Sanderson Group PLC - SND 2017 Preliminary Results
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SANDERSON

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SANDERSON GROUP PLC
Preliminary Results for the year ended 30 September 2017
"Strong trading momentum maintained; further profitable growth;
proposed final dividend up 11%; £12 million Acquisition post period-end"

Sanderson Group plc ('Sanderson' or 'the Group'), the software and IT services business specialising in digital retail technology and enterprise software for businesses operating in the manufacturing, wholesale distribution and logistics sectors, announces Preliminary Results for the financial year ended 30 September 2017.

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

"The Group's continuing strong cash generation enables the Board to maintain a progressive dividend policy whilst continuing to invest in the further development of the Group's businesses. The Board remains focussed upon further increasing shareholder value by continuing to deliver both organic and acquisitive growth, achieving "on target" results, increasing earnings, achieving strong cash generation and maintaining a robust balance sheet."

Highlights - Financial

- Revenue increased to £21.56 million (2016: £21.32 million).
- Pre-contracted recurring revenues increased to £11.18 million (2016: £10.75 million), representing 52% of total revenue in the period (2016: 50%).
- Operating profit* increased to £3.9 million (2016: £3.69 million).
- Continued strong cash generation with net cash balance at 30 September of £6.18 million (2016: £4.34 million), well ahead of market expectations.
- Proposed increased Final Dividend up 11% to 1.55 pence per share (2016: 1.4 pence), making total dividend for the year of 2.65 pence (2016: 2.4 pence).
- Basic earnings per share** increased 18% to 5.2 pence per share (2016: 4.4 pence).

* Operating profit is stated after adjusting for amortisation of acquisition-related intangibles, share-based payment charges and one-off non-recurring items, the latter totaling £0.49 million.

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

Highlights - Operational

- Sales order intake increased 12% to £13.69 million (2016: £12.26 million).
- Order Book at 30 September stood at £5.79 million (2016: £3.2 million), which includes significant new order from an existing customer for delivery over next two financial years.
- Appointment of Richard Mogg as Group Finance Director, post year-end.
- Post year-end acquisition of Anisa Consolidated Holdings Limited, valued at £12 million, (a world class integrated supply chain and enterprise resource planning solutions specialist).

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

"The Board will continue to invest in its digital retail solutions and in its enterprise software businesses in order to ensure that product offerings continue to both attract new customers, as well as to maximise and to encourage additional investment in system enhancements and new technological developments from existing customers. The combination of more rapid growth available via the Digital Retail Division and renewed impetus for growth from the Enterprise business is expected to enable the Group to meet its strategic targets over the course of the coming years.

Whilst the Group has not yet detected any major loss of confidence from either existing or prospective customers, the Board and senior management continue to carefully monitor market conditions, customer confidence, as well as the development of sales prospects and the progression of these sales prospects into customers."

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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 2017

CHAIRMAN'S STATEMENT

Sanderson Group plc ('Sanderson' or 'the Group'), the software and IT services business specialising in digital retail technology and enterprise software for businesses operating in the manufacturing, wholesale distribution and logistics sectors, announces Preliminary Results for the financial year ended 30 September 2017.

Financial results

The Group's trading results for the year ended 30 September 2017 show revenue of £21.56 million (2016: £21.32 million) and operating profit of £3.90 million (2016: £3.69 million) after adjusting for the amortisation of acquisition-related intangibles, 'one-off' non-recurring items and share-based payment charges. The 'one-off' non-recurring items, totalling £0.49 million, include costs relating to potential acquisitions during the year, the consolidation of office premises with internal reorganisation, as well as the costs incurred in changing the Group Finance Director. Mitigating and offsetting these costs, was the receipt in full, of a licence fee from a former customer who had been disputing payment relating to their access of the Group's software.

