMPLOYEES



### EXECUTIVE LEADERSHIP TEAM



### TOTAL PERMANENT EMPLOYEES



#### Softcat continues to take its social responsibilities seriously. We:

- strive to look after and develop our employees, respecting and celebrating our diversity;
- support a wide variety charitable activities and are active in many communities; and
- are committed to minimising our environmental impact and have set goals to achieve this.





## Our people

The last six months have been challenging for everyone and throughout this time, we have tried to make sure that work is not something that our people needed to worry about. We have focused on ensuring that our word of the year, 'Care', has come through loud and clear to our employees. When the COVID-19 'lockdown' started, we quickly took the decision not to furlough anyone, regardless of their role and responsibilities. By redeploying several staff internally to help those teams that had increased workloads, we were successfully able to balance the needs of each department. Our new starters' offers were honoured, albeit with some delays to start dates. Everyone was enabled to work from home as soon as possible with the practical support they needed for ensuring they had the right equipment and IT resources. Managers were encouraged to use the new tools available to them for regular video calls with their teams and our day-to-day people processes were quickly transformed, such as turning our selection methods into virtual assessment centres and our new joiners receiving online inductions.

Putting wellbeing at the forefront of our response, we increased the mental health support offered to employees through our mental health first aiders and additional external resources, whilst also dramatically increasing our internal communications to show our commitment to keeping everybody informed about the business. We held all-hands calls with the Executive Leadership Team to provide updates about topics such as pay rises and return to office plans, and also transformed our annual Kick Off to a virtual event so that we maintained business as usual as much as possible. Furthermore, in order to reinforce our commitment to the Softcat culture and demonstrate how important our employees are to us, we have taken the opportunity to make the office space in which we work as engaging and productive as it can be, with three full refurbishments in Marlow, Manchester and the South Coast taking place during the lockdown period.

Where possible, we have tried to maintain our regular cycle of people activities over the course of the last financial year, starting with a record number of hires in the first three quarters of the year, totalling 393 new joiners. Our attrition rate is down 7% to 13% and we hope to sustain this going forward. We've seen another fantastic set of results from our main employee engagement survey, with our employee net promoter score rising 9 points to 53, with scores over 50 being considered excellent by industry standards.

Despite having extremely positive employee satisfaction results overall, one area that we wanted to develop in the last year has been the skills of our line managers. Our employees have told us that 121s and team meetings could be improved and combining that with their desire to enjoy better personal development opportunities, we have launched a new programme called Management Essentials. Made up of several workshops aimed at new and experienced managers, the course is providing our managers with the foundation they need to offer the right level of line management to their direct reports. Initial feedback on the programme has been excellent, with further elements to be launched in the coming months.

One of the things we're most proud of is our Apprenticeship scheme. The scheme continues to go from strength to strength and we are increasing our hiring again this year with our biggest ever intake of 45 new apprentices. To cement our status as a top apprenticeship employer, we were delighted to be recognised recently as the Best Apprenticeship Employer in the UK by RateMyApprenticeship, climbing from sixth place last year.

Finally, we continue to build on the health and wellbeing strategy put into place a few years ago, by recruiting more internal Mental Health First Aiders and launching a new Employee Assistance Programme.



### Our people continued

#### Diversity

We have made significant progress with Softcat's diversity and inclusion strategy over the last 12 months. We are proud to say that Softcat is an inclusive organisation and our employee networks have worked hard to ensure that talking about gender imbalance, sexual orientation and ethnicity is more normalised. However, despite lots of activity, change in the make-up of our workforce remains slow. We acknowledge that we need to continue to challenge our recruitment processes, hiring decisions and retention strategies if we are to meet our ambitions of becoming a more diverse employer.

Female representation across Softcat currently stands at 30.4%, with females representing 24% of the management team. Our 'Supporting Women in Business' network has almost doubled in size over the last year, with many members proactively working on initiatives including a mentoring programme, female-only recruitment events, gender-neutral job specifications and a career returners programme.

This year we introduced our Black, Asian and Minority Ethnic (BAME) network and the group has been active in shaping Softcat's views on the Black Lives Matter movement. Thanks to a 95% response rate to an internal survey, we now have an improved understanding of our ethnicity landscape. We are pleased to report that 12.4% of Softcat's employees identified themselves as BAME, which is broadly the same as the UK-wide data produced by the Office for National Statistics. We have signed the 'Race at Work Charter' and have already met three of the five commitments, as follows: Graeme Watt, CEO, has been appointed Executive Sponsor for Race, we have captured our ethnicity data and will be publishing progress on a regular basis, and we have committed at board level to zero tolerance of harassment and bullying. The two remaining commitments of making clear that supporting equality in the workplace is responsibility of all leaders and managers and taking action that supports ethnic minority career progression are our focus areas going into the next financial year. In addition to these commitments, this year for the first time, we will release our gender pay gap in combination with our voluntary ethnicity pay gap.



# 50

#### New members of our Family Network in the last year

Our Pride Network has gone from strength to strength, with the highlight of 2020 being Softcat's Pride Week. This series of events featured a #StrideForPride march, where we encouraged Softcatters to get outside as they listened to our internal Pride Panel, and also a Q&A with a family member of one of Softcat's employees talking about their transgender journey. Our Family Network is also thriving, with over 50 new members in the last year meeting regularly to discuss and debate topics that concern working parents or those people who have caring responsibilities outside of work.

We have achieved the Hampton-Alexander recommendation for FTSE 350 companies to have 33% of their board made up of females by 2020 by appointing two new female Board members, taking our Board gender diversity to 50%. We have also achieved the Parker Review target for FTSE 250 companies to have at least one person of colour on their board by 2024. The Nomination Committee of the Board regularly reviews progress and provides feedback to management on diversity and inclusion. The CEO is the executive sponsor for diversity and inclusion.

Looking ahead, our priorities are as follows: increase our overall gender diversity, ensure that our Management team (and subsequently Senior Management, Extended Leadership and Senior Leadership teams) reflect our overall workforce diversity in terms of gender and BAME employees, aim to ensure that female and BAME candidates feature on shortlists for senior roles, and insist that interview panels include diverse employees.





## Our responsibilities

### Charity

Softcat strives to be an ethical and responsible workplace, supporting all of our stakeholders. Our dedicated charity team is responsible for managing corporate social responsibility at Softcat with each office having at least two representatives. We recognise the importance of giving back to the communities in which we operate and strive to provide continuing support. This financial year we raised just short of £60,000 (FY19: £400,000) and our charity work has helped to raise over £2.4m to date. Softcat's annual Charity Ball was traditionally the major contributor in our annual fundraising which was not possible given the impacts and concerns around COVID-19 this year. To support the COVID-19 crisis we launched our Tech for Good initiative and rapidly delivered 200 4G enabled devices with an initial three-month data plan to 50 care homes across the country enabling vulnerable patients to stay in touch with their loved ones.

We continued to support an array of local, national and international charities including: Mind, Bethesda Khankho Foundation, Comic Relief, Macmillan Cancer Research, We Love Manchester and Children in Need.

Next financial year, we plan to deliver some virtual fundraising events to overcome the challenges caused by the COVID-19 restrictions of coming together in person.

### Ethical behaviour

We do not operate a specific human rights policy at present. Our policies and Code of Conduct already operate within a framework to comply with relevant laws, to behave in an ethical manner and to respect the rights of our employees and other stakeholders in the business. Most of our business is focused in the UK and in jurisdictions where human rights are generally observed.

We are conscious human rights risks exist within our business and supply chain, including labour risk, unsafe workplace conditions and bribery and corruption. We therefore continue to be compliant with the annual reporting requirements contained within Section 54 of the Modern Slavery Act 2015, being a relevant commercial organisation as defined by Section 54, and produced an updated Modern Slavery Statement this year, which is available on our website.

Softcat operates a Supplier Code of Conduct (the 'Supplier Code'), used for all new major suppliers or in retendering, which addresses ethical employment and labour rights issues associated with modern slavery, and sets out the values and standards we expect of our suppliers. The Supplier Code covers compliance with the Human Rights Act 1998, Equality Act 2010, Bribery Act 2010, local health and safety regulations, anti-bribery and corruption, anti-modern slavery, and minimising environmental damage. Suppliers are required to declare they support the Supplier Code or where they have their own codes in place, confirm they are complying to a similar standard.

We also operate a Speak Up hotline for all employees to widen employees' channels of raising any issues they may encounter.



This provides our employees with an externally provided, secure and confidential channel to voice issues, in addition to internal channels already available. We also operate an anti-bribery policy, which was updated during the year along with a review of employee training. The anti-bribery policy provides that we take a zero-tolerance approach to bribery and corruption and that we are committed to acting professionally, fairly and with integrity in all our dealings. The policy also sets out the types of behaviour which are unacceptable in the conduct of business and procedures to prevent bribery. Underpinning our approach to ethical behaviour is our Code of Conduct, which is applicable to all employees and to those who work for or on behalf of Softcat. The Code of Conduct sets out the expected standard of behaviour.

Softcat publishes twice-yearly details of its payment practices to its trade suppliers. This is reviewed by the Board during the year as part of the Directors' wider responsibilities to consider how Softcat impacts on its key stakeholders. We take a responsible approach for these responsibilities and the vast majority of invoices due are paid within the agreed terms.

The Company adopts an open and honest relationship when dealing with government agencies. For example, during the year the Board approved an update to Softcat's tax strategy, which has been published on our website ([www.softcat.com/corporate-responsibility](http://www.softcat.com/corporate-responsibility)). The tax strategy includes an outline of our approach to dealing with HMRC and confirms that Softcat's primary tax objective is to ensure that it pays the right amount of tax, in the right jurisdiction, at the right time, as dictated by legislation.

As a result of the hardship caused to many companies by the COVID-19 outbreak, the Government announced a scheme which would permit companies to defer VAT payments accrued between March and June 2020 until March 2021. The Board discussed the matter, considering its wider role as a corporate citizen to pay taxes into the economy. As the Company had the ability to pay, the Board approved that Softcat pay the deferred VAT within the 2020 financial year.



## Environment and climate change

### Introduction

Softcat recognises that it can be a better business by taking steps to minimise its impact on the environment. The Board takes ultimate responsibility for Softcat’s sustainability and the Chief Executive Officer has the lead executive responsibility. During the year the Company formalised its approach to sustainability and this was reviewed and approved by the Board, as part of a wider recognition of Softcat’s responsibilities to the environment.

The journey to formalising our approach began with a review to identify and align Softcat to the most relevant areas of the United Nations Sustainable Development Goals for our business. The review concluded the goals shown opposite were most important for Softcat:



### Action on CO<sub>2</sub>

Softcat is making commitments and goals on its environmental impact in the business and its supply chain. We have set a new target over the longer term to become a net zero carbon business and this will be achieved primarily by completing three key stages.

STAGE   TIMING	GOAL	SUMMARY
Stage one <b>2022</b>	Carbon net zero	Softcat will use offsetting schemes to offset its Scope 1 & Scope 2 emissions. We will also offset selected Scope 3 emissions and will continue to reduce GHG emissions produced.
Stage two <b>2024</b>	100% renewable energy	Softcat will use where possible green/renewable energy across all office locations.
Stage three <b>2040</b>	Carbon net zero supply chain	Softcat will work with its supply chain to ensure that they are committed to becoming carbon net zero.

The Board also considered during the year the required preparations for the Task Force on Climate-Related Financial Disclosures, which will be mandatory from 2022. The Company will be further enhancing its governance and risk management on climate-related matters in the coming year.

### Environmental initiatives

Softcat has had ‘Green Teams’ in place in its offices for several years. The Green Teams are great at helping to drive awareness, innovative ideas and co-ordinating events such as a Green Week. Some of the activities which have had the support of Green Teams are shown opposite. Softcat also embedded environmental matters as part of a recent major refurbishment of its offices in Marlow, Manchester and the South Coast. For example, we installed motion-controlled lighting and increased the use of more energy efficient hardware and items, all of which will drive down energy usage across the Softcat office estate.

There will always be ways we can play our part towards a more sustainable world and we are running a number of activities to improve our environmental footprint, highlighted below. We are pleased that some of these are now complete, whilst others are still in progress.

ACTIVITY	PROGRESS
Reduce printing across all offices using printing software solution	● ● ● ● ●
Reduce energy consumption through new efficient lighting and technology	● ● ● ● ●
Electric vehicle chargers at Marlow HQ for staff, visitors and pool cars	● ● ● ● ●
Two beehives installed on the roof of Marlow HQ office	● ● ● ● ●
Zero plastic cups across all office locations	● ● ● ● ●
Upgrading of pool car fleet to electric vehicles	● ● ○ ○ ○
Secure WEEE/Recycling of internal IT once no longer required	● ● ● ● ●
Reduction in business travel	● ● ○ ○ ○
Reduction in the amount of staff commuting	● ● ● ○ ○
Renewable energy source across all Softcat office locations	● ● ○ ○ ○
ISO 14001 Environmental Management/ ISO 50001 Energy Management	● ● ● ● ●
Science based targets pledging to 1.5 degrees	● ○ ○ ○ ○
BAS 2060 – Carbon Neutral Accreditation	● ○ ○ ○ ○
Supply chain review including all vendors, suppliers and partners	● ○ ○ ○ ○



### Solutions

Softcat leverages its expertise in IT through our solutions service to help our customers be more sustainable. Solutions allow customers to maximise the use of an asset and ensure that they are supporting the circular economy through recycling, as well ensuring their supply chain is as efficient as possible. Solutions also support the key drivers of future sustainability – maintain, refurbish and reuse. Softcat will continue to develop solutions in line with vendor offerings and new sustainable developments.

SOFTCAT SOLUTIONS	
<b>Lifecycle Solutions</b>	Lifecycle services consist of several services that allow customers to manage assets that are no longer required.
<b>Logistics Solutions</b>	Logistics services enable efficient and sustainable delivery of equipment through a business as usual or project requirement.
<b>Support Solutions</b>	Support services can enable the support of equipment even if it has become end of support with the manufacturer. This can prolong the life of equipment.

### Regulatory disclosures

#### GHG emissions

Our emissions have been calculated using the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), together with the latest emission factors from DEFRA and DECC.

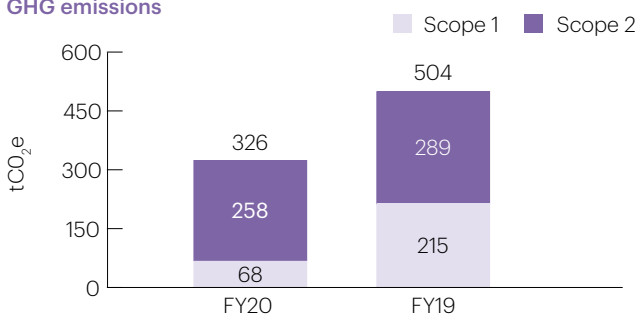
- Scope 1 comprises emissions from our pool cars and natural gas burnt in boilers we control.
- Scope 2 comprises our electricity consumption in leased and owned buildings.

#### Softcat intensity measurements

We have chosen to present our total emissions relative to the average number of employees, in order to represent how our emissions are impacted by the growth of our business. We are pleased to report a 43% reduction per employee.

	FY20	FY19
tCO <sub>2</sub> e/£m	0.30	0.51
tCO <sub>2</sub> e/employee	0.22	0.39

#### GHG emissions



Softcat seem determined to take climate action and make their business as sustainable as possible. They are also inspiring their suppliers, like Westcoast, to act and are spearheading some excellent initiatives. We are excited about what we can achieve together and then take this to the wider IT channel, inspired and led by Softcat.

**Phil Bell**  
Sales Director, Westcoast Distribution

#### Energy consumption and energy efficiency

This disclosure is made in accordance with The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, which requires certain companies to report on energy consumption and efficiency. This is the first time Softcat has been required to make these disclosures pursuant to the above regulations.

#### FY20 1.12m kilowatt hours

The above figure relates to Softcat plc, which is a single entity company. It consists of the aggregate of the annual quantity of energy: (i) consumed from activities; and (ii) consumed resulting from the purchase of electricity or certain other energy products. The figure was calculated following UK Government Environmental Reporting guidelines including streamlined energy and carbon reporting guidance (March 2019). The aggregate number includes 0.05m kilowatt hours in respect of the office in Ireland and the remaining portion relates to energy consumed in the United Kingdom. This Annual Report describes elsewhere measures taken to increase energy efficiency.

GHG emissions are calculated using methods contained in the GHG Protocol Corporate Accounting and Reporting Standard using UK Government Greenhouse gas reporting: conversion factors 2020.

Our offices were closed for some of the year in response to the COVID-19 pandemic and during that time our employees worked remotely from home. During this time there was also less use of the pool cars. This has reduced the reportable level of emissions and energy consumption in FY20, which is therefore not a like-for-like comparison with the prior year and may impact comparability for future years. Softcat plan to commit to year-on-year reductions in emissions on a like-for-like basis.

# Introduction to corporate

# GOVERNANCE

## Compliance with the UK Corporate Governance Code

We have structured this year's report in the following way, based upon the principles set out in the 2018 UK Corporate Governance Code, which is applicable for this financial year.

### Board leadership and Company purpose

The Board is responsible for establishing Softcat's purpose, engaging and building strong relationships with our shareholders and stakeholders and promoting the long-term success of Softcat.

▶ Read more on pages 46 and 47

### Division of responsibilities

The Board has clear divisions of responsibilities and promotes a culture of openness and debate.

▶ Read more on pages 48 and 49

### Composition, succession and evaluation

We regularly evaluate the composition of the Board to ensure we are effective, considering diversity and the balance of experience, skills, knowledge and independence.

▶ Read more on page 51 and on pages 63 to 66

### Audit, risk and internal control

We present a fair, balanced and understandable assessment of Softcat's position and prospects. Our decisions are discussed within the context of the risks involved.

▶ Read more on pages 55 to 62

### Remuneration

Director remuneration is designed to support Softcat's strategy, purpose and values and promote the long-term success of the Company.

▶ Read more on pages 67 to 83

## In this section:

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- 46 Board of Directors
- 48 Governance report
- 55 Audit Committee report
- 63 Nomination Committee report
- 67 Remuneration Committee report
- 84 Directors' report



Your Board continues to demonstrate good governance and oversight of its responsibilities to its shareholders and other stakeholders.

**Martin Hellawell**  
Non-Executive Chair





# NANANCE



## Introduction to governance

### Dear shareholder

I am pleased to confirm that your Company has complied with the principles and provisions of the 2018 UK Corporate Governance Code (the '2018 Code') during the year with the following exceptions:

- 1) Provision 9 – I was not independent on my appointment as Chair in April 2018. When deciding on my appointment the Board recognised that the Code states that the chair should on appointment meet the independence criteria and that ordinarily the chief executive should not go on to be the chair of the same company. We disclosed the Board's intention to appoint me as Chair in our 2018 Annual Report and provided comprehensive disclosure in the 2019 Annual Report explaining why the appointment was in the best interests of the Company and its shareholders.
- 2) Provision 12 – Until 30 June 2019, Lee Ginsberg held the position of our Senior Independent Director ('SID'). Peter Ventress had also informed the Board of his intention to resign with effect from 31 December 2019 and a search process for Peter's replacement commenced. Given the changes in the non-executive composition, the Board decided that it would be most appropriate to agree the new SID once the new appointments had been made. Karen Slatford joined the Board on 5 December 2019 as a Non-Executive Director and as the SID. We therefore had a period of just over five months without a SID.

The 2018 Code (a copy of which is available at [www.frc.org.uk](http://www.frc.org.uk)) is applicable to Softcat for the financial year ended 2020 and the Board had already taken the necessary steps to adopt new elements in the Code.

Your Board continues to demonstrate good governance and oversight of its responsibilities to its shareholders and other stakeholders. A strong and effective governance system has been particularly helpful in considering how the Company should navigate through the COVID-19 pandemic, which has impacted so much of society. I would like to thank my fellow Directors for their continuing support.

The following reports explain how Board and its Committees operate and explain some of the work they have undertaken during the year.

**Martin Hellawell**  
Non-Executive Chair  
19 October 2020



# Board leadership and Company purpose

Our business is led by our Board of Directors. Biographical and other details of the Directors as at 19 October 2020 are as follows:



(N) (D)

### **Martin Hellawell** Non-Executive Chair

**Appointed to the Board:** 24 March 2006 (and became Chair on 1 April 2018)

#### Key strengths

- Over 14 years' experience at the Company, with a detailed understanding of all operations
- Significant experience within the IT industry
- Developing people and teams to be successful
- Strategy and development execution

#### Current external commitments

Chair of Raspberry Pi Trading. Non-Executive director of Team17 Group plc.

#### Previous roles

Martin was previously Managing Director and then Chief Executive of Softcat between 2005 – 2018 and was Chief Executive when Softcat listed on the London Stock Exchange in 2015.

Martin spent 13 years at Computacenter plc, where he was responsible for the marketing function, ran Computacenter's French subsidiary and led acquisitions in the United Kingdom, Belgium and Germany. He was part of Computacenter's initial public offering team in 1998, ran operations, chaired Computacenter's international joint venture, ICG, and was chief operating officer of the dot-com spin-off Biomni Limited. Martin has also worked for Specialist Computer Centres PLC and for Canalys.com Limited as an independent consultant. Martin started his career at Miles 33, a software solutions provider for the publishing industry.



(D)

### **Graeme Watt** Chief Executive Officer

**Appointed to the Board:** 1 April 2018

#### Key strengths

- Extensive knowledge of the sector, distribution and the reseller channel
- Strong commercial skills
- Business and system transformations
- Mergers and acquisition experience
- Strong leadership skills and delivery of growth in very sizeable business units
- Wealth of financial and risk knowledge

#### Current external commitments

None.

#### Previous roles

With 30 years of experience in the IT distribution industry, Graeme was most recently senior vice president EMEA, advanced and specialist solutions, Tech Data Corporation ('Tech Data'), a position he held from March 2017. Prior to that, he was president for Avnet Technology Solutions, EMEA for almost seven years and a member of Avnet's global executive committee. He previously spent six years at Bell Micro (as president of global distribution) and his earlier career included roles at Tech Data (president EMEA) and Computer 2000 (Managing Director UK & Ireland). Graeme is a qualified accountant (ICAEW).



(D)

### **Graham Charlton** Chief Financial Officer

**Appointed to the Board:** 19 March 2015

#### Key strengths

- Strong financial and commercial skills
- Extensive experience in both financial and general management
- Significant experience of financing and capital raising

#### Current external commitments

None.

#### Previous roles

Graham previously spent four years as finance director at comparethemarket.com. Prior to that, Graham spent one year as finance director at See Tickets (the trading name of See Group Limited) and over five years in various roles, including group financial accountant, finance manager and finance director, decision analytics, at Experian Ltd. Graham is a Chartered Accountant and began his career with Andersen.



(A) (N) (R)

### **Vin Murria OBE** Independent Non-Executive Director and Designated NED for Workforce Engagement

**Appointed to the Board:** 3 November 2015

#### Key strengths

- A seasoned and successful entrepreneur with extensive board experience
- A strong background in technology-based businesses coupled with a strong network
- Well-developed strategic and commercial skills

#### Current external commitments

Non-Executive director at Bunzl plc and DWF Group plc.

#### Previous roles

Prior to joining Softcat, Vin spent seven years as the founder and chief executive at Advanced Computer Software plc prior to its acquisition by Vista Equity Partners in 2015, and five years as chief executive of Computer Software Group plc prior to its acquisition by HG Capital and then Hellman & Friedman in 2007. Previously, Vin was also a non-executive director at Zoopla Plc and Chime Communications plc and Chief Operating Officer at Kewill Systems plc.





(A) (N) (R)

**Karen Slatford**  
Senior Independent Non-Executive Director

Appointed to the Board: 5 December 2019

**Key strengths**

- Substantial global technology and business sector experience
- Significant experience of Chair of the Board and Committee Chair positions

**Current external commitments**

Chair of Draper Esprit plc and non-executive director of Accesso Technology Group plc (both of which are AIM listed) and Micro Focus International plc.

**Previous roles**

Having commenced her career at ICL, Karen worked at Hewlett Packard for 20 years, ultimately becoming Vice President and General Manager Worldwide Sales & Marketing for the Business Customer Organisation. Since then Karen has held a number of non-executive appointments in a range of technology companies, most recently serving as Chair of The Foundry, a company specialising in developing software for the creative industries, and as a non-executive director of Intelliflo, a SaaS based financial services software company.



(A) (N) (R)

**Robyn Perriss**  
Independent Non-Executive Director

Appointed to the Board: 1 July 2019

**Key strengths**

- Wealth of financial and risk knowledge
- Extensive experience of strategic roles, particularly within a dynamic and fast-paced progressive environment

**Current external commitments**

None.

**Previous roles**

Robyn was Finance Director at Rightmove plc, the UK's largest property portal until 30 June 2020. Prior to being Finance Director at Rightmove, Robyn also held senior roles as Financial Controller and Company Secretary. Before joining Rightmove, Robyn was Group Financial Controller at the online media business Auto Trader.

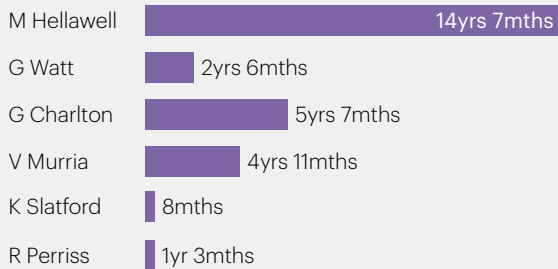
She qualified as a Chartered Accountant in South Africa with KPMG and worked in both audit and transaction services.

**Committee key**

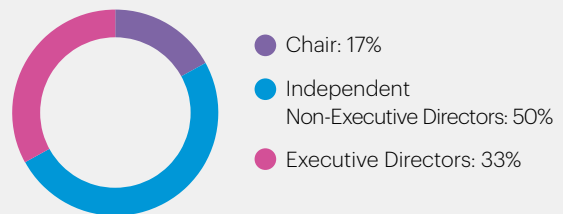
(A) Audit Committee   (N) Nomination Committee   (R) Remuneration Committee   (D) Disclosure Committee   ● Chair

**Tenure of Directors**

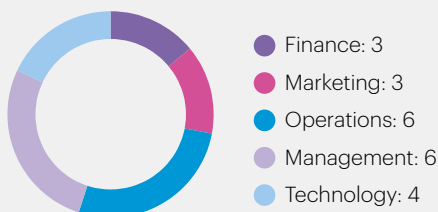
**Director**



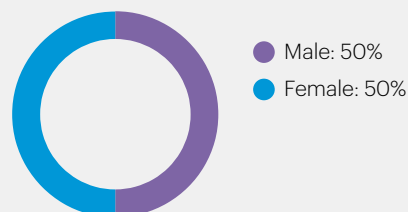
**Board composition (%)**



**Directors' experience**



**Board gender diversity (%)**







### Matters reserved for the Board

The Board has a formal schedule of matters reserved for the Board's approval which is regularly reviewed and updated. Matters include:

- our strategy, business objectives and annual budgets to ensure we can deliver long-term value to our shareholders;
- annual and half-year results and our dividend policy;
- material acquisitions, disposal and contracts;
- major changes to internal controls, risk management or financial reporting policies and procedures;
- determining our risk appetite;
- changes to capital, corporate or management structure; and
- succession planning for the Board and senior management.

Matters reserved can be found at [www.softcat.com/investors](http://www.softcat.com/investors).

The Code expects certain roles of the Board to be clearly set out. The Board has a formal document outlining the key aspects of the role of the Chair, Chief Executive, Senior Independent Director ('SID') and Non-Executive Directors ('NEDs'). This is regularly reviewed, and the current version can be found at [www.softcat.com/investors](http://www.softcat.com/investors).

### Audit Committee

Provision of effective governance over:

- the appropriateness of the Company's financial reporting;
- the performance and appointment of both the internal audit function and the external auditor; and
- the Company's system of internal control, risk management and compliance activities.

➤ [Read more on pages 55 to 62](#)

### Disclosure Committee

- Supports the Board in overseeing the accuracy and timeliness of Softcat's formal business disclosures, including disclosures made in Softcat's half and full-year results.

### Nomination Committee

- Evaluates Board composition and ensures Board diversity and a balance of skills.
- Reviews Executive succession plans, performance on diversity and plans to improve diversity in the business.
- Oversees the performance evaluation of the Board, its Committees and individual Directors.

➤ [Read more on pages 63 to 66](#)

### Remuneration Committee

- Sets, reviews and recommends the policy on remuneration of the Chair, Executive Directors and Executive Leadership Team.
- Sets the pay of the Executive Directors and agrees their participation in bonus plans and share-based incentives.
- Sets a Remuneration Policy for approval by shareholders and then manages the implementation of the Policy.

➤ [Read more on pages 67 to 83](#)

### Executive Leadership Team

- Focuses on strategy implementation, financial and competitive performance, commercial developments, below Board-level succession planning and organisational development.

# What the Board did THIS YEAR

## Strategy

The development and implementation of Softcat's strategy remained a key focus for the Board. This has been covered in a number of ways including:

- general updates from the CEO;
- specific strategy review discussions with the Board in February 2020; and
- updates on critical items to support the growth of the business, such as the implementation of a new finance system.

## Stakeholder engagement

The Board knows the importance of being aware of the views of its key stakeholders. These include our shareholders, employees, customers and vendors. During the year we maintained our engagement with stakeholders, which included the following:

- the Board discussed Sustainability with management, in particular on the setting of longer-term environmental targets and the responsibilities of the Board under the forthcoming Task Force on Climate-related Financial Disclosures ('TCFD');
- we discussed feedback from investors' and analysts' meetings following the release of our annual and half-year announcements. We have an investor relations programme of meetings with existing and potential shareholders;
- Vin Murria, as Softcat's Designated Non-Executive Director for Workforce Engagement, reported back to the Board on the engagement sessions she had held with various staff in the business;
- the Board discussed the arrangements for remote working for employees following the outbreak of the COVID-19 pandemic and also the plans for a phased return to the office, compliant with COVID-19 secure practices. The Board reviewed the highly positive feedback from employee surveys on the support provided to employees during the pandemic lockdown;
- the Chair undertook an investor engagement programme with our top 50 shareholders and with the key proxy advisory agencies to strengthen our mutual understanding of governance matters. Martin updated the Board regularly;
- the Remuneration Committee Chair engaged with our top shareholders on the Remuneration Policy which was proposed and approved at the 2019 Annual General Meeting;
- the Board reviewed the outcomes of Softcat's annual customer satisfaction survey and the actions to further improve relations with customers; and
- through the Audit Committee, we monitored Softcat's performance and disclosures on paying our trade creditors under the Payment Practice legislation.

➤ To see a full breakdown of our stakeholder engagements and the actions we have taken from these, please see [pages 18 and 19](#)

## Performance monitoring

The Board has a robust process in place for setting expectations and regular monitoring of business performance. During the year this included:

- review and approval of a three-year plan at the same time as the strategy review in order to provide a comprehensive longer-term outlook. The three-year plan is subsequently refreshed as needed during the year;

- approval of an annual budget and forecast, followed by a report each month comparing performance against budget and forecast;
- consideration of year-end and half year performance. Approval of the publication of year-end and half year results;
- setting of a dividend policy. Determining whether an interim dividend should be paid and proposals for a year-end dividend, after taking into account performance, the Company's financial situation and the needs of the business and any other relevant circumstances; and
- an update from the Company's brokers on investor themes and equity market matters.

## Governance and risk

During the year the Board:

- considered potential downside scenarios on the performance of the business at the beginning of the COVID-19 lockdown and the prudent steps to mitigate business risk. This included securing sources of additional financing should the need arise and agreeing to cancel the interim dividend due to be paid in May 2020;
- reviewed reports on governance and legal issues, including developments in corporate governance, succession planning and executive remuneration;
- performed a review of Board effectiveness;
- approved the appointment of Karen Slatford as a Director;
- reviewed the Company's risk appetite, principal risks and uncertainties;
- received updates on the potential impact of Brexit on the business and our plans to prepare for it;
- considered changes to the delegation of authorities to management; and
- received regular governance and regulatory updates. Approved updates to policies reserved to the Board, such as the policy on anti-bribery and corruption.

## People, vision and values

During the year the Board:

- discussed with the CEO changes in the Executive Leadership Team;
- received regular updates on people and HR matters, including our culture and diversity;
- considered the results of the annual employee survey and the quarterly management team surveys;
- met management teams and employees in our Marlow, Bristol and Manchester offices; and
- discussed the progress on refurbishments which have improved the offices in the South Coast, Marlow and Manchester.

➤ To read more see [pages 24 and 25](#) and [pages 38 to 40](#)

## Other

The Board has also:

- approved the 2020 Annual Report and Accounts;
- approved the 2020 Notice of AGM; and
- received and reviewed monthly reports which analysed changes in our key shareholder base.



# Composition, succession and EVALUATION



The Board is doing what it should do – challenging where necessary but not nit picking – and providing plenty of encouragement and support.

## Composition and succession

This is discussed in the report from the Nomination Committee on pages 63 to 66.

## Outcome

The outcome of the review was positive and concluded that the Board and its Committees were functioning well, considering the right issues and working in a transparent and constructive way. Some of the points included:

- the Board was satisfied that there continued to be the right level of focus on strategy, performance and culture;
- there has been a good additional effort and governance demonstrated in the Board's response to the COVID-19 outbreak;
- the Chair is performing well in his role and is working well with the CEO. There is a clear separation of roles between the Chair and CEO;
- the Non-Executive Directors who had joined most recently had settled-in well and were making valuable contributions to the Board;
- the regular interaction at Board meetings with other managers across the business was very mutually beneficial; and
- good progress had been made in following up on the recommendations arising from the Board evaluation in the previous year.

There were no areas rated as poor in the review.

## Recommendations

The Board was pleased with the outcome of the Board evaluation, which reflects the Directors' commitment to the business and strong support processes for the Board. Some minor areas for improvement were identified, which include:

- further increasing the Board's focus on diversity;
- additional work on longer term succession planning and composition on the Board;
- suggestions to maintain the focus on delivering growth over the longer term;
- increasing the Board's oversight on sustainability issues; and
- reviewing the format and content of certain Board/Committee papers to improve the communication of key information.

The Company Secretary has prepared an action plan based on the recommendations. Progress on the actions will be reviewed by the Board during the coming year and an update will be provided in next year's Annual Report.

## Process

Each year the performance of the Board is assessed through an evaluation exercise. The process this year was conducted internally (the Board having conducted an external evaluation process in 2019). The key stages of the process were:

### Stage 1

The Board agreed that the process for the year would be conducted internally. The Company Secretary discussed a process with the Chair and it was agreed to circulate a questionnaire for completion by each member of the Board.

### Stage 2

The Company Secretary circulated a draft questionnaire to the Board to make sure it captured all the relevant issues for the Board to consider. A final version was circulated and each director completed and returned the questionnaire. The questionnaire asked each director to rate various topics using a four point rating system (poor, adequate, good, excellent). Directors were also asked to provide additional comments to each question to give a more qualitative view.

### Stage 3

The Company Secretary collated the responses and presented with the Chair the results to the Board. Individual responses were anonymised. The Board discussed the key points and conclusions from the review.

### Stage 4

An action plan was prepared to address points of improvement recommended in the review. Progress will be tracked during the year.



# Good governance

## OPERATION OF THE BOARD

### Dividend and distributions policy

The Board is responsible for:

- setting Softcat's dividend policy;
- deciding on the Company's capital structure; and
- approving any key decisions in respect of capital allocation.

In respect of dividends, the Board approves the interim dividend and recommends the final and any special dividend for shareholders' approval. Softcat's dividend policy remains a progressive one which targets an annual dividend of between 40% and 50% of the Company's profits after tax in each financial year before any exceptional items. Subject to any cash requirements for ongoing investment, the Board will consider returning excess cash to shareholders over time. In determining the level of dividend in any year in accordance with the policy, the Board also considers a number of other factors that influence the proposed dividend, which include but are not limited to:

- the level of available distributable reserves in the Company;
- future cash commitments and investment needed to sustain the long-term growth prospects of the business; and
- potential strategic opportunities.

Softcat's constitution does not limit or oblige the Company to any minimum or maximum dividend payments. However, no dividend may exceed the amount recommended by the Directors and all dividends shall be paid in accordance with any relevant legislation.

The Audit Committee on behalf of the Board reviews the distributable reserves of the Company as part of its half-year and full-year reviews. The Board then considers the Audit Committee's review as part of its process to approve or recommend dividends. Consideration is also made of the balance on the retained earnings reserve, which as at 31 July 2020 amounted to £135.7m (as disclosed in the Statement of Financial Position).

In March 2020, the Board considered it prudent that given the highly unusual economic circumstances presented by the COVID-19 outbreak, the 2020 interim dividend (due for payment in May 2020) should be cancelled. The decision was made foremost with the long-term success of the Company in mind, to protect the Company's cash position and to maintain flexibility around the timing of dividend payments in relation to the financial year. The Board continued to monitor the performance of the business and announced in August that the Company continued to trade satisfactorily during the final three months of the financial year and had delivered operating profit for the full year slightly ahead of the Board's expectations. As cash generation had remained strong, the Company confirmed its intention to resume its normal dividend policy and timetable. This included payment of the interim dividend previously cancelled.

A special dividend is also proposed and has been calculated to increase the approximate minimum cash holding of the business from £30m to £45m. This change partly reflects the increase in the size and scale of the business since IPO and is considered prudent in light of the uncertainty created by COVID-19.

Further information in respect of the proposed dividends can be found on page 29.

Softcat is well positioned to continue to fund its dividend which is well covered by the cash generated by the business. Details of the Company's continuing viability and going concern can be found on pages 36 and 37 and pages 90 and 91 respectively. Details of total dividend distributions for the financial year can be found in note 6 to the financial statements.

The Company intends to seek shareholders' approval at the 2020 AGM to permit the Directors, should they consider exercising the authority, to repurchase up to 10% of the ordinary issued share capital. The Directors have no current intention of exercising this authority, which is sought in the best interest of shareholders to allow the flexibility to react promptly where such market purchases may be desirable.

### Board development and support

The Chair is responsible for ensuring that all Non-Executive Directors receive ongoing training and development, with the assistance of the Company Secretary. All Directors are provided with frequent briefings of current and relevant issues. Topics during the year included changes in UK corporate governance reform, audit reform, sustainability and environmental reporting and regulatory updates, diversity, Brexit and changes in narrative reporting and in accounting regulations which may affect our published financial statements. The Board also receives updates on our public reporting commitments, such as gender pay gap reporting, creditor payment practices and risks of modern slavery.

Where a new Director has been appointed, it is important to accelerate their learning of the business so the Director can contribute more effectively to the Board and can undertake their responsibilities successfully. An extensive induction programme was prepared and tailored following the appointment of Karen Slatford. The programme included meetings with the Chair, Chief Executive, Chief Financial Officer, members of the Executive Leadership Team, members of the Human Resources Team and the Remuneration Committee's external adviser.

In addition, all Directors have the opportunity to approach the Company Secretary (who acts as Secretary to the Board and all its Committees) for advice. The Company Secretary is appropriately qualified and highly experienced and is responsible for advising the Board on certain regulatory, legislative and governance matters and other ad hoc issues when required. Each Board meeting includes an update from the Company Secretary on any major developments of which the Board should be aware. The role of the Company Secretary also includes:

- assisting the Chair by organising induction and training programmes and ensuring that all Directors have full and timely access to all relevant information;
- working with the Directors to develop the long-term agenda for the Board and its Committees to enable them to discharge their responsibilities effectively; and
- ensuring that the correct Board procedures are followed.

The removal of the Company Secretary is a matter for the Board as a whole.



### Role of the Non-Executive Directors

All of Softcat's Non-Executive Directors, including the Chair and SID, are required by their role to perform certain functions to improve the effectiveness of the Board. In particular they:

- constructively challenge and contribute to the development of strategy;
- offer additional perspectives, advice and strategic guidance;
- scrutinise the performance of management in meeting agreed goals and objectives;
- have oversight to ensure compliance with key listed company requirements;
- through the Audit Committee, satisfy themselves that financial information is accurate, and that internal controls and systems of risk management are robust;
- through the Remuneration Committee, take responsibility for determining appropriate levels of remuneration for senior executives; and
- through the Nomination Committee, undertake the role of recommending the appointment and, where necessary, the removal, of positions on the Board and on diversity and succession planning.

### Organisation of Board meetings

The following are key features of how our Board and Committee meetings are organised to support the good governance of the business:

- Board meetings are scheduled to consider issues requiring Board oversight and adequate time for discussion of each agenda item is provided. Agendas are set to provide the Directors with opportunities to discuss the longer-term outlook of the business. Additional meetings are arranged when the need arises.
- An annual calendar of scheduled Board and Committee meetings is structured to allow the Board/Committees to review cyclical and ad hoc items, such as key projects.
- Non-Executive Board members make themselves available outside of the usual calendar of scheduled meetings should the need occur. In particular, the Chairs of the standing committees often hold preliminary planning discussions with the Company Secretary, management or external advisers to a committee prior to a meeting.
- Reporting packs are provided for each Board/Committee meeting, which are designed to be clear, analytical and concise. Papers are distributed and retained in an electronic system which is managed by the Company Secretary and this provides Directors with instant access to papers at any time.
- Reporting packs are normally prepared and presented by the Executive Directors and other senior managers. Packs are distributed by the Company Secretary to the Board around five days in advance of Board meetings. This enables the reporting packs to be as up to date as possible whilst allowing sufficient time for their review in advance of the meeting. Verbal updates cover any subsequent material developments.

- A summary of the actions arising at Board and Committee meetings is circulated by the Company Secretary following each meeting. The Company Secretary then ensures progress is made in respect of each action.
- Financial updates with commentary are distributed to the Board monthly. This gives the Directors the opportunity to review performance and any emerging issues in 'real time'.
- The development of strategy is led by the executives with input, challenge, examination and ongoing testing from the Non-Executive Directors.
- Board discussions are held in an open and collaborative atmosphere of mutual respect allowing for questions, scrutiny and constructive challenge. This supports decisions on which the Board seeks a consensus.

### Independence and conflicts

The Board, excluding the Chair, is currently comprised of three Independent Non-Executive Directors and two Executive Directors and therefore complies with the independence requirements of the 2018 UK Corporate Governance Code. Martin Hellawell was formerly the Chief Executive Officer before being appointed as Chair in April 2018. The Board considers for the purposes of the Code that he was not independent when he was appointed Chair and that he remains not independent.

The independence of the Non-Executive Directors is reviewed annually by the Nomination Committee (described in the Nomination Committee Report on pages 63 to 66). Their independence could be impinged where a Director has a conflict of interest, and the Board therefore operates procedures to identify and manage situations where such a conflict could arise. An element of the procedure operates to restrict a Director from voting on any matter in which they have a material personal interest unless the Board unanimously decides otherwise and, where necessary, Directors are required to absent themselves from a meeting of the Board while such matters are being discussed.

During the year, all Directors confirmed that they are able to allocate sufficient time to discharge their responsibilities effectively and all Directors continue to devote adequate time to their duties at Softcat. Directors are also required to notify the Board of any major changes to their external commitments that arise during the year with an indication of the time commitment involved.

# Relations with **SHAREHOLDERS**

The Board ensures that it has a proactive and constructive programme of engagement with its stakeholders and recognises within this the important and valuable role that shareholders play. Further information on the Board's engagement with its stakeholders is provided on pages 18 and 19. In respect of shareholders, the Chair undertook an extensive engagement programme with the Company's largest shareholders during the year on governance matters. Feedback from these sessions was reported back to the Board to make sure the Board fully understood their views and had discussed whether any actions should be taken as a result.

As part of an ongoing investor relations programme, there was extensive interaction with institutional shareholders and market analysts across the year. The Chief Financial Officer provides the Board with briefings and reports on these interactions and on any material changes in the shareholder base of the Company.

In the event that shareholders have any concerns, which the normal channels of communication to the Chair or Chief Executive have failed to resolve or for which contact is inappropriate, our Senior Independent Director or any independent Non-Executive Director is available to address such issues. The Board continues to make itself available, when requested, for meetings with shareholders on issues relating to the Company's governance and strategy.

## Annual General Meeting

The 2020 Annual General Meeting will be held on 10 December 2020 at Softcat plc, Fieldhouse Lane, Marlow SL7 1LW. Details of the meeting and the resolutions to be proposed are set out in the Notice of AGM which is available to download on our website ([www.softcat.com/investors](http://www.softcat.com/investors)). Please see the Directors' Report (page 92) in respect of important information prohibiting the attendance of shareholders at the 2020 AGM.



The Board ensures that it has a proactive and constructive programme of engagement with its stakeholders and recognises within this the important and valuable role that shareholders play.

## Shareholder meetings

Throughout the year, numerous meetings and conference calls were held with existing and potential shareholders. These meetings were attended by either the Chief Executive or the Chief Financial Officer or sometimes both. The meetings focus primarily on trading operations and the implementation of our business strategy. Any significant views expressed are recorded and reported to the Board to keep them up to date with shareholder and investor sentiment. Strict protocols are observed to make sure that no unpublished price sensitive information is discussed during these meetings.

## Results roadshows

Following the release of our full-year preliminary results announcement and our half-year results, the Chief Executive and Chief Financial Officer undertake extensive investor engagement roadshows (which may be virtual, due to social distancing requirements under arrangements to prevent the spread of COVID-19). Analyst presentations from our announcements are available on our website.





# ACCOUNTABILITY

## Members

R Perriss (Chair)  
 K Slatford  
 V Murria

## Attendance of the Audit Committee

Name	Committee attendance 2020
R Perriss	●●●●
V Murria	●●●●
K Slatford	●●●●
<b>Total meetings held</b>	●●●●

● Attended ○ Did not attend ● N/A

Peter Ventress stepped down from the Board on 31 December 2019. He attended all Audit Committee meetings during the year before he stepped down. Karen joined the Board on 5 December 2019 and she has attended all Audit Committee meetings to date.



The Committee fulfils a vital role in the Company’s governance framework, providing valuable independent challenge and oversight.

## Introduction

As Chair of the Audit Committee (the ‘Committee’), I am pleased to present the Committee’s report for the year ended 31 July 2020.

The Committee fulfils a vital role in the Company’s governance framework, providing valuable independent challenge and oversight of the accounting, financial reporting and internal control processes, risk management, the outsourced internal audit function and the relationship with the external auditor. These pages outline how the Committee discharged the responsibilities delegated to it by the Board over the course of the year, and the key topics it considered in doing so.

## Areas of focus in 2020 included:

- reviewing the appropriateness of our published half year and full-year results;
- reviewing the application of financial reporting and governance standards including management’s approach to key areas of financial judgement and the use of Alternative Performance Measures relating to the reporting of revenue;
- assessing the Company’s going concern and viability statements, including the impact of COVID-19;
- confirming that the Annual Report is fair, balanced and understandable;
- receiving regular updates in relation to the implementation of a new finance system to support greater automation and further strengthen the financial control environment as the Company continues to scale and grow;
- reviewing the effectiveness of internal audit, internal controls and risk management;
- evaluating the effectiveness and independence of the external auditor;
- receiving and discussing detailed internal audit reports on order fulfilment, legal compliance and anti-bribery and corruption compliance; and
- reviewing the detailed audit risk universe developed by our internal auditor in conjunction with management, which was used as a basis to help develop the 2021 internal audit plan.

### Accountability continued

#### Focus areas for 2021

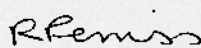
- giving consideration to the recommendations of Brydon's independent review of the quality and effectiveness of audit published in December 2019 and any changes to the external audit approach required; and
- ongoing monitoring of the progress and costs to date versus the detailed project plan associated with the implementation of the new finance system.

The Committee has reviewed the content in the Annual Report and believes that this explains our strategic objectives and is fair, balanced and understandable. We have considered the impact of COVID-19 on our business and you will find important detail on this in other sections of the Annual Report (see page 35).

Whilst this Report of the Audit Committee contains some of the matters addressed during the year, it should be read in

conjunction with the external auditor's report starting on page 94 and indeed the Softcat plc financial statements in general. At the 2019 AGM, shareholders approved the Board's recommendation to reappoint Ernst & Young LLP ('EY') as our external auditor. The Committee has carried out a review of the effectiveness and independence of EY and has recommended to the Board that they are reappointed at the 2020 AGM.

I will be happy to answer any questions about the work of the Committee at the forthcoming AGM.



**Robyn Perriss**  
Chair of the Audit Committee  
19 October 2020



#### Responsibilities

The Board has approved terms of reference for the Committee which are available at [softcat.com/investors](http://softcat.com/investors) and in hard copy form from the Company Secretary. These provide the framework for the Committee's work and can be summarised as providing oversight of the:

- appropriateness of the Company's external financial reporting;
- relationship with, and performance of, the external auditor;
- Company's system of internal control, including the risk management framework, key and emerging risks and the work of the internal audit function; and
- Company's system of compliance activities.

The terms of reference were reviewed and refreshed during the year to ensure that they continue to reflect good governance.

A whistleblowing policy and procedure for colleagues to raise issues regarding possible improprieties in matters of financial reporting or other matters is in place and operated throughout the year.

The Company operates anti-bribery procedures which support compliance with the UK Bribery Act. During the year the Board reviewed and approved an updated anti-bribery and corruption policy, which reflected changes in recent legislation and the current training provided to selected employees.

The Committee also reviews the Company's published tax strategy and during the year considered and approved an updated version. The tax strategy is available on the Company's website at [www.softcat.com/corporate-responsibility](http://www.softcat.com/corporate-responsibility).



## Membership

The membership of the Committee has been selected with the aim of providing the range of financial and commercial expertise necessary to meet its responsibilities and the membership meets the requirements of the UK Corporate Governance Code 2018 (the 'Code'), which is applicable for the financial year ended 31 July 2020. Given my experience as a qualified Chartered Accountant and as a recent finance director of a listed UK company, I have been designated as the financial expert on the Committee for the purposes of the Code.

Vin Murria and Karen Slatford both have considerable sector experience, in accordance with Code provision 24. Furthermore, in order to ensure that the Committee continues to have experience and knowledge relevant to the sector in which Softcat operates, all of the Non-Executive Directors receive regular updates on business, regulatory, financial reporting, governance and accounting matters. Changes to the membership of the Committee during the year are shown on page 55 and all members are Independent Non-Executive Directors of the Company. The Company Secretary acts as Secretary to the Committee.

## How the Committee operates

The Committee met three times during the year and each meeting had full attendance. Meetings of the Committee generally take place on the same day as the Board meeting to maximise the efficiency of interaction with the Board. Following a review of the Committee's workload and duties, particularly considering the time required to assess the Company's system of internal control and risk management framework, the Committee concluded that the number of meetings shall increase to four times a year during 2021.

The external auditor, EY, is invited to each meeting together with the Company Chair, the Chief Executive, the Chief Financial Officer ('CFO'), the Company Secretary and Grant Thornton (who provide an internal audit service to Softcat). This means that each member of the Board is present at Committee meetings. However, I shall as needed report to the Board as a separate agenda item on the activity of the Committee and matters of particular relevance to the Board in the conduct of the Committee's work. The Board as a whole regularly reviews the performance of the business via monthly reporting packs and a CFO's report at each Board meeting. This provides the Committee with a good ongoing understanding of the financial standing of the business which accumulates towards the formal half-year and full-year results.

The Committee sets time aside periodically to seek the views of the external auditor, in the absence of management. The Committee also meets separately with the internal auditor during the year and in between meetings the Chair keeps in touch with the CFO and other members of the management team.

## Financial reporting

The Committee's primary responsibility in relation to the Company's financial reporting is to review with both management and the external auditor the appropriateness of the half-year and annual financial statements concentrating on, amongst other matters:

- the quality and acceptability of accounting policies and practices;
- material areas in which significant judgements have been applied or where significant issues have been discussed with the external auditor;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements, including the UK Corporate Governance Code;
- any correspondence from regulators in relation to our financial reporting; and
- assisting the Board in an assessment of whether 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 and prospects, performance, business model and strategy. This assessment forms the basis of the advice given to the Board to assist it in making the statement required by the UK Corporate Governance Code.

## Accounting policies and practices

The Committee received reports from management in relation to the identification of critical accounting judgements and key sources of estimation uncertainty, significant accounting policies and proposed disclosure of these in the 2020 Annual Report. The Committee's review of IFRS 16 (Leases) is explained below and there were no other material changes to significant accounting policies during 2020. The Committee also discussed the impact and implementation of IFRIC 23 (Uncertainty over income tax treatment) but noted that did not have a material impact.

Following discussions with management and the external auditor, the Committee approved these critical accounting judgements, significant accounting policies and disclosures which are set out in note 1 'Accounting policies' to the financial statements.

### Accountability continued

#### Adoption of IFRS 16 (Leases)

The Committee discussed with management the adoption of IFRS 16, which applied to Softcat for the first time in the year ended 31 July 2020. The new standard requires the Company's leased assets to be recorded as 'right of use assets' in the Company's Statement of Financial Position. The Committee reviewed and was satisfied with management's assessment of the impact of IFRS 16 on the Company's balance sheet. EY had reviewed management's assessment of the adoption of IFRS 16 and reported on the outcome of their review to the Committee. The above provided the Committee with comfort that an appropriate approach had been taken on the adoption of IFRS 16.

#### Significant judgements and issues

An important part of the Committee's responsibilities is to assess key issues in respect of published financial statements and the Committee pays particular attention to any matters which it considers may affect the integrity of Softcat's financial statements, with a view to satisfying itself that each matter has been treated appropriately. The significant areas of focus considered and the actions taken by the Committee in relation to the 2020 Annual Report are outlined below.

We discussed these with the external auditor during the year and, where appropriate, these have been addressed as areas of audit focus as outlined in the Independent Auditor's Report on pages 94 to 101.

Matter considered	Action
Going concern and viability	The Committee has recognised the exceptional and wide-ranging impact of COVID-19 and potential for impact as final Brexit arrangements are concluded. Both matters have been discussed regularly during the year by the Board. Given this, management prepared additional analysis and more severe downside scenarios than in previous years in respect of the Company's going concern and longer-term viability. This was presented together with potential mitigating actions which could be taken in the event of one or more of the downside scenarios occurring. The Committee was satisfied with management's work on the matter and supported the conclusions reached in respect of the Company's going concern and longer term viability (see pages 36 and 37 and pages 90 and 91 respectively).
IFRS 16 (leases)	See above.
Inappropriate revenue recognition: misstatement of revenue recognised at or near year end	The Committee has reviewed the Company's revenue recognition policy and discussed in detail with management the processes applied to accurately record revenue at period ends. The Committee also receives detailed monthly reporting on business performance which includes revenue recognition data and trends. The Committee discusses the performance and data trends as needed with the CFO. The Committee has concluded that the timing of recognition is in line with current IFRS requirements.
Misstatement of rebate income	The Committee has taken steps to understand the nature and quantum of supplier rebates received by the Company. The Committee receives management information on rebates accrued as part of monthly performance reporting and monitors trends against prior period results. The Committee is satisfied with management's ability to accurately record rebates earned within the financial period.
Application of IFRS 15	The Committee is aware that inappropriate application of IFRS 15 may result in erroneous presentation and disclosure of revenue. EY has audited the disclosure of IFRS 15 and presented the results of their procedures to the Committee. The above provided the Committee with comfort that an appropriate and consistent approach continues to be taken on the presentation of revenue under IFRS 15.

#### Other matters

The Committee also undertook a range of further activities in relation to the Company's accounting and external reporting in the year:



### Fair, balanced and understandable

The processes and controls that underpin the Committee's assessment of whether 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 and prospects, performance, business model and strategy include ensuring that:

- all team members who provide a material contribution to drafting the Annual Report and Accounts are fully briefed by the Company Secretary on the fair, balanced and understandable requirement;
- an experienced core team is responsible for the co-ordination of content submissions, verification, detailed review and challenge;
- the Annual Report and Accounts follows a framework which supports the inclusion of key messaging, market and performance overviews, principal risks and other governance disclosures. Sufficient forward-looking information is also provided and a balance is sought between describing potential challenges and opportunities;
- information in the different parts of the Annual Report is consistent;
- the Annual Report is written to avoid jargon where possible and is presented free of unnecessary clutter;
- senior management confirms that the content in respect of its areas of responsibility is considered to be fair, balanced and understandable; and
- the Committee receives an early draft of the Annual Report to enable timely review and comment.

Following its review, the Committee is of the opinion that the 2020 Annual Report, taken as a whole, is fair, balanced and understandable allowing the Committee to provide positive assurance to the Board to assist it in making the statement required by the Code.

### Going concern and viability statements

The Committee has reviewed the Company's ability to continue to operate as a going concern for the 12 month period post the date of this report and the Company's assessment of viability over a period greater than 12 months. In assessing viability, the Committee has considered the Company's position presented in the budget and three-year plan recently approved by the Board. In the context of the current challenging environment as a result of COVID-19, a COVID-19 scenario was applied to the plan, as well as the modelling of additional sensitivities. These were based on the potential financial impact of the Group's principal risks and uncertainties and the specific risks associated with the COVID-19 pandemic and a more uncertain macro-economic environment. The Committee has concluded that these assumptions are appropriate. The Committee has also reviewed the Group's reverse stress test using a downside scenario. Further details are set out in the statements on pages 90 and 91 and pages 36 and 37 respectively of this Annual Report and the Committee confirms that, following review, it has recommended both statements for approval by the Board.

The Committee received regular updates on the steps taken by management to secure liquidity for the likely duration of the crisis and recovery period beyond. These include the formal agreements reached with HSBC in April providing a revolving loan facility of £50m (which expires in April 2021) and confirmation as an eligible issuer under the UK Government's Covid Corporate Financing Facility ('CCFF'). The Committee is satisfied that the increased liquidity risk because of the impact of COVID-19 has been reduced by these measures.

### External audit

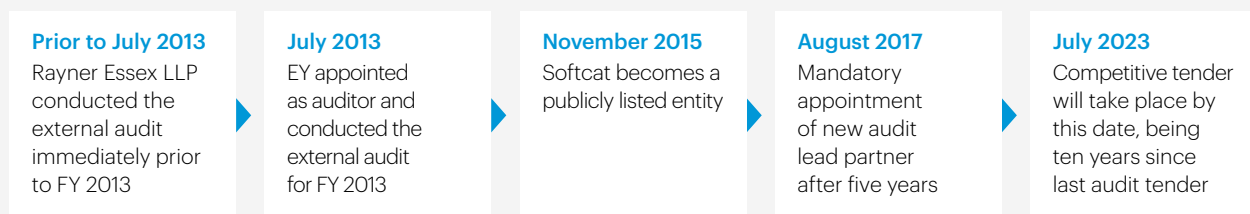
The Committee has primary responsibility for overseeing the relationship with, and performance of, the external auditor. This includes making the recommendation on the appointment, reappointment and removal of the external auditor, assessing its independence on an ongoing basis and negotiating the audit fee.

### Accountability continued

#### Auditor appointment

The Committee is responsible for making recommendations to the Board in relation to the appointment of the external auditor. EY was appointed as auditor of the Company in July 2013. The current external audit engagement partner is David Hales, who has held this role since August 2017. A timeline setting out the tenure of EY as auditor is set out below:

#### External audit tendering timeline



The Committee continues to review the auditor's appointment and the need to tender the audit, ensuring the Company's best interests are considered and ensuring compliance with reforms of the audit market by the UK Competition and Markets Authority. Accordingly, the Company confirms that it complied with the provisions of the Competition and Markets Authority's Order 2014 for the financial year under review. There are no contractual obligations restricting Softcat's choice of external auditor.

For the financial year ending 31 July 2020, the Committee has recommended to the Board that EY be reappointed under the current external audit contract and the Board has endorsed that recommendation. The Board has therefore proposed the reappointment of EY at the Annual General Meeting to be held in December 2020. There are currently no active plans to commence a tendering for the external audit.

#### Audit risk

At the start of the audit cycle we received from EY a detailed audit plan identifying its audit scope, planning materiality and assessment of key audit risks.

