



Sanderson Group PLC - SND 2019 Interim Results
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SANDERSON GROUP PLC
Interim Results for the six months ended 31 March 2019

"Further strong progress across the Group with trading results and cash ahead of management expectations; £4 million acquisition completed post period end."

Sanderson Group plc ('Sanderson' or 'the Group'), the specialist provider of digital technology solutions, innovative software and managed services for the retail, wholesale, supply chain logistics, food and drink processing and manufacturing market sectors, announces its interim results for the six month period ended 31 March 2019.

Commenting on the results, Chairman, Christopher Winn, said:

"The Group has made further strong progress during the six month period ended 31 March 2019, with trading results, stated under the new IFRS 15 accounting standard, ahead of management's expectations with strong performances from both the Digital Retail and Enterprise Divisions."

Highlights - Financial

- Revenue increased by 18% to £17.17 million (pre IFRS 15 revenue rose by 16% to £16.91 million from £14.61 million in 2018).
- Operating profit* rose by 34% to £2.79 million (pre IFRS 15 operating profit* rose by over 20% to £2.53 million (2018: £2.08 million)).
- High gross margin of 79% (79% pre IFRS 15 and 80% in 2018).
- Pre-contracted recurring revenues (including hosted managed solutions) grew to £9.53 million (£9.46 million pre IFRS 15 and £8.25 million in 2018) representing 55% of total revenue in the period.
- Well-balanced order book of £8.20 million (2018: £8.61 million).
- Net cash balance at 31 March 2019 ahead of management's expectations, at £3.29 million (2018: £1.39 million).
- Interim dividend increased by 20% to 1.50 pence per ordinary share (2018: 1.25 pence).
- Basic earnings per share of 3.0 pence (2018: 2.3 pence); adjusted basic earnings per share** of 4.1 pence (2018: 3.1 pence).

* Operating profit is stated before amortisation of acquisition-related intangibles, share-based payment charges and 'one-off' non-recurring items

** Adjusted for amortisation of acquisition-related intangibles, share-based payment charges and 'one-off' non-recurring items

Highlights - Operational

- High level of sales order intake at £8.34 million (2018: £7.71 million) with 15 new customers gained during period (2018: 7 new customers).
- Strong performances from both Digital Retail and Enterprise Divisions.
- Digital Retail produced double digit revenue and operating profit growth with revenue of £5.98 million (£5.91 million pre IFRS 15 and £5.37 million in 2018) and operating profit* of £1.22 million (£1.10 million pre IFRS 15 and £0.94 million in 2018) respectively.
- Enterprise Division included a full contribution from the November 2017 acquisition, recording increases in revenue and operating profit* of more than 20% to £11.20 million (pre IFRS 15 revenue of £11.00 million) and £1.57 million (£1.44 million pre IFRS 15 and £1.14 million in 2018) respectively.
- Large sales orders gained from several existing customers including Richer Sounds, Office Holdings Limited, NHS Blood and Transplant and Centrica plc; new customers gained during period include Hawes & Curtis Limited and Rhodes Freight Services Limited.
- Launch of new "Lean Retailer" initiative aimed at continually improving operational efficiency generating good level of early interest.
- Post period end acquisition of Gould Hall for a maximum consideration of £4 million in cash and shares.

* Operating profit is stated before amortisation of acquisition-related intangibles, share-based payment charges and 'one-off' non-recurring items

On current trading and prospects, Group Chief Executive, Ian Newcombe, added:

"The Board continues to be cautious in its approach, monitoring the general economic environment carefully and being sensitive to market conditions. Nevertheless, following the strong trading momentum built in the first half of the year, a healthy order book, high recurring revenue and a strong, cash-backed balance sheet, combined with the Group's proven reputation and track record, the Board is confident that the Group is well positioned to make further progress in the current financial year ending 30 September 2019. This will enable the Board to maintain its progressive dividend policy and to build further shareholder value."

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CHAIRMAN'S STATEMENT

Sanderson Group plc ('Sanderson' or 'the Group'), the specialist provider of digital technology solutions, innovative software and managed services for the retail, wholesale, supply chain logistics, food and drink processing and manufacturing market sectors, announces its interim results for the six-month period ended 31 March 2019.