Overall, gross margin remains high at 82% (2016: 84%) and though slightly lower than the prior year, the continuing high gross margin reflects the continued emphasis and focus upon the supply of Sanderson proprietary software and services. Recurring revenue, which is revenue derived from pre-contracted software licence fees and ongoing support services increased to £11.18 million (2016: £10.75 million) representing 52% of total revenue in the period (2016: 50%). Sales order intake grew by 12% to £13.69 million (2016: £12.26 million). The Group order book at 30 September 2017 was £5.79 million (2016: £3.02 million) and includes a significant new order from an existing customer which is scheduled to be delivered over the course of the next two financial years.

Sanderson has a strong, cash-generative business model which has resulted in a cash balance at 30 September 2017 of £6.18 million (2016: £4.34 million), well ahead of market expectations. This balance is stated after the increased payment of £1.38 million (2016: £1.21 million) in dividends to shareholders during the year.

Dividend

The Group's continuing strong cash generation enables the Board to maintain a progressive dividend policy whilst continuing to invest in the further development of the Group's businesses. Subject to the approval of shareholders at the Annual General Meeting, scheduled to be held at 11am on Thursday 15 February 2018, the Board is proposing an increase of 11% in the final dividend to 1.55 pence per ordinary share (2016: 1.4 pence). This makes the total dividend paid in the year of 2.65 pence per ordinary share and represents an increase of 10% over the prior year (2016: 2.4 pence). The final dividend, if approved, will be paid on 16 March 2018, to shareholders on the register at the close of business on 2 March 2018.

Post period end event - Acquisition

On Friday, 24 November, the Group announced the acquisition of Anisa Consolidated Holdings Limited for an enterprise value of £12 million.

Anisa specialises in the delivery of world-class integrated supply chain and enterprise resource planning solutions and has around 250 customers who are provided with twenty-four hour support on a worldwide basis throughout the year. Anisa employs over 90 staff and operates from office locations in London, Runcorn, Liverpool and Solihull within the UK and from smaller support operations in Singapore and Australia. Anisa complements the Enterprise Division of Sanderson and the enlarged, merged business is expected to provide and develop incremental and synergistic market opportunities. The managed services, hosting services and cloud delivery services which have been developed by Anisa represent an exciting and enhanced service delivery option for existing Sanderson customers.

Commenting on the acquisition, Group Chief Executive, Ian Newcombe, said:

"We are delighted to welcome the Anisa team, led by Ross Telford, David Renshaw and Lionel Moore, together with their Anisa colleagues to Sanderson and we are excited by the prospect of combining our two strong, well-positioned businesses and by the opportunities that will arise from working closely together in the future."

Also, commenting on the acquisition, Chairman, Christopher Winn, said:

"Anisa and Sanderson have known each other for many years and though this transaction is a Sanderson acquisition, it feels more like a merger. Whilst Anisa and Sanderson have rarely competed in their respective target markets, they are very complementary in terms of their ethos and business model - providing cost-effective solutions, supported by providing quality service to customers thereby building and developing long-term relationships. The strategy of the combined business is to continue to develop the existing range of products and services delivered to existing customers; to further invest and develop the Anisa relationships with strategic partners and to provide additional investment in order to accelerate growth opportunities by attracting even more new customers.

Our enlarged Group provides a great opportunity to further build shareholder returns and shareholder value and we value and appreciate the confidence shown by the Anisa team, in agreeing to hold their new Sanderson shares for at least a period of three years. We believe that our enlarged Group provides a great opportunity to further increase returns and value for Sanderson shareholders."

Strategy

The strategy of the Board is to achieve sustained growth by continuing to build and to develop the Sanderson business. Whilst investment is planned across all of the Group's businesses, particular emphasis will again be placed on enhancing the range of mobile and ecommerce solutions in Digital Retail, where digital transformation is an active market opportunity. Mobile-enabled solutions continue to be developed to address all of the Group's target markets. The Group will further strengthen its proposition to customers in the Enterprise Division, especially in providing solutions for food and drink processing, as well as, investing in the further development of products covering the logistics, fulfilment and supply chain areas. Sanderson has enjoyed considerable success, building a strong reputