Sanderson Group PLC - SND 2018 Preliminary Results
Released 07:00 26-Nov-2018

SANDERSON

RNS Number : 4086I
Sanderson Group PLC
26 November 2018

FOR IMMEDIATE RELEASE **26 NOVEMBER 2018**

SANDERSON GROUP PLC
Preliminary Results for the year ended 30 September 2018
"Group trading results and cash ahead of market expectations; increased Final Dividend."

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 Preliminary Results for the year ended 30 September 2018.

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

"The Group trading results for the year ended 30 September 2018 are significantly ahead of the prior year and also ahead of market expectations. Revenue has increased by 49% to £32.05 million (2017: £21.56 million) and operating profit* by 33% to £5.18 million (2017: £3.90 million)."

Highlights - Financial

- Revenue increased by 49% to £32.05 million (2017: £21.56 million); like-for-like revenue (excluding the acquisition) rose to £22.97 million (2017: £21.56 million).
- Pre-contracted recurring revenues now £17.61 million (2017: £11.18 million) representing 55% of total revenue in the period (2017: 52%); like-for-like recurring revenues grew by nearly £1.00 million to £12.17 million (2017: £11.18 million).
- High gross margin at 80% (2017: 82%).
- Operating profit* rose by 33% to £5.18 million (2017: £3.90 million).
- Cash balance at 30 September 2018, ahead of market expectations, at £6.47 million (2017: £6.18 million).
- Recommended Final Dividend and Full Year Dividend both increased by 13% to 1.75 pence per share (2017: 1.55 pence) and 3.00 pence per share (2017: 2.65 pence) respectively.
- ·Basic earnings per share of 5.2 pence (2017: 5.2 pence); adjusted basic earnings per share** of 7.9 pence (2017: 6.4 pence).

* Operating profit is stated before amortisation of acquisition-related intangibles, share-based payment charges and one-off non-recurring items, the latter totalling £0.39 million.

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

Highlights - Operational

- Good sales order intake at £15.07 million (2017: £13.69 million).
- Total order book at year-end (including the acquisition) stood at £7.58 million (2017: £5.79 million).
- Strong performances from both Digital Retail and the acquisition.
- Digital Retail revenue grew over 20% to £8.82 million (2017: £7.28 million) whilst operating profit* grew by a third to £1.56 million (2017: £1.18 million).
- Enterprise Division was enhanced and strengthened by the acquisition, recording revenue and operating profit* (including the acquisition) of £23.23 million (2017: £14.28 million) and £3.62 million (2017: £2.71 million) respectively.
- A large order was gained with Port of Dover Cargo Limited.

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

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

"The Group has a clear growth strategy. Organic growth is planned from the fast expanding Digital Retail division and renewed growth impetus from the enlarged Enterprise division. There is an ongoing plan to accelerate the Group's growth with selective acquisitions.

Sanderson has a good reputation having built-up a strong track record of delivering customer-centric solutions. Whilst the Board is mindful of potential ongoing uncertainty surrounding economic conditions post the Brexit outcome, the Board believes that Sanderson is well positioned in its target markets and has good sales prospects, backed by a healthy order book. This provides a good level of confidence that, at this relatively early stage of the new financial year, the Group will make further progress and once again deliver trading results which are, at least, in line with market expectations for the year ending 30 September 2019."

Enquiries:

Christopher Winn, Chairman Telephone: 0333 123 1400
Ian Newcombe, Group Chief Executive
Richard Mogg, Finance Director

Mark Taylor/James White
N+1 Singer Telephone: 020 7496 3000
(Nominated Adviser and Broker)

Paul Vann, Walbrook PR Limited Telephone: 0207 933 8780
Mobile: 07786 807631
paul.vann@walbrookpr.com

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

SANDERSON GROUP PLC
Preliminary Results for the year ended 30 September 2018

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 Preliminary Results for the financial year ended 30 September 2018.

Financial results

The Group trading results for the year ended 30 September 2018 are significantly ahead of the prior year and also ahead of market expectations. Revenue has increased by 49% to £32.05 million (2017: £21.56 million) and operating profit by 33% to £5.18 million (2017: £3.90 million). The operating profit is stated after adjusting for the amortisation of acquisition-related intangibles, share-based payment charges and 'one-off' non-recurring items. Of the 'one-off' non-recurring items totalling £0.39 million, £0.30 million relates to acquisition costs and £0.09 million to restructuring costs which are partly offset by the realisation and sale of a small investment.