Financial results

The Group has made further strong progress during the six-month period ended 31 March 2019, with trading results, stated under the new IFRS 15 accounting standard, ahead of management's expectations with strong performances from both the Digital Retail and Enterprise Divisions. Revenue grew by 18% to £17.17 million (2018: £14.61 million) and operating profit* increased by 34% to £2.79 million (2018: £2.08 million). The Group adopted IFRS 15 on a modified retrospective basis with effect from 1 October 2018 and therefore the prior year comparatives have not been restated. On a comparable basis, excluding the impact of IFRS 15, revenue rose by 16% to £16.91 million (2018: £14.61 million) and operating profit* increased by over 20% to £2.53 million (2018: £2.08 million). Sanderson was enhanced by the acquisition of Anisa Group in November 2017 and the trading results for the six-month period ended 31 March 2019 now include a full six months' contribution from this acquisition.

Gross margin remained high at 79% (79% pre IFRS 15 and 80% in 2018) reflecting sales of Sanderson-owned proprietary software solutions. The Group continues to focus on building its pre-contracted recurring revenue stream, which now includes revenues derived from hosted managed solutions. Pre-contracted recurring revenue continues to grow, reaching £9.53 million (£9.46 million pre IFRS 15 and £8.25 million in 2018), representing 55% of total revenue in the period.

The value of the order book at the period end remained strong at £8.20 million (2018: £8.61 million) and is now well balanced across the Group's businesses which reflects an improved delivery and implementation performance by the Sanderson staff during the period.

Sanderson continues to be a cash-generative business with an established history of converting substantially all of its profit to cash and of retaining a robust balance sheet. Ahead of management's expectations, the Group's net cash balance at 31 March 2019, stood at £3.29 million (2018: £1.39 million). Excluding the five-year repayable term debt facility assumed with the acquisition of November 2017, the Group's cash balance was strong at £6.05 million (2018: £5.06 million). Following the period end the final deferred consideration payment of £0.50 million was paid in April 2019 in respect of the 2017 acquisition; the initial and deferred cash consideration payments have been satisfied entirely from the Group's own cash resources.

Dividend

The Board is committed to maintaining a progressive dividend policy and is pleased to declare a further increase of 20% in the level of the interim dividend to 1.50 pence per ordinary share (2018: 1.25 pence). The dividend will be paid on 19 July 2019 to shareholders on the register at the close of business on 5 July 2019. The ex-dividend date will be 4 July 2019.

Post period-end event - Acquisition

On 2 May 2019 the Group announced the acquisition of Gould Hall, a specialist provider of logistics solutions, for a maximum consideration of £4 million payable in cash and shares. This latest acquisition provides software solutions to customers operating in the supply chain and distribution sectors. The business employs 27 staff, operates from offices in Skelmersdale, Lancashire and provides full enterprise solutions for its customers. The acquisition further builds on the Group's capability and is expected to be earnings enhancing in its first full financial year under Sanderson ownership.

Strategy

The strategy of the Board is to achieve sustained growth by continuing to develop and to build the Sanderson businesses which address the Group's target markets. By deploying Sanderson solutions, customers are able to grow their businesses whilst effecting both productivity improvement and efficiency gains, as well as making cost savings. The opportunity to achieve increased productivity and to deliver cost savings are key drivers in customers' investment decisions. Whilst investment continues across all of the Group's businesses, particular emphasis will again be placed on enhancing mobile and ecommerce solutions which are designed to capitalise on the drive for digital transformation in the retail, wholesale and supply chain logistics sectors. Mobile applications and business intelligence solutions continue to be developed to address all of the Group's markets. The Group also plans to further strengthen its proposition in the food and drink processing sector where Sanderson has enjoyed considerable success and built a strong reputation over a number of years. There are exciting new opportunities to expand subscription, cloud and managed services revenue across the Group; hosted managed solutions are now available to all Sanderson customers from the Group's own data centre.

In order to augment organic growth, selective acquisition opportunities continue to be considered. Management adopts a measured approach to acquisitions and carefully assesses any risks which might be involved. The Executive Management Team also remains focused on continuing to deliver both organic and acquisitive growth, achieving 'on target' results, growing earnings, and delivering strong cash generation backed by a robust balance sheet. This enables the Board to further increase shareholder value and to maintain progressive dividend returns.

Management and staff

Sanderson staff have specialist expertise and a very high level of experience in the market sectors which the Group addresses. On behalf of the Board, I would like to express the Board's appreciation and thank everyone for their hard work, support, dedication and valued contribution to the ongoing development of the Group.

Christopher Winn
Chairman
15 May 2019

* Operating profit is stated before the amortisation of acquisition-related intangibles, share-based payment charges and 'one-off' non-recurring items.

GROUP CHIEF EXECUTIVE'S BUSINESS REVIEW

Sanderson products and services are primarily targeted at the SME (small and medium-sized enterprise) market. The Group has a well-developed business model based on the long-term relationships it builds with its customers. These relationships deliver a robust revenue stream which typically accounts for around 90% of Group revenue and comprises a high proportion of sales from pre-contracted recurring revenue, complemented by incremental sales to the Group's strong, well-established and growing customer base.