The audit risk identification process is considered a key factor in the overall effectiveness of the external audit process, and the key risks for the 2020 financial year closely align to the significant judgements and issues above. The key risks identified were:

- inappropriate revenue recognition;
- presentation of revenue in respect of IFRS 15;
- misstatement of rebate income; and
- going concern and viability.

Should the need ever occur, the Committee has the authority to request for additional areas to be reviewed if it is deemed to be relevant for the integrity of Softcat's financial statements.

EY also outlined other areas of audit focus which included a combination of standing matters usually associated with an external audit each year and additional matters which reflect potential changes in Softcat's risk profile, such as exposure to Brexit. Key audit risks are regularly reviewed by the Committee or the Board.

#### Working with the external auditor

The external auditor attended all Committee meetings in 2020 and received all Committee reading papers and minutes. We hold private meetings with the external auditor to provide additional opportunity for open dialogue and feedback from the Committee and the auditor without management being present. The external auditor has direct access to the Chair to raise any concerns outside formal Committee meetings.

Matters typically discussed include the external auditor's assessment of business risks, the transparency and openness of interactions with management, confirmation that there has been no restriction in scope placed on it by management, the independence of its audit and how it has exercised professional scepticism.

#### Effectiveness of the external audit process

The Committee reviewed the quality of the external audit throughout the year and considered the performance of EY. The effectiveness of the external audit process is dependent on a number of factors. These include the quality, continuity, experience and training of audit personnel, business understanding, technical knowledge and the degree of rigour applied in the review processes of the work undertaken, communication of key accounting and audit judgements, together with appropriate audit risk identification at the start of the audit cycle. The Committee also took into account an assessment of the firm-wide audit quality inspection report issued by the FRC in July 2020 together with EY's responses to that report.

Prior to the conclusion of the audit for the 2020 financial year, the Committee conducted an effectiveness evaluation of the external auditor. The evaluation was led by the Committee Chair and involved issuing tailored evaluation questionnaires which were completed by the Committee, selected managers in the Finance team who regularly work with EY and Grant Thornton (as internal auditor). The results of the survey provided useful feedback to the Committee and confirmed that overall, EY continued to perform their role well. Minor areas were highlighted to further improve the working relationship with the Committee and the Company and these will be considered by EY.



Based on the above, the Committee concluded that there had been appropriate focus and challenge on the primary areas of audit focus from EY and concluded that the performance of EY remained efficient and effective.

### Independence and objectivity

The Committee has a policy governing the engagement of the external auditor to provide non-audit services. This precludes EY from providing certain services. The policy was reviewed and updated during 2020 and can be found at [softcat.com/investors/our-governance/](https://softcat.com/investors/our-governance/). All non-audit services provided by the external auditor are reported to the Committee and a record is kept so that the total costs regarding non-audit work during a financial year are monitored.

For certain specific permitted services, the Committee has pre-approved that EY can be engaged by management, subject to the policy set out above, and subject to a total 10% of the current external audit fee on an annual basis.

For all other services or those permitted services that exceed these specified fee limits, I, as Committee Chair, or in my absence another Committee member, can pre-approve permitted services.

The Committee also received confirmation from EY that there are no relationships between the Company and EY that may have a bearing on its independence.

In respect of the audit of the 2020 financial statements, the Committee considered the ongoing fee proposal and, following the receipt of formal assurance that its fees were appropriate for the scope of the work required, agreed a charge from EY of £350,000 for statutory audit services. The Committee had discussed with EY the reasons for an increase in fees compared to the prior year, which included the increased audit effort required to audit a business which had continued to grow over the years.

In addition to the statutory audit fee, EY and related member firms charged the Company £13,500 for audit-related services primarily in connection with the audit of corporate governance updates and the audit of the transition to adopting IFRS 16. The Committee agreed a fee of £30,000 in respect of EY's review of the 2020 half-year results, which was classified as a non-audit fee. Further details of the fees paid, for audit and non-audit services, to EY for the 2020 and 2019 financial years can be found in note 3 to the financial statements.

The Committee is aware of the requirements of the Statutory Auditors and Third Country Auditors Regulations 2016 (the '2016 Regulations'). The 2016 Regulations provide for a cap on non-audit services of a maximum of 70% of the average of the audit fees paid on a rolling three-year basis. In order to ensure this limit is not exceeded, the Company shall in usual circumstances seek that permitted non-audit fees shall not exceed 50% of the average audit fee over the three preceding financial years in each case. The three-year measurement period covers the 2018, 2019 and 2020 financial years and is 10.4%, which is considerably below the cap.

### Internal control and risk management

The Committee has the primary responsibility for the oversight of the Company's system of internal control, including the risk management framework and the work of the internal audit function (see below). During the year the Committee closely monitored the Group's internal control and risk management systems and received regular reports from management and the internal audit team covering the major risks and/or events faced by the business.

### Assessment of the Company's system of internal control, including the risk management framework

The Company's risk assessment process and the way in which significant business risks are managed is a key area of focus for the Committee. Our activity here was driven primarily by the Company's assessment of its principal risks and uncertainties, as set out on pages 32 to 34.

The Company has in place an internal control environment to protect the business from the material risks which have been identified. Management is responsible for establishing and maintaining adequate internal controls over financial reporting and we have responsibility for ensuring the effectiveness of these controls.

The Committee has completed its review of the effectiveness of the Company's system of internal control, including risk management, during the year and up to the date of this Annual Report, in accordance with the requirements of the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the FRC.

Through the processes outlined above, the Audit Committee has considered all significant aspects of the Company's risk management and internal control systems for the year and up to the date of this Annual Report allowing it to provide positive assurance to the Board to assist it in making the statements required by the UK Corporate Governance Code. No significant failings or weaknesses were identified as a result of the review that may significantly impact the financial statements. However, had there been any such failings or weaknesses, the Committee and the Board confirm that necessary actions would have been taken to remedy them.

### Accountability continued

#### Internal audit

The Company/Softcat has an internal audit function which is fully outsourced to Grant Thornton LLP ('Grant Thornton'). The aim of the internal audit function is to provide independent and objective assurance on the adequacy and effectiveness of internal controls, risk management and governance processes. The appointment and removal of the internal audit function is a matter reserved to the Committee.

Monitoring and review of the scope, extent and effectiveness of the activity of the Company's internal auditor is regularly considered by the Committee. Management discusses with Grant Thornton the selection of appropriate areas and controls within the business for internal audit. This is then presented by Grant Thornton as a proposed annual internal audit plan prior to the start of each financial year. The audit plan is then reviewed and approved by the Committee. The Committee then receives updates from Grant Thornton on the audits and receives an audit report on each audit undertaken, which includes the results of their audits, recommendations for changes and management action plans to address any unsatisfactory audits or recommendations. The Committee also receives from management regular progress updates on previously undertaken audits in order to ensure those actions have been completed or closed.

The internal audit plan for 2020 covered a broad range of core financial and operational processes and controls, focusing on specific risk areas. Specialist reviews were undertaken in the following areas:

- the order fulfilment function which has seen significant growth in the volume and value of orders processed over the past few years with a specific focus on buyer and supplier performance management and insurance agreements;
- legal compliance to understand how Softcat ensures compliance with enacted and changing legislation and industry standards; and
- anti-bribery and corruption policy compliance given that Softcat operates as a service and sales organisation in an industry with increased inherent risk of bribery and corruption.

#### Approach to developing the 2021 internal audit plan

During the year Grant Thornton, working closely with management and the Board as a whole, completed a detailed review of the audit universe. This universe highlighted the various functional areas within Softcat, the person or persons with overall functional ownership, the associated key processes and the related principal

or emerging risks. In addition, it highlighted where internal audit work has taken place previously. It was then used as basis of development of the 2021 internal audit plan helping to ensure alignment with the risks facing the business and the current assessment of the control environment. It will also help in determining and prioritising other areas for internal audit review beyond 2021.

During 2021 reviews are planned in the following areas:

- end user IT asset management and Bring Your Own Device controls operated by Softcat. This is particularly relevant in light of Softcat employees working remotely from home since late March as a result of COVID-19;
- supplier rebate framework and calculation; and
- assurance in relation to the implementation of the new finance system, given the significant investment cost and that it is viewed as a key platform to support Softcat's growth ambitions.

#### Effectiveness of the internal audit process

Grant Thornton has access to the relevant documentation, premises, functions and employees to enable it to perform its activities.

Grant Thornton is a major professional services firm with experience in consulting, assurance and audit and the relationship with the Audit Committee is led by an experienced partner of Grant Thornton. The Committee recently undertook a review of the effectiveness of the internal audit function. The evaluation was led by the Committee Chair and involved issuing tailored evaluation questionnaires which were completed by Softcat management who had worked recently with Grant Thornton, EY (as external auditor) and the Committee. The evaluation concluded that Grant Thornton had a sound appreciation of the key issues facing the business and that the internal audit function continues to provide the quality, experience and expertise appropriate for the business. Minor recommendations arising from the evaluation to further improve the internal audit process will be considered by Grant Thornton.



**Robyn Perriss**  
Chair of the Audit Committee  
19 October 2020





# EFFECTIVENESS

## Members

V Murria (Chair)  
 M Hellawell  
 R Perriss  
 K Slatford

## Attendance of the Nomination Committee

Name	Committee attendance 2020
V Murria	●●●●
M Hellawell	●●●●
R Perriss	●●●●
K Slatford	○●●●
<b>Total meetings held</b>	●●●●

● Attended ○ Did not attend ● N/A

Peter Ventress retired from the Board on 31 December 2019 and he attended all Nomination Committee meetings for the year until his retirement. Karen Slatford joined the Board on 5 December 2019 and she attended all Nomination Committee meetings for the year following her appointment.



I am delighted to present my first report as Chair of the Nomination Committee.

## Committee Chair's introduction

I am delighted to present my first report as Chair of the Nomination Committee (the 'Committee'). I took over from Martin Hellawell as Chair of the Committee in March 2020 (see below for more details) and I thank Martin for his excellent chairing of the Committee; I will do my best to carry on his good work. This year has seen a period of consolidation in terms of composition of the Board. Two Non-Executive Directors have joined since 2019 and they have settled in very quickly and are adding tremendous value to the discussions and decisions made by the Board. The Committee has also had a number of discussions on diversity and, whilst some progress is being made, there is more still which can and will be done. More details on the above are in the report which follows.

If any shareholders or proxy voting advisory agencies would like to raise any matters with me in respect of the Committee, I can be contacted via the Company Secretary at cosec@softcat.com.

## Membership, meetings and operation of the Committee

The members of the Committee are set out above and all the members are Non-Executive Directors. The biographies of the members of the Committee can be found on pages 46 and 47. The Chief Executive Officer, Chief Financial Officer and HR Director are invited to attend meetings where appropriate. The Committee met three times during the year and meetings generally take place on the same day as the Board meeting to maximise the efficiency of interaction with the Board. If needed, the Committee Chair will report to the Board, as a separate agenda item, on the actions taken by the Committee. The Company Secretary acts as Secretary to the Committee.



### Effectiveness continued

#### Membership, meetings and operation of the Committee continued

The key responsibilities of the Nomination Committee (the 'Committee') are to advise on appointments to the Board, to review Board composition and to review succession planning both for the Board and for senior management. The Committee also reviews and provides feedback on the initiatives to improve diversity and inclusion. Carrying out these responsibilities are critical to ensure the Board and wider business have plans in place to have the best available talent to drive the Company forward.

The Committee decided earlier in the year it would be better practice for an independent director to chair the Committee and agreed I should take on this additional duty. I believe this change will be welcomed by our shareholders as representing a further improvement in the Board's governance processes.

Any Director who intends to join the Board is required to disclose all significant outside commitments prior to appointment.

On joining the Board, Non-Executive Directors receive a formal appointment letter, which, amongst other things, identifies the time commitment expected of them. Each Director continues to devote sufficient time to meet their Board responsibilities.

The Committee considered and recommended that each Director willing to stand for re-election be proposed for reappointment at the 2019 AGM. The Board endorsed all the appointment and reappointment recommendations of the Committee.

#### Key activities during the year

The calendar of activities below provides an overview of the key topics for the Committee during the year.

##### October 2019

- Appointment of Karen Slatford as a Non-Executive Director
- Appointment of Karen Slatford as the Senior Independent Director
- Approval of the 2019 Nomination Committee Report
- Recommendation to reappoint Directors at the 2019 AGM

##### March 2020

- Review of Board composition and skillset
- Recommendation to change Committee Chair

##### July 2020

- Review of diversity and inclusion
- Recommendation to update the Committee's Terms of Reference

##### September 2020

- Discussion of succession planning
- Review of Board composition and skillset





## Board appointments

I am pleased with the progress made this year on the Board's composition.

In light of Peter Ventress' decision to step down as Non-Executive Director (with effect from 31 December 2019), the Committee commenced a search to find a replacement. When considering a suitable replacement, the Committee firstly considered the current composition, expertise and skills of the Board, the Board's strategic priorities and the attributes best required to complement the Board. The Committee then prepared a detailed description of the role required for Peter's replacement. We worked with an external executive search firm, Spencer Stuart, and our own network of potential candidates. Spencer Stuart has no other business relationship with the Company. As the Committee is committed to the Board having a diverse mix, we will only engage with search firms which have signed up to the relevant Voluntary Code of Conduct for Executive Search Firms on gender diversity and best practice. Spencer Stuart subscribes to both the Standard and the Enhanced Voluntary Code of Conduct for Executive Search Firms. By using such firms the Committee can maximise the ability to consider a wide range of suitable candidates.

At the conclusion of the process, Karen Slatford stood out as the outstanding candidate, particularly with her in-depth sector knowledge and her highly extensive experience as a Non-Executive Director. The Committee was delighted that Karen accepted the Board's invitation to join in December 2019 as a Non-Executive Director, Senior Independent Director and Chair of the Remuneration Committee.

Karen was provided with an extensive, full and tailored induction programme, prepared by the Company Secretary and overseen by Martin Hellowell as Company Chair. This included meeting with the Executive Leadership Team, senior managers in the Human Resources team and with PwC, the Remuneration Committee's external adviser. There was also a comprehensive handover with Peter Ventress (as the former Remuneration Committee Chair) and a briefing from the Company Secretary so that Karen could quickly assume the responsibilities of the Chair of the Remuneration Committee.

The Board, particularly after taking into account the two Non-Executive Directors who have joined since 2019, has a diverse range of skills, experience, tenure, personalities and backgrounds. I believe that combination works well and provides the right mix of challenge and support to the business. We strive to maintain a balance to optimise the size of the Board. Whilst there are many benefits to running a relatively small Board, the Committee has discussed the potential benefits of adding a further Non-Executive Director, if that person would add further significant value to the Board's effectiveness, skillset and expertise. We have created a matrix to consider what particular attributes, skills and experience would be most valuable if we were to appoint a further Non-Executive Director and we are keeping this matter under review.

## Succession planning

Succession planning is very important to the Committee and we have given particular attention this year to longer term succession planning for the Chair, CEO and CFO. We regularly review our plans and will consider both internal and external potential candidates.

The appointment of two new Non-Executive Directors since 2019 has improved overall succession planning and created a more robust and diverse mix of tenure on the Board. Previously, most of the Non-Executive Directors had been appointed broadly at the same time and this had created a potential 'bottleneck' as their Board retirement dates were also similar. The recent appointments therefore remove the bottleneck. The Committee will continue to review the likely retirement dates on the Board as part of its longer-term succession planning and Board composition refreshment.

The Committee works with the HR Director and the CEO and reviews at least annually the plans which are in place for orderly succession planning on our Executive Leadership Team. We have a strong talent pipeline and training and development programmes to prepare managers for more senior roles. The review also considers how we are developing a more diverse pipeline amongst the leadership roles. The formal succession planning reviews are in addition to regular updates provided by the CEO to the Board on changes in the Executive Leadership Team.

## Board member review process

Martin Hellowell as Company Chair is responsible for conducting an annual review process of the CEO and each Non-Executive Board member. The CEO performs a similar process with the CFO. The review processes gather additional feedback to support the good running of the Board. The Board also conducted an internal Board effectiveness review which resulted in a positive assessment of the Board's performance but equally some valuable pointers on how to make further improvements. More information on this year's internal effectiveness review can be found in the report on Corporate Governance on page 51.

Karen Slatford, as the Senior Independent Director, led a meeting of the Non-Executive Directors, without the Company Chair present, to discuss the Company Chair's performance. The Non-Executive Directors confirmed that they continued to be happy with Martin's performance and are fully supportive of his role. We believe the current structure is working well for the Company, our shareholders and our stakeholders.

As a result of the above review processes and following further consideration by the Committee, we have recommended to the Board that each Director be proposed for reappointment at the AGM to be held in December 2020.

### Effectiveness continued

#### Diversity and inclusion

The Board and the Committee devotes significant time to the issue of diversity and inclusion in the Company. We have made progress in this area at Board level and management realises the importance and benefits of creating a more diverse workforce at all levels in the Company. This is a long-term endeavour and we recognise it as such.

The Committee is supportive of and recognises the importance of diversity and inclusion both for the effective functioning of the Board and more widely in the Company. The Board has a diverse range of experience by way of expertise and background and it recognises the benefits that different viewpoints can contribute to better decision making. The Hampton-Alexander Review recommended a target for FTSE 350 companies to reach at least 33% of their board and leadership teams to comprise females. I am pleased to report that the Board now meets this target, but more progress is needed in respect of our leadership team. The Board also meets the recommendation set by the Parker Review that boards should have at least one person of colour. Whilst we have reached some of these targets, the Committee has not set a quota in terms of the diversity mix on the Board as the primary criteria for an appointment is that it is made on merit and the best fit with the Board. Executive management have committed to drive for better diversity in the coming years.

It is acknowledged that there is more work to be done to improve diversity within our Executive Leadership Team and in other areas of the business and plans to achieve this has been discussed with the Committee. The Committee has also received briefings on the initiatives to improve inclusion in the business and the Company employs a dedicated resource to co-ordinate our diversity and inclusion efforts. The briefings received by the Committee included not only diversity regarding gender, but also on ethnicity, sexual orientation, disability and updates on various inclusion activities such as supporting family wellbeing outside of work. More information about diversity and inclusion in the business can be found in the Sustainability section of this Annual Report on pages 38 to 40.

#### Assessment of the independence of the Non-Executive Directors

The Committee and the Board are satisfied that the external commitments of the Company Chair and the other Non-Executive Directors do not conflict with their duties and commitments as Directors of the Company. Our Directors must:

- report to the Board any material changes to their commitments;
- notify the Company Secretary of actual or potential conflicts or a change in circumstances relating to an existing authorisation; and
- complete an annual conflicts questionnaire.

Any conflicts identified are considered and, as appropriate, authorised by the Board.

Each year the Committee reviews the independence of the Non-Executive Directors. All Non-Executive Directors (excluding the Company Chair) are currently considered independent.

#### Documents available for inspection

Non-Executive Directors are appointed for an initial three-year term, extendable by a further two additional three-year terms. The letters of appointment for Non-Executive Directors and the service contracts of the Executive Directors are available to shareholders for inspection at the Company's registered office during normal business hours (subject to any ongoing restrictions due to the COVID-19 pandemic). Due to restrictions arising from the COVID-19 pandemic, we are asking shareholders not to attend the 2020 AGM and service contracts/letters of appointment will not be available for inspection at the 2020 AGM. Copies can be sent to shareholders on request.

The formal responsibilities of the Committee are set out in terms of reference. During the year the Committee reviewed an update to the terms of reference, which was subsequently approved by the Board. The Committee's Terms of Reference are available at [www.softcat.com/investors](http://www.softcat.com/investors).



**Vin Murria**

Chair of the Nomination Committee

19 October 2020



# Letter from Committee Chair

## REMUNERATION

### Members

K Slatford (Chair)  
R Perriss  
V Murria

### Attendance of the Remuneration Committee

Name	Committee attendance 2020
K Slatford	● ● ● ● ● ● ● ● ● ●
V Murria	● ● ● ● ● ● ● ● ● ●
R Perriss	● ● ● ● ● ● ● ● ● ●
<b>Total meetings held</b>	● ● ● ● ● ● ● ● ● ●

● Attended ○ Did not attend ● N/A

Peter Ventress stepped down from the Board on 31 December 2019 and he attended all Committee meetings for the year until the time he stepped down. Karen Slatford joined the Board on 5 December 2019 and she has since attended all Committee meetings during the year. In addition to the five meetings, there was one formal written resolution considered and passed by the Committee during the year.



The Committee has considered the impact and uncertainty caused by the COVID-19 pandemic when considering executive remuneration for the year.

### Dear shareholder

I am very pleased to present my first report as Chair of Softcat's Remuneration Committee (the 'Committee'). I would like to thank Peter Ventress, the former Committee Chair, for all his hard work over the many years.

### Business performance

This has been a very challenging year for Softcat, which like many other businesses has had to adjust to the significant impact and uncertainties caused by the COVID-19 pandemic. In this context, the Committee and the Board have been very encouraged that Softcat adjusted rapidly to the many changes and has continued to perform well. You will see our performance and progress explained in more detail in the Strategic Report but I would like to pick out some key achievements, which are a credit to the business given the exceptional circumstances:

- Revenue growth: 9%
- Gross profit growth: 12%
- Operating profit growth: 11%
- Employee engagement: 93%
- Customer satisfaction: 97%

### Remuneration Policy (the 'Policy')

A new Policy was approved by shareholders at the 2019 AGM with a vote of 98.6% and I would like to thank our shareholders for giving the Policy such a high level of support. The Policy incorporated the recommendations and good points of practice set out in the 2018 UK Corporate Governance Code. Given all the work that was invested in introducing the new Policy, this year has been one of consolidation and operation rather than further change. Following assessment by the Committee, we consider that the Policy is still fit for purpose. As such, no changes to the Policy are proposed for the 2020 AGM.

### Remuneration outcomes during the year

During the year, the Board regularly reviewed Softcat's financial performance and we confirmed in a trading update announcement in August 2020 that operating profit for the full year was slightly ahead of the Board's expectations. This resilient performance resulted in a credible achievement in many of the Company's KPIs (outlined on pages 30 and 31), including performance against our operating profit targets, leading to 72% of the maximum annual bonuses being earned by the Executive Directors.



### Letter from Committee Chair – Remuneration continued

#### Remuneration outcomes during the year continued

Good performance has of course been sustained for the past few years and during the financial year the Long Term Incentive Plan ('LTIP') awards granted in 2016 vested. The Committee assessed the vesting outcome for the LTIPs and concluded that maximum targets had been exceeded against the performance metrics of total shareholder return ('TSR') and earnings per share ('EPS').

During the year the Committee concluded that all long-term incentive and annual bonus outcomes were appropriate. This conclusion was reached after taking into account relevant matters, such as the performance of the business and the alignment between the Executive Directors and the wider workforce in respect of annual variable pay for the year. The Committee confirms that it did not exercise any discretion to alter any remuneration outcomes for the Executive Directors.

Looking forward, the LTIPs granted in 2017 are due to vest in late 2020. Based on current performance, I would expect the LTIPs when they vest to exceed the threshold performance conditions (EPS and TSR), which were set and announced at the time of grant. The Committee will as usual determine the extent to which the performance conditions have been met, along with any other relevant matter before formally concluding on the vesting outcome.

#### Main activities during FY20

##### September 2019

- Discussion on FY20 annual bonus and LTIP measures
- Update on proposed 2019 Remuneration Policy
- Review of proposed consultation with major shareholders on the 2019 Remuneration Policy
- Review of the 2019 Gender Pay Gap Report
- Review of initial draft of the 2019 Report from the Remuneration Committee

##### October 2019

- Update on consultation with major shareholders on the 2019 Remuneration Policy
- Consideration and approval of the proposals for the grant of LTIPs to Executive Directors for FY20 and other share-based awards to senior managers below Board level
- Review and approval of the annual bonuses awarded to Executive Directors for FY19
- Review and determination of vesting outcomes for LTIPs granted in 2016
- Consideration of the annual bonus arrangements for the Executive Directors for FY20
- Approval of the 2019 Remuneration Report and proposal of 2019 Remuneration Policy to shareholders
- Review of achievement against share ownership targets for the Executive Directors

##### March 2020

- Discussion of arrangements for the annual Company-wide pay review for FY20

- Corporate governance updates and reviews on various remuneration trends and current practices

##### May 2020

- Review of market practices in respect of remuneration performance metrics
- Update on remuneration below Board level across the Company
- Review and discussion of the market impact of COVID-19 on executive remuneration

##### July 2020

- Update on remuneration below Board level across the Company
- Approval of a proposed approach and timing in respect of annual bonus and LTIP awards for FY21
- Corporate governance update for listed companies on recent remuneration trends

##### Regular or standing items at each Committee meeting include:

- Approval of previous Committee meeting minutes and review of follow-up on outstanding actions
- Governance updates for Committee review or approval. During the year this included reviews of:
  - the Committee's terms of reference;
  - the outcomes of shareholder voting on the 2019 Remuneration Report and 2019 Remuneration Policy; and
  - remuneration-related aspects of the 2018 UK Corporate Governance Code.

The Company Secretary also prepares a twelve-month rolling plan for the Committee so that matters can be planned and considered over the longer term.



### What we have done during the year

As a result of changes in structure of the remuneration packages for both the CEO and CFO in previous years, their incentives have become more closely aligned to the market, but the value of each still remains below median of the FTSE 250 external comparator data. The Remuneration Policy approved by shareholders in 2019 allows the Committee to increase the incentive quantum above the current levels. The Committee determined that no such increase was required nor appropriate during the year. However, this must of course be kept under review to ensure that remuneration is competitive, reflective of the Company strategy and aligned with shareholders and within the constraints of our agreed Policy.

The calendar activities (page 68) summarises the areas of focus and actions for the Committee during the 2020 financial year, all of which were within the framework of the current Remuneration Policy.

### Changes in executive remuneration

The Committee has considered the impact and uncertainty caused by the COVID-19 pandemic when considering executive remuneration for the year. We continued to receive regular updates on remuneration across the workforce to ensure the Committee's deliberations were well informed. Softcat has been very considered in its approach to make sure the Company properly supports and is fair to its employees, customers and other stakeholders during the pandemic. A decision was taken not to furlough any employees, despite the business challenges and uncertainties.

Each year the Company considers whether to award rises in basic pay across the workforce, in order to maintain the competitiveness of our rewards. However, management have taken a prudent approach so far this year to conserve cash in the business and agreed to freeze pay rises across the Company for all but the lowest paid staff (those earning less than £25,000 per annum). The Committee continues to follow an approach which takes into account pay and conditions throughout the organisation and to ensure ongoing alignment, the Committee agreed that the same pay rise freeze should also apply to the Executive Directors. It also applies to the Company Chair and all Non-Executive Directors.

Mindful of the hardship caused in many communities by COVID-19, the Board unanimously agreed to donate to a charity of their choice a value equivalent to 20% of their base salaries/fees over three months.

### In conclusion

The Committee continues to focus on ensuring that our remuneration arrangements remain fit for purpose and take into account any relevant internal or external factors as appropriate. We aim to preserve a good alignment of interests between our shareholders and our management team.

The Annual Report on Remuneration (pages 70 to 83) together with this letter will be subject to an advisory shareholder vote at the forthcoming AGM on 10 December 2020. I trust that I can count on your continued support. If shareholders do wish to discuss any issues about executive remuneration, I can be contacted via the Company Secretary at cosec@softcat.com.

**Karen Slatford**

Chair of the Remuneration Committee

19 October 2020

#### Notes:

This report has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended and the provisions of the current Corporate Governance Code and the Listing Rules. The report consists of two sections:

- the Annual Statement by the Remuneration Committee Chair; and
- the Annual Report on Remuneration, incorporating:
  - an 'at a glance' section summarising our proposed Remuneration Policy, including proposed changes; and
  - details of payments made to the Directors and details of the link between Company performance and remuneration for the 2020 financial year.

The Chair's Annual Statement and the Annual Report on Remuneration will be subject to an advisory vote at the AGM to be held on 10 December 2020.

# Part A

## AT A GLANCE

### Introduction

In this section, we set out a summary of our Remuneration Policy, its link to corporate strategic objectives and the performance and remuneration outcomes for the 2020 financial year.

### Our Remuneration Policy and its link to our Company strategy

The Company's strategy is laid out on page 13.

Ensuring the alignment of the Remuneration Policy to the Company strategy was key for the Remuneration Committee in developing the Policy below in conjunction with our core principles of remuneration.

The key elements of the Company's strategy and how its successful implementation is linked to the Company's Remuneration Policy are set out in the following table.

Remuneration Policy (from the date of shareholder approval)	Strategic priorities			Equity ownership and retention of shares	Retain and reward executive team to deliver the strategy
	Generate sector-leading value for shareholders	Growth in profit from existing customers	Win new customers		
<p><b>Annual bonus</b></p> <p>The maximum bonus (including any part of the bonus deferred) under the Annual Bonus Plan ('ABP') will not exceed 200% of a participant's annual base salary.</p> <p>For 2021, the maximum bonus opportunity is 150% for the CEO and CFO respectively.</p>	✓	✓	✓	✓	✓
<p><b>Operating profit</b></p> <p>The key performance indicator for the Company. The Committee believes that the Directors should focus on this key metric during the financial year to maintain high profit growth and the success of the business to deliver value for our shareholders.</p> <p>Growth in this metric is a direct demonstration of the successful execution of our business strategy, including winning new customers and growth of profit from existing customers.</p>					
<p><b>LTIP</b></p> <p>Maximum annual award is normally 200% of salary.</p> <p>Awards will vest at the end of three years.</p> <p>The performance conditions for awards are equally weighted between:</p> <ul style="list-style-type: none"> <li>earnings per share ('EPS') growth; and</li> <li>comparative total shareholder return ('TSR').</li> </ul> <p>The current annual award is 100% for the CEO and CFO respectively.</p>	✓	✓	✓	✓	✓
<p><b>EPS and TSR</b></p> <p>The success in maximising profit growth will be measured through the long-term EPS growth targeted by the LTIP. In addition, sustained value generation will be reflected in the share price of the Company, which will be measured through the Company's TSR performance under the LTIP.</p>					
<p><b>TSR</b></p> <p>The generation of profit growth targeted by the annual bonus will help enhance the value of the Company, which will be measured through the success of the Company's TSR performance against its comparators (a performance condition under the LTIP).</p>					
<p><b>EPS</b></p> <p>An incentive to grow this market in the longer term is provided through EPS growth targeted by the LTIP. The success of this element of the strategy should be reflected in long-term TSR performance.</p>					
<p><b>Share Incentive Plan ('SIP')</b></p>				✓	✓
<p><b>Minimum shareholding requirements</b></p> <ul style="list-style-type: none"> <li>Chief Executive: 200% of salary</li> <li>Chief Financial Officer: 150% of salary</li> </ul>				✓	





#### Our core principles of remuneration:

- to ensure Senior Executives are attracted, retained and motivated to drive the Company in its next stage of development;
- to incentivise the management team in extending the Company's position in the IT infrastructure solutions industry; and
- to deliver long-term sustainable growth.