All Sanderson businesses traded strongly in the second half of the year with the highlight being the performance of the Digital Retail division, with revenue growing by over 20% and operating profit rising to £1.56 million for the full year (2017: £1.18 million) (stated after adjusting for the amortisation of acquisition-related intangibles, share-based payment charges and 'one-off' non-recurring items). Sanderson was expanded and enhanced by the acquisition of Anisa Consolidated Holdings Limited on 23 November 2017, which accounted for £1.00 million of the £3.62 million (2017: £2.71 million) operating profit of the Enterprise division (stated after adjusting for the amortisation of acquisition-related intangibles, share-based payment charges and 'one-off' non-recurring items). The acquired business, which specialises in the delivery and support of world-class integrated supply chain and enterprise resource planning ('ERP') solutions on a global basis, has made a good start as part of the Group.

Gross margin remained high at 80% (2017: 82%) and now reflects the blended sales mix with the inclusion of the acquisition. On a like-for-like basis, gross margin was 81% and this strong gross margin reflects the Group's continued emphasis and focus on the supply of Sanderson-owned proprietary software and services. Pre-contracted recurring revenues increased to £17.61 million (2017: £11.18 million) accounting for 55% of total revenue (2017: 52%). Like-for-like recurring revenues increased to £12.17 million (2017: £11.18 million). The Group continues to focus on building this revenue stream including growing subscription, cloud and managed services.

Sanderson continues to generate cash at least in line with its operating profit very much reflecting the Group's strong, cash-generative business model. The cash balance at 30 September 2018 was £6.47 million (2017: £6.18 million) and was ahead of market expectations. This balance is stated after increased dividend payments of £1.67 million (2017: £1.38 million) and after a net outflow of £2.65 million comprising £1.29 million consideration for the acquisition and £1.36 million of acquisition related items. As part of the terms of the acquisition, the Group assumed a five-year term debt facility with an outstanding balance of £4.13 million. After scheduled repayments, this reduced to £3.44 million, leaving the Group in a positive, net cash position of £3.03 million at 30 September 2018.

Dividend

Sanderson continues to generate cash in line with operating profit enabling the Board to maintain its progressive dividend policy whilst continuing to invest further in the ongoing development of the Group's businesses. Subject to the approval of shareholders at the Annual General Meeting, scheduled to be held at 11am on 22 January 2019, the Board is proposing an increase of 13% in the final dividend to 1.75 pence per ordinary share (2017: 1.55 pence). This makes the total dividend payable for the year 3.00 pence per ordinary share and represents an increase of 13% over the prior year (2017: 2.65 pence) and an increase in excess of 40% over the past three years (2015: 2.10 pence). The final dividend, subject to approval at the Group's Annual General Meeting, will be paid on 1 March 2019 to shareholders on the register at the close of business on 15 February 2019.

Strategy

The strategy of the Board is to sustain growth by continuing to develop and to further build the Sanderson business. The deployment and adoption of the Group's solutions allow customers to increase revenues whilst making productivity and efficiency gains, thereby reducing operating costs. Investment is planned across all of the Group's businesses, but particular emphasis will again be placed on enhancing mobile and ecommerce solutions in order to capitalise on the drive for digital transformation in the retail, wholesale distribution and logistics sectors. Mobile solutions continue to be developed to address all of the Group's markets. The acquisition in November 2017 strengthens the Group's offering with complementary products covering the logistics and supply chain sectors and brings exciting new opportunities to further grow and to develop subscription, cloud and managed services revenue across the Group.

In order to supplement organic growth, selective acquisition opportunities continue to be considered. Management adopts a measured approach to acquisitions and carefully considers any risks which might be involved. The Board remains focused on maintaining a robust balance sheet, continuing to deliver growth, achieving 'on target' results, generating cash and thereby further increasing shareholder value and growing dividend returns.

Management and staff

Sanderson now employs over 315 staff who have specialist expertise and a high level of experience of the market sectors which the Group addresses. I would like to express the appreciation of the Sanderson Board of directors and thank everyone for their hard work, support, dedication and valued contribution to the ongoing development of the Group.

Christopher Winn
Chairman

SANDERSON GROUP PLC
Preliminary Results for the year ended 30 September 2018

GROUP CHIEF EXECUTIVE'S BUSINESS REVIEW

Sanderson products and services are primarily targeted at the SME (small and medium-sized enterprise) market. The well-developed business model is based on forging long-term relationships with customers. These relationships result in a large proportion of sales arising from pre-contracted recurring revenue, complemented by incremental sales to the Group's large, well-established and growing customer base. This robust revenue stream typically accounts for around 90% of Group revenue.

A pillar of the well-developed business model is the Sanderson proprietary software which 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 managed services solutions are available to customers on an ongoing annual contractual basis, together with accompanying consultancy, support and maintenance services.

Sanderson proprietary solutions are designed in anticipation of technological developments, often in conjunction and collaboration with customers. These solutions provide value for money, cost-effective, timely and tangible business benefits. Benefits typically enable customers to grow their sales whilst increasing productivity, making additional efficiencies and effecting cost savings. Sanderson customers usually reap a rapid return from their investment, often within a year of implementation.

The Group continues to invest in the further development of its software products and services, as well as increasing its sales and marketing capacity and capability. Investment has been focused on the Sanderson businesses specialising in food and drink processing, wholesale distribution and supply chain logistics, with particular emphasis on the growing market for digital retail solutions. Digital transformation is a key business driver for retailers as they strive to adapt to the changing retail environment and modernise the in-store shopping experience. Sanderson effectively partners with retailers to deliver in-store technology, mobile and ecommerce solutions that capitalise on the trend towards a fully integrated mobile, online and instore platform. This provides the opportunity for increased sales and a seamless customer shopping experience.

Following record levels of Group revenue and a strong sales performance, the sales order intake was good at £15.07 million (2017: £13.69 million) and the total order book at 30 September 2018 was £7.58 million (2017: £5.79 million). This order book includes the acquisition and the remaining element of a large order gained in June 2017, which is being delivered 'on schedule'. The year-end order book on a like-for-like basis was £2.91 million (2017: £2.67 million). The order book is also now better balanced across the Group's businesses and together with this growth of the order book and high level of sales prospects there is a good level of confidence going into the current financial year.

Review of Digital Retail

Sanderson provides comprehensive IT solutions to businesses operating in the ecommerce, mobile commerce and retail sectors of the UK. Digital retail continues to be a highly active and fast-developing sector of the market.

The Digital Retail division works with leading retailers such as Richer Sounds plc, JD Sports Fashion plc and Superdry and again made strong progress achieving continued double-digit revenue growth, rising by over 20% to £8.82 million (2017: £7.28 million). Operating profits grew by a third to £1.56 million (adjusted for amortisation of acquisition-related intangibles, share-based payment charges and 'one-off' non-recurring items) (2017: £1.18 million). Sanderson continues to invest in product innovation and delivery capacity in order to address this rapidly growing market.

The UK retail market has reported mixed results reflecting changing consumer shopping habits. With greater emphasis towards utilising online and mobile shopping channels, we are pleased to report that levels of sales activity remain high. We previously reported that following a successful pilot scheme, a phase one order had been secured with the iconic global brand, Hugo Boss. A pilot project has also been secured with a leading retailer of formal wear to deploy instore assisted-sale mobile technology for enhanced customer service. Demand for the Group's latest omni-channel solutions is strong, with additional new customers including luxury womenswear retailer, ME+EM, as well as large orders having been gained from existing customers including Richer Sounds plc and Beaverbrooks The Jewellers Limited.

The underlying year-end order book, excluding the remaining element of the large order gained in June 2017, grew 24% to £1.07 million (2017: £0.86 million). With a number of developing sales prospects, current active pilot schemes, continued innovation and strong partnerships with existing customers, the Digital Retail business is well-positioned for further growth.

Review of Enterprise

The enlarged Enterprise division, which has been significantly strengthened by the November 2017 acquisition, now comprises three market-focused businesses which operate in manufacturing, wholesale and supply chain logistics. Productivity gains, improved efficiency and cost savings are key drivers in these markets.

Following a stronger second half performance, 18 new customers were gained in the year. The division invested almost £3.00 million in software product development, a key focus being the Wholesale business which successfully secured a number of new orders for the digital suite of products launched earlier in the year. Towards the end of the financial year an innovative business intelligence product with enhanced capability was launched and this has generated a high level of early interest.

The Enterprise division achieved a good set of results, strengthened by the acquisition. Divisional revenue was £23.23 million (2017: £14.28 million). Operating profit (adjusted for amortisation of acquisition-related intangibles, share-based payment charges and 'one-off' non-recurring items) was £3.62 million (2017: £2.71 million). On a like-for-like basis, having adjusted for the acquisition, revenue was £14.14 million (2017: £14.28 million) with operating profit (adjusted for amortisation of acquisition-related intangibles, share-based payment charges and 'one-off' non-recurring items) of £2.49 million (2017: £2.71 million). The business performance improved in the second half of the financial year ending 30 September 2018 and is expected to continue into the current financial year. The order book at the financial year-end was £5.36 million (2017: £1.81 million) and, excluding the acquisition, the underlying order book was healthy at £1.84 million (2017: £1.81 million).

Enterprise - Manufacturing
Businesses in the engineering, plastics, aerospace, electronics, print and, most especially, food and drink processing sectors, represent the main areas of specialisation for Sanderson. Activity is very much driven by developments in the food and drink processing market. Here, traceability of ingredients through the supply chain and the need for compliance with increasingly stringent regulatory standards are key industry requirements and strong features of the Sanderson solution. Four new customers were gained during the year (2017: six new customers), including Omega Ingredients Limited and Nitron Racing Systems Limited, with large orders gained from existing customers such as Adelie Foods Group Limited and Cereform Limited. Prospects continue to be healthy but sales cycles remain protracted.

Enterprise - Wholesale Distribution
Sanderson supplies solutions to the wholesale distribution, cash and carry and fulfilment sectors, as well as to the specialist warehousing market. Six new customers were gained during the year, the same as the previous year, with an average initial order value of £120,000 (2017: £89,000). New customers include Eden Farm Limited, East N West Cash & Carry Limited and Windsor Foodservice, with major sales orders gained from several existing customers such as PRL Group and Pedigree Wholesale Limited. Following the drive towards digital transformation, the Group launched an innovative suite of digital solutions in the wholesale industry which capitalise on the growing use of mobile devices. The level of interest and prospects for the solutions are very positive and product innovation, together with the Group's track record in the wholesale industry, position our business well for growth in the coming financial year ending 30 September 2019.

Enterprise - Anisa Supply Chain Logistics
This business specialises in the delivery of world-class integrated supply chain and ERP solutions. Over 90 staff are employed in office locations across the UK and in smaller operations in Singapore and Australia, providing 250 customers with 24-hour, 365 days a year support on a worldwide basis.

The acquisition has made a good start as part of Sanderson, is well-managed and has successfully integrated into the Group. Eight new customers have been gained and earlier in the year we reported that a scoping exercise was underway at a major UK port for a new supply chain system. We are pleased to confirm that the Port of Dover Cargo Limited has appointed the Group to supply warehouse management and cargo terminal management software for its new refrigerated cargo terminal. A number of exciting sales prospects are being developed and the customer base is very active with major orders from Moran Logistics Limited, Culina Group, DX plc and NHS Blood and Transplant during the year.

The acquisition considerably enhances the range of solutions and services which Sanderson can now offer. In particular hosted managed services, delivered from our own dedicated, specialist data centre, provide an opportunity to exploit and accelerate market trends towards subscription and cloud-based options for solution delivery going forward.

Outlook

The Group has a clear growth strategy. Organic growth is planned from the fast expanding Digital Retail division and renewed growth impetus from the enlarged Enterprise division. There is an ongoing plan to accelerate the Group's growth with selective acquisitions.

Sanderson has a good reputation having built-up a strong track record of delivering customer-centric solutions. Whilst the Board is mindful of potential ongoing uncertainty surrounding economic conditions post the Brexit outcome, the Board believes that Sanderson is well positioned in its target markets and has good sales prospects, backed by a healthy order book. This provides a good level of confidence that, at this relatively early stage of the new financial year, the Group will make further progress and once again deliver trading results which are, at least, in line with market expectations for the year ending 30 September 2019.

Ian Newcombe
Group Chief Executive

Consolidated income statement
for the year ended 30 September 2018

	Note	2018 £000	2017 £000
Revenue	2	**32,054**	21,559
Cost of sales		**(6,530)**	(3,830)
Gross profit	2	**25,524**	17,729
Technical and development costs		**(11,761)**	(8,566)
Administrative and establishment expenses		**(7,246)**	(3,860)
Sales and marketing costs		**(2,923)**	(2,423)
Profit from operating activities	2	**3,594**	2,880
Profit from operating activities before adjustments in respect of the following:	2	**5,175**	3,896
Amortisation of acquisition-related intangibles		**(942)**	(491)
One-off non-recurring items	3	**(385)**	(485)
Share-based payment charges		**(254)**	(40)
Profit from operating activities		**3,594**	2,880
Finance income	4	**11**	18
Finance expenses	5	**(316)**	(183)
Acquisition-related finance expense	5	**(56)**	(2)
Profit before taxation		**3,233**	2,713
Taxation (charge)/credit	6	**(207)**	154
Profit for the year		**3,026**	2,867

All operations are continuing.
All of the profit for the year is attributable to equity holders of the parent undertaking.

Earnings per share

From profit attributable to the owners of the parent undertaking during the year			
Basic earnings per share	8	**5.2p**	5.2p
Diluted earnings per share	8	**5.0p**	5.2p

Consolidated statement of comprehensive income
for the year ended 30 September 2018

	2018 £000	2017 £000
Profit for the year	**3,026**	2,867
Other comprehensive income/(expense)		
Items that will not subsequently be reclassified to profit or loss		
Re-measurement of net defined benefit pension liability	**1,972**	1,802
Deferred taxation effect of defined benefit pension plan items	**(375)**	(413)
	1,597	1,389
Items that may subsequently be reclassified to profit or loss		
Derecognition/change in fair value of available for sale financial asset	**(57)**	(22)
Foreign exchange translation differences	**(10)**	3
Total other comprehensive income	**1,530**	1,370
Total comprehensive income attributable to equity holders of the parent	**4,556**	4,237