The Group's owned and proprietary software is marketed and sold under a 'right to use' licence, with all sales, marketing, delivery, support and services carried out by the Group's own expert staff. On-premise, cloud-based and hosted managed solutions are now available to Sanderson Group customers.

The Group's proprietary solutions are designed in anticipation of technological developments, often in conjunction and collaboration with customers. Solutions deliver 'value for money', with cost effective, timely and tangible business benefits that allow customers to gain competitive advantage, which is particularly important in challenging market times. Such benefits typically enable customers to grow sales whilst also achieving improved productivity, additional efficiencies and cost savings. Sanderson customers usually achieve rapid return on their investment (often within a year of implementation). Productivity improvements and cost savings are key investment 'decision drivers' for customers.

The Group continues to invest in the development of its software and services, as well as in its sales and marketing. Particular emphasis has been placed on Sanderson businesses specialising in retail, wholesale distribution and supply chain logistics, where digital transformation is a key driver for their customers. Emphasis has also been placed on the Group businesses operating in food and drink processing where software is key to efficient manufacturing as well as to traceability of ingredients and compliance with regulatory standards.

Reflecting this investment, Sanderson has continued to achieve a high level of sales order intake. The Group gained 15 new customers during the period (2018: 7) and order intake was £8.34 million (2018: £7.71 million).

Review of Digital Retail

The Group provides comprehensive and innovative IT solutions to businesses operating in ecommerce, mobile commerce and retail. The market and demand for digital solutions in these markets continues to be very active and constantly developing, as retailers strive to deliver seamless shopping experiences and create 'digital theatre' to engage with consumers in-store and online. Sanderson partners with retailers in their digital transformation programmes, providing in-store technology, mobile and ecommerce solutions and powerful business intelligence. These solutions allow retailers to capitalise on the widespread use of smart devices, to exploit 'mobile' as a fully integrated sales channel and to improve customer service in order to maximise sales.

The Digital Retail business of Sanderson, which works with leading retailers such as, Hugo Boss AG, Hotel Chocolat Limited, Superdry and JD Sports, continues to perform strongly with double-digit revenue and operating profit growth. Divisional revenue and operating profit* grew to £5.98 million (£5.91 million pre IFRS 15 and £5.37 million in 2018) and £1.22 million (£1.10 million pre IFRS 15 and £0.94 million in 2018) respectively.

	six months to 31/03/19 £000	six months to 31/03/18 £000	year to 30/09/18 £000
Profit for the period	1,775	1,338	3,026
Other comprehensive income/(expense)			
<i>Items that will not subsequently be reclassified to profit or loss</i>			
Remeasurement of net defined benefit liability	-	-	1,972
Deferred taxation effect of defined benefit pension plan items	-	-	(375)
Change in the fair value of investments	2	-	-
	2	-	1,597
<i>Items that will subsequently be reclassified to profit or loss</i>			
Change in the fair value of available for sale financial asset	-	26	(57)
Foreign exchange translation differences	(24)	(28)	(10)
Total comprehensive income for the period	1,753	1,336	4,556

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2019

	Unaudited as at 31/03/19 £000	Unaudited as at 31/03/18 £000	Audited as at 30/09/18 £000
Non-current assets			
Intangible assets	42,777	43,199	43,265
Property, plant & equipment	984	979	1,078
Deferred tax asset	1,068	1,294	1,038
Investments	227	150	225
Trade and other receivables	474	-	-
	45,530	45,622	45,606
Current assets			
Inventories	32	32	32
Trade and other receivables	8,665	9,395	8,985
Current tax	-	-	284
Other short-term financial assets	-	213	-
Cash and cash equivalents	6,045	5,060	6,471
	14,742	14,700	15,772
Current liabilities			
Bank loans and overdrafts	(916)	(916)	(916)
Loan notes	(258)	(1,047)	(1,047)
Trade and other payables	(6,881)	(6,471)	(6,672)
Deferred consideration	(443)	(1,138)	(987)
Hire purchase	(132)	-	(132)
Current tax liabilities	(148)	(174)	-
Deferred income	(9,467)	(8,985)	(8,965)
	(18,245)	(18,731)	(18,719)
Net current liabilities	(3,503)	(4,031)	(2,947)
Total assets less current liabilities	42,027	41,591	42,659
Non-current liabilities			
Bank loans and overdrafts	(1,834)	(2,751)	(2,522)
Hire purchase	(135)	-	(224)
Deferred tax liabilities	(1,554)	(775)	(1,749)
Deferred consideration	-	(500)	-
Deferred income	(853)	-	-
Pension and other employee obligations	(3,609)	(6,086)	(3,789)
	(7,985)	(10,112)	(8,284)
Net assets	34,042	31,479	34,375
Equity			
Called-up share capital	5,997	5,964	5,997
Share premium	9,557	9,410	9,557
Merger reserve	2,394	2,394	2,394
Fair value reserve	2	-	-
Available for sale reserve	-	101	-
Foreign exchange reserve	(87)	(99)	(63)
Retained earnings	16,179	13,709	16,490
Total equity	34,042	31,479	34,375