#### Statement of consideration of shareholder views

The Committee takes the views of the shareholders seriously and these views are taken into account in shaping Remuneration Policy and practice. Shareholder views are considered when evaluating and setting the remuneration strategy and the Committee commits to consulting with key shareholders prior to any significant changes to its Remuneration Policy.

During the financial year the Committee consulted with major shareholders in advance of the new Remuneration Policy and obtained significant shareholder support as a result of the consultations. This was formally confirmed at the 2019 AGM when shareholders approved the Remuneration Policy. Prior to the 2019 AGM, the Committee had also consulted with certain proxy voting advisory bodies, including the Investment Association ('IA') and the Institutional Shareholder Services ('ISS').

Shareholder support remains strong in respect of the Remuneration Policy, which received 98.6% votes in favour at the 2019 AGM. The advisory vote for the Annual Report on Remuneration at the 2019 AGM received 98.97% votes in favour. The Committee is grateful for the continuing support of shareholders.

#### Considerations of employment conditions elsewhere in the Company

The remuneration strategy for all employees is determined in terms of best practice and ensuring that the Company is able to attract and retain the best people. This principle is followed in our Remuneration Policy.

The remuneration strategy of the Company has been designed to ensure all employees share in its success. This includes for all employees: base pay, certain employment benefits, a pension plan and participation in the SIP for all eligible employees. Commissions are available for qualifying sales employees whilst other employees may participate in other annual bonus plans. Executive Directors are entitled to participate in an annual bonus plan and an LTIP as are some members of the senior management team.

The table below shows how our incentive schemes support the Company strategy.

Plan	Purpose	Eligibility	Strategic objectives				
			Generate sector-leading value for shareholders	Growth in profit from existing customers	Win new customers	Equity ownership and retention of shares	Retain and reward executive team to deliver the strategy
<b>SIP</b>	Broaden share ownership and share in corporate success over the medium term.	All eligible employees				✓	✓
<b>Annual bonus</b>	Incentivise and reward short-term performance. At senior level, an element of bonus is deferred in shares.	Executive Directors, senior executives, senior managers and managers	✓	✓	✓	✓	✓
<b>LTIP</b>	Incentivise and reward long-term performance.	Executive Directors, senior executives and senior managers	✓	✓	✓	✓	✓

The Company does not use remuneration comparison measurements. A formal Employee Forum has been established within the business where staff can raise any issue they feel to be relevant with the Designated Non-Executive Director for Workforce Engagement (Vin Murria). There are also regular employee engagement meetings led by the CEO and CFO. During an employee engagement meeting in the financial year, employees were informed that as a result of the uncertainty and exceptional circumstances caused by the COVID-19 outbreak, management had taken a prudent approach so far to conserve cash in the business and had agreed to a freeze in pay rises. The pay freeze had been put in place at all levels of the business, including for members of the Board. An exception was made for the lowest paid employees (those earning less than £25,000), who received a modest pay rise.

### Part A – At a glance continued

#### Considerations of employment conditions elsewhere in the Company continued

In setting the Remuneration Policy for Directors, the pay and conditions of other employees of the Company are taken into account, including any base salary increases awarded and the level of employer pension contribution. During the year the Committee received updates on pay and benefits across the general workforce. The Committee also reviews and approves the remuneration structure for the management-level tiers below the Executive Directors and the proposed framework for annual pay rises and uses this information to ensure consistency of approach.

#### How we performed during the 2020 financial year (FY20) (audited)

In respect of FY20, the bonus awards payable to Executive Directors were agreed by the Committee having carefully reviewed the Company's results. The performance measures and targets under the Annual and Deferred Bonus Plan for FY20 and the extent to which they were satisfied are set out below:

Performance condition	Performance period	Threshold	Target	Maximum	Actual	Actual as a % of maximum opportunity	Annual bonus payout	
							Graeme Watt	Graham Charlton
<b>Operating profit</b>	FY20	£82.98m	£92.20m	£101.40m	£93.7m	72.2%	£502,017	£334,678

No discretion was exercised by the Committee in relation to the outcome of the annual bonus awards. In respect of the bonus payout up to 100% of salary, two-thirds was paid in cash and one-third was paid by way of deferred shares. In respect of the bonus payout above 100% of salary, all of this shall be by way of in deferred shares.

#### Long-term incentives awarded in FY20 (audited)

On 3 December 2019 the following annual awards of nil-cost options under the Company's Long Term Incentive Plan ('LTIP') were made to the CEO and CFO:

Executive Director	LTIP award (% of salary)	LTIP award (shares)	Award date	Share price
Graeme Watt	100	42,021	03/12/19	£11.03
Graham Charlton	100	28,014	03/12/19	£11.03

1. The share price used to determine the award was calculated by reference to the prevailing market price of an ordinary share on the business day prior to the award.

50% of the award will be subject to the Company's relative TSR performance against the FTSE 250 (excluding real estate and investment trusts) over a three-year performance period and the remaining 50% will be subject to adjusted EPS targets at the end of the period. Further details are on page 77.

#### Single figure remuneration for our Executive Directors

The tables below set out the single total figure of remuneration and breakdown for each Executive Director in respect of FY20.

	Salary	Taxable benefit	Bonus <sup>1</sup>	LTIP <sup>2</sup>	Pension	SIP	Other	Total
Graeme Watt (CEO)	£463,500	£2,680	£502,017	£0	£23,175	£0	£0	£991,372
Graham Charlton (CFO)	£309,000	£3,113	£334,678	£1,531,120	£15,450	£0	£0	£2,193,361

#### Notes:

- In respect of performance up to target, two-thirds of the annual bonus earned will be paid in cash and one-third will be deferred into shares (by way of nil-cost options). In respect of performance above target, all of the annual bonus earned will be deferred into shares (by way of nil-cost options).
- LTIP awards made on 8 December 2016 to Graham Charlton vested during FY20. The award was calculated by reference to the prevailing market price on the business day preceding the grant. Details of the performance condition (relative TSR and EPS targets) were disclosed in an announcement to the London Stock Exchange at the time of grant. As a result of full achievement of the performance criteria, nil-cost options over 119,767 were exercised at a share price of £11.47 per share. Participants may also receive a cash payment representing the value of dividends (a dividend equivalent) on the shares over the performance period and a cash dividend equivalent payment was made upon vesting which is included in the above. The aggregate exercise price and dividend equivalent included above were £1,373,727 and £157,393 respectively.



## Remuneration changes for the Board

During the year, the Committee was briefed on the pay reviews for the general workforce. As already noted, management have taken a prudent approach so far to conserve cash in the business and it was agreed that there will be a pay rise freeze across the Company, including for the Board. An exception was made for the lowest paid staff (those earning less than £25,000 per annum), who received a pay rise. The Committee (in respect of the Executive Directors) and the Board (in respect of the Non-Executive Directors) had last year agreed an increase of 3% in the basic pay and fees for the Executive Directors and Non-Executive Directors, respectively, with effect from 1 August 2019. This level reflected the increases implemented for much of the workforce from 1 August 2019. Further details are provided on pages 80 and 83.

## Remuneration Policy table summary

In accordance with the remuneration reporting regulations, the Directors' Remuneration Policy (the 'Policy') summarised below was approved at the AGM on 6 December 2019 and will apply for a period of three years from the date of approval. The Policy is contained in Softcat's 2019 Annual Report and Accounts, which is available on the Company's website at <https://www.softcat.com/investors/investor-centre/>. The Committee's objective is to operate this Policy to ensure that our Executive Directors have a remuneration structure and total remuneration opportunity that is aligned to Softcat's business and is competitive when assessed against the market in which we compete for talent.

Element of remuneration    Operation

### Salary

An Executive Director's basic salary is set on appointment and reviewed annually or when there is a change in position or responsibility.

When determining an appropriate level of salary, the Committee considers:

- remuneration practices within the Company;
- the general performance of the Company;
- salaries within the ranges paid by the companies in the comparator group used for remuneration benchmarking;
- any change in scope, role and responsibilities; and
- the economic environment.

In general, salary increases for Executive Directors will be in line with the increase for employees.

Individuals who are recruited or promoted to the Board may, on occasion, have their salaries set below the targeted policy level until they become established in their role. In such cases subsequent increases in salary may be higher than the general rises for employees until the target positioning is achieved.

### Benefits

The Executive Directors receive private health insurance, critical illness, life insurance and death-in-service benefit.

Additional benefits may be offered, such as relocation allowances on recruitment. The maximum will be set at the cost of providing the benefits described.

### Pensions

The Executive Directors are entitled to participate in the Company's applicable pension plans. Executive Directors' pensions are aligned with the employer contributions for the wider workforce, currently 5% of salary.

### Annual and Deferred Share Bonus Plan (the 'Bonus Plan')

The Remuneration Committee will determine the maximum annual participation in the Annual Bonus Plan for each year, which will not exceed 200% of salary. The maximum bonus opportunity is currently 150% of salary. This can only be attained by achieving a level of stretch in the targets set.

There is a mandatory deferral of one-third of bonuses up to 100% of salary and all bonuses above 100% of salary into shares. The deferred elements vest after a minimum period of three years based on continued employment. The bonus contains clawback and malus provisions.

### Long Term Incentive Plan ('LTIP')

LTIP maximum grant is 200% of salary p.a. (250% in exceptional circumstances).

The Committee considers and sets the performance measures and targets for each LTIP award. See page 77 for the performance conditions of the grant made in the year.

The LTIP contains clawback and malus provisions.

There is a mandatory two-year post-vesting holding period.

## Part A – At a glance continued

### Remuneration Policy table summary continued

Element of remuneration Operation

**Share Incentive Plan ('SIP')** The Company operates a SIP in which the Executive Directors are eligible to participate (which is in line with HMRC legislation and is open to all eligible staff) to encourage employees to become shareholders in the Company and thereby align their interests with shareholders.

Minimum shareholding requirement	The following table sets out the minimum shareholding requirements:	
	Role	Shareholding requirement (% of salary)
	Chief Executive	200
	Chief Financial Officer	150

The Committee retains the discretion to increase the shareholding requirements.

There is a mandatory two-year post-cessation holding period.

**Non-Executive Director and Chair fees** The Board is responsible for setting the remuneration of the Non-Executive Directors. The Remuneration Committee is responsible for setting the Chair's fees.

Non-Executive Directors are paid an annual fee and additional fees for chairing Committees. The Chair does not receive any additional fees for membership of Committees.

Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors. Fees are set at broadly the median of the comparator group.

Non-Executive Directors and the Chair do not participate in any variable remuneration or benefits arrangements.

The Company will pay reasonable expenses incurred and may settle any tax incurred in relation to these.

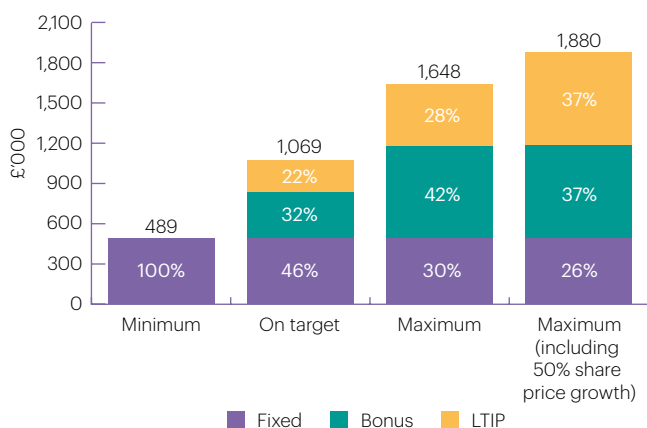
There are no changes to the approved Directors' Remuneration Policy. The full Policy is available to view in Softcat's 2019 Annual Report which is on the Company's website at [softcat.com/investors](http://softcat.com/investors).

### Illustrations of the application of the Remuneration Policy

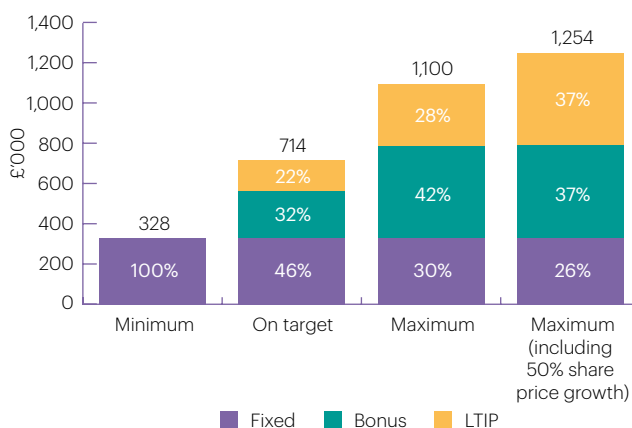
The charts below illustrate the remuneration that would be paid to each of the Executive Directors for the 2021 financial year under three different performance scenarios: (i) minimum; (ii) on target; and (iii) maximum. The elements of remuneration have been categorised into three components: (i) fixed; (ii) annual bonus (deferred bonus); and (iii) LTIP.

In line with the regulations on policy scenarios, we have also included an additional reference point to show indicative share price growth of 50% over three years (being the performance period of the LTIP) at maximum.

#### Chief Executive Officer (Graeme Watt)



#### Chief Financial Officer (Graham Charlton)





The table below sets out the assumptions used to calculate the elements of remuneration for each of the scenarios set out in the charts on the previous page.

Element	Description	Minimum	Target	Maximum	Maximum including 50% share price growth
<b>Fixed<sup>1</sup></b>	Salary, benefits and pension	Included	Included	Included	Included
<b>Annual bonus<sup>2</sup></b>	Annual bonus (including deferred shares)  Maximum opportunity of 150% of salary	No annual variable	50% of maximum bonus	100% of maximum bonus	100% of maximum bonus
<b>LTIP<sup>2,3</sup></b>	Award under the LTIP  Maximum annual award of 100% of salary	No multiple-year variable	50% of the maximum award	100% of the maximum award	100% of the maximum award plus 50% share price growth

**Notes:**

- Based on 2020 benefits payments and pension values as per the single figure table. The actual benefits and pension contributions for FY21 will only be known at the end of the financial year. Basic pay reflects the no increase awarded for FY21.
- Share price growth has been included in the final illustration in accordance with the required regulations. Dividend equivalents have not been added to the deferred share bonus and LTIP share awards.
- Participation in the SIP has been excluded given the relative size of the opportunity levels.

## Executive Director contracts and letters of appointment for Chair and Non-Executive Directors

### Executive Directors

Name	Date of service contract	Nature of contract	Notice periods		Compensation provisions for early termination
			From Company	From Director	
Graeme Watt	1 April 2018	Rolling	12 months	12 months	None
Graham Charlton	29 October 2015	Rolling	12 months	12 months	None

### Non-Executive Directors

Name	Date of letter of appointment
Martin Hellowell	1 April 2018
Vin Murria	3 November 2015
Karen Slatford	22 October 2019
Robyn Perriss	21 May 2019

**Notes:**

The Committee's policy for setting notice periods is that a twelve-month period will apply for Executive Directors.

The Non-Executive Directors of the Company (including the Chair) do not have service contracts. The Non-Executive Directors are appointed by letters of appointment. Each Independent Non-Executive Director's term of office runs for a three-year period. The Chair is subject to three months' notice from either the Company or the Chair. The other Non-Executive Directors do not have notice periods.

The initial terms of the Non-Executive Directors' positions are subject to their re-election by the Company's shareholders at the AGM and to re-election at any subsequent AGM at which the Non-Executive Directors stand for re-election. All Directors will be put forward for re-election by shareholders on an annual basis.

# Part B

# ANNUAL REPORT ON REMUNERATION

## Single total figure of remuneration (audited)

### Executive Directors (audited)

The table below sets out the single total figure of remuneration and breakdown for each Executive Director in respect of FY20 and FY19.

£'000	Salary <sup>1,4</sup>		Taxable benefits <sup>2,4</sup>		Bonus <sup>3,4</sup>		LTIP <sup>4</sup>		Pension <sup>4</sup>		SIP		Other		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Graeme Watt (CEO)	463.5	450.0	2.7	3.0	502.0	450.0	—	—	23.2	16.5	—	—	—	—	991.4	919.5
Graham Charlton (CFO)	309.0	300.0	3.1	3.3	334.7	300.0	1,531.1	1,127.3	15.5	8.0	—	—	—	—	2,193.4	1,738.6

#### Notes:

- Both Directors prior to the end of the financial year voluntarily donated to their own chosen charities – this value equated to the equivalent of 20% of three months' salary. This did not affect the reportable salary earned for statutory purposes.
- See section below setting out details of the benefits provided.
- Details of the bonus targets, their level of satisfaction and the resulting bonus earned in FY20 are set out on page 72.
- Fixed pay consists of salary, taxable benefits and pensions as set out above. Variable pay consists of bonus and LTIP as set out above. Further details on the LTIP which vested and was exercised by Graham during the year is provided in the section 'Single figure remuneration for our Executive Directors' above.

### Non-Executive Directors (audited)

The table below sets out the single total figure of remuneration and breakdown for each Non-Executive Director.

Non-Executive Director	2020 fees <sup>1</sup>	LTIP	2020 total	2019 fees <sup>1</sup>	Roles
Martin Hellawell <sup>2</sup>	157,926	1,030,908	1,188,834	1,353,640	Non-Executive Chair
Karen Slatford <sup>1</sup>	44,252	—	44,252	—	Senior Independent Director and Chair of the Remuneration Committee
Vin Murria <sup>3</sup>	66,080	—	66,080	53,742	Independent Non-Executive Director and Chair of the Nomination Committee and Designated Director for Workforce Engagement
Robyn Perriss	60,100	—	60,100	5,008	Independent Non-Executive Director and Chair of the Audit Committee
Peter Ventress <sup>4</sup>	25,793	—	25,793	60,116	Independent Non-Executive Director and Chair of the Remuneration Committee

#### Notes:

- The fees are proportionate to time in service to reflect total fees paid during the financial year.
- Martin Hellawell was appointed Non-Executive Chair with effect from 1 April 2018; prior to that he was CEO and he participated in Softcat's LTIP programme. Awards under the LTIP are calculated by reference to the prevailing market price on the business day preceding the grant. As previously explained, the Committee approved that Martin's outstanding LTIPs shall be pro-rated with effect from him stepping down as CEO. LTIP awards made in 2015 and 2016 to Martin vested during FY19 and FY20 respectively. The 2019 figure for Martin includes both his fee as Chair and the LTIP which vested in FY19 and these were disclosed in last year's Annual Report on Remuneration. As a result of full achievement of the performance criteria, nil-cost options over 76,968 ordinary shares vested and were exercised during FY20. Details of the performance condition (relative TSR and EPS targets) were disclosed in an announcement to the London Stock Exchange at the time of grant. The closing share price on date of exercise was £12.08 per share. Participants may also receive a cash payment representing the value of dividends (a dividend equivalent) on the shares over the performance period and a cash dividend equivalent payment was made upon vesting which is included in the LTIP figure above. The aggregate exercise price and dividend equivalent included above was £929,773 and £101,135 respectively.

Also as previously reported, the Remuneration Committee exercised its discretion to allow Martin to continue to receive his health benefits as Chair. The cost of providing this cover during FY20 and other P11D benefits was £3,426 and is included in the figure for Martin's fees above.

- The fees for Vin Murria are pro-rated with effect from the respective date of appointment to the nomination committee.
- The fees for Peter Ventress are pro-rated to the time he stepped down from the Board.



## Taxable benefits

Benefits in the year for the Executive Directors comprised health benefits such as private health insurance, health cash plan, critical illness, dental and life cover. Figures are reported where appropriate.

## 2020 annual bonus outcomes

In respect of 2020, the bonus awards payable to Executive Directors were agreed by the Committee, having carefully reviewed the Company's results. The annual bonus structure operating in 2021 will be unchanged and is outlined on page 82.

Details of the targets used to determine bonuses in respect of FY20 and the extent to which they were satisfied are shown in the table on page 72. These figures are included in the single figure table.

## Long-term incentives awarded and vested (audited)

### Awarded

Awards under the Company's LTIP made in FY20 are shown in the table on page 72. The awards were subject to the following performance conditions:

Measure	Weighting	Details
Adjusted EPS	50%	<ul style="list-style-type: none"> <li>• 20% vesting of this element for adjusted EPS at end of performance period of 38.6p (FY19: 29.3p)</li> <li>• Full vesting for 45.5p (FY19: 35.7p)</li> <li>• Straight-line vesting between these points</li> </ul>
Relative TSR – assessed against the constituents of the FTSE 250 (excluding real estate and equity investment trusts)	50%	<ul style="list-style-type: none"> <li>• 30% vesting for median performance against the comparators</li> <li>• Full vesting for upper quartile performance</li> <li>• Straight-line vesting between these points</li> </ul>

The EPS targets were set following the end of the 2019 financial year based on an assessment of the business. The adjusted basic earnings per share for the purposes of the LTIP performance measure is calculated as basic earnings per share in accordance with IAS 33, adjusted for exceptional items as determined by the Committee.

### Vested

Awards under the Company's LTIP granted in December 2016 to each of Martin Hellawell (when he was Chief Executive) and Graham Charlton vested and were exercised by Martin and by Graham in FY20. Options over 176,129 shares were granted to Martin which, as previously disclosed, were pro-rated to 76,968 shares following him stepping down as CEO. Options over 119,767 shares were granted to Graham. Vesting of the awards was subject to the following performance conditions (which were disclosed at the time of grant):

Measure	Weighting	Details
Adjusted EPS	50%	<ul style="list-style-type: none"> <li>• 20% vesting of this element for adjusted EPS at end of performance period of 20.6p</li> <li>• Full vesting for 23.7p</li> <li>• Straight-line vesting between these points</li> </ul>
Relative TSR – assessed against the constituents of the FTSE 250 (excluding real estate and equity investment trusts)	50%	<ul style="list-style-type: none"> <li>• 30% vesting for median performance against the comparators</li> <li>• Full vesting for upper quartile performance</li> <li>• Straight-line vesting between these points</li> </ul>

EPS for FY19 was 34.6p per share and upper quartile performance was achieved in respect of the TSR. Following formal review by the Committee, the Committee confirmed that full vesting had been achieved in respect of both EPS and TSR. Further details on the LTIPs which vested are provided in the tables in respect of single figure remuneration.

### Part B – Annual report on remuneration continued

#### Pension entitlements

The Company operates a defined contribution pension scheme which the Executive Directors can participate in, or they can take a cash supplement in lieu of pension.

In FY20, both Graham Charlton and Graeme Watt received 5% of salary either as an employer pension contribution into the defined contribution scheme or as a pension cash allowance. This is in line with employer pension contributions available for the general workforce.

None of the Directors receive an entitlement under a defined benefit plan.

#### Share Incentive Plan ('SIP')

There were no free shares awarded in FY20 (FY19: nil). No free shares have been awarded under the SIP since 2015 and no free shares vested during FY20.

The Executive Directors have an entitlement to purchase partnership shares under the SIP. Graham Charlton and Graeme Watt purchased 170 and 171 partnership shares respectively during the year. The total SIP holdings are provided on page 78 as part of the Directors' share interests table.

#### Payments to past Directors/payments for loss of office (audited)

There were no payments for loss of office made to Directors in the year. Peter Ventress stepped down as a Non-Executive Director on 31 December 2019 and he received his respective fees to that date. He did not receive any other payments.

#### Statement of Directors' shareholding and share interests

Director	Shareholding requirement (% of salary) <sup>1</sup>	Current shareholding (% of salary) <sup>2</sup>	Beneficially owned <sup>3</sup>	Other shares held		Options			Shareholding requirement met?
				LTIIP interests subject to performance conditions	Deferred shares not subject to performance conditions	Vested and unexercised	Unvested	Exercised	
<b>Executive Directors</b>									
Graeme Watt	200	0.6	218 <sup>3</sup>	183,705	22,112 <sup>4</sup>	—	—	—	No
Graham Charlton	150	202.8	49,689 <sup>3</sup>	152,088	38,876 <sup>4</sup>	—	—	—	Yes
<b>Non-Executive Directors</b>									
Martin Hellawell <sup>5</sup>	n/a	n/a	5,312,857	n/a	n/a	n/a	n/a	n/a	n/a
Karen Slatford <sup>6</sup>	n/a	n/a	—	n/a	n/a	n/a	n/a	n/a	n/a
Vin Murria	n/a	n/a	165,397	n/a	n/a	n/a	n/a	n/a	n/a
Robyn Perriss	n/a	n/a	15,000	n/a	n/a	n/a	n/a	n/a	n/a

#### Notes:

- The Committee has adopted formal shareholding guidelines that will encourage the Executive Directors to build up, over a five-year period, and then subsequently hold, a shareholding equivalent to a percentage of base salary. Graham joined the Company in 2015 and currently meets the minimum shareholding requirement. Graeme, who joined the Company in 2018, does not meet the shareholding requirements and will be building up his shareholding.
- This is based on a closing share price of £12.61 at 31 July 2020 and the year-end salaries of the Executive Directors. Values are not calculated for Non-Executive Directors as they are not subject to shareholding requirements.
- This includes investment in partnership shares under the SIP. Graeme and Graham have each purchased 38 partnership shares between the year end and the date of this report, which is not included above.
- This is in respect of previous awards of nil-cost options granted under the Deferred Share Bonus Plan.
- Includes ordinary shares held by, or in trust for, Martin and/or his family members.
- Karen joined the Board in December 2019.

#### Fees retained for external non-executive directorships

Executive Directors may hold positions in other companies as non-executive directors and retain the fees. Graeme and Graham currently hold no such external directorships.





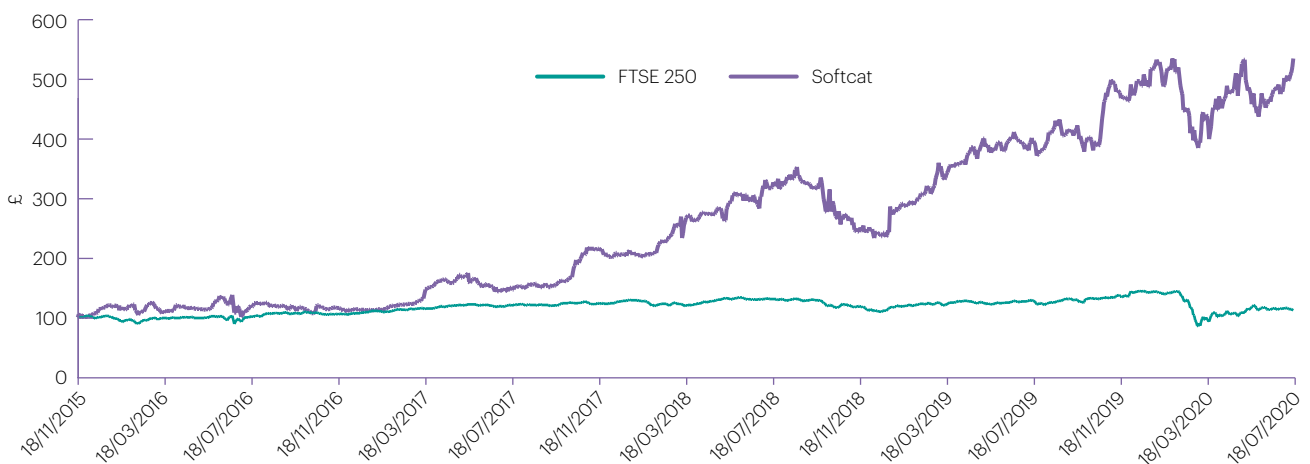
## Comparison of overall performance and pay

The graph below shows the value of £100 invested in the Company's shares since listing compared with the FTSE 250 index.

The graph shows the total shareholder return generated by both the movement in share value and the reinvestment over the same period of dividend income.

The Committee considers that the FTSE 250 is the appropriate index because the Company has been a member of this since the first review of the index since the IPO. This graph has been calculated in accordance with the Regulations. It should be noted that the Company listed on 18 November 2015 and therefore only has a listed share price for the period of 18 November 2015 to 31 July 2020.

### Total shareholder return



## Chief Executive's historical remuneration

The table below sets out the total remuneration delivered to the Chief Executive over the last year valued using the methodology applied to the single total figure of remuneration.

Chief Executive		2020	2019	2018	2017	2016	2015
G Watt	Total single figure	<b>£991,372</b>	£919,518	£305,539	—	—	—
M Hellawell <sup>1</sup>			—	£532,716	£774,908	£562,117	£335,762
G Watt	Annual bonus payment level achieved (% of maximum opportunity)	<b>72</b>	100	100	—	—	—
M Hellawell <sup>1</sup>			—	100	100	99	72
	LTIP vesting level achieved (% of maximum opportunity)	<b>n/a</b>	n/a	n/a	n/a	n/a	n/a

### Note:

- Martin stepped down from his role as Chief Executive on 31 March 2018 and Graeme joined as Chief Executive on 1 April 2018. The single figure includes remuneration paid for the role as Chief Executive during the financial year.

## Relative importance of the spend on pay

The table below sets out the relative importance of spend on pay in the 2020 financial year. All figures provided are taken from the relevant Company accounts.

	Disbursements from profit in 2020 financial year	Disbursements from profit in 2019 financial year
Profit distributed by way of dividend	<b>£52.3m</b>	£56.2m
Total tax contributions <sup>1</sup>	<b>£30.2m</b>	£27.1m
Overall spend on pay, including Executive Directors	<b>£111.2m</b>	£97.6m

### Note:

- Includes corporation tax and employer's National Insurance contributions. The total tax contributions have been included because of the size of the contributions in comparison to other payments.

### Part B – Annual report on remuneration continued

#### Change in the Directors' remuneration compared with employees

	% increase/(decrease) in remuneration in 2020 compared with remuneration in 2019 <sup>1</sup>		
	Salary or fees	Bonus <sup>2</sup>	Benefits <sup>3</sup>
Graeme Watt	3%	12%	0%
Graham Charlton	3%	12%	-9%
Martin Hellowell	3%	0%	1%
Vin Murria <sup>4</sup>	23%	0%	0%
Robyn Perriss	0%	0%	0%
Karen Slatford <sup>5</sup>	0%	0%	0%
All employees <sup>6</sup>	5%	-14%	-14%

#### Notes:

- For the Directors, the percentage change reflects the figures set out in the single figure table on page 76. Figures are on an annualised basis where the Director joined or left during the year.
- Excludes commissions for employees.
- Includes private medical insurance only for employees.
- Vin Murria was appointed as the Director with responsibility for workforce engagement and also appointed as the Chair of the Nomination Committee. Fees receivable for these duties are in addition to the fees payable as a Non-Executive Director.
- Karen joined the Board in December 2019.
- For employees, figures represent Softcat plc, which is a single entity company. Details are in respect of the average percentage change in respect of the remuneration of employees on a full-time equivalent basis. In order to make the comparisons meaningful, the average percentage change in respect of each of salary, bonus and benefits for employees is a per capita figure. The reduction in bonus is related to the recruitment over the last year of roles which are not eligible for bonus. The benefits values have fluctuated due to change in premiums.

#### CEO pay ratios

The UK Government requires certain companies with over 250 employees to disclose annually the ratio of their CEO's single figure total remuneration to that of the UK workforce. CEO pay ratio data is presented below for 2020, with a prior year comparison. The data shows how the CEO's single figure remuneration for 2020 (as taken from the single figure remuneration table) compares to equivalent single figure remuneration for full-time equivalent UK employees, ranked at the 25th, 50th and 75th percentile.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
<b>2020</b>	<b>Option A</b>	<b>33:1</b>	<b>21:1</b>	<b>12:1</b>
2019 <sup>1</sup>	Option A	35:1	22:1	12:1

#### Note:

- The 2019 disclosure has been restated from that reported in the 2019 Remuneration Report to allow for a change in calculation of our total remuneration for full-time equivalent employees. Disclosure in 2019 was voluntary and the restatement has been made to fully align a prior year comparison to the first statutory required disclosure of 2020.

The Government's methodology of Option 'A' has been used to calculate the remuneration of 1,519 (FY19: 1,359) employees who were employed on the assessment date of 31 July for each respective financial year. All individuals in employment at this date were included in the calculation, with applicable components of individual remuneration annualised for employees not employed for the full twelve months. This option was selected given as it was considered to be the most efficient and robust approach in respect of gathering the required data and in particular was considered to be the most accurate way of identifying the best equivalents of the 25th, 50th and 75th percentiles.

We calculated our total remuneration for full-time equivalent employees to include:

- annual salary and allowances;
- annual bonus earnings (for the period relating to respective financial year);
- gains realised from exercising awards granted under the SIP or LTIP share plans; and
- the value of taxable benefits (including pension contributions).



From 2019 to 2020 the ratio between the total remuneration of the CEO and the total remuneration of the remaining UK workforce has remained broadly similar, with a small reduction in the ratio on the lower quartile. This minor reduction is resultant from the year on year increase in headcount being weighted towards our continued investment in technical specialists who typically earn a higher remuneration. This means that more employees in 2020 are within the top quartile which subsequently increases the average remuneration of other percentiles as reflected in the year on year ratio movements.

Pay in respect of the CEO and UK workforce is shown in the table below.

	CEO	All employees		
	(See single figure table, page 76)	25th percentile	Median	75th percentile
2020 salary	£463,500	£28,437	£43,080	£75,353
2020 total pay	£991,372	£30,215	£46,300	£83,274

### Consideration by the Directors of matters relating to Directors' remuneration

The Board has delegated to the Committee, under agreed terms of reference, responsibility for the Remuneration Policy and for determining specific packages for the Executive Directors and other selected members of the senior management team. The Company consults with key shareholders in respect of the Remuneration Policy and the introduction of new incentive arrangements.

The terms of reference for the Committee are available on the Company's website, [softcat.com/investors](http://softcat.com/investors), and from the Company Secretary at the registered office.

Our main responsibilities are:

- to determine and agree with the Board the broad Remuneration Policy for the Executive Directors and other selected members of the senior management team;
- to review the ongoing appropriateness and relevance of the Remuneration Policy; and
- to review any major changes in employee benefit structures throughout the Company and to administer all aspects of any share scheme.

The Committee receives assistance from the Company Secretary, who attends meetings. The Chief Executive Officer, the Chief Financial Officer, the Director of Human Resources and the Reward, Payroll & Policy Manager attend by invitation and when appropriate.

### Advisers to the Remuneration Committee

During the financial year, PwC advised the Committee on all aspects of the Remuneration Policy for Executive Directors and selected members of the senior management team. PwC was appointed by the Committee following IPO in November 2015. PwC also provided the Company with IT consultancy work during the year. The Committee is satisfied that no conflict of interest exists or existed in the provision of these services.

PwC is a member of the Remuneration Consultants Group and the Voluntary Code of Conduct of that body is designed to ensure objective and independent advice is given to remuneration committees. Fees of £118,100 (2019: £67,500) were provided to PwC during the year in respect of remuneration advice received.

### Statement of voting at general meeting

The table below shows the binding vote approving the Directors' Remuneration Policy and the advisory vote on the Annual Report on Remuneration at the 2019 AGM.

	Votes for	%	Votes against	%	Votes withheld
Directors' Remuneration Policy	161,238,582	98.60	2,296,086	1.40	109
Annual Report on Remuneration	161,694,092	98.87	1,840,577	1.13	109

### Part B – Annual report on remuneration continued

#### Statement of implementation of the Remuneration Policy in the 2019/2020 financial year

The Remuneration Committee has reviewed and considered the key components of remuneration to ensure that the Remuneration Policy (summarised below) is fit for purpose, continues to drive success within the remuneration framework and meets the shareholder and governance expectations of a FTSE 250 company.

	What was implemented in 2019/2020	Implementation in 2020/2021
<b>Base salary</b>	For 2020, base salaries for the CEO and CFO were £463,500 and £309,000 respectively. This represented a rise of 3%, consistent with the base salary increase for the overall employee population.	<b>Base salaries are unchanged whilst a general pay freeze has been implemented in the business, including for the CEO and CFO.</b>
<b>Pension</b>	The Company increased employer contributions for employee population to up to 5%. The Remuneration Committee made an equivalent increase for the Executive Directors. The Remuneration Policy was amended to reduce the maximum from 20% to be in line with the wider workforce.	<b>No change.</b>
<b>Benefits</b>	No change.	<b>No change.</b>
<b>Annual Bonus Plan ('ABP')</b>	For FY20 the maximum opportunity was set at 150% of salary. To further align the ABP to the interests of our shareholders: <ul style="list-style-type: none"> <li>• Cash</li> <li>• Deferred share award <ul style="list-style-type: none"> <li>• any bonus awarded above 100% of salary was deferred into shares (in addition to the existing one-third deferral into shares for any award below 100% of salary); and</li> <li>• the increased maximum bonus opportunity could only be awarded by achieving a new increased level of stretch in the targets set by the Committee.</li> </ul> </li> </ul> Up to 20% shall vest at threshold performance.	<b>No change.</b>
<b>LTIP</b>	2019 LTIP awards: <ul style="list-style-type: none"> <li>• The maximum award levels for the CEO and CFO were 100% of salary.</li> <li>• The performance measures and weightings were 50% EPS growth and 50% relative TSR.</li> <li>• The Committee reviewed the EPS performance target range in light of the Company's strategic plan over the next period. Taking into account these factors the Committee set the EPS range for the 2019 LTIP grant at challenging levels. The targets were disclosed on grant.</li> <li>• The Remuneration Policy introduced a mandatory two-year post-vesting holding requirement.</li> </ul>	<b>2020 LTIP awards:</b> <ul style="list-style-type: none"> <li>• <b>No change in the LTIP grant levels.</b></li> <li>• <b>No change to the performance measures or their weighting.</b></li> <li>• <b>No change in the determination of EPS performance targets.</b></li> <li>• <b>No change in the post-vesting holding requirement.</b></li> </ul>



	What was implemented in 2019/2020	Implementation in 2020/2021
<b>Shareholding requirements</b>	<p>CEO: 200% of salary</p> <p>CFO: 150% of salary</p> <p>To be built up over five years from appointment.</p> <p>The Remuneration Policy introduced a post-cessation shareholding requirement:</p> <ul style="list-style-type: none"> <li>Executive Directors must hold 100% of their shareholding requirement for one year post-cessation and 50% of their shareholding requirement for a further year post-cessation.</li> <li>Applicable to future share awards vesting under the ABP and LTIP.</li> </ul>	<b>No change.</b>
<b>Chair and Non-Executive fees</b>	<p>Chair fee: £154,500</p> <p>Board fee: £50,648</p> <p>Senior Independent Director: £5,627</p> <p>Committee chairship (per Committee) and fee for the Designated Director for Workforce Engagement: £11,254</p> <p>These represented a rise of 3%, consistent with the base salary increase for the overall employee population.</p> <p>In accordance with the recommendations of the 2018 UK Corporate Governance Code, during the year, the Board agreed to allocate additional responsibility for workforce engagement to one of the existing Non-Executive Directors. The fee reflects the additional time commitment required.</p>	<b>Fees are unchanged whilst a general pay freeze has been implemented in the business, including for Non-Executive Directors.</b>

**Karen Slatford**

Chair of the Remuneration Committee

19 October 2020

### Non-Financial Reporting Directive

In accordance with the EU Non-Financial Reporting Directive, the following chart summarises where you can find further information in this Annual Report on each of the key areas of disclosure that the Directive requires.

#### Environmental, social and employee-related matters

- This year the Board has endorsed longer-term goals in respect of sustainability and has started preparations for compliance with the future requirements under the Task Force on Climate-related Financial Disclosures (TCFD). Our Green Teams continue to raise awareness of the importance of environmental issues through their activities.
- Both the Board and management understand that our culture and good employee engagement are crucial to our success. A considerable amount of time is spent ensuring these are maintained.
- We discuss each of these areas in the 'Sustainability' section of this report on pages 38 to 43 and in the Corporate Governance Report on pages 48 to 54.

#### Human rights and anti-bribery-related matters

- Risks to human rights and of modern slavery are not considered a material issue for the Company.
- We also operate anti-bribery procedures which support compliance with the UK Bribery Act.
- We discuss each of these areas in the 'Sustainability' section of this report on pages 38 to 43 and in the corporate governance report on pages 48 to 54.

#### Diversity policy and approach

- We continue to put great importance on the positive benefits that diversity of gender, ethnicity, experience, background and viewpoints can bring to the business.
- We support numerous initiatives to help improve diversity. Progress on these is monitored by both senior management and the Board. The Board acknowledges there is more we need to do to improve diversity in areas of our business and will continue with our efforts.
- We discuss our approach to diversity in the 'Sustainability' section of this report on pages 38 to 43, in the Chair's Statement on pages 6 to 9 and in the Nomination Committee Report on pages 63 to 66.

#### Business model, policies, principal risks and KPIs

- We operate a business model which includes non-financial inputs and outputs. Our business model is underpinned by our straightforward strategy.
- Risks, including financial and non-financial risks, are monitored by management and by the Audit Committee. The Audit Committee also considers the key internal controls for the business.
- The Board regularly reviews both financial and non-financial KPIs, which are relevant for monitoring the performance of the business and have a clear link to delivering against our strategy. We disclose performance against our key KPIs.
- We discuss our business model on pages 16 and 17, key risks on pages 32 to 37 and selected KPIs are reported on pages 30 and 31. Our strategy is discussed in various places in the Strategic Report, including page 13.

### Directors' Report

The Directors present their report for the year to 31 July 2020.

Softcat plc is a public company limited by shares, incorporated in England and Wales, and its shares are traded on the premium segment of the Main Market of the London Stock Exchange.

#### Disclosures incorporated by reference

For the purposes of compliance with Disclosure and Transparency Rules ('DTR'), DTR 4.1.5 R (2) and DTR 4.1.8 R, the required content of the 'Management Report' can be found in the Strategic Report and this Directors' Report. The following disclosures required to be included in this Directors' Report have been incorporated by way of reference to other sections of this report and should be read in conjunction with this report:

- Corporate Governance Statement – refer to pages 48 to 54 of this report;
- statement explaining how the Directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company during the financial year – refer to pages 18 to 19 of this Annual Report;
- strategy and relevant future developments – refer to page 13 of the Strategic Report; and
- financial risk management objectives and policies – refer to the 'Risk management' section included in the Strategic Report on pages 32 to 37 and note 21 to the financial statements.



The information in respect of the Non-Financial Reporting Directive appearing in this Directors' Report is also incorporated by reference as required in the Strategic Report.

## Directors of the Company

The following Directors have held office since 1 August 2019:

Name	Position	Date of appointment
M Hellowell	Chair	Appointed as a Director on 24 March 2006 and Chair on 1 April 2018
G Watt	Chief Executive	Appointed 1 April 2018
G Charlton	Chief Financial Officer	Appointed 19 March 2015
P Ventress	Independent Non-Executive Director	Appointed 1 October 2015 and resigned 31 December 2019
V Murria	Independent Non-Executive Director	Appointed 3 November 2015
K Slatford	Independent Non-Executive Director	Appointed 5 December 2019
R Perriss	Independent Non-Executive Director	Appointed 1 July 2019

Biographies of the Directors as at 19 October 2020 can be found on pages 46 and 47.

## Powers of Directors

The general powers of the Directors are contained within UK legislation and the Company's Articles of Association (the 'Articles'). The Directors are entitled to exercise all powers of the Company, subject to any limitations imposed by the Articles or applicable legislation.

## Directors' interests

The interests of the Directors in the issued shares of the Company at 31 July 2020 are disclosed in the Remuneration Report on page 78. The Remuneration Report also sets out details of any changes in those interests between the year end and up to the date of this report.

No Director had a material interest in any contract of significance with the Company at any time during the financial year.

## Appointment and replacement of Directors

The rules about the appointment and replacement of Directors are contained in the Articles. They provide that Directors may be appointed by ordinary resolution of the members or by a resolution of the Directors. Any Director so appointed must retire and put themselves forward for election at the next Annual General Meeting ('AGM'). Directors wishing to continue to serve as members of the Board will seek re-election annually in accordance with the UK Corporate Governance Code (the 'Code').

In accordance with the Code, at the 2020 AGM each Director will stand for election or re-election.

## Indemnification of Directors

The Directors have the benefit of an indemnity provision contained in the Articles. The provision was in force during the year ended 31 July 2020 and remains in force and relates to certain losses and liabilities which the Directors may incur to third parties in the course of acting as Directors of the Company. In addition, Directors and officers of the Company and its subsidiaries are covered by directors' and officers' liability insurance.

## Compensation for loss of office and change of control

There are no agreements in place with any Director that would provide compensation for loss of office or employment resulting from a change of control. Change of control provisions for the Company's share plans may cause options and awards granted under such plans to vest on a takeover.

The Company is not party to any other significant agreements that take effect after, or terminate upon, a change of control.

## Articles of Association

The Articles may be amended by a special resolution of the members. At the AGM held on 12 November 2015, shareholders approved by special resolution the amended Articles which took effect at the date of the initial public offering ('IPO') on 18 November 2015.

### Share capital and control

The Company's ordinary issued share capital as at 31 July 2020 was 198,679,171 ordinary shares of 0.05p each, which have a premium listing on the London Stock Exchange. The ordinary share class represents over 99.9% of the Company's total issued share capital.

In addition to the ordinary shares, the Company also has a class of 18,933 deferred shares which were created following the share capital reorganisation at IPO and which are not admitted to trading on a regulated market.

Shares acquired through the Company's share schemes and plans rank equally with the other shares in issue and have no special rights. The Company has a Share Incentive Plan Trust ('SIP Trust') for the benefit of employees and former employees of the Company. As at 31 July 2020, the SIP Trust held 320,779 shares (2019: 359,302) awarded to employees as part of the free share award, subject to service conditions. A further 345,054 shares (2019: 319,835) were held on behalf of employees who have taken part in the Company's voluntary partnership share purchase programme. The SIP also held 49,803 unallocated shares (2019: 49,803).

During the year ended 31 July 2020, share options were exercised pursuant to the Long Term Incentive Plan, resulting in the additional listing and allotment of 428,625 new ordinary shares.

Holders of ordinary shares are entitled to attend and speak at general meetings of the Company, and to appoint one or more proxies and, if they are corporations, corporate representatives who are entitled to attend general meetings and to exercise voting rights.

The deferred shares carry no voting rights or rights to receive any of the profits of the Company available for distribution by way of dividend or otherwise. On a return of capital on a winding up of the Company (but not otherwise), the holder is entitled only to the repayment of the amount paid up on that share after payment of the capital paid up on each other share in the capital of the Company and the further payment of £10,000,000 on each such share. The deferred shares represent less than 0.01% of the Company's total issued share capital.

Further information on the Company's issued share capital can be found in note 17 to the financial statements.

The Company passed the following resolutions on 5 December 2019:

- An ordinary resolution providing the Directors with authority to:
  - (i) allot ordinary shares up to a maximum nominal amount of £33,041, to be reduced by the nominal amount allotted or granted under paragraph (ii) below in excess of such sum; and
  - (ii) allot ordinary shares up to a maximum nominal amount of £66,083 in connection with a pre-emptive offer by way of a rights issue, such amount to be reduced by any allotments made under paragraph (i) above.

- Special resolutions providing the Directors with authority to:

- (i) allot shares or sell treasury shares for cash up to a maximum nominal amount of £4,956; and
- (ii) allot shares or sell treasury shares for cash up to a maximum nominal amount of £4,956, in connection with an acquisition or other capital investment,

otherwise than to existing shareholders pro rata to their shareholding.

- A special resolution providing the Directors with authority to make market purchases of up to 19,825,047 of the Company's ordinary shares.

These authorities are due to expire at the Company's AGM to be held on 10 December 2020 and proposals for the renewal of the authority to allot ordinary shares and to make market purchases of the Company's own ordinary shares are set out in the Notice of the Annual General Meeting. The Directors have no current intention of exercising the authority in respect of the purchase of the Company's own shares, which is sought in the best interest of shareholders to allow the flexibility to react promptly where such market purchases may be desirable.

There are no restrictions on the transfer or limitations on the holding of ordinary shares and no requirements to obtain approval prior to any transfers other than: certain restrictions which may from time to time be imposed by laws and regulations (for example, insider trading laws); pursuant to the Market Abuse Regulation and the Company's own rules whereby Directors and certain employees of the Company require the approval of the Company to deal in the ordinary shares; and pursuant to the Articles where there is default in supplying the Company with information concerning interests in the Company's ordinary shares. There are no special control rights in relation to the Company's ordinary shares.

There are no agreements between holders of securities that are known to the Company which may result in restrictions on the transfer of securities or on voting rights.





## Substantial shareholders

The substantial shareholdings in the table below represent those interests notified to the Company as at 31 July 2020 in accordance with the Disclosure Guidance and Transparency Rules of the UK Listing Authority, and those holdings may have changed since notification to the Company.

	As at 31 July 2020		As at 19 October 2020	
	Ordinary shares	Voting rights	Ordinary shares	Voting rights
Peter Kelly <sup>1</sup>	64,976,058	32.7%	64,976,058	32.7%
Mawer Investment Management Limited	9,946,370	5.0%	9,946,370	5.0%
John Nash <sup>1</sup>	9,063,364	4.6%	9,063,364	4.6%

### Note:

1. The ordinary shares held by Peter Kelly and John Nash include shares held beneficially via various entities or connected persons.

## Principal shareholder and Relationship Agreement

In accordance with Listing Rule 9.8.4R(14), the Company has set out below a statement describing the Relationship Agreement entered into by the Company with its principal shareholder (the 'Relationship Agreement'). As at 19 October 2020, Peter Kelly, the founder of Softcat plc, held 32.7% of the issued ordinary share capital of the Company.

On 13 November 2015, the Company and Peter Kelly entered into the Relationship Agreement. The principal purpose of the Relationship Agreement is to ensure that the Company will be capable of carrying on its business independently of Peter Kelly and certain persons deemed to be connected with him ('Connected Persons').

Pursuant to the Relationship Agreement, Peter Kelly, inter alia:

- shall procure that all transactions, agreements or arrangements entered into between the Company and Peter Kelly (or any of his Connected Persons) are conducted on an arm's length basis, on normal commercial terms and in accordance with the related party transaction rules set out in Chapter 11 of the Listing Rules and Peter Kelly shall abstain from voting on any resolution to which LR 11.1.7R(4) of the Listing Rules applies relating to a transaction with Peter Kelly (or any of his Connected Persons) as the related party; and
- shall (and shall procure that each of his Connected Persons shall) (i) not take any actions that would reasonably be expected to have the effect of preventing the Company from complying with its obligations under the Listing Rules or be prejudicial to the Company's status as a listed company or the Company's eligibility for listing; (ii) not propose or procure the proposal of a shareholder resolution that would circumvent or appear to circumvent the proper application of the Listing Rules; and (iii) not exercise his voting rights or other rights to procure any amendment to the Articles which would be contrary to the maintenance of the Company's independence, including its ability to operate and make decisions independently from Peter Kelly, or otherwise inconsistent with the provisions of the Relationship Agreement.

Furthermore, the Company and Peter Kelly have agreed that for so long as Peter Kelly (together with any of his Connected Persons) holds 10% of the Company's issued share capital, he shall be entitled to appoint one Non-Executive Director of the Company, although no such Director has been appointed as at the date of this Annual Report.

The Relationship Agreement will remain in effect for so long as: (a) Peter Kelly (and/or any of his Connected Persons) holds at least 10% of the Company's issued share capital; and (b) the ordinary shares are admitted to the premium listing segment of the Official List maintained by the Financial Conduct Authority.

The Company has and, in so far as it is aware, Peter Kelly and his Connected Persons have complied with the independence provisions set out in the Relationship Agreement from the date of the agreement.

### Risk regarding financial instruments

The financial risk management objectives and policies are disclosed in note 21 to the financial statements.

### Research and development

The Company did not carry out any research and development activities during the year (2019: none).

### Political donations

The Company did not make any political donations during the period (2019: £Nil).

A resolution to authorise the Company to make political payments up to an aggregate amount of £100,000 has been included for shareholder consideration in the Notice of AGM for 2020. The Company does not intend to make any payments to political organisations or to incur other political expenditure; however, this resolution has been proposed to ensure that the Company has authority under the wide definition used in the Companies Act 2006 of matters constituting political donations.

### Greenhouse gas emissions and energy consumption

Information relating to the following is detailed in the Sustainability Report, on pages 42 and 43 of the Strategic Report:

- greenhouse gas emissions; and
- energy consumption and energy efficiency.

### Corporate social responsibility

Details on our commitment to corporate social responsibility can be found in the Sustainability Report on pages 38 to 43 of the Strategic Report.

### Equality and diversity

The Company operates an equal opportunities policy which endeavours to treat individuals fairly and not to discriminate on the basis of gender, disability, race, national or ethnic origin, sexual orientation or marital status. Applications for employment are fully considered on their merits, and employees are given appropriate training and equal opportunities for career development and promotion.

The Company is committed to ensuring that adequate policies and procedures are in place to enable disabled applicants to receive training to perform safely and effectively and to provide development opportunities to ensure they reach their full potential. Where an individual becomes disabled during the course of their employment with the Company, the Company will seek to provide, wherever possible, continued employment on normal terms and conditions. Adjustments will be made to the environment and duties or, alternatively, suitable new roles within the Company will be secured with additional training where necessary.

Details of the Company's gender and ethnicity breakdown are given in the Sustainability Report on page 38.

The Company places considerable value on the involvement of its employees and continues to keep them informed on matters affecting them as employees. This is undertaken through a variety of methods including, but not limited to, weekly Company meetings, team briefings, Company days, email and the intranet. The Board has also appointed Vin Murria as the Designated Non-Executive Director for Workforce Engagement.

At team meetings, managers are responsible for ensuring that information sharing, discussion and feedback take place on a regular basis. As a result of these meetings management can communicate the financial and economic factors affecting the Company and ensure that the views of employees are taken into account in Company decisions which are likely to affect their interests.

### Post-balance sheet events

#### Dividend

The Board recommends a final ordinary dividend of 16.6p per ordinary share and a special dividend of 7.6p per ordinary share to be paid on 11 December 2020 to all ordinary shareholders who were on the register of members at the close of business on 6 November 2020. Shareholders will be asked to approve the final and special dividends at the AGM on 10 December 2020.

The Company's dividend and distributions policy is detailed in the Corporate Governance Report on page 52.



## Requirements of the Listing Rules

The following table provides references to where the information required by the Listing Rule 9.8.4R is disclosed:

Listing Rule requirement	Location in Annual Report
A statement of the amount of interest capitalised during the period under review and details of any related tax relief.	Not applicable
Information required in relation to the publication of unaudited financial information.	Not applicable
Details of any long-term incentive schemes and Directors' interests.	Directors' Remuneration Report, pages 67 to 83
Details of any arrangements under which a Director has waived emoluments, or agreed to waive any future emoluments, from the Company.	Directors' Remuneration Report, pages 67 to 83
Details of any non-pre-emptive issues of equity for cash.	Directors' Report, page 86
Details of any non-pre-emptive issues of equity for cash by any unlisted major subsidiary undertaking.	No such share allotments
Details of parent participation in a placing by a listed subsidiary.	Not applicable
Details of any contract of significance in which a Director is or was materially interested.	Not applicable
Details of any contract of significance between the Company (or one of its subsidiaries) and a controlling shareholder.	Not applicable
Details of waiver of dividends by a shareholder.	Not applicable
Board statement in respect of Relationship Agreement with the controlling shareholder.	Directors' Report, page 87

## Auditor

Ernst & Young LLP ('EY') has signified its willingness to continue in office as auditor to the Company and the Company is satisfied that EY is independent and that there are adequate safeguards in place to safeguard its objectivity. A resolution to reappoint EY as the Company's auditor will be proposed at the 2020 AGM.

### 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 43) and Financial Review sections (see pages 28 and 29) of this Annual Report. Given the economic uncertainty of the COVID-19 pandemic and the further uncertainty arising from the impact of the UK leaving the EU, and taking into account the recent guidance issued by the FRC the Directors have undertaken a fully comprehensive going concern review.

The Group 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, which is for a 12 month period of going concern from the date of this report. All the forecasts reflect the payment of our FY20 dividend of £47.6m which will be paid in December 2020 subject to approval at the AGM.

The Company operates in a resilient industry. Our customer base incorporates a large volume of non-discretionary spend from UK corporates as IT has become vital to establish competitive advantage in an increasingly digital age. Public Sector, a large and fast-growing area of the business, has shown no negative sensitivity to COVID-19 so far. The Company 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 2020, the Company held instantly accessible cash and cash equivalents of £80.1m, while net current assets were £127.0m. Note 21 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management and its exposures to credit risk and liquidity risk. The Company has access to a Revolving Credit Facility ('RCF') of £50m up to April 2021, but in all models and scenarios considered by management the facility is not expected to be drawn down and therefore management has held no discussions on whether the facility will be extended at the date of this report. Management have further confirmed their eligibility for the Covid Corporate Financing Facility ('CCFF') as a safeguard but do not anticipate needing to obtain external funding for at least 12 months post report date.

There is a sufficient level of liquidity/financing headroom post mitigation across the going concern forecast period in base and severe but plausible scenarios considered and outlined in more detail below.

#### Operational and business impact of COVID-19

Please see page 35 in the Strategic Report where the impact on the business has been disclosed. Management have in all three scenarios modelled the potential future impact of COVID-19 on the business and considered the impact it had during the period from March to July 2020. At this point many customers were transitioning to home working and responding to the impact COVID-19 had on their own business liquidity impacting their spending patterns. Despite this and increasingly towards the end of this period, Softcat experienced low single-digit year-on-year growth.

#### Base case

The base case, which was approved by the Board in October 2020, takes into account the estimated impact of the COVID-19 pandemic across the going concern period and reflects the actual trading experience through to September 2020. The key inputs and assumptions in the base case include:

- revenue growth in the low to mid-single digit range in line with the growth experienced in last two quarters of FY20 which reflected the impact of COVID-19;
- rebate income continues to be received in proportion to sales as in FY20;
- employee commission is incurred in line with the gross margin; and
- similar level of costs as incurred in prior year, with an increase in bad debt expense modelled to account for a potential increase in credit risk.

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. All employees were able to relatively easily move to working remotely, which did not impact our ability to meet customer needs. We continue to work largely remotely, and this is not expected to have an impact on the operational performance of the Company. Year to date trading to the end of September 2020 shows growth in line with the base case forecast.

#### Severe but plausible case

Given the uncertainty around the impact of COVID-19, and the continuing uncertainty around the impact of Brexit the UK leaving the EU, we have considered a severe but plausible scenario. In this case we have modelled a decline in revenues which is significantly below any historic trend and more severe than experienced during the period of March 2020 up to July 2020.



The key inputs and assumptions include:

- an average 8% year-on-year reduction in revenue and gross invoiced income;
- reduced gross profit margins of between 1% and 2% in the period;
- bad debt write offs of £15m across the forecast period;
- extending the debtor days by three days from historic levels achieved and no change to historic supplier payment days; and
- paying an FY21 interim dividend in line with lower level of profitability.