Consolidated statement of financial position

at 30 September 2018

	2018 £000	2017 £000
Non-current assets		
Property, plant and equipment	**1,078**	467
Intangible assets	**43,265**	30,419
Investment	**225**	150
Deferred tax assets	**1,038**	1,244
	45,606	32,280
Current assets		
Inventories	**32**	35
Trade and other receivables	**8,985**	5,139
Income tax receivable	**284**	270
Other short-term financial assets	**-**	187
Cash and cash equivalents	**6,471**	6,176
	15,772	11,807
Current liabilities		
Bank loans and overdrafts	**(916)**	-
Loan notes	**(1,047)**	-
Trade and other payables	**(6,672)**	(3,653)
Hire purchase	**(132)**	-
Deferred consideration	**(987)**	(24)
Deferred income	**(8,965)**	(5,519)
	(18,719)	(9,196)
Net current (liabilities)/assets	**(2,947)**	2,611
Total assets less current liabilities	**42,659**	34,891
Non-current liabilities		
Bank loans and overdrafts	**(2,522)**	-
Hire purchase	**(224)**	-
Pension obligations	**(3,789)**	(6,176)
Deferred tax liabilities	**(1,749)**	(784)
	(8,284)	(6,960)
Net assets	**34,375**	27,931
Equity attributable to equity holders of the parent company		
Share capital	**5,997**	5,507
Share premium	**9,557**	9,133
Merger reserve	**2,394**	-
Available for sale reserve	**-**	57
Foreign exchange reserve	**(63)**	(53)
Retained earnings	**16,490**	13,287
Total equity	**34,375**	27,931

Consolidated statement of changes in equity

for the year ended 30 September 2018

	Share capital	Share premium	Merger reserve	Available for sale reserve	Foreign exchange reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000	£000
At 1 October 2017	5,507	9,133	-	57	(53)	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
Other comprehensive income:							
Remeasurement of net defined benefit liability	-	-	-	-	-	1,972	1,972
Deferred tax on above	-	-	-	-	-	(375)	(375)
Foreign exchange translation differences	-	-	-	-	(10)	-	(10)
Derecognition of available for sale financial asset	-	-	-	(57)	-	-	(57)
Total comprehensive income/(expense)	-	-	-	(57)	(10)	4,623	4,556
At 30 September 2018	5,997	9,557	2,394	-	(63)	16,490	34,375

for the year ended 30 September 2017

	Share capital	Share premium	Available for sale reserve	Foreign exchange reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000
At 1 October 2016	5,485	9,056	79	(56)	10,367	24,931
Exercise of share options	22	77	-	-	-	99
Dividend paid	-	-	-	-	(1,376)	(1,376)
Share-based payment charge	-	-	-	-	40	40
Transactions with owners	22	77	-	-	(1,336)	(1,237)
Profit for the year					2,867	2,867
Other comprehensive income:						
Remeasurement of net defined benefit liability	-	-	-	-	1,802	1,802
Deferred tax on above	-	-	-	-	(413)	(413)
Foreign exchange translation differences	-	-	-	3	-	3
Change in fair value of available for sale financial asset	-	-	(22)	-	-	(22)
Total comprehensive income/(expense)	-	-	(22)	3	4,256	4,237
At 30 September 2017	5,507	9,133	57	(53)	13,287	27,931

Consolidated statement of cash flows

for the year ended 30 September 2018

	2018	2017
	£000	£000
Cash flows from operating activities		
Profit for the year after taxation	**3,026**	2,867
Adjustments for:		
Amortisation of intangible assets	**1,536**	1,048
Depreciation	**452**	237
Share-based payment charge	**254**	40
Net finance expense	**361**	167
Profit on sale of investment	**(136)**	-
Release of contingent consideration	**-**	(165)
Income tax charge/(credit)	**207**	(154)
Operating cash flow before changes in working capital	**5,700**	4,040
Movement in trade and other receivables	**484**	1,893
Movement in inventories	**3**	(15)
Movement in trade and other payables	**(466)**	(666)
Cash generated from operations	**5,721**	5,252
Payments to defined benefit pension scheme	**(586)**	(360)
Income tax received/(paid)	**158**	(394)
Net cash flow from operating activities	**5,293**	4,498
Cash flow utilised by investing activities		
Purchase of property, plant and equipment	**(216)**	(180)
Acquisition of subsidiary undertakings, net of cash acquired	**(1,291)**	-
Payment of deferred consideration in respect of subsidiary undertakings	**(593)**	(83)
Dividend received	**9**	15
Bank interest received	**2**	3
Investment	**(75)**	(150)
Development expenditure capitalised	**(956)**	(994)
Sale of investment	**266**	-
Net cash flow utilised by investing activities	**(2,854)**	(1,389)
Cash flow utilised by financing activities		
Issue of shares, net of costs	**515**	99
Equity dividends paid	**(1,674)**	(1,376)
Finance lease repayments	**(152)**	-
Bank loan repayments	**(688)**	-
Bank loan interest	**(87)**	-
Hire purchase interest	**(7)**	-
Loan note interest	**(51)**	-
Net cash flow utilised by financing activities	**(2,144)**	(1,277)
Net increase in cash and cash equivalents	**295**	1,832
Cash and cash equivalents at beginning of year	**6,176**	4,344
Cash and cash equivalents at the end of the year	**6,471**	6,176

Notes

1. Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union ('IFRS'). The Company's shares are listed on the Alternative Investment Market of the London Stock Exchange. The principal accounting policies of the Group, which have been applied consistently, are set out in the annual report and financial statements.