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months to 31 March 2019

	Share capital £000	Share premium £000	Merger reserve £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 October 2018, as previously reported	5,997	9,557	2,394	(63)	16,490	34,375
Adjustment from adoption of IFRS 9 and IFRS 15 (net of tax)	-	-	-	-	(1,212)	(1,212)
Restated balance at 1 October 2018	5,997	9,557	2,394	(63)	15,278	33,163
Dividend paid	-	-	-	-	(1,050)	(1,050)
Share-based payment charge	-	-	-	-	176	176
Transactions with owners	-	-	-	-	(874)	(874)
Profit for the period	-	-	-	-	1,775	1,775
Other comprehensive income:						
Foreign exchange translation difference	-	-	-	(24)	-	(24)
Change in fair value of investment	-	-	-	2	-	2

Total comprehensive income/(expense)	-	-	-	(22)	1,775	1,753
At 31 March 2019	5,997	9,557	2,394	(85)	16,179	34,042
For the six months to 31 March 2018						
	Share capital £000	Share premium £000	Merger reserve £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 October 2017	5,507	9,133	-	4	13,287	27,931
Shares issued as consideration	399	-	2,394	-	-	2,793
Exercise of share options	58	277	-	-	-	335
Dividend paid	-	-	-	-	(924)	(924)
Share-based payment charge	-	-	-	-	8	8
Transactions with owners	457	277	2,394	-	(916)	2,212
Profit for the period	-	-	-	-	1,338	1,338
<i>Other comprehensive income:</i>						
Foreign exchange translation difference	-	-	-	(28)	-	(28)
Change in fair value of available for sale financial asset	-	-	-	26	-	26
Total comprehensive income/(expense)	-	-	-	(2)	1,338	1,336
At 31 March 2018	5,964	9,410	2,394	2	13,709	31,479

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 30 September 2018

	Share capital £000	Share premium £000	Merger reserve £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 October 2017	5,507	9,133	-	4	13,287	27,931
Exercise of share options	91	424	-	-	-	515
Shares issued as consideration	399	-	2,394	-	-	2,793
Dividend paid	-	-	-	-	(1,674)	(1,674)
Share-based payment charge	-	-	-	-	254	254
Transactions with owners	490	424	2,394	-	(1,420)	1,888
Profit for the year	-	-	-	-	3,026	3,026
<i>Other comprehensive income:</i>						
Remeasurement of net defined benefit liability	-	-	-	-	1,972	1,972
Deferred tax on above	-	-	-	-	(375)	(375)
Foreign exchange translation differences	-	-	-	(10)	-	(10)
Change in fair value of available for sale financial asset	-	-	-	(57)	-	(57)
Total comprehensive income/(expense)	-	-	-	(67)	4,623	4,556
At 30 September 2018	5,997	9,557	2,394	(63)	16,490	34,375

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months to 31 March 2019

	Note	Unaudited six months to 31/03/19 £000	Unaudited six months to 31/03/18 £000	Audited year to 30/09/18 £000
Profit for the period		1,775	1,338	3,026
<i>Adjustments for:</i>				
Depreciation and amortisation		1,027	637	1,988
Share-based payment charges		176	8	254
Net finance expense		174	152	361
Profit on sale of investment		-	-	(136)
Income tax charge		182	94	207
Operating cash flow from continuing operations before working capital movements		3,334	2,229	5,700
Movement in working capital		(109)	(640)	21
Cash generated by continuing operations		3,225	1,589	5,721
Income tax received		306	258	158
Payments to defined benefit pension scheme		(270)	(180)	(586)
Net cash from operating activities		3,261	1,667	5,293
Investing activities				
Purchases of property, plant & equipment		(143)	(122)	(216)
Acquisition of subsidiary undertakings, net of cash acquired		-	(1,291)	(1,291)
Investment in unlisted company		-	-	(75)
Deferred consideration paid		(564)	(13)	(593)
Dividend received		-	9	9
Bank interest received		5	2	2
Expenditure on product development		(301)	(321)	(956)