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, we continue to be profitable and the Company would still have available cash. We have modelled cost savings and further working capital action (see mitigating actions below) that will enable us to mitigate the impact of reduced cash generation 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 £18m cost reduction on an annualised basis and £20m working capital impact, before taking into account 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:

- commission and bonus costs scaled back in line with performance;
- reduced salary costs, through recruitment restrictions on new heads and not replacing leavers;
- no interim dividend in H2 of FY21;
- 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 reasonable as the Company benefits from a flexible business model with a high proportion of costs linked to performance. If this scenario arose and the Company implemented the mitigating actions we expect that available cash would not fall significantly below the £45m cash liquidity floor set by the Board.

#### 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 12-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 40% in gross invoiced income;
2. reduced achievable gross margin by 5%;
3. large and immediate bad debt write offs of £25m; and
4. substantial increase in debtor days.

All four inputs are greater than the business has ever experienced in its history. In the modelled scenario, prior to mitigations, the business could become cash negative within 12 months.

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

#### Going concern conclusion

Based on the forecast and the scenarios modelled, together with the performance of the Company to date in 2020/21, the Directors consider that the Company has significant liquidity headroom to continue in operational existence for 12 months post the date of this report. Accordingly, at the October 2020 Board meeting, the Directors concluded from this analysis it was appropriate to continue to adopt the going concern basis in preparing the financial statements. The long-term impact of COVID-19 is uncertain and should the impact of the pandemic on trading conditions be more prolonged or severe than currently forecast by the Directors under the severe but plausible case scenario, the Company would need to implement additional operational or financial measures.

#### Disclosure of information to the auditor

The Directors in office at the time of approval of the Directors' Report are listed on pages 46 and 47 and have each confirmed that:

- so far as he or she is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- he or she has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any such relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

### Annual General Meeting

The Company's 2020 AGM will take place on 10 December 2020 at the Company's registered office: Softcat plc, Fieldhouse Lane, Marlow, Buckinghamshire SL7 1LW.

The Chair of the AGM intends for a poll to be called in respect of each of the resolutions to be voted on at the 2020 AGM. Subject to any restrictions set out in this section, in the event of a show of hands every holder of ordinary shares who is present in person or by proxy at a general meeting has one vote on each resolution and, on a poll, every holder of ordinary shares who is present in person or by proxy has one vote on each resolution for every ordinary share of which he/she is the registered holder. A proxy will have one vote against a resolution in the event of a show of hands in certain circumstances specified in the Articles. The Notice of AGM specifies deadlines for exercising voting rights. The Notice of AGM can be found in the Investor Relations section of the Company's website, [www.softcat.com](http://www.softcat.com), and is being posted at the same time as this Annual Report. The Notice of AGM sets out the business of the meeting and provides explanatory notes on all resolutions. Separate resolutions are proposed in respect of each substantive issue.

A holder of ordinary shares may usually vote personally or by proxy at a general meeting. Any form of proxy must be delivered to the Company not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote (for this purpose, the Directors may specify that no account shall be taken of any part of a day that is not a working day). A corporation which is a holder of ordinary shares in the Company may authorise such persons as it thinks fit to act as its representatives at any general meeting of the Company.

No holder of ordinary shares shall be entitled to attend or vote, either personally or by proxy, at a general meeting in respect of any ordinary share if any call or other sum presently payable to the Company in respect of such ordinary share remains unpaid or in certain other circumstances specified in the Articles where there is default in supplying the Company with information concerning interests in the Company's ordinary shares.

The Board has carefully considered the safety of its employees and shareholders in light of the COVID-19 pandemic and the authorities granted under the Corporate Insolvency and Governance Act 2020, in particular concerning holding of annual general meetings. The Board has concluded that it would be in the best interests of its employees and shareholders for shareholders not to be able to attend the 2020 AGM in person. Hence it will not be possible for shareholders to vote in person or to ask questions in person at the 2020 AGM. Shareholders may vote on the resolutions at the 2020 AGM by casting a proxy vote in accordance with the instructions provided on the Notice of Meeting for the 2020 AGM. Any questions shareholders would have wished to raise for the Directors at the 2020 AGM may be submitted to [cosec@softcat.com](mailto:cosec@softcat.com) or by letter addressed to the Company Secretary at the Company's Registered Office. Questions should be submitted up to 48 hours in advance of the Meeting and a response will be provided. The results of each of the resolutions to be voted on at the 2020 AGM will be published to the London Stock Exchange and will be available on the Company's website.



### Statement of Directors' responsibilities in relation to the financial statements

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

The Directors are required to prepare financial statements for each financial year in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company as at the end of the financial year and the profit or loss of the Company, so far as concerns members of the Company, for the financial year. In preparing those financial statements, the Directors are required to:

- select and apply accounting policies in accordance with IAS 8;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- make judgements and estimates that are reasonable and prudent;
- state that applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Company's financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records which are sufficient to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. 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.

### Fair and balanced reporting

Having taken advice from the Audit Committee, the Board considers that 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 (whose names and functions appear on pages 46 and 47) confirms that (solely for the purpose of DTR 4) to the best of his or her knowledge:

- the financial statements in this document, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

The responsibility statement has been approved by the Board of Directors and is signed on its behalf by:

**Graeme Watt**  
Chief Executive Officer  
19 October 2020

**Graham Charlton**  
Chief Financial Officer  
19 October 2020

The Directors' Report has been approved by the Board of Directors and is signed on its behalf by:

**Luke Thomas**  
Company Secretary  
19 October 2020

# Independent auditor's report

To the members of Softcat plc

## Opinion

We have audited the financial statements of Softcat plc for the year ended 31 July 2020 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, the Statement of changes in Equity, Statement of cash flows and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 July 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report (pages 32 to 37) that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation (page 32) in the annual report that they have carried out a robust assessment of the emerging and principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement (pages 90 and 91) in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation (pages 36 and 37) in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## Overview of our audit approach

<b>Key audit matters</b>	<ul style="list-style-type: none"><li>• Overstatement of performance through the misstatement of revenue recognised at or near year end</li><li>• IFRS 15 Presentation of revenue in respect of principal vs agent</li><li>• Misstatement of rebate income to overstate reported results at or near year end</li><li>• Appropriateness of Going Concern basis used in the preparation of the Annual Report and Accounts</li></ul>
<b>Materiality</b>	<ul style="list-style-type: none"><li>• Overall materiality of £4.7m which represents 5% of profit before tax</li></ul>





## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

In the current year, we have included the going concern basis used in the preparation of the Financial Statements to be a new key audit matter due to the uncertainty and difficulty to forecast the impact of the COVID-19 pandemic and Brexit on the wider UK economy in which Softcat operates. Assessing and concluding the impact required additional focus and time being spent by both management and the senior audit team members.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Overstatement of performance through the misstatement of revenue recognised at or near year end</b></p> <p>During the year the Company recognised revenue of £1,077.1m (2019: £991.8m).</p> <p>Refer to the Audit Committee Report (pages 55 to 62); Accounting policies (page 111 to 113); and Note 2 of the Company Financial Statements (page 119).</p> <ul style="list-style-type: none"> <li>Management's process for accounting for certain revenue transactions, particularly the review process at year end to record revenue in the appropriate period, is mostly manual and therefore susceptible to error (either deliberate or without intent). The accounting is made more challenging due to the reliance on suppliers to notify the company of delivery, and for suppliers who ship from outside of the UK which results in a longer delivery lead time needing to be built into the assumptions utilised by management. There is a risk that revenue is recognised prematurely or fictitiously.</li> <li>Certain compensation incentives are based on quarterly and annual gross margin targets, creating a risk of revenue misstatement through management override via top side revenue journals with no associated cost or revenue recognised in the incorrect period prematurely.</li> </ul>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> <li>Updated our understanding of management's cut off assessment, including the delivery lead time assumption utilised.</li> <li>Tested revenue cut off by obtaining management's sales cut off analysis and independently testing transactions therein on a sample basis by vouching to invoices and proof of delivery.</li> <li>We tested an independent sample of transactions invoiced in the two weeks either side of the year end, vouching to invoices and proof of delivery, to confirm these had been recorded in the correct period.</li> <li>We performed third party confirmations for a sample of key suppliers to verify if shipment is made from outside of the UK and ensured these were appropriately considered in management's cut off assessment.</li> <li>Addressed the risk of management override – we tested a sample of journal entries recorded at or near year end by verifying to appropriate supporting documentation.</li> <li>Tested a sample of sales transactions deferred at the year end and recalculated the split of revenue recognised and the deferred elements to obtain assurance over the recognition of revenue. We also selected a sample of invoices from billing data and verified that the revenue was appropriately recognised or deferred, based on completion of the performance obligation.</li> <li>Analysed sales related journal entry data to track sales from revenue through to accounts receivable through to cash collection using data analytics tools. We used this analysis to validate the appropriateness of transaction flows and tested a sample of transactions to determine if the journals accurately reflected the substance of transactions recorded.</li> </ul>	<p>We concluded that the revenue recognised at or near year end was properly accounted for and that revenue has appropriately been recognised in accordance with IFRSs as adopted by the European Union.</p>

## Independent auditor's report continued

To the members of Softcat plc

### Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>IFRS 15 Presentation of revenue in respect of principal vs agent</b></p> <p>During the year the Company recognised revenue of £1,077.1m (2019: £991.8m). The adjustment recorded in respect of income to be recognised net as agent under IFRS 15 amounted to £569.1m (2019: £422.2m).</p> <p>Refer to the Audit Committee Report (pages 55 to 62); Accounting policies (page 111 to 113); and Note 2 of the Company Financial Statements (page 119).</p> <p>There is a risk that the reported revenue may be incorrectly presented on a gross basis as a result of the incorrect assessment of whether the Company has control over the products or services sold and consequently if the Company is principal or agent in its arrangements with customers. As products and services offered continually evolve the assessment of control needs to be revisited on an ongoing basis.</p> <p>The nature of the current systems is to process all revenue streams gross, and a manual adjustment is made by management at year end to record revenue on a net basis where appropriate.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> <li>• Updated our understanding of management's judgement over the classification of transactions between gross and net presentation.</li> <li>• Assessed management's judgement made for any significant new product types by independently assessing the nature of such products and meeting with key members of the sales and solutions teams to develop an understanding of the advisory element of Softcat's customer offering, and challenged the distinction between sales effort and service delivery in order to help ascertain the level of control of goods prior to their delivery, and ultimately concluded if the principal (gross) or agent (net) treatment applied was appropriate according to the criteria set out within the standard.</li> <li>• Tested a sample of transactions across the year to determine the Company's control over the product or service including: <ul style="list-style-type: none"> <li>– Verified the product type to external sources, and met with key members of the sales and solutions teams to develop an understanding of the advisory element of each sample selected to challenge the distinction between sales effort and service delivery in order to help ascertain the level of control of goods prior to their delivery.</li> <li>– Assessed if principal (gross) or agent (net) treatment should be applied and compared this to management's conclusion to determine if this was appropriate according to the criteria set out within the standard.</li> </ul> </li> <li>• We reperformed management's calculation of the adjustment to record revenue on a net basis.</li> <li>• Tested that the methodology utilised to calculate the adjusted performance measure (APM) 'gross invoiced income' is consistent with the FY19 financial statements, assessed management's rationale for including the APM and ensured that the amount reported is reconciled to reported revenue.</li> </ul>	<p>We concluded that the judgements made by management are consistent with the level of control we have observed, the presentation and disclosure of revenue is materially correct, and has been recognised in accordance IFRSs as adopted by the European Union.</p> <p>We concluded management's rationale for including the APM to be reasonable. The disclosures in respect of the APM is appropriate and is correctly reconciled to revenue.</p>

**Key audit matters continued**

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Misstatement of rebate income to overstate reported results at or near year end</b></p> <p>Accrued rebate income at 31 July 2020 amounts to £6m (2019: £12m).</p> <p>Refer to the Audit Committee Report (pages 55 to 62); Accounting policies (page 114); and Note 11 of the Company Financial Statements (page 125).</p> <p>Rebates are recorded through a primarily manual process. While most rebates are agreed with the supplier and received during the year, there is an opportunity to misstate results through adjustments to the balance sheet receivable.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> <li>• Tested the year end rebate receivable by confirming a sample of rebates due from suppliers to third party source documentation.</li> <li>• Analysed the rebate receivable by vendor and compared the largest vendor level balances (making up 95% of the balance) against 31 July 2019 to identify movements that are not in line with our expectation or understanding of the business. Performed analysis to understand the drivers of increases or decreases in the underlying balances.</li> <li>• Assessed the cash conversion of rebates accrued at the year end and tested a sample to subsequent receipts.</li> <li>• Tested a sample of rebate transactions recorded in the statement of profit and loss throughout the year and obtained underlying support to consider whether the transactions have been recorded in the correct period.</li> <li>• We analysed the rebate receivable by vendor and compared the largest vendor level balances against 31 July 2019 to identify movements that are not in line with our expectation or understanding of the business and then performed procedures to understand the drivers for the increases or decreases in the underlying balances.</li> </ul>	<p>We concluded that the rebate receivable and corresponding income are materially correct and have been recognised in accordance with IFRSs as adopted by the European Union.</p>

## Independent auditor's report continued

To the members of Softcat plc

### Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Going concern basis used in the preparation of the Annual Report and Accounts</b></p> <p>Refer to the Audit Committee Report (pages 55 to 62); Accounting policies (page 106 to 108); and Note 1.2 of the Company Financial Statements (page 106 to 108).</p> <p>The COVID-19 pandemic is of an unprecedented scale. It has severely impacted the global economy and businesses across all industries. There is a significant degree of uncertainty about the potential for future lockdowns and the related impact on the UK economy in which Softcat predominantly operates. This may be further affected by the UK's exit from the EU and the uncertainty on future levels of trade.</p> <p>The risk is that the Company's forecasts based on management's assumptions may be too optimistic and that the Company's mitigating actions in the event of a decline in trading may not be achievable.</p> <p>There is a further risk that management has not appropriately disclosed the impact of COVID-19 in the Annual Report and Accounts.</p>	<p>The audit engagement partner and senior team members increased their time directing and supervising the audit procedures on going concern, in particular in assessing the going concern models and assumptions included therein.</p> <p>We performed the following procedures:</p> <p><b>Going concern:</b></p> <ul style="list-style-type: none"> <li>• Obtained management's going concern cash flow model, testing its mathematical accuracy. We confirmed that the forecasts were approved by the Board.</li> <li>• We considered the liquidity headroom considering cash on hand and cash generation in the base and severe but plausible forecasts, post the impact of paying the year end dividend, and applied sensitivity analysis to both scenario's.</li> <li>• Assessed management's ability to forecast accurately with reference to historical forecasts prepared for the cash flow model used for the Company's going concern.</li> <li>• Tested the inputs to the model, including cash on hand, and that the forecast cash generation is in line with our understanding of the business. We also assessed the level of forecast revenue by considering economic forecasts and competitor trading updates.</li> <li>• Considered the appropriateness of key assumptions used in management's reverse stress testing and assessed the identified downside risks over gross profit, bad debt write offs and potential mitigating actions that could erode the liquidity headroom.</li> <li>• We considered the practicality of management's ability to execute feasible mitigating actions available to respond to the severe but plausible scenario based on our understanding of the company and the sector, including whether those mitigating actions were actionable by management</li> <li>• Considered the performance in terms of revenue and gross profit of the business since year end and compared it to cash flow forecasts.</li> <li>• Reviewed management's basis of preparation note and the Directors' Report and validated that they accurately described management's going concern considerations.</li> </ul>	<p>We have concluded that there is no material uncertainty related to the Group's ability to continue as a going concern following our audit of the three scenario's prepared by management, the available mitigating actions, the post year end trading results, the current customer base and our assessment of the sector the Company operates in.</p> <p>We are satisfied that the additional disclosures in the financial statements are consistent with our knowledge arising from our audit.</p>
<p><b>Other disclosures in the Annual Report in relation to COVID-19</b></p>	<ul style="list-style-type: none"> <li>• Assessed the adequacy of the relevant disclosures in the Annual Report and accounts, including, the Directors' Report, principal risks and uncertainties, corporate governance and the Audit Committee's Report against the relevant reporting requirements and compared them to our knowledge obtained from our audit.</li> </ul>	



## An overview of the scope of our audit

### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

#### Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the company to be £4.7 million (2019: £4.2 million), which is 5% (2019: 5%) of profit before tax. We believe that profit before tax provides us with the most appropriate basis as it drives shareholder returns and is a key measure of company performance.

During the course of our audit, we reassessed initial materiality and increased this in line with actual profit before tax given final PBT was higher than forecasted PBT.

#### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 75% (2019: 75%) of our planning materiality, namely £3.5m (2019: £3.2m). We continue to set performance materiality at this percentage due to the low number of audit differences.

#### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.2m (2019: £0.2m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### Other information

The other information comprises the information included in the annual report (pages 1 to 93), including the strategic report (pages 1 to 43) and corporate governance (pages 44 to 93), other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

## Financial statements

### Independent auditor's report continued

To the members of Softcat plc

#### Other information continued

- **Fair, balanced and understandable (page 93)** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting (pages 55 to 62)** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code (page 45)** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

#### Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

#### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

#### Responsibilities of Directors

As explained more fully in the directors' responsibilities statement (page 93), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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 audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

#### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.



## Auditor's responsibilities for the audit of the financial statements continued

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud continued

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant those related to the reporting framework (IFRS as adopted by the EU, the Companies Act 2006 and the UK Corporate Governance Code 2018) and the relevant tax compliance regulations in the UK. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements, being the Listing Rules of the London Stock Exchange and the Bribery Act 2010.
- We understood how Softcat plc is complying with those frameworks by making inquiries of management, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of board minutes, discussions with the Audit Committee and any correspondence received from regulatory bodies.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where they considered there was susceptibility to fraud. We also considered performance targets and their propensity to influence efforts made by management to manage earnings or influence the perceptions of analysts. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk. The key audit matters section above addresses procedures performed in areas where we have concluded the risks of material misstatement are highest (including where due to the risk of fraud). In addition, we completed procedures to conclude on the compliance of the disclosures in the Annual Report and Accounts with the requirements of the relevant accounting standards, UK legislation and the UK Corporate Governance Code 2018.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of board minutes to identify non-compliance with such laws and regulations, review of reporting to the Audit Committee on compliance with regulations and enquires of the Company Secretary and management.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Other matters we are required to address

- We were appointed by the company on 5 December 2019 to audit the financial statements for the year ending 31 July 2020 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 8 years, covering the years ending 31 July 2013 to 31 July 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### David Hales (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

19 October 2020

#### Notes:

1. The maintenance and integrity of the Softcat plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Financial statements

### Statement of profit or loss and other comprehensive income

For the year ended 31 July 2020

	Notes	2020 £'000	2019 £'000
<b>Revenue</b>	2	<b>1,077,127</b>	991,849
Cost of sales		<b>(841,422)</b>	(780,706)
<b>Gross profit</b>		<b>235,705</b>	211,143
Administrative expenses		<b>(141,972)</b>	(126,657)
<b>Operating profit</b>	3	<b>93,733</b>	84,486
Finance income	4	<b>200</b>	333
Finance cost	4	<b>(316)</b>	—
<b>Profit before tax</b>		<b>93,617</b>	84,819
Income tax expense	5	<b>(17,953)</b>	(16,358)
Profit and total comprehensive income for the year		<b>75,664</b>	68,461
Profit attributable to:			
Owners of the Company		<b>75,664</b>	68,461
<b>Earnings per ordinary share (p)</b>			
Basic	18	<b>38.2</b>	34.6
Diluted	18	<b>38.0</b>	34.4

The Statement of profit or loss and other comprehensive Income has been prepared on the basis that all operations are continuing operations.





## Statement of financial position<sup>1</sup>

As at 31 July 2020

	Notes	2020 £'000	2019 £'000
<b>Non-current assets</b>			
Property, plant and equipment	7	11,897	5,761
Right-of-use assets	8	8,698	—
Intangible assets	9	1,301	240
Deferred tax asset	15	2,408	2,485
		<b>24,304</b>	8,486
<b>Current assets</b>			
Inventories	10	11,744	11,084
Trade and other receivables	11	314,123	285,307
Income tax receivable		636	—
Cash and cash equivalents	14	80,139	79,263
		<b>406,642</b>	375,654
<b>Total assets</b>		<b>430,946</b>	384,140
<b>Current liabilities</b>			
Trade and other payables	12	(263,866)	(244,468)
Contract liabilities	13	(13,929)	(15,165)
Income tax payable		—	(9,115)
Lease liabilities	8	(1,867)	—
		<b>(279,662)</b>	(268,748)
<b>Non-current liabilities</b>			
Contract liabilities	13	(2,565)	—
Lease liabilities	8	(7,972)	—
		<b>(10,537)</b>	—
<b>Total liabilities</b>		<b>(290,199)</b>	(268,748)
<b>Net assets</b>		<b>140,747</b>	115,392
<b>Equity</b>			
Issued share capital	17	100	99
Share premium account		4,979	4,979
Reserves for own shares		—	—
Retained earnings		135,668	110,314
<b>Total equity</b>		<b>140,747</b>	115,392

1. The 2019 'Deferred income' balance of £15.2m has been reclassified to 'Contract liabilities' from 'Trade and other payables'. Refer to note 1.2 for further detail.

These financial statements were approved by the Board of Directors and authorised for issue on 19 October 2020.

On behalf of the Board

**Graeme Watt**  
Chief Executive Officer

**Graham Charlton**  
Chief Financial Officer

Softcat plc company registration number: 02174990

## Financial statements

### Statement of changes in equity

For the year ended 31 July 2020

#### Equity attributable to owners of the Company

	Share capital £'000	Share premium account £'000	Reserves for own shares £'000	Retained earnings £'000	Total £'000
<b>Balance at 1 August 2018</b>	99	4,979	—	95,738	100,816
Total comprehensive income for the year	—	—	—	68,461	68,461
Share-based payment transactions	—	—	—	1,732	1,732
Dividends paid	—	—	—	(56,231)	(56,231)
Shares issued in the year	—	—	—	—	—
Dividend equivalents paid	—	—	—	(287)	(287)
Tax adjustments	—	—	—	901	901
<b>Balance at 31 July 2019</b>	99	4,979	—	110,314	115,392
Effect of adoption of IFRS 16	—	—	—	(179)	(179)
<b>Balance at 1 August 2019 (adjusted)</b>	99	4,979	—	110,135	115,213
Total comprehensive income for the year	—	—	—	75,664	75,664
Share-based payment transactions	—	—	—	1,958	1,958
Dividends paid	—	—	—	(52,338)	(52,338)
Shares issued in the year	1	—	—	—	1
Dividend equivalents paid	—	—	—	(259)	(259)
Tax adjustments	—	—	—	508	508
<b>Balance at 31 July 2020</b>	<b>100</b>	<b>4,979</b>	<b>—</b>	<b>135,668</b>	<b>140,747</b>

The share capital and share premium accounts represent the nominal value and premium arising on the issue of equity shares.

The reserve for own shares refers to ordinary shares held by a Share Incentive Plan ('SIP') Trust.

During the year ended 31 July 2020, 422,567 share options (2019: 299,791) were exercised and new shares were issued to satisfy this exercise. Proceeds of £Nil (2019: £Nil) were realised from the exercise of these share options.

As at 31 July 2020, the SIP Trust held 320,779 shares (2019: 359,302) awarded to employees as part of the free share award, subject to service conditions. A further 345,054 shares (2019: 319,835) were held on behalf of employees who have taken part in the Company's voluntary partnership share purchase programme. The SIP also held 49,803 unallocated shares (2019: 49,803).



## Statement of cash flows

For the year ended 31 July 2020

	Notes	2020 £'000	2019 £'000
<b>Net cash generated from operating activities</b>	19	<b>64,170</b>	64,659
<b>Investing activities</b>			
Finance income	4	200	333
Purchase of property, plant and equipment	7	(7,664)	(2,168)
Purchase of intangible assets	9	(1,293)	(161)
<b>Net cash used in investing activities</b>		<b>(8,757)</b>	(1,996)
<b>Financing activities</b>			
Issue of share capital		(1)	—
Dividends paid	6	(52,338)	(56,231)
Payment of principal portion of lease liabilities	8	(1,882)	—
Payment of interest portion of lease liabilities	4,8	(316)	—
<b>Net cash used in financing activities</b>		<b>(54,537)</b>	(56,231)
<b>Net increase in cash and cash equivalents</b>		<b>876</b>	6,432
Cash and cash equivalents at beginning of year	14	79,263	72,831
<b>Cash and cash equivalents at end of year</b>	14	<b>80,139</b>	79,263

# Notes to the financial statements

For the year ended 31 July 2020

## 1 Accounting policies

### 1.1 Corporate information

The financial statements of Softcat plc for the year ended 31 July 2020 were authorised for issue in accordance with a resolution of the Directors on 19 October 2020. Softcat plc is a public limited company incorporated and domiciled in the United Kingdom and whose shares are publicly traded. The registered office is Solar House, Fieldhouse Lane, Marlow, Buckinghamshire, in the United Kingdom.

The principal activity of the Company continued to be that of a value-added IT reseller and IT infrastructure solutions provider to the corporate and public sector markets.

### 1.2 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and as adopted by the EU ('Adopted IFRS') and the IFRS Interpretations Committee ('IFRIC') interpretations and in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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 2019. The accounting policies set out below have, unless otherwise stated (see 1.4.2 below), been applied consistently to all periods presented in these financial statements.

#### Presentation

"Deferred income and contract liabilities" of £15.2m, included within "Trade and other payables" at 31 July 2019, have now been separately disclosed on the face of the statement of financial position as "Contract Liabilities" as required by IFRS 15 "Revenue from Contracts with Customers". The opening comparative period statement of financial position at 1 August 2018 has not been provided as the only balances impacted would have been to reduce Trade and other payables by £11.2m and presented as Contract liabilities.

This reclassification had no impact on the Company's net assets, income statement or net cash flow from operating activities reported in 2019.

#### Going concern

The financial information has been prepared on the going concern basis which assumes that the Company will continue to be able to meet its liability as it falls due for the foreseeable future, being a period of at least 12 months from the date of signing these financial statements.

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 43) and Financial Review sections (see pages 28 and 29) of this Annual Report. Given the economic uncertainty of the COVID-19 pandemic and the further uncertainty arising from the impact of the UK leaving the EU, and taking into account the recent guidance issued by the FRC the Directors have undertaken a fully comprehensive going concern review.

The Group 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, which is for a 12 month period of going concern from the date of this report. All the forecasts reflect the payment of our FY20 dividend of £47.6m which will be paid in December 2020 subject to approval at the AGM.

The Company operates in a resilient industry. Our customer base incorporates a large volume of non-discretionary spend from UK corporates as IT has become vital to establish competitive advantage in an increasingly digital age. Public Sector, a large and fast-growing area of the business, has shown no negative sensitivity to COVID-19 so far. The Company will continue to focus on increasing the customer base and spend per customer during the going concern period.



## 1 Accounting policies continued

### 1.2 Basis of preparation

#### Going concern continued

##### Liquidity and financing position

At 31 July 2020, the Company held instantly accessible cash and cash equivalents of £80.1m, while net current assets were £127.0m. Note 21 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management and its exposures to credit risk and liquidity risk. The Company has access to a Revolving Credit Facility ('RCF') of £50m up to April 2021, but in all models and scenarios considered by management the facility is not expected to be drawn down and therefore management has held no discussions on whether the facility will be extended at the date of this report. Management have further confirmed their eligibility for the Covid Corporate Financing Facility ('CCFF') as a safeguard but do not anticipate needing to obtain external funding for at least 12 months post report date.

There is a sufficient level of liquidity/financing headroom post mitigation across the going concern forecast period in base and severe but plausible scenarios considered and outlined in more detail below.

##### Operational and business impact of COVID-19

Please see page 35 in the Strategic Report where the impact on the business has been disclosed. Management have in all three scenarios modelled the potential future impact of COVID-19 on the business and considered the impact it had during the period from March to July 2020. At this point many customers were transitioning to home working and responding to the impact COVID-19 had on their own business liquidity impacting their spending patterns. Despite this and increasingly towards the end of this period, Softcat experienced low single-digit year-on-year growth.

##### Base case

The base case, which was approved by the Board in October 2020, takes into account the estimated impact of the COVID-19 pandemic across the going concern period and reflects the actual trading experience through to September 2020. The key inputs and assumptions in the base case include:

- revenue growth in the low to mid-single digit range in line with the growth experienced in last two quarters of FY20 which reflected the impact of COVID-19;
- rebate income continues to be received in proportion to sales as in FY20;
- employee commission is incurred in line with the gross margin; and
- similar level of costs as incurred in prior year, with an increase in bad debt expense modelled to account for a potential increase in credit risk.

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. All employees were able to relatively easily move to working remotely, which did not impact our ability to meet customer needs. We continue to work largely remotely, and this is not expected to have an impact on the operational performance of the Company. Year to date trading to the end of September 2020 shows growth in line with the base case forecast.

##### Severe but plausible case

Given the uncertainty around the impact of COVID-19, and the continuing uncertainty around the impact of Brexit the UK leaving the EU, we have considered a severe but plausible scenario. In this case we have modelled a decline in revenues which is significantly below any historic trend and more severe than experienced during the period of March 2020 up to July 2020.

The key inputs and assumptions include:

- an average 8% year-on-year reduction in revenue and gross invoiced income;
- reduced gross profit margins of between 1% and 2% in the period;
- bad debt write offs of £15m across the forecast period;
- extending the debtor days by three days from historic levels achieved and no change to historic supplier payment days; and
- paying an FY21 interim dividend in line with lower level of profitability.

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, we continue to be profitable and the Company would still have available cash. We have modelled cost savings and further working capital action (see mitigating actions below) that will enable us to mitigate the impact of reduced cash generation should this scenario occur. The Directors are confident that they can implement these actions if required.

# Notes to the financial statements continued

For the year ended 31 July 2020

## 1 Accounting policies continued

### 1.2 Basis of preparation continued

#### Going concern continued

##### 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 £18m cost reduction on an annualised basis and £20m working capital impact, before taking into account 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:

- commission and bonus costs scaled back in line with performance;
- reduced salary costs, through recruitment restrictions on new heads and not replacing leavers;
- no interim dividend in H2 of FY21;
- 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 reasonable as the Company benefits from a flexible business model with a high proportion of costs linked to performance. If this scenario arose and the Company implemented the mitigating actions we expect that available cash would not fall significantly below the £45m cash liquidity floor set by the Board.