2. Segmental reporting

The Group is managed as two separate divisions, providing IT solutions and associated services to the digital retail and enterprise sectors. The information provided to the Chief Operating Decision Maker ('CODM') is analysed between the divisions as follows:

	Digital Retail		Enterprise		Total	
	2018 £000	2017 £000	**2018 £000**	2017 £000	**2018 £000**	2017 £000
Revenue - external customers	**8,822**	7,282	**23,232**	14,277	**32,054**	21,559
Cost of sales	**(2,198)**	(1,722)	**(4,332)**	(2,108)	**(6,530)**	(3,830)
Gross profit	**6,624**	5,560	**18,900**	12,169	**25,524**	17,729
Depreciation +	**(68)**	(67)	**(384)**	(170)	**(452)**	(237)
Operating profit before adjustments	**1,556**	1,183	**3,619**	2,713	**5,175**	3,896
Amortisation*	**(266)**	(266)	**(676)**	(225)	**(942)**	(491)
One-off non-recurring items	**(25)**	(198)	**(360)**	(287)	**(385)**	(485)
Share-based payment charges	**(86)**	(26)	**(168)**	(14)	**(254)**	(40)
Profit from operating activities	**1,179**	693	**2,415**	2,187	**3,594**	2,880
Net finance expense					**(361)**	(167)
Taxation					**(207)**	154
Profit attributable to equity holders					**3,026**	2,867

*Amortisation of acquisition-related intangibles
+ Depreciation charged to operating profit

The CODM uses both gross profit and operating profit measures in assessing the performance of the Group's divisions. The largest customer of the Digital Retail Division accounted for 56% (2017: 46%) of divisional revenue. The largest customer of the Enterprise Division accounted for 11% (2017: nil) of divisional revenue.

Revenue amounting to £1,038,000 (2017: £874,000) was derived from customers domiciled in Eire. Substantially all other revenue is generated within the UK.

An analysis of items contained within the statement of financial position is set out below. The Group's assets are held in the United Kingdom. Included within other unallocated assets and liabilities are cash balances totalling £58,000 (2017: £600,000) and an investment held for resale

2. Segmental reporting (continued)

which was sold in the current year (2017: £187,000). Amounts in respect of shared operations cannot be allocated between operating divisions.

Additions to property, plant and equipment during the year amounted to £479,000 (2017: £180,000). A total of £54,000 (2017: £44,000) were attributable to the Digital Retail Division, with £425,000 (2017: £136,000) acquired by the Enterprise Division.

Analysis of items contained within the statement of financial position

	Digital Retail		Enterprise		Total	
	2018 £000	2017 £000	**2018 £000**	2017 £000	**2018 £000**	2017 £000
Property, plant and equipment	**108**	128	**970**	339	**1,078**	467
Intangible assets	**5,548**	5,857	**37,717**	24,562	**43,265**	30,419
Investments	**225**	150	**-**	-	**225**	150
Deferred tax	**55**	60	**983**	1,184	**1,038**	1,244
Income tax	**(160)**	95	**444**	175	**284**	270
Inventories	**13**	13	**19**	22	**32**	35
Cash and cash equivalents	**1,771**	1,968	**4,642**	3,603	**6,413**	5,571
Trade and other receivables	**1,642**	1,381	**7,343**	3,758	**8,985**	5,139
Total assets	**9,202**	9,652	**52,118**	33,643	**61,320**	43,295
Bank loans and overdrafts	**-**	-	**(3,438)**	-	**(3,438)**	-
Loan notes	**-**		**(1,047)**	-	**(1,047)**	-
Trade and other payables	**(1,483)**	(1,178)	**(5,545)**	(2,475)	**(7,028)**	(3,653)
Deferred income	**(929)**	(763)	**(8,036)**	(4,756)	**(8,965)**	(5,519)
Income tax	**-**	-	**-**	-	**-**	-
Deferred taxation	**(260)**	(265)	**(1,489)**	(519)	**(1,749)**	(784)
Deferred consideration	**-**	-	**(987)**	(24)	**(987)**	(24)
Pension obligations	**-**	-	**(3,789)**	(6,176)	**(3,789)**	(6,176)
Total liabilities	**(2,672)**	(2,206)	**(24,331)**	(13,950)	**(27,003)**	(16,156)
Allocated net assets	**6,530**	7,446	**27,787**	19,693	**34,317**	27,139
Other unallocated assets and liabilities					**58**	792
Net assets					**34,375**	27,931