Sale of investment	-	-	266
Net cash used in investing activities	(1,003)	(1,736)	(2,854)
Financing activities			
Equity dividends paid	5 (1,050)	(924)	(1,674)
Issue of shares, net of costs	-	335	515
Finance lease repayments	(89)	-	(152)
Bank loan repayments	(688)	(458)	(688)
Bank loan interest	(47)	-	(87)
Hire purchase interest	(5)	-	(7)
Loan note interest	(16)	-	(51)
Loan note repayment	(789)	-	-
Net cash used in financing activities	(2,684)	(1,047)	(2,144)
(Decrease)/increase in cash and cash equivalents	(426)	(1,116)	295
Cash and cash equivalents at start of the period	6,471	6,176	6,176
Cash and cash equivalents at end of the period	6,045	5,060	6,471

NOTES TO THE INTERIM RESULTS

1. Basis of preparation

The Group's interim results for the six month period ended 31 March 2019 are prepared in accordance with the Group's accounting policies which are based on the recognition and measurement principles of International Financial Reporting Standards ('IFRS') as adopted by the EU and effective, or expected to be adopted and effective, at 30 September 2019. As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS34 'Interim financial reporting'. The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the changes arising from the adoption of new standards, which are detailed below.

These interim results do not constitute full statutory accounts within the meaning of section 434(5) of the Companies Act 2006 and are unaudited. The unaudited interim financial statements were approved by the Board of Directors on 10 May 2019.

The consolidated financial statements are prepared under the historical cost convention as modified to include the revaluation of financial instruments. The statutory accounts for the year ended 30 September 2018, which were prepared under IFRS, have been filed with the Registrar of Companies. These statutory accounts carried an unqualified Auditors' Report and did not contain a statement under either Section 498(2) or (3) of the Companies Act 2006.

Adoption of new and revised standards

The Group has adopted IFRS 9 "Financial instruments" and IFRS 15 "Revenue from contracts with customers" from 1 October 2018. The effects of adopting these standards are explained in Note 3.

The directors considered the impact on the Group of other new and revised accounting standards, interpretations or amendments. IFRS 16 "Leases" (effective 1 January 2019) will be applicable to the Group from 1 October 2019 and the Group is in the process of assessing the impact of its adoption. The Group is not yet in a position to quantify the impact of IFRS 16 on the Group's reported results or financial position.

2. Segmental reporting

The Group is managed as two separate divisions: Enterprise and Digital Retail. Substantially all revenue is generated within the UK.

	Enterprise			Digital Retail			Total		
	Six months	**Six months	**Year	Six months	**Six months	**Year	Six months	Six months	Year
	31/03/19	31/03/18	30/09/18	31/03/19	31/03/18	30/09/18	31/03/19	31/03/18	31/09/18
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Non recurring revenue	4,488	3,549	8,415	3,158	2,808	6,034	7,646	6,357	14,449
Recurring revenue	6,708	5,692	12,446	2,820	2,559	5,159	9,528	8,251	17,605
Total revenue	11,196	9,241	20,861	5,978	5,367	11,193	17,174	14,608	32,054
Operating profit before adjustments*	1,571	1,139	3,121	1,215	942	2,054	2,786	2,081	5,175
Amortisation	(346)	(50)	(592)	(133)	(175)	(350)	(479)	(225)	(942)
Share-based payment	(92)	(4)	(168)	(84)	(4)	(86)	(176)	(8)	(254)
Acquisition-related and restructuring costs	-	(250)	(352)	-	(14)	(33)	-	(264)	(385)
Operating profit	1,133	835	2,009	998	749	1,585	2,131	1,584	3,594
Net finance expense							(174)	(152)	(361)
Profit before tax							1,957	1,432	3,233

* Adjustments to operating profit in respect of amortisation of acquisition-related intangibles, share-based payment charges and acquisition-related and restructuring costs.

** During the six months to 31 March 2019, a moderate divisional re-structuring program was undertaken which has resulted in the restatement of the segmental analysis for comparative periods.

3. Effect of new accounting standards

The following table summarises the impact of transition to IFRS 9 "Financial instruments" and IFRS 15 "Revenue from contracts with customers" on the Group's retained earnings at 1 October 2018.