##### 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 12-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 40% in gross invoiced income;
2. reduced achievable gross margin by 5%;
3. large and immediate bad debt write offs of £25m; and
4. substantial increase in debtor days.

All four inputs are greater than the business has ever experienced in its history. In the modelled scenario, prior to mitigations, the business could become cash negative within 12 months.

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

##### Going concern conclusion

Based on the forecast and the scenarios modelled, together with the performance of the Company to date in 2020/21, the Directors consider that the Company has significant liquidity headroom to continue in operational existence for 12 months post the date of this report. Accordingly, at the October 2020 Board meeting, the Directors concluded from this analysis it was appropriate to continue to adopt the going concern basis in preparing the financial statements. The long-term impact of COVID-19 is uncertain and should the impact of the pandemic on trading conditions be more prolonged or severe than currently forecast by the Directors under the severe but plausible case scenario, the Company would need to implement additional operational or financial measures.



## 1 Accounting policies continued

### 1.3 Critical accounting judgements and key sources of estimation uncertainty

When applying the Company's accounting policies, management must make a number of key judgements involving estimates and assumptions concerning the future. These estimates and judgements are based on factors considered to be relevant, including historical experience that may differ significantly from the actual outcome. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

#### Revenue cut-off

The Company's management information systems are configured to recognise revenue upon notification of dispatch from the supplier or distributor which in instances, especially regarding physical shipments, may not be aligned to when control has been transferred to the customer. Management therefore performs an exercise to capture items that may have been dispatched from the distributor but not delivered in the financial year, and subsequently defers the recognition of revenue and associated cost into the following year. This gives rise to a deferred income, which is recognised as a contract liability, and associated inventory in the Statement of Financial Position. The exercise applied includes assumptions, which management believes are reasonable, in order to identify items that fit the criteria for deferral. Separately, management reviews individual large transactions on a case-by-case basis, which reduces the opportunity for error.

The key judgements that are made in the cut-off process are as follows:

- When identifying transactions to review in the cut-off process, management limits the review period to a fixed number of days before and after the period end and validates the date of dispatch.
- Management incorporates a one-day shipment delay assumption onto the sale of hardware items to reflect the time taken between vendor shipment and customer delivery.

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

#### Principal versus agent

Significant judgement is required in determining whether the Company is acting as principal, reporting revenue on a gross basis, or agent, reporting revenue on a net basis. Softcat evaluates each revenue stream against the following indicators when determining whether it is acting as principal or agent in a transaction: (i) primary responsibility for fulfilling the promise to provide the specified goods or service, (ii) inventory risk before the specified good or service has been transferred to a customer and (iii) discretion in establishing the price for the specified good or service. Certain revenue streams present a more balanced judgement than others when assessed against the above criteria and the conclusion may be reliant on the weighting applied to the responses to these criteria. When applying the weighting and concluding on whether principal or agent treatment is appropriate, the Company exercises significant levels of judgement due to the balanced nature of the assessment. The specific judgements made for each revenue category are discussed in the accounting policy for revenue as disclosed below.

#### Determining the lease term of contracts with renewal and termination options

Softcat determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. Softcat has several property leases that include termination options and Softcat applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, that Softcat considers all relevant factors that create an economic incentive to exercise either the renewal or termination option. Factors in considering extension or termination options include, but are not limited to, capacity constraints and growth plans, budgets and forecasts, trading relationships as well as current state of property. After the commencement date, Softcat reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not exercise the relevant option available.

# Notes to the financial statements continued

For the year ended 31 July 2020

## 1 Accounting policies continued

### 1.4 Adoption of new and revised standards

#### 1.4.1 Standards not yet adopted

At the date of authorisation of these financial statements, the following accounting standards, interpretations, improvements and amendments have become applicable for the current period:

- Amendments to IFRS 3 Business Combinations
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to References to the Conceptual Framework in IFRS Standards
- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments

Other than IFRS 16 Leases and IFRIC 23, which are discussed below, the Company has not been materially impacted by the adoption of any of the above standards and amendments and has not early adopted any standard, amendment or interpretation that was issued but is not yet effective.

Softcat has not early adopted any standard, amendment or interpretation that was issued but is not yet effective.

#### 1.4.2 Changes to accounting standards

Softcat plc has adopted the following standards and amendments for the first time in the year commencing 1 August 2019:

- IFRS 16 Leases
- IFRIC 23 Uncertainty over income tax treatment

#### IFRS 16 Leases

Softcat applied IFRS 16 Leases for the first time for the year ended 31 July 2020, commencing 1 August 2019. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Statement of Financial Position.

Softcat adopted IFRS 16 using the modified retrospective approach, with an initial date of application of 1 August 2019. Though lessor accounting is substantially unchanged under IFRS 16, Softcat is not a lessor in any arrangements and therefore no impact noted. Softcat is a lessee under IFRS 16 and has measured the right-of-use assets at the amount as if the standard applied from the commencement date but discounted using the incremental borrowing rate ('IBR') at the transition date. Softcat elected to use the transition practical expedient to not reassess if a contract is, or contains, a lease at 1 August 2019. Instead, Softcat applied the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Softcat has elected to use the recognition exemptions for short term and low value assets as stated in the lease accounting policy. Softcat has also taken the expedient under IFRS 16 to use a single discount rate to a portfolio of leases with reasonably similar characteristics.

The right-of-use asset was considered for any impairment at initial recognition with no issues noted, nor any adjustments required to be made.

A summary of the effects of adopting IFRS 16 Leases as at 1 August 2019 is, as follows:

	Property leases £'000
Right-of-use assets	7,024
Lease liability	(8,077)
Accruals brought forward derecognised	874
Retained earnings brought forward	179





## 1 Accounting policies continued

### 1.4 Adoption of new and revised standards continued

#### 1.4.2 Changes to accounting standards continued

Upon adoption of IFRS 16, the following changes have been made:

- Right-of-use assets of £7,024,436 were recognised upon transition and presented in the Statement of Financial Position.
- Lease liabilities of £8,076,564 were recognised on transition and presented in the Statement of Financial Position.
- The net effect of these transition entries to the right-of-use asset and lease liability adjusted to opening retained earnings is a debit of £1,052,128.
- Accruals of £873,612 related to previous operating leases were derecognised.
- The overall net effect of all transition entries to opening reserves is a debit of £178,516 and the associated impact on deferred tax is immaterial.

For the year ended 31 July 2020:

- Depreciation expense increased because of the depreciation of right-of-use assets recognised. This resulted in an additional depreciation of £1,968,712 for the year ended 31 July 2020.
- If IAS 17 had continued to apply, rent expenses included in administrative expenses, relating to previous operating leases, would have been £1,788,136.
- The net effect to administrative expenses for the year ended 31 July 2020 was an increase of £180,576.
- Finance costs increased by £316,421 relating to the interest expense on the lease liabilities.

Reconciliation of opening lease commitments under IAS 17 to opening lease liability under IFRS 16:

	Property leases £'000/%
Operating lease commitment as at 31 July 2019 under IAS 17	7,997
Weighted average incremental borrowing rate as at 1 August 2019	2.70%
Discounted operating lease commitments as at 1 August 2019	7,395
Lease payments and commitments relating to renewal periods not included in operating lease commitments as at 1 August 2019	682
Opening lease liability as at 1 August 2019 under IFRS 16	8,077

#### IFRIC 23 Uncertainty over income tax treatment

Softcat applied IFRIC 23 Uncertainty over income tax treatment for the first time for the period ended 31 July 2020. IFRIC 23 requires an entity to assess whether it is probable a taxation authority will accept an uncertain tax treatment.

Softcat applies judgement in identifying uncertainties over income tax treatments and has assessed whether the interpretation had an impact on its financial statements. Upon adoption of the interpretation, Softcat considered whether it has any uncertain tax positions and determined that it is highly probable that its tax treatments will be accepted by the taxation authorities. Where it is not probable that an uncertain tax treatment will be accepted, the most likely amount, or expected amount, is recognised depending on which method better predicts the resolution of the uncertainty. The interpretation did not have an impact on the financial statements.

#### 1.5 Revenue recognition

Revenue is recognised based on the completion of performance obligations at the transaction price allocated to the performance obligation. The transaction price is determined by the price specified in the underlying contract or order. Where the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. No discounts, loyalty points or returns are offered to customers. All performance obligations are separately listed as individual items on the order and the price is allocated on this basis. A performance obligation is satisfied when control of the promised good or service is transferred to the customer. The following indicators are used by the Company in determining when control has passed to the customer:

- the Company has a right to payment for the product or service;
- the customer has legal title to the product;
- the Company has transferred physical possession of the product to the customer;
- the customer has the significant risks and rewards of ownership of the product; and
- the customer has accepted the product.

# Notes to the financial statements continued

For the year ended 31 July 2020

## 1 Accounting policies continued

### 1.5 Revenue recognition continued

#### Principal versus agent

The Company evaluates the following indicators amongst others when determining whether it is acting as a principal or agent in the transaction and recording revenue on a gross, or net, basis:

- (i) the Company is primarily responsible for fulfilling the promise to provide the specified goods or service;
- (ii) the Company has inventory risk before the specified good or service has been transferred to a customer; and
- (iii) the Company has discretion in establishing the price for the specified good or service.

#### Hardware revenue

The Company sells hardware that is sourced from and delivered by multiple vendors and distributors. Revenues from sales of hardware products are recognised on a gross basis as the Company is acting as a principal in these transactions, with the gross value of the consideration from the customer recorded as revenue. The Company is acting as principal as it has primary responsibility for the acceptability of goods sold following the provision of consulting services which are not considered to be separately identifiable. Softcat is also exposed to inventory risk during the delivery period and establishes the selling price itself. Revenue from the sale of these goods is recognised when the control has passed to the buyer, usually on delivery of the goods.

Vendors typically provide standard warranties on most of the hardware products the Company sells. These manufacturer warranties are assurance-type warranties and are not considered separate performance obligations. The warranties are not sold separately and only provide assurance that products will conform with the manufacturer's specifications.

#### Software revenue

Revenue from most software licence sales is recognised on a gross basis as the Company is acting as a principal in these transactions at the point the software licence is delivered to the customer. The Company is deemed to be acting as principal in these transactions as the Company has primary responsibility for the acceptability of software sold following the provision of consulting services which are not considered to be separately identifiable, as well as the autonomy to establish the selling price for the transaction. Generally, software licences are sold with the ability to access that vendor's latest technology via product updates. The Company evaluates whether the access to updates is a separate performance obligation by assessing if the third party-delivered updates are critical to the core functionality of the software.

Where updates are critical to the effectiveness of the product then the Company will recognise the revenue on a net, or agent, basis. Where updates are not considered to be critical to the effectiveness of the product and the customer can continue to benefit from the core product without employing the updates then the Company recognises this revenue on a gross, or principal, basis. In practice, software licensing of security type products will require the latest updates to maintain their effectiveness and are therefore reported on a net basis.

The Company sells cloud computing solutions which include Software as a Service ('SaaS'). SaaS solutions utilise third party partners to offer the Company's customers access to software in the cloud that enhances office productivity, provides security or assists in collaboration. The Company recognises revenue for cloud computing solutions at the time of invoice on a net basis as the Company is acting as an agent in the transaction.

The Company sells, for a single vendor, access to corporate enterprise agreements which is a certain licensing programme for customers who are eligible. For these transactions the Company introduces the customer to the vendor who then fulfils the sale, including transfer of licensing, invoicing and cash collection, without further involvement of the Company. In return for this introduction the vendor compensates the Company with a fee. This fee is recognised net as the Company is acting as an agent in these transactions.

#### Service revenue

Softcat sells professional services days which are fulfilled by either Softcat's own internal team of consultants or by consultants provided by third parties. The Company recognises the revenue on these transactions, irrespective of whether they are fulfilled internally or externally, when confirmation has been received from the customer that the work has been satisfactorily completed. In most cases there is a short timeframe between a customer order and subsequent delivery of the sold service days. As such, the Company does not recognise revenue on a percentage completion basis as this would not have a material impact.

On very rare occasions the Company will sell professional service days which cover an extended period. For these transactions, management assesses the individual contract and, if required, recognises the revenue over time according to the output method. Softcat recognises revenue on the basis of direct measurements of the value to the customer which for professional days would be days completed as a percentage of total days. Revenue is recognised on a gross basis; the Company is deemed to be acting as principal in these transactions as it is responsible for selecting the external party, where relevant, for the acceptability of the services and for determining the price charged to the customer.



## 1 Accounting policies continued

### 1.5 Revenue recognition continued

#### Principal versus agent continued

The Company also provides hosted managed services to its customers offering Infrastructure as a Service ('IAAS') and managed print services among others. The Company hosts these services using internal resources and recognises revenue on a straight-line basis over the contractual service period. The Company recognises the respective revenue on a gross basis as the Company is acting as a principal in the transaction as it has both managerial involvement and effective control over the services being provided throughout the contract period.

Softcat also sells extended or enhanced warranty products provided by third parties. These warranties are sold separately to hardware and provide the customer with a service in addition to assurance that the product will function as expected. For these enhanced warranty products, the Company is arranging for those services to be provided by the third party over an extended period and therefore is acting as an agent in the transaction and records revenue on a net basis at the point of sale. Revenue from such services is recognised in full at the point of service commencement as the Company has no ongoing obligation in relation to delivery of the underlying service.

#### Public sector partner business revenue

The Company transacts with several partners in the public sector where the partner is responsible for the solution and customer relationship. These transactions incorporate the provision of hardware, software or services to the end customer. For this business, the Company's responsibilities of invoicing and cash collection are more aligned to those of an agent and therefore this business is recognised as agent and presented net of cost of sales.

#### Deferred costs

IFRS 15 requires certain costs to fulfil a contract to be recognised as a separate asset. These deferred costs are deferred until the performance obligation to which they relate has been met. Deferred costs are measured at the purchase price of the services received. Deferred costs are released from the Statement of Financial Position in line with the recognition of revenue on the specific transaction to which the costs relate. Deferred costs are measured at the purchase price of the associated goods or services. Deferred costs are released from the Statement of Financial Position in line with the recognition of revenue on the specific transaction. There are no significant or material judgements made by management in the measurement or recognition of these deferred costs, as costs are matched to an associated sale and the period of deferral is typically short.

Commissions have been incurred in respect of contracts whereby the performance obligation has not yet been satisfied, however, the Company has applied the practical expedient and recognised the commission as an expense when incurred given that the period over which the commission would have been recognised is less than a year.

#### Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which Softcat has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before Softcat transfers goods or services to the customer, a contract liability is recognised when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when Softcat performs under the contract. Further details of contract balances are provided in note 13.

### 1.6 Cost of sales

The Company recognises cost of sales at the point at which it recognises revenue as explained above. Cost of sales predominantly relate to the cost of goods or services purchased from suppliers and then sold to customers. In addition to these costs, the following elements are also included within cost of sales.

#### Rebates

Included within cost of sales are rebates received from commercial partners. Further details are provided on rebates in 1.7, below.

#### Managed service infrastructure costs

The Company operates its own network operating centre which facilitates the selling of Softcat hosted managed services. The costs of maintaining this capability include, but are not limited to, the rental of space in data warehouses, energy and licensing costs. These costs represent the cost of sale of selling hosted managed service solutions and are included within cost of sales.

#### Funded training costs

The Company carries out numerous training programmes, activities and schemes that aim to educate its sales force and internally promote the products the business resells. The costs of these activities are recognised within cost of sales.

#### Early settlement discounts

Through the normal course of business, the Company receives credits from distributors and suppliers for the prompt settlement of invoices. Softcat recognises these discounts in cost of sales as they are considered to be a reduction in the cost of goods sold.

# Notes to the financial statements continued

For the year ended 31 July 2020

## 1 Accounting policies continued

### 1.7 Rebates

Rebates from suppliers are accounted for in the period in which they are earned and are based on commercial agreements with suppliers. Rebates earned are mainly sales volume related and are generally short term in nature, with rebates earned but not yet received typically relating to the preceding quarter's trading. Other forms of rebate received from commercial partners include income from training provided to staff. Rebate income is recognised in cost of sales in the Statement of Profit or Loss and Other Comprehensive Income and rebates earned but not yet received are included within accrued income in the Statement of Financial Position.

### 1.8 Interest income

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate ('EIR') applicable. EIR is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

### 1.9 Property, plant and equipment

Property, plant and equipment other than freehold land is stated at cost, net of accumulated depreciation and/or impairment losses, if any. If the costs of certain components of an item of property, plant and equipment are significant in relation to the total cost of the item, they are accounted for and depreciated separately. Depreciation is provided at rates calculated to write off the cost of each asset over its expected useful life, as follows:

Freehold buildings	fifty years straight line
Building improvements	remaining period of lease – ten years straight line
Computer equipment	three to five years straight line
Fixtures, fittings and equipment	six years straight line
Motor vehicles	three years straight line

Land is not depreciated.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the income statement when the asset is derecognised.

Building improvements relate to expenditure on improving both leasehold property and the freehold property of Solar House in Marlow. Improvements to Solar House are depreciated over a ten-year period, which represents their useful life. Leasehold improvements are depreciated over their useful life which is the lesser of the remaining length of the lease or ten years.

The residual values, useful lives and methods of depreciation are reviewed for reasonableness at each financial year end and adjusted for prospectively if appropriate.

### 1.10 Intangible assets

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Intangible assets with a finite useful life are assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation is provided for at rates calculated to write off the cost of each asset over its expected useful life, as follows:

Computer software	three to fifteen years straight line
-------------------	--------------------------------------

The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible assets. The amortisation period and the amortisation method are reviewed at least at the end of each reporting period. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.



# Notes to the financial statements continued

For the year ended 31 July 2020

## 1 Accounting policies continued

### 1.13 Financial instruments

#### Financial assets

The Company's financial assets include cash and cash equivalents and trade and other receivables. All financial assets are recognised when the Company becomes party to the contractual provisions of the instrument.

##### i) Trade receivables

Trade receivables are recognised and measured at the transaction price less allowance for expected credit losses. Trade receivables do not carry interest.

As required under IFRS 9, the simplified approach for trade receivables and contractual assets has been used as there is not a significant financing component to these assets. In accordance with the simplified approach for impairment of trade receivables and accrued income under IFRS 9, the loss allowance for trade receivables is always measured at an amount equal to lifetime expected credit losses and includes a forward-looking element as well as an assessment based on history and experience. Factors considered when assessing the expected credit losses include prior experience, specific customer credit ratings, communication quality, industry factors and the current economic climate.

Due to the size of the receivables ledger and the volume of smaller balances, it is not possible to review all balances individually and therefore a portion of the ledger is reviewed collectively and provided for as such. More material or higher risk balances are reviewed individually looking at specific circumstances including payment history, the forecast of economic conditions in the sector the customer operates in, communication quality and responsiveness, to determine future expected credit losses, and are provided for individually with respect to the perceived level of risk. In addition, any entities that are in administration or have been passed to debt collection are provided for individually.

Unbilled receivables are recognised when a contract results in completion of a performance obligation in advance of the customer being invoiced.

##### ii) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, call deposits and bank overdrafts. Cash and cash equivalent balances have a maturity of three months or less and are subject to an insignificant level of risk to change in value.

##### iii) Accrued income

Accrued income predominantly relates to supplier rebates and is recognised according to both rebate agreements and supplier spend in the financial year.

As accrued income has a contractual right to receive cash, it is a financial asset and therefore also subject to loss allowances under IFRS 9. The loss allowance for accrued income is measured at an amount equal to lifetime expected credit losses and includes a forward-looking element as well as an assessment based on history and experience. Factors considered when assessing the expected credit losses include prior experience, supplier credit ratings, communication quality, industry norms and the current economic climate.

#### Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. The Company's financial liabilities comprise trade and other payables. All financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

##### i) Trade payables

Trade payables are initially measured at fair value. Trade payables due after one year are measured at amortised cost, using the effective interest rate method.

#### Derecognised financial instruments

For a small number of customers, Softcat acts as intermediary to provide financing arrangements between the customer and a third-party financing provider. Following the delivery of the goods or services, which represents our performance obligation in full, Softcat receives settlement of the customer invoice, by the third-party financing company. Receivables are derecognised only when Softcat has transferred the receivable, meaning that it has retained the contractual rights to the cash flows, but has assumed an obligation to pay those cash flows to the finance provider, in the case where all three of the following conditions are met:

- Softcat has no obligation to pay amounts to the finance provider unless it collects equivalent amounts from the receivable;
- Softcat is prohibited from selling or pledging the receivable; and
- Softcat has an obligation to remit the cash received without material delay.



## 1 Accounting policies continued

### 1.13 Financial instruments continued

#### Derecognised financial instruments continued

The transfer described above qualifies for derecognition as Softcat has transferred substantially all the risks and rewards of ownership of the receivable. Its only continuing involvement following delivery is to act as agent in the receipt and transfer of cash payments and, in line with the derecognition criteria set out above, the customer receivable is derecognised. Softcat does not retain or regain ownership of any assets at the end of these arrangements and the finance provider takes on the credit risk of future cash flows from the customer.

Cash flows in respect of these arrangements are recognised within cash generated from operations and typically result in a £Nil impact given that the Company acts as agent in the receipt and transfer of cash payments.

### 1.14 Pensions

The pension costs charged in the financial statements represent the contributions payable by the Company during the year on the defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amounts charged to the income statement represent the contributions payable to the scheme in respect of the accounting period and represent the full extent of the Company's liability.

### 1.15 Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

For deferred tax on leases, Softcat has applied the initial recognition exception under IAS 12. Under the general approach of IAS 12, the depreciation of the right-of-use asset is regarded as reducing the temporary difference that arose on initial recognition of the asset, and therefore gives rise to no tax effect. However, the accretion of the finance costs on the liability gives rise to an additional deductible temporary difference arising after initial recognition of the liability, requiring recognition of a deferred tax asset. This gives rise to an immaterial deferred tax asset for the year ended 31 July 2020.

### 1.16 Current taxation

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the Statement of Profit or Loss and Other Comprehensive Income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. Softcat applies judgement in identifying uncertainties over income tax treatments and considered whether it has any uncertain tax positions and determined that it is highly probable that its tax treatments will be accepted by the taxation authorities. Where it is not probable that an uncertain tax treatment will be accepted the most likely amount or expected amount is recognised depending on which method better predicts the resolution of the uncertainty.

### 1.17 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Pounds Sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the income statement.

# Notes to the financial statements continued

For the year ended 31 July 2020

## 1 Accounting policies continued

### 1.18 Share-based payments

During the year the Company operated the following equity-settled share option schemes:

#### Share Incentive Plan ('SIP')

The Company operates a SIP for employees who were awarded free shares following the initial public offering in November 2015. Shares were allocated to employees on the basis of length of service. Free shares awarded to an employee under the SIP are subject to a minimum holding period of three years following the date on which beneficial interest in the relevant ordinary shares is conferred by the SIP Trustee to the employee.

The fair value of the SIP shares is determined by the share price at date of grant, on 9 December 2015. A fair value charge is recognised as an expense in the income statement over the vesting period with a corresponding increase in equity. The charge is recognised only on the expected number of shares to vest. The assumption used for expected leavers within three years from the date of award has been calculated with reference to historical employee retention rates.

In addition, the Company's voluntary partnership share purchase programme, which is open to all eligible employees, is administered through the SIP. Through this programme, employees have the option to purchase shares from their gross income, the cost of which is not borne by the Company.

#### Long Term Incentive Plan ('LTIP')

Details in relation to the Softcat LTIP awards to Executive Directors are included in the Directors' Remuneration Report on page 67.

LTIP awards will only vest and become exercisable upon achievement of performance targets, linked to earnings per share and total shareholder return, as well as being conditional upon continued employment with the Company. The fair value is measured using a suitable valuation model where appropriate. Non-market vesting conditions are taken into account by adjusting the number of LTIP shares expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of LTIP shares that will eventually vest. Market vesting conditions are factored into the fair value of the LTIP shares granted. The cumulative expense is not adjusted for failure to meet a market vesting condition. The resulting fair value charge is charged as an expense in the income statement over the vesting period with a corresponding increase in equity. Employer's National Insurance contributions are payable, on exercise, on the market value of the award and are accrued for within the share-based payments expense in the Statement of profit or loss and other comprehensive income.

#### Deferred shares

One-third of the Executive Directors' annual target bonus is paid in deferred shares. The Company accrues for the cost of the non-cash bonus over a four-year period, including the year in which the bonus targets are assessed and the following three-year vesting period. Employer's National Insurance contributions are payable, on exercise, on the market value of the award and are accrued for within the share-based payments expense in the Statement of profit or loss and other comprehensive income.

#### SIP Trust

The Company operates a SIP Trust for the benefit of eligible employees. The Company recognises the assets and liabilities of this trust as its own until such assets held vest unconditionally with identified beneficiaries. The Company meets all costs incurred by the trust.

### 1.19 Company accounts

Softcat plc is a single entity with no subsidiary undertakings. The SIP Trust, which hold shares on behalf of employees, are not consolidated within the results of Softcat plc and instead are treated as extensions of the Company.





## 2 Segmental information

The information reported to the Company's Chief Executive, 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 by product, which form one reportable segment, is set out below:

Revenue by type:	2020 £'000	2019 £'000
Software	519,520	476,461
Hardware	442,349	430,933
Services	115,258	84,455
	<b>1,077,127</b>	991,849

Gross invoiced income by type:	2020 £'000	2019 £'000
Software	964,280	788,903
Hardware	458,297	452,971
Services	223,614	172,190
	<b>1,646,191</b>	1,414,064

Revenue and gross invoiced income can also be disaggregated by type of business<sup>1</sup>:

Revenue by type of business:	2020 £'000	2019 £'000
Small and medium	530,573	499,033
Enterprise	257,478	236,262
Public sector	289,076	256,554
	<b>1,077,127</b>	991,849

Gross invoiced income by type of business:	2020 £'000	2019 £'000
Small and medium	669,607	607,032
Enterprise	338,312	301,998
Public sector	638,272	505,034
	<b>1,646,191</b>	1,414,064

### Note:

- Types of business are split by entity staff size. Small and medium business represents workforces of up to 2,000 seats. Enterprise is above 2,000 seats and public sector represents government and other public bodies.

## Notes to the financial statements continued

For the year ended 31 July 2020

### 2 Segmental information continued

Gross invoiced income reflects gross income billed to customers adjusted for deferred and accrued revenue items. Softcat continue to report gross invoiced income as an alternative financial KPI as this measure allows a better understanding of business performance and position. The impact of IFRS 15 and principal versus agent consideration is an equal reduction to both revenue and cost of sales.

	2020 £'000	2019 £'000
Gross invoiced income	1,646,191	1,414,064
Income to be recognised as agent under IFRS 15	(569,064)	(422,215)
Revenue	1,077,127	991,849

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

### 3 Operating profit

	2020 £'000	2019 £'000
Operating profit is stated after charging:		
Depreciation of tangible assets	1,382	1,275
Depreciation of right-of-use assets	1,969	—
Amortisation of intangible assets	232	245
Operating lease rentals	—	1,790
Low value asset and short-term lease expense	73	—
Foreign exchange loss	1,583	752
Inventories expensed in the year	377,552	368,304
<b>Auditor's remuneration</b>		
Fees payable for the audit of the Company's annual accounts	350	255
Fees payable for audit-related services	14	33
<b>Total for statutory audit services</b>	364	288
Fees payable for non-audit-related services	30	25
<b>Total for non-audit-related services</b>	30	25

For details on employee numbers and employee costs, please see note 24.

### 4 Finance income and finance cost

	2020 £'000	2019 £'000
Bank interest income	200	333
Lease liability interest cost	(316)	—



## 5 Income tax

The major components of the income tax expense for the years ended 31 July 2020 and 31 July 2019 are:

	2020 £'000	2019 £'000
<b>Statement of Profit or Loss</b>		
Current income tax charge in the year	18,154	16,801
Adjustment in respect of current income tax of previous years	(36)	10
Foreign tax relief/other relief	(58)	—
Foreign tax suffered	64	—
<b>Total current income tax charge</b>	<b>18,124</b>	<b>16,811</b>
<b>Deferred tax</b>		
Current year	(11)	(506)
Effect of changes in tax rates	(160)	53
<b>Deferred tax credit</b>	<b>(171)</b>	<b>(453)</b>
<b>Total tax charge</b>	<b>17,953</b>	<b>16,358</b>
<b>Reconciliation of total tax charge</b>		
Reconciliation of tax expense and accounting profit multiplied by the Company's domestic tax rate for 2020 and 2019:		
Profit on ordinary activities before taxation	93,617	84,819
Profit on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 19% (2019: 19%)	17,787	16,116
Effects of:		
Non-deductible expenses	219	191
Adjustment to previous periods	(36)	10
Effect of changes in tax rates	(160)	53
Effects of overseas tax rates	7	—
Share options	143	—
Other differences	(7)	(12)
	<b>166</b>	<b>242</b>
Income tax charge reported in profit or loss	<b>17,953</b>	<b>16,358</b>

In the year ended 31 July 2020, £741,019 (2019: £302,967) of current tax was credited to equity and £232,728 (2019: £596,896 credit) of deferred tax was debited to equity.

### Changes affecting the future tax charge

The Finance Act 2015 included legislation to reduce the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020, however on 17 March 2020 a resolution having statutory effect was passed setting the corporation tax rate at 19% from 1 April 2020. The 19% rate has been utilised in the financial statements for the purposes of calculating deferred tax assets and liabilities (2019: 17%).

### Notes to the financial statements continued

For the year ended 31 July 2020

#### 6 Dividends

	2020 £'000	2019 £'000
<b>Declared and paid during the year</b>		
Special dividend on ordinary shares (16.0p per share (2019: 15.1p))	<b>31,720</b>	29,891
Final dividend on ordinary shares (10.4p per share (2019: 8.8p))	<b>20,618</b>	17,419
Interim dividend on ordinary shares (0.0p per share (2019: 4.5p))	—	8,921
	<b>52,338</b>	56,231

A final dividend of 16.6p per share has been recommended by the Directors and if approved by shareholders will be paid on 11 December 2020. This includes the 5.4p interim dividend that was declared in March 2020 and subsequently cancelled due to uncertainty created by Coronavirus. The final ordinary dividend will be payable to shareholders whose names are on the register at the close of business on 6 November 2020. Shares in the Company will be quoted ex-dividend on 5 November 2020. The dividend reinvestment plan ("DRIP") election date is 23 November 2020.