3. One-off non-recurring items

	2018 £000	2017 £000
Recognised in arriving at operating profit from continuing operations:		
Acquisition related costs	**303**	275
Internal reorganisation	**218**	430
Profit on sale of investment	**(136)**	-
Group Finance Director departure	**-**	162
Customer settlement	**-**	(217)
Release of contingent consideration	**-**	(165)
	385	485

During the year the Group incurred restructuring costs of £218,000 (2017: £430,000) in relation to an internal reorganisation.

4. Finance income

	2018 £000	2017 £000
Bank interest received	**2**	3
Dividends received	**9**	15
	11	18

5. Finance expenses

	2018 £000	2017 £000
Net interest on defined benefit pension scheme deficit	**171**	183
Interest on bank loan	**87**	-
Interest on loan notes	**51**	-
Interest on hire purchase	**7**	-
	316	183

The Company is required by International Accounting Standards to calculate the fair value of deferred consideration by discounting expected future cash payments using the Company's cost of capital. The charge of £56,000 (2017: £2,000) has been reported as an acquisition-related finance expense, as disclosed on the face of the consolidated income statement.

6. Taxation

	2018 £000	2017 £000
Current tax expense		
UK corporation tax for the current year	**102**	104
Relating to prior periods	**31**	(316)
Total current tax	**133**	(212)
Deferred tax		
Deferred tax for the current year	**67**	116
Relating to prior periods	**7**	(24)
Arising on change in rate of deferred tax	**-**	(34)
Total deferred tax	**74**	58
Taxation charged/(credited) to the income statement	**207**	(154)

Reconciliation of effective tax rate

The current consolidated tax charge for the period is lower (2017: lower) than the average standard rate of corporation tax in the UK during the period of 19.0% (2017: 19.5%). The differences are explained below.

	2018 £000	2017 £000
Profit before taxation	**3,233**	2,713
Tax using the average UK corporation tax rate of 19% (2017: 19.5%)	**614**	529
Effects of:		
Expenses not deductible for tax purposes	**115**	70
Utilisation and recognition of losses	**(30)**	(95)
Over provision in previous years	**(6)**	(340)
Change in tax rate	**(85)**	(34)
Expenses not reported in the income statement	**(48)**	(50)
R&D tax credit current year	**(353)**	(234)
Total tax expense/(income) in income statement	**207**	(154)

7. Taxation

	2018 £000	2017 £000
Interim dividend of 1.25p per share (2017: 1.1p)	**750**	606
Final dividend relating to previous financial year of 1.55p per share (2017: 1.4p)	**924**	770
Total dividend for the financial year	**1,674**	1,376

A final dividend of 1.75 pence per ordinary share in respect of the financial year ended 30 September 2018 will be proposed at the Annual General Meeting of the Company, expected to be held on 22 January 2019. If approved by shareholders, the total final dividend payment will amount to £1,049,518. The directors will receive a proportion of this dividend by virtue of their shareholdings in the Company.

8. Earnings per share

Basic and diluted earnings per share are calculated by dividing the result after tax for the year by the weighted average number of ordinary shares at the end of the year and the diluted weighted average number of ordinary shares at the end of the year respectively. In order to better demonstrate the performance of the Group, an adjusted earnings per share calculation has been presented below which adds back items typically adjusted for by users of the accounts.

The calculations for earnings and the number of shares relevant to all of the measures of earnings per share described in the foregoing are set out below:

Earnings:	2018 £000	2017 £000
Result for the year	**3,026**	2,867
Amortisation of acquisition-related intangibles	**942**	491
Share-based payment charges	**254**	40
One-off non-recurring items	**385**	485
R&D tax credit relating to prior years	**-**	(388)
Adjusted profit for the year	**4,607**	3,495

Number of shares:	2018 No.	2017 No.
In issue at the start of the year	**55,070,668**	54,851,985
Effect of shares issued in the year	**3,480,862**	136,646

	2018	2017
Weighted average number of shares at year end	**58,551,530**	54,988,631
Effect of share options	**1,863,304**	587,918
Weighted average number of shares (diluted)	**60,414,834**	55,576,549

8. Earnings per share (continued)

Earnings per share:	**2018 pence**	2017 pence
Total attributable to equity holders of the parent undertaking:		
Basic	**5.2**	5.2
Diluted	**5.0**	5.2
Earnings per share, adjusted, from continuing operations:		
Basic	**7.9**	6.4
Diluted	**7.6**	6.3