Impact of transition to IFRS 9 and IFRS 15

	Ref	Impact on retained earnings at 01/10/18
		£000
IFRS 9		
Change in fair value of investment	(a)	2
Recognition of lifetime expected credit losses	(b)	(105)
Deferred tax impact		20
Impact of transition to IFRS 9		(83)
IFRS 15		
Spreading of licence revenue over implementation period	(c)	(268)
Net deferral of licence revenue relating to "Option" until future renewal dates	(d)	(1,247)
Recognition of variable consideration previously deferred until certain	(e)	48
Reallocation of discounts across performance obligations	(f)	(7)
Capitalisation of contract costs relating to "Option" until future renewal dates	(g)	82
Deferred tax impact		263
Impact of transition to IFRS 15		(1,129)
Total net impact on retained earnings at 1 October 2018		(1,212)

3. Effect of new accounting standards (continued)

IFRS 9 "Financial instruments"

IFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The adoption of IFRS 9 has had two principal impacts on the Sanderson Group.

(a) Classification and measurement

In most regards the classification and measurement of the Group's financial assets and liabilities are unchanged under IFRS 9. However, the Group's investment in a related entity which was previously categorised as "Available for Sale" is now categorised as "Equity investments at Fair Value through Other Comprehensive Income" with the "Available for Sale" category no longer being available under IFRS 9. The Group has made an irrevocable election to present subsequent changes in this investment's fair value in Other Comprehensive Income ("OCI"). This election is made on an investment-by-investment basis. As a result, all net gains and losses are recognised in OCI and are never reclassified to profit and loss. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

The fair value of the investment at the transition date of 1 October was estimated having regard to the performance of the underlying entity compared to listed entities at a similar stage of development.

(b) Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" ("ECL") model. Previously, the Group assessed debts on a case-by-case basis and impairment losses against particular debts were recognised to the extent that any risk of default was identified. The Group now measures its loss allowances against trade and other receivables at an amount equal to lifetime ECLs. ECLs are estimated using a provision matrix based on the Group's historic credit loss experience, adjusted for management judgement concerning factors that are specific to the receivables. The provision matrix is applied to all debts based upon their days past due. As a result, credit losses are now recognised to a greater extent than under IAS 39.

There is no impact upon actual recoverability of debts and the Group's cashflow is unaffected by the accounting policy change.

IFRS 15 "Revenue from contracts with customers"

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations.

The Group has adopted IFRS 15 using the modified retrospective method with the effect of initially applying the standard recognised at the date of initial application, i.e. 1 October 2018. Accordingly, the information presented for previous reporting periods has not been restated, i.e. it is presented as previously reported under IAS 18, IAS 11 and related interpretations.

The Group has applied IFRS 15 retrospectively only to contracts that are not completed contracts at 1 October 2018 (IFRS 15 C7) and has used the practical expedient in paragraph C5(c) of the standard, allowing for all contract modifications prior to 1 October 2018 to be considered in aggregate.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies are set out below.

3. Effect of new accounting standards (continued)

Type of product/service	Nature, timing and satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
(c) Software licences	Customers obtain full control of software licences once the associated software is installed and operational on their system. Invoices for the software are usually issued at the start of a project, on standard terms of 30 days. Although payments might be made over the term of the agreement the agreement is binding for the negotiated term.	Under IAS 18, initial licence fees were recognised upon the provision of software to the customer. Under IFRS 15 the licensed software does not qualify as distinct from the implementation services required to make it fully operational. Therefore, licence revenue is now bundled with associated services and is recognised over the implementation period based upon stage of completion. Implementation periods vary considerably depending upon the scale of the project but are very rarely greater than one year. The result of this change was a net decrease in revenue recognised to date and an increase in deferred income on the balance sheet. There was also a small increase in accrued revenue reflecting the deferred timing of billing and recognition under IAS 18 on a limited number of contracts.
(d) Recurring annual licences	Where customers contract with the Group under a rolling annual agreement fees are typically significantly higher in the first year, with an upfront licence fee payable. In subsequent years only the annual support fee is payable. The customer is required to purchase the annual support in order to maintain an active licence. The contract renews annually until either the Group or the customer terminates the contract.	Under IAS 18, initial licence fees were recognised upon the provision of software to the customer. Under IFRS 15, these arrangements are treated as containing an Option for a renewal at a discounted price (the price of the annual support). The amount of initial licence fee which is assessed as relating to the Option is therefore deferred and recognised at subsequent points in time when the Option is exercised. Based upon the amortisation periods of the related products, the Group defers two thirds of initial licence fees and releases this revenue on the first and second renewal dates. The result of this change was a decrease in revenue recognised to date and an increase in deferred income (including non-current deferred income) on the balance sheet.
(e) Variable consideration	In some instances where customers contract for a longer period the licence revenue varies based upon usage over the contractual period.	Under IAS 18, recognition of the variable consideration was deferred until it was billable. Under IFRS 15, the Group estimates the highly probable value of variable consideration at each reporting date, and where necessary accrues additional revenue based upon this estimation. The result of this change was an increase in revenue recognised to date and an increase in accrued revenue.
(f) Discounts on products or services	Discounts are entirely discretionary and may be applied to one or more products or services that a customer has contracted to receive.	Under IAS 18, discounts were allocated to deliverables based upon the contract with the customer. Under IFRS 15, discounts must be proportionately allocated across all performance obligations in the contract. The result of this change was varied but insignificant.
(g) Costs of delivering recurring annual licences	In some instances the Group is required to purchase rolling annual licences from third parties in order to provide a solution to the end user. Arrangements with these third parties vary but include arrangements with a large up-front fee followed by smaller annual renewals.	Under IAS 18, large initial costs were matched against initial licence revenues and recognised upon provision of software to the customer. Where an "Option" is recognised under IFRS 15, an element of up-front third-party licence costs is allocated to the material right to renew and recognition is deferred until the associated revenue is released. The result of this change was a decrease in cost of sales recognised to date and an increase in trade and other receivables.