In line with the Company's stated intention to return excess cash to shareholders, a further special dividend payment of 7.6p has been proposed. If approved this will also be paid on 11 December 2020 alongside the final ordinary dividend.

The Board approved the cancellation of the interim dividend proposed in the FY20 Interim Report and recommends the final and special dividend for shareholders' approval. Softcat's dividend policy remains a progressive one which targets an annual dividend of between 40% and 50% of the Company's profits after tax in each financial year before any exceptional items. In determining the level of dividend in any year in accordance with the policy, the Board considers a number of other factors that influence the proposed dividend, which include but are not limited to:

- the level of available distributable reserves in the Company;
- future cash commitments and investment needs to sustain the long-term growth prospects of the business; and
- potential strategic opportunities.

Softcat's constitution does not limit or oblige the Company to any minimum or maximum dividend payments. However, no dividend may exceed the amount recommended by the Directors and all dividends shall be paid in accordance with any relevant legislation.

The Audit Committee on behalf of the Board reviews the distributable reserves of the Company as part of its half-year and full-year reviews. The Board then considers the Audit Committee's review as part of its process to approve or recommend dividends.

Softcat intends to continue to fund its dividends through the cash generated by the business. Details of the Company's continuing viability and going concern can be found on pages 36 and 37 and pages 90 and 91 respectively.



## 7 Property, plant and equipment

	Freehold land and buildings £'000	Building improvements £'000	Computer equipment £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>						
At 1 August 2018	2,649	2,342	8,112	1,538	262	14,903
Additions	—	1,130	535	400	103	2,168
Disposals	—	(195)	(1,036)	(32)	—	(1,263)
At 31 July 2019	2,649	3,277	7,611	1,906	365	15,808
Additions	—	4,935	532	2,165	32	7,664
Disposals	—	(683)	—	—	(34)	(717)
<b>At 31 July 2020</b>	<b>2,649</b>	<b>7,529</b>	<b>8,143</b>	<b>4,071</b>	<b>363</b>	<b>22,755</b>
<b>Depreciation</b>						
At 1 August 2018	150	1,326	7,171	988	212	9,847
On disposals	—	(112)	(943)	(20)	—	(1,075)
Charge for the year	25	425	608	186	31	1,275
At 31 July 2019	175	1,639	6,836	1,154	243	10,047
On disposals	—	(537)	—	—	(34)	(571)
Charge for the year	25	411	521	371	54	1,382
<b>At 31 July 2020</b>	<b>200</b>	<b>1,513</b>	<b>7,357</b>	<b>1,525</b>	<b>263</b>	<b>10,858</b>
<b>Net book value</b>						
<b>At 31 July 2020</b>	<b>2,449</b>	<b>6,016</b>	<b>786</b>	<b>2,546</b>	<b>100</b>	<b>11,897</b>
At 31 July 2019	2,474	1,638	775	752	122	5,761

Freehold land amounting to £1.4m (2019: £1.4m) has not been depreciated.

No assets are subject to restrictions on title or are pledged as security for liabilities (2019: £Nil).

There is no material difference between the carrying and fair value of the underlying assets as at both 31 July 2020 and 31 July 2019.

## 8 Right-of-use assets and lease liabilities

### Leases – as a lessee

Softcat has lease contracts for various 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 year:

	Property leases £'000
As at 1 August 2019	7,024
Lease modifications	3,644
Depreciation	(1,970)
<b>As at 31 July 2020</b>	<b>8,698</b>

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

## Notes to the financial statements continued

For the year ended 31 July 2020

### 8 Right-of-use assets and lease liabilities continued

#### Leases – as a lessee continued

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

	Property leases £'000
As at 1 August 2019	8,077
Lease modifications	3,644
Accretion of interest	316
Payments	(2,198)
<b>As at 31 July 2020</b>	<b>9,839</b>
Split as:	
Short-term	1,867
Long-term	7,972

Lease modifications in the year were in respect of extension of specific lease terms of existing property leases, as well as the rental of additional space.

Softcat had no variable leases 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 July 2020	Within five years £'000	More than five years £'000	Total £'000
<b>Termination options expected to be exercised</b>	<b>2,210</b>	<b>3,867</b>	<b>6,077</b>

The total value of lease charges for low value and short-term leases to Statement of profit or loss and other comprehensive income for the year was £73,310.



## 9 Intangible assets

	Computer software £'000
<b>Cost</b>	
At 1 August 2018	1,992
Additions	161
At 31 July 2019	2,153
Additions	1,293
<b>At 31 July 2020</b>	<b>3,446</b>
<b>Amortisation</b>	
At 1 August 2018	1,668
Charge for the year	245
At 31 July 2019	1,913
Charge for the year	232
<b>At 31 July 2020</b>	<b>2,145</b>
<b>Net book value</b>	
<b>At 31 July 2020</b>	<b>1,301</b>
At 31 July 2019	240

The amortisation of intangible assets is included in administrative expenses within the income statement. See note 3.

## 10 Inventories

	2020 £'000	2019 £'000
Finished goods and goods for resale	11,744	11,084

The amount of any write down of inventory recognised as an expense in the year was £Nil (2019: £Nil).

## 11 Trade and other receivables

	2020 £'000	2019 £'000
Trade and other receivables	296,286	260,272
Provision against receivables	(2,863)	(2,199)
Net trade receivables	293,423	258,073
Unbilled receivables	5,104	1,939
Prepayments	2,700	4,361
Accrued income	5,951	12,013
Deferred costs	6,945	8,921
	<b>314,123</b>	<b>285,307</b>

The provision against receivables follows the expected credit loss model.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

## Notes to the financial statements continued

For the year ended 31 July 2020

### 11 Trade and other receivables continued

The ageing profile of trade receivables was as follows:

	2020 £'000	Related provision £'000	Net £'000	2019 £'000	Related provision £'000	Net £'000
Current	234,054	(993)	233,061	191,274	(617)	190,657
0-30 days	30,017	(459)	29,558	40,862	(359)	40,503
31-60 days	10,624	(217)	10,407	11,595	(110)	11,485
61-90 days	8,065	(212)	7,853	8,492	(194)	8,298
Over 90 days	13,526	(982)	12,544	8,049	(919)	7,130
<b>Total due</b>	<b>296,286</b>	<b>(2,863)</b>	<b>293,423</b>	260,272	(2,199)	258,073

The Company provides against its trade receivables using the forward-looking expected credit loss model under IFRS 9. An impairment analysis is performed at each reporting date. Provisions against future recoverability are set to reflect probability-weighted outcomes, analysis of prior events, current conditions, including an assessment of COVID-19 related factors. Further details on how the Company manages its credit risk can be found in note 21.

Movement in the provision for trade receivables was as follows:

	2020 £'000	2019 £'000
Balance at beginning of year	2,199	1,867
Increase for trade receivables regarded as potentially uncollectable	2,149	2,071
Decrease in provision for trade receivables recovered, or written off, during the year	(1,485)	(1,739)
<b>Balance at end of year</b>	<b>2,863</b>	2,199

Set out below is the information about the credit risk exposure on Softcat's trade receivables:

	Current £'000	<30 days £'000	31-60 days £'000	61-90 days £'000	>91 days £'000	Total £'000
<b>31 July 2020</b>						
Expected credit loss rate	0.42%	1.53%	2.04%	2.63%	7.26%	0.97%
Estimated total gross carrying amount at default	234,054	30,017	10,624	8,065	13,526	296,286
Expected credit loss	(993)	(459)	(217)	(212)	(982)	(2,863)
<b>31 July 2019</b>						
Expected credit loss rate	0.32%	0.88%	0.95%	2.28%	11.42%	0.84%
Estimated total gross carrying amount at default	191,274	40,862	11,595	8,492	8,049	260,272
Expected credit loss	(617)	(359)	(110)	(194)	(919)	(2,199)

Unbilled receivables and accrued income have been reviewed by management and have been determined to have an immaterial impact on our expected credit losses.

See note 21 for details on how the Company approaches its exposure to credit risk.

The Company does not hold collateral as security.





## 12 Trade and other payables

	2020 £'000	2019 £'000
Trade payables	198,171	185,384
Other taxes and social security	16,799	17,328
Accruals	48,896	41,756
	<b>263,866</b>	244,468

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

During FY20, Trade and other payables has been restated to exclude contract liabilities from the prior year figure totalling £15.2m. See note 13.

## 13 Contract liabilities

	2020 £'000	2019 £'000
Deferred income	16,494	15,165
	<b>16,494</b>	15,165

Deferred income is split as:

	2020 £'000	2019 £'000
Short term deferred income	13,929	15,165
Long term deferred income	2,565	—
	<b>16,494</b>	15,165

Please refer to note 1.2 for the basis of preparation and reclassification of contract liabilities.

### Contract balances

Deferred income includes short-term and long-term goods or services to be delivered to a customer 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. During the current year, £15.165m has been recognised in revenue resulting from these contract liabilities existing as at 31 July 2019. As at 31 July 2020, £16.494m remains on the Statement of Financial Position as a contract liability resulting entirely from transactions arising from the year to 31 July 2020. Softcat expects that £13.929 of the balance as at 31 July 2020 will be released in FY21 with the balance released within 2-5 years of the end of FY21.

## 14 Cash and cash equivalents

	2020 £'000	2019 £'000
Cash at bank and in hand	80,139	79,263

Cash and cash equivalents comprise cash at bank and cash in hand. Cash at bank earns interest at floating rates based on daily bank deposit rates. All cash held is accessible and is not restricted for any period of time.

## Financial statements

### Notes to the financial statements continued

For the year ended 31 July 2020

#### 15 Deferred tax

The deferred tax asset is made up as follows:

	2020 £'000	2019 £'000
Accelerated capital allowances	24	118
Share-based payments	1,606	1,833
Other temporary differences	778	534
<b>Deferred tax assets</b>	<b>2,408</b>	<b>2,485</b>

	2020 £'000	2019 £'000
<b>Reconciliation of deferred tax asset</b>		
Balance at 31 July 2019 (PY: 31 July 2018)	2,485	1,436
Adjustment in respect of prior years	35	—
Profit and loss account	171	452
Charge to equity	(283)	597
<b>Balance at 31 July 2020 (PY: 31 July 2019)</b>	<b>2,408</b>	<b>2,485</b>

The Company recognises all deferred tax movements in the year within the income statement, except for £232,749 (2019: £596,896 credit) debited to equity in relation to deferred tax movements on share-based payments.

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

	2020			2019		
	Income statement £'000	SOCIE £'000	Total £'000	Income statement £'000	SOCIE £'000	Total £'000
<b>Current tax</b>						
Movement in respect of prior years	(36)	—	(36)	10	—	10
Movement in respect of current year	18,160	(741)	17,419	16,801	(304)	16,497
<b>Total current tax</b>	<b>18,124</b>	<b>(741)</b>	<b>17,383</b>	<b>16,811</b>	<b>(304)</b>	<b>16,507</b>
<b>Deferred tax</b>						
Movement in respect of prior years	—	(50)	(50)	—	—	—
Movement in respect of current year:						
Share options	(90)	283	193	—	—	—
Fixed assets	119	—	119	(38)	—	(38)
Other temporary differences	(200)	—	(200)	(415)	(597)	(1,012)
<b>Total deferred tax</b>	<b>(171)</b>	<b>233</b>	<b>62</b>	<b>(453)</b>	<b>(597)</b>	<b>(1,050)</b>
<b>Total tax</b>	<b>17,953</b>	<b>(508)</b>	<b>17,445</b>	<b>16,358</b>	<b>(901)</b>	<b>15,547</b>

#### 16 Pension and other post-retirement benefit commitments

##### Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund. At the year end pension contributions of £428,255 (2019: £376,385) were outstanding.

	2020 £'000	2019 £'000
Contributions payable by the Company for the year	2,221	1,457



## 17 Share capital

### Authorised share capital

In accordance with the Companies Act 2006, the Company no longer has an authorised share capital. The Company's Articles of Association have been amended to reflect this change.

	2020 £'000	2019 £'000
<b>Allotted and called up</b>		
198,679,171 (2019: 198,250,486) ordinary shares of 0.05p each	100	99
18,933 (2019: 18,933) deferred shares <sup>1</sup> of 1p each	—	—
	<b>100</b>	<b>99</b>

#### Note:

1. At 31 July 2020 deferred shares had an aggregate nominal value of £189.33 (2019: £189.33).

In the year ended 31 July 2020, 422,567 (2019: 299,791) new ordinary shares were issued to satisfy the exercise of share options and no ordinary shares (2019: nil) were issued to satisfy exercises under the deferred share bonus plan.

No issued ordinary shares of £0.0005 each were unpaid at 31 July 2020 (2019: nil unpaid).

All ordinary shares rank pari passu in all respects.

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

### Own share transactions

In the year ended 31 July 2020 the SIP Trust returned £Nil (2019: £Nil) to the Company through share recycling.

## 18 Earnings per share

	2020 p	2019 p
<b>Earnings per share</b>		
Basic	38.2	34.6
Diluted	38.0	34.4

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

	2020 £'000	2019 £'000
<b>Earnings</b>		
Earnings for the purposes of earnings per share, being profit for the year	75,664	68,461

The weighted average number of shares is given below:

	2020 '000	2019 '000
Number of shares used for basic earnings per share	198,127	197,643
Number of shares deemed to be issued at nil consideration following exercise of share options	1,007	1,209
<b>Number of shares used for diluted earnings per share</b>	<b>199,134</b>	<b>198,852</b>

### Notes to the financial statements continued

For the year ended 31 July 2020

#### 19 Notes to the Statement of Cash Flows

##### Reconciliation of operating profit to net cash inflow from operating activities

	2020 £'000	2019 £'000
Operating profit	93,733	84,486
Depreciation of property, plant and equipment	1,382	1,275
Depreciation of right-of-use assets	1,970	—
Amortisation of intangibles	232	245
Loss on disposal of fixed assets	146	188
Dividend equivalents paid	(259)	(287)
Cost of equity-settled employee share schemes	1,958	1,732
<b>Operating cash flow before movements in working capital</b>	<b>99,162</b>	<b>87,639</b>
Increase in inventory	(660)	(2,453)
Increase in trade and other receivables	(28,816)	(79,350)
Increase in trade and other payables and contract liabilities	21,601	74,369
<b>Cash generated from operations</b>	<b>91,287</b>	<b>80,205</b>
Income taxes paid	(27,117)	(15,546)
<b>Net cash from operating activities</b>	<b>64,170</b>	<b>64,659</b>

#### 20 Financial commitments

##### Guarantees

Softcat plc has the following guarantees as at 31 July 2020:

- a class guarantee facility of £2,000,000 (2019: £2,000,000) with HSBC UK Bank plc; and
- a revolving credit facility of up to £50,000,000, with option to extend to £70,000,000 (2019: £Nil) with HSBC UK Bank plc.

#### 21 Financial instruments and financial risk management

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

##### Financial assets

The financial assets of the Company were as follows:

	2020 £'000	2019 £'000
Cash at bank and in hand	80,139	79,263
Trade and other receivables	304,478	272,025
	<b>384,617</b>	<b>351,288</b>

The full year 2019 trade and other receivables balance has been restated to exclude deferred costs amounting to £8.9m.

The Directors consider that the carrying amount for all financial assets approximates to their fair value.

In respect of assets and liabilities that should be derecognised as at 31 July 2020, there remained £1.7m (2019: £Nil) on the Statement of Financial Position. The receivable recognised at the 31 July 2020 was due to timing difference between the transfer of cash that spanned the year end date.



## 21 Financial instruments and financial risk management continued

### Financial liabilities

The financial liabilities of the Company were as follows:

	2020 £'000	2019 £'000
Trade payables	(198,171)	(185,384)
Accruals	(48,896)	(41,756)
Lease liabilities	(9,839)	—
	<b>(256,906)</b>	<b>(227,140)</b>

The Directors consider that the carrying amount for all financial liabilities (excluding lease liabilities) approximates to their fair value.

### Financial risk management

The Company is exposed to interest rate risk, foreign currency risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks and ensures that the Company's financial risk taking is governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Company policies and Company risk appetite. In addition, during the current year as part of the risk management process the Company has entered into a revolving credit facility with HSBC UK Bank plc initially entitling Softcat to funds of up to £50,000,000 and the option to extend by a further £20,000,000. As at 31 July 2020, no drawdowns have been made on this balance. The RCF expires on 29 April 2021.

Softcat also qualified for the Covid Corporate Financing Facility (CCFF) which would entitle Softcat to receive a loan of up to £300,000,000. As at 31 July 2020, there has been no intent or requirement to draw down upon the CCFF.

The Board of Directors reviews and agrees the policies for managing each of these risks, which are summarised below:

#### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. At the year end the Company has no borrowings and therefore the exposure to interest rate risk is limited to the rates received as interest income on cash deposits. The Company accepts the risk of losing interest on deposits due to interest rate reductions. Due to the limited exposure to interest rate risk no sensitivity analysis has been prepared.

#### Foreign currency risk

The Company is exposed to foreign currency risk when dealing with customers and suppliers who wish to be billed in a currency other than Pounds Sterling. As the vast majority of transactions are with UK customers and are denominated in Pounds Sterling, the Directors consider this foreign currency risk to be small and do not hedge this risk due to the limited exposure. The level of foreign currency transactions is monitored closely to ensure that the level of exposure is manageable. Due to the limited exposure to currency risk no sensitivity analysis has been prepared.

#### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions.

#### Trade receivables

Credit risk from trade receivables is managed in accordance with the Company's established policy, procedures and control relating to customer credit risk management. A customer's credit quality is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment.

Outstanding customer receivables are regularly monitored. At 31 July 2020, the Company had 1,436 customer accounts (2019: 1,352) that owed the Company more than £25,000 each. These accounts accounted for approximately 16% (2019: 16%) of total customers and 94% (2019: 89%) of the total value of amounts receivable. There were 483 customers (2019: 453 customers) with balances greater than £100,000 accounting for just over 5% (2019: 5%) of the total number of receivable accounts and 77% (2019: 72%) of the total value of amounts receivable.

The requirement for impairment is analysed at each reporting date. The calculation is based on actual incurred historical data and expected credit losses. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Company does not hold collateral as security. The Company has evaluated the concentration of risk with respect to trade receivables, as there is limited reliance on single, or few customers; instead, sales are typically small in size but large in volume as are the number of customers, the Company considers concentration risk to be low. This is illustrated by the fact that no more than 6% of receivables are due from any one customer at the year end.

The Company provides against its trade receivables using the forward-looking expected credit loss model under IFRS 9.

## Notes to the financial statements continued

For the year ended 31 July 2020

### 21 Financial instruments and financial risk management continued

#### Financial risk management continued

##### Financial instruments and cash deposits

Credit risk from cash balances with banks and financial institutions is managed in accordance with Company policy. The Company has significant cash reserves which are accessible immediately and without restriction. Credit risk with respect to cash deposits is managed by carefully selecting the institutions with which cash is deposited and spreading its deposits across more than one such institution to ease concentration risk.

##### Liquidity risk

The Company generates positive cash flows from operating activities and these fund short-term working capital requirements. The Company aims to maintain significant cash reserves and none of its cash reserves are subject to restrictions. Access to cash is not restricted and all cash balances could be drawn upon immediately if required. The Board carefully monitors the levels of cash deposits and is comfortable that for normal operating requirements, no external borrowings are currently required.

The following table details the Company's remaining contractual maturity for its financial liabilities based on undiscounted contractual payments:

	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	Total £'000
<b>2020</b>					
Trade payables	(198,171)	—	—	—	(198,171)
Accruals	(48,896)	—	—	—	(48,896)
Lease liabilities	(2,143)	(2,434)	(4,307)	(1,897)	(10,781)
	<b>(249,210)</b>	<b>(2,434)</b>	<b>(4,307)</b>	<b>(1,897)</b>	<b>(257,848)</b>
<b>2019</b>					
Trade payables	(185,384)	—	—	—	(185,384)
Accruals	(41,756)	—	—	—	(41,756)
	<b>(227,140)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(227,140)</b>

In both the current year and the prior year, materially all of the financial liabilities, other than lease liabilities, above have a contractual settlement date of between zero and three months.

##### Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while also maximising the operating potential of the business. The capital structure of the Company consists of equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the Company Statement of Changes in Equity. The Company is not subject to externally imposed capital requirements.

### 22 Capital commitments

At 31 July 2020 the Company had £Nil capital commitments (2019: £Nil).

### 23 Directors' remuneration

	2020 £'000	2019 £'000
Remuneration for qualifying services	2,027	1,866
Company pension contributions to defined contribution schemes	1	14
	<b>2,028</b>	<b>1,880</b>

During the year ended 31 July 2020 the Directors of the Company were awarded a total of 70,035 LTIP shares (2019: 125,000) at an average exercise price of £Nil (2019: £Nil) and 23,583 shares (2019: 16,596) under the FY17 Deferred Share Bonus Plan.

The number of Directors for whom retirement benefits are accruing under defined contribution schemes amounted to one (2019: one). The number of Directors who are entitled to receive shares under long-term incentive schemes during the year was three (2019: three).

Gains on share options exercised in the year were £2,303,501 (2019: £2,047,114).

Share-based payment charges include £795,011 (2019: £772,470) in respect of Directors.



## 24 Employees

### Number of employees

The average monthly number of employees (including Directors) during the year was:

	2020 Number	2019 Number
Sales	979	897
Services	255	209
Administration	241	194
	<b>1,475</b>	1,300

### Employment costs

	2020 £'000	2019 £'000
Wages and salaries	96,746	85,438
Social security costs	12,230	10,697
Other pension costs	2,221	1,456
Share option charge	1,958	1,732
	<b>113,155</b>	99,323

## 25 Share option schemes

The Company operates a Long Term Incentive Plan ('LTIP') for Executive Directors and senior management and a Share Incentive Plan ('SIP') for all employees.

The Company recognised the following expenses related to equity-settled share-based payment transactions:

	2020 £'000	2019 £'000
LTIP	1,958	1,568
SIP	—	164
	<b>1,958</b>	1,732
Employer's National Insurance contributions payable on all plans	1,018	563
	<b>2,976</b>	2,295

All options vest at the end of the vesting period relating to that option or on the occurrence of a contingent event. This includes substantial sale or substantial business asset sale. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Furthermore, the vesting of these share options is dependent on continued employment.

Following the public listing of shares in the Company, share options become readily convertible assets for which the Company is liable for employer's National Insurance contributions. The Company accrues for National Insurance contributions on a straight-line basis from the date of award to the vesting date.

# Notes to the financial statements continued

For the year ended 31 July 2020

## 25 Share option schemes continued

### LTIP

The LTIP provides share awards to Executive Directors and senior management.

#### Executive Directors

Details in relation to the Softcat LTIP awards to Executive Directors are included in the Directors' Remuneration Report on page 72.

During the year 70,035 (2019: 125,000) share awards related to LTIP schemes were issued to two Executive Directors at nil exercise price with a performance period of three years. The fair value of these awards was £470,635 (2019: £503,125). Performance conditions are linked to earnings per share and total shareholder return over the vesting period. The EPS linked element of the LTIPs awarded in the year were valued using the Black-Scholes model and a Monte-Carlo simulation was used for the TSR linked element of the award. The following assumptions were used to reach the below fair value:

	31 July 2020		31 July 2019	
	EPS	TSR	EPS	TSR
Proportion of LTIP award	50%	50%	50%	50%
Share price at grant date (£)	11.10	11.10	6.95	6.95
Weighted average exercise price at grant date	—	—	—	—
Risk-free interest rate	0.75%	0.75%	0.75%	0.75%
Expected volatility	29%	29%	27%	27%
Performance period (years)	3	3	3	3
Fair value (£)	7.75	5.67	4.86	3.19

Expected volatility has been determined using historical data reflecting share price movements covering the audited financial year.

During the year 196,735 (2019: 299,791) LTIP options were exercised with an average weighted share price at the date of exercise of £11.81 (2019: £6.84).

#### Deferred Share Bonus Plan

One-third of the Executive Directors' annual bonus is paid in deferred shares. In the year 26,215 (2019: 16,596) deferred shares relating to the 2019 Deferred Share Bonus Plan were issued to two Executive Directors with a £Nil exercise price and a further vesting period of three years. The fair value is calculated using the share price on the date of grant and the number of shares awarded. The fair value of deferred shares issued in the year is £249,975 (2019: £130,000).

#### Senior management

An award of 148,532 (2019: 234,013) shares was made to members of the Executive Leadership Team and other senior management in the year. These shares had an exercise price of £Nil at the date of grant and a performance period of three years. The share-based payment charge of these awards was £1,550,674 (2019: £1,263,670). As the exercise price of the options awarded in the year was £Nil, the charge has been calculated by multiplying the number of shares issued by the share price on the date of grant, adjusted for an expected forfeiture rate. The share price is the fair value of the equity instrument granted, which was £11.60 (2019: £6.00) at grant date. The resultant fair value is then recognised over the performance period.

During the year 21,864 shares (2019: 48,038) were forfeited as members of senior management left the business prior to completion of the vesting period.

The weighted average remaining contractual life under exercise period of all LTIP awards is 8.12 years (2019: 8.26 years).

#### Share Incentive Plan

The Company awarded free shares to its employees following the initial public offering in November 2015. Shares were allocated to employees on the basis of length of service. Free shares awarded to an employee under the SIP are subject to a minimum holding period of three years.

Historical employee attrition rates have been used to calculate the expected number of shares expected to vest. The resulting income statement charge is spread over the three-year vesting period with a corresponding entry in equity.

In addition, the Company's voluntary partnership share purchase programme, which is open to all employees, is administered through the SIP.

The weighted average remaining contractual life of share-based payment arrangements at the year end was 5.36 years (2019: 6.36 years).





## 25 Share option schemes continued

### All share-based payment arrangements

The number and weighted average exercise price of all share-based payment arrangements (including LTIP) are as follows:

	Weighted average exercise price £	No. of shares as at 31 July 2020	Weighted average exercise price £	No. of shares as at 31 July 2019
Outstanding at 1 August	—	1,568,268	—	1,648,779
Granted during the year	—	244,782	—	375,609
Forfeited during the year	—	(21,864)	—	(66,405)
Exercised during the year	—	(461,090)	—	(389,715)
Outstanding at 31 July		1,330,096		1,568,268
Exercisable at 31 July		383,171		—

The fair value of share-based payment arrangements granted in the year was £2,271,284 (2019: £1,896,795), relating entirely to Long Term Incentive Plan awards.

The weighted average remaining contractual life of share-based payment arrangements at the year end was 7.45 years (2019: 7.73 years).

## 26 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 11 December 2020. This includes the 5.4p interim dividend that was declared in March 2020 and subsequently cancelled due to uncertainty created by Coronavirus. The final ordinary dividend will be payable to shareholders whose names are on the register at the close of business on 6 November 2020. Shares in the Company will be quoted ex-dividend on 5 November 2020. The dividend reinvestment plan ('DRIP') election date is 23 November 2020.

In line with the Company's stated intention to return excess cash to shareholders, a further special dividend payment of 7.6p has been proposed. If approved this will also be paid on 11 December 2020 alongside the final ordinary dividend.

## Notes to the financial statements continued

For the year ended 31 July 2020

### 27 Related party relationships and transactions

#### Transactions with key management personnel

The remuneration of key management personnel, which consists of persons who have been deemed to be discharging managerial responsibilities, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	2020 £'000	2019 £'000
Short-term employee benefits	2,489	2,312
Post-employment benefits	12	27
	<b>2,501</b>	2,339

Key management personnel received a total of 108,750 share awards (2019: 165,762) at a weighted average exercise price of £Nil (2019: £Nil).

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

Share-based payment charges include £960,117 (2019: £878,608) in respect of key management personnel.

#### Dividends to Directors

	2020 £'000	2019 £'000
M Hellawell	1,382	2,623
G Watt	—	—
G Charlton	16	3
R Perriss	—	—
V Murria	78	84
L Ginsberg <sup>1</sup>	—	6
K Slatford	—	—
P Ventress <sup>2</sup>	8	13
	<b>1,484</b>	2,729

#### Notes:

1. Lee Ginsberg resigned from the Board on 30 June 2019. Amounts shown above relate to the time until resignation.
2. Peter Ventress resigned from the Board on 31 December 2019. Amounts shown above relate to the time until resignation.



## Company information and contact details

### Company number 02174990

#### Registered office

Softcat plc  
Solar House  
Fieldhouse Lane  
Marlow  
Buckinghamshire  
SL7 1LW  
United Kingdom

Tel: 01628 403 403

#### Website

[www.softcat.com](http://www.softcat.com)

#### Directors

Martin Hellawell (Chair)  
Graeme Watt (CEO)  
Graham Charlton (CFO)  
Robyn Perriss (Independent NED)  
Vin Murria OBE (Independent NED)  
Karen Slatford (Senior Independent NED)

#### Company Secretary

Luke Thomas

#### Investor relations contact

[investors@softcat.com](mailto:investors@softcat.com)

#### Softcat LEI

213800N42YZLR9GLVC42

#### Registrar

Link Group  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU  
United Kingdom  
[enquiries@linkgroup.co.uk](mailto:enquiries@linkgroup.co.uk)

Tel: 0371 664 0300

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#### Corporate advisers

##### Auditor

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

##### Joint corporate broker

Jefferies International  
100 Bishopsgate  
London EC2N 4JL

Numis Securities Limited  
The London Stock Exchange Building  
10 Paternoster Square  
London, EC4M 7LT

##### Legal advisers

Ashurst LLP  
London Fruit & Wool Exchange  
1 Duval Square  
London, E1 6PW



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**Softcat plc**  
Fieldhouse Lane  
Marlow  
Buckinghamshire SL7 1LW  
Tel: 01628 403 403  
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