9. Acquisitions

Current year

On 23 November 2017, the Group acquired control of Anisa Consolidated Holdings Limited by purchasing the entire issued ordinary share capital (and thereby 100% of the voting rights). The purchase consideration for the acquisition comprised an initial £5.20 million, made up of approximately £2.41 million in cash which was financed from existing Sanderson cash resources and by the issue of 3,990,653 new Sanderson 10p ordinary shares valued at 70p, which are subject to a lock-in period of three years. Sanderson has also taken over Anisa's utilised five-year repayable term debt facility (final quarterly repayment being due in 2020) of £4.12 million as well as a current account positive cash balance of just over £1 million. Deferred consideration, totalling £1.63 million is payable in three tranches. The first payment of £563,000 was payable in April 2018 and the second payment for the same amount, payable in October 2018; both tranches are unconditional. A third and final deferred payment of £500,000 is scheduled for April 2019, dependent upon some pre-agreed trading performance criteria.

In the 45 weeks to 30 September 2018 the subsidiary contributed £9.09 million to consolidated revenue and £0.57 million to consolidated profit before taxation (stated after charging amortisation of acquired intangibles and share-based payment expense). Had Anisa been acquired at the beginning of the reporting period then revenue would have been £10.63 million and profit before taxation would have been £0.74 million.

9. Acquisitions (continued)

The acquisition had the following effect on the Group's assets and liabilities at the acquisition date:

	Pre-acquisition carrying amount £000	Fair value adjustment £000	Recognised value on acquisition £000
Property, plant and equipment	583	-	583
Goodwill	13,712	(13,712)	-
Other intangible assets	-	7,224	7,224
Trade and other receivables	4,795	(461)	4,334
Cash and cash equivalents	1,117	-	1,117
Income tax (payable)/receivable	(80)	380	300
Deferred income	(3,898)	-	(3,898)
Trade and other payables	(1,748)	(1,519)	(3,267)
Bank loans	(4,125)	-	(4,125)
Loan notes	(1,047)	-	(1,047)
Deferred taxation	73	(795)	(722)
Net identifiable assets and liabilities	9,382	(8,883)	499
Goodwill on acquisition			6,202
			6,701
Cash consideration paid at completion			2,408
Issue of 3,990,653 new 10p Sanderson ordinary shares, fully paid on completion			2,793
Deferred cash consideration payable by instalments			1,102
Deferred contingent cash consideration			398
Net consideration payable			6,701

The cash consideration includes £1,270,000 in settlement of loan notes which was a condition of the acquisition. The deferred consideration and contingent consideration shown in the table above have been discounted to present value in accordance with IAS39 using a discount rate of 4% and 18% respectively based on management's estimate of the internal cost of capital appropriate to the investment and reflects the difference in risk profile attaching to the non-contingent and contingent payments.

The fair value adjustments relate to the recognition of intangible assets in accordance with IFRS 3: Business Combinations, adjustments to trade receivables to provide for amounts written off post completion, the recognition of income tax and deferred tax assets and liabilities and the accrual of costs incurred prior to completion but payable after completion.

Pre-acquisition carrying amounts were determined based on applicable IFRS, immediately prior to the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair

9. Acquisitions (continued)

values. In determining the fair value of intangible assets, the Group adopted an income basis with estimated future cash flows discounted at a rate of 17%-19% per annum.

The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the workforce of the acquired business and the expected synergies to be achieved from integrating the company into the Group's existing Enterprise division.

External costs relating to the acquisition of £133,000 (2017: £110,000) have been charged against operating profit and are included in administrative expenses.

The Board remains keen to enhance the strength of the Group by selective complementary acquisitions. Management will continue to adopt a careful and measured approach to acquisitions with the priority being very much focused on continuing to deliver shareholder value. Costs incurred in respect of the due diligence process have been shown in the Consolidated income statement as acquisition-related costs.

Prior year

The Group did not complete any acquisitions during the year ended 30 September 2017.

10. Annual Report & Accounts

The financial information set out in this preliminary announcement does not constitute statutory accounts as defined in section 434 of the Companies Act 2006.

The Consolidated Income Statement, Consolidated Statement of Financial Position, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows, together with associated notes, have been extracted from the Group's 2018 statutory financial statements upon which the auditor's opinion is unqualified and does not include any statement under section 498(2) or (3) of the Companies Act 2006.

The accounts for the year ended 30 September 2018 will be laid before the Company at the Annual General Meeting, expected to be held at the Company's registered office on 22 January 2019. A copy of this preliminary statement will be available to download on the Group's website www.sanderson.com.

Copies of the Annual Report and Accounts will be posted to shareholders in due course at which time the Annual Report and Accounts will be made available to download on the Group's website www.sanderson.com in accordance with AIM Rule 26, and will be delivered to the Registrar of Companies in due course.

END

FR FEAFUIFASESF