3. Effect of new accounting standards (continued)

The year-to-date impact of the adoption of IFRS 15 at 31 March 2019 has been an increase in revenue of £260,000; this is due to a series of significant licence contracts renewing in the first half of the year, generating the release of Option revenue. In the second half of the year a series of new licence orders are forecast and the resulting deferral of revenue from these orders, combined with a lower level of significant licence contracts renewing than in the first half, means a cumulative adverse impact for the full 2019 financial year as a result of the adoption of IFRS 15 is expected.

A detailed revenue recognition accounting policy will be included in the financial statements for the full 2019 financial year.

Accounting judgements and estimates

In addition to the quantitative impacts outlined above the application of the two new standards has required the Group to make certain additional judgements and estimates. The most significant are:

- **The establishment of standalone selling prices that are used as the basis for the apportionment of transaction price to separate performance obligations.** This is a new concept introduced by IFRS 15 compared to current requirements and can impact the timing of revenue recognition. In particular, the Group has had to arrive at assumptions for determining the standalone selling price of the Option to renew, which is not directly observable from the contract.
- **Determining the appropriate period over which to defer Option revenue and associated costs.** Assumptions on renewals are based upon the frequency of expenditure on intellectual property and on the pattern of amortisation of associated development costs, in order to determine the period over which the customer's right to renew constitutes a "material" right.

Identifying circumstances in which the Option to renew constitutes a "material" right. The Group has a high volume of relatively low value transactions with existing customers and has determined that Option revenue should only be deferred for the most significant contracts as the run rate for lower value contracts is fairly constant.

The following summary consolidated statements of comprehensive income and financial position summarise the impact of adopting IFRS 9 and IFRS 15 on the Group for the period ended 31 March 2019. It should be noted that the adoption of the standards has no effect on total contract value or on the cash flow of the Group.

Summary consolidated statement of comprehensive income

	Unaudited six months to 31/03/19 as presented	Impact of IFRS 9	Impact of IFRS 15	Unaudited six months to 31/03/19 without adoption
Ref	£000	£000	£000	£000
Revenue	(c)-(f) 17,174	-	260	16,914
Cost of sales	(g) (3,523)	-	31	(3,554)
Gross profit	13,651	-	291	13,360
Operating and financing expenses	(11,660)	-	-	(11,660)
Impairment loss on trade and other receivables	(b) (34)	(34)	-	-
Profit before taxation	1,957	(34)	291	1,700
Taxation	(182)	(4)	(58)	(120)
Profit for the period attributable to equity holders of the parent	1,775	(38)	233	1,580
Other comprehensive income	(a) (22)	-	-	(22)
Total comprehensive income for the period	1,753	(38)	233	1,558

3. Effect of new accounting standards (continued)

Summary consolidated statement of financial position

	Unaudited six months to 31/03/19 as presented	Impact of IFRS 9	Impact of IFRS 15	Unaudited six months to 31/03/19 without adoption
Ref	£000	£000	£000	£000
Non-current assets				
Intangible assets	42,777	-	-	42,777
Property, plant & equipment	984	-	-	984
Deferred tax asset	1,068	10	130	928
Investments	(a) 227	2	-	225
Trade and other receivables	474	(5)	-	479
	45,530	7	130	45,393
Current assets				
Inventories	32	-	-	32
Trade and other receivables	(b)-(g) 8,665	(134)	336	8,463
Cash and cash equivalents	6,045	-	-	6,045
	14,742	(134)	336	14,540
Current liabilities				
Bank loans and overdrafts	(916)	-	-	(916)
Loan notes	(258)	-	-	(258)
Trade and other payables	(6,881)	-	-	(6,881)
Deferred consideration	(443)	-	-	(443)
Hire purchase	(132)	-	-	(132)
Current tax liabilities	(148)	6	75	(229)
Deferred income	(c)-(d) (9,467)	-	(584)	(8,883)
	(18,245)	6	(509)	(17,742)
Net current liabilities	(3,503)	(128)	(173)	(3,202)
Total assets less current liabilities	42,027	(121)	(43)	42,191
Non-current liabilities				
Bank loans and overdrafts	(1,834)	-	-	(1,834)
Hire purchase	(135)	-	-	(135)
Deferred tax liabilities	(1,554)	-	-	(1,554)
Deferred income	(853)	-	(853)	-
Pension and other employee obligations	(c) (3,609)	-	-	(3,609)
	(7,985)	-	(853)	(7,132)
Net assets	34,042	(121)	(896)	35,059
Equity				
Called-up share capital	5,997	-	-	5,997
Share premium	9,557	-	-	9,557
Merger reserve	2,394	-	-	2,394
Fair value reserve	2	2	-	-
Foreign exchange reserve	(87)	-	-	(87)
Retained earnings	16,179	(123)	(896)	17,198
Total equity	34,042	(121)	(896)	35,059

4. Earnings per share

	Unaudited six months to 31/03/19 £000	Unaudited six months to 31/03/18 £000	Audited year to 30/09/18 £000
Earnings:			
Result for the period from continuing operations	1,775	1,338	3,026
Amortisation of acquisition-related intangibles	479	225	942
Share-based payment charges	176	8	254
Acquisition-related and restructuring costs	-	264	385
Adjusted profit for the period from continuing operations	2,430	1,835	4,607

Number of shares:

	Unaudited six months to 31/03/19 No.	Unaudited six months to 31/03/18 No.	Audited year to 30/09/18 No.
In issue at the start of the year	59,972,484	55,070,668	55,070,668
Effect of shares issued in the period	-	3,358,016	3,480,862

Weighted average number of shares at period end	59,972,484	58,428,684	58,551,530
Effect of share options	1,899,318	663,454	1,863,304
Weighted average number of shares (diluted)	61,871,802	59,092,138	60,414,834

Earnings per share:	Unaudited	Unaudited	Audited
	six months to	six months to	year to
	31/03/19	31/03/18	30/09/18
	(pence)	(pence)	(pence)

Total attributable to equity holders of the parent undertaking:

Basic	3.0	2.3	5.2
Diluted	2.9	2.3	5.0

Earnings per share, adjusted, from continuing operations:

Basic	4.1	3.1	7.9
Diluted	3.9	3.1	7.6

5. Equity dividends paid

	Unaudited	Unaudited	Audited
	Six months to	Six months to	Year to
	31/03/19	31/03/18	30/09/18
	£000	£000	£000
Interim dividend	-	-	750
Final dividend	1,050	924	924
Total dividend paid in period	1,050	924	1,674

6. Post balance sheet events

Acquisition

On 2 May 2019 the Group acquired control of Gould Hall Computer Services Limited for a maximum enterprise value of £3.17 million.

Established for over thirty years, Gould Hall provides software solutions to customers operating in the supply chain and distribution sectors. Gould Hall employs 27 staff, operates from Skelmersdale and provides full enterprise solutions for its customers. The acquisition further builds on the capability of the Sanderson Enterprise division.

The last year of audited accounts to 31 March 2018 show Gould Hall reporting revenue of £3.03 million with profit before tax of £0.30 million and net assets of £1.44 million. At acquisition, the acquired net assets included net cash balances of £0.79 million.

The purchase consideration for the acquisition comprises an initial £1.81 million, made up of £1.27 million in cash (financed from existing Sanderson cash resources) and by the issue of 500,000 Sanderson 10p ordinary shares. These shares are subject to a lock-in period of three years. Deferred consideration, totalling £2.15 million, is payable in cash in a number of tranches over the next six years; £0.60 million is unconditional and payable by 2023 and a further £1.55 million which is conditional upon certain performance criteria having been met.

The initial accounting for the business combination is incomplete due to the close proximity of the acquisition date to the date of preparing these accounts. Certain disclosure requirements including the following therefore cannot be made at this stage:

- Fair value of assets and liabilities acquired at acquisition date
- Goodwill to be recognised on acquisition
- Acquisition related costs
- The revenue and profit of the combined entity for the current reporting period as though the acquisition date had been as of the beginning of the annual reporting period

7. Interim report

The Group's interim report will be sent to the Company's shareholders. This report will also be available from the Company's registered office and on the Company's website www.sanderson.com.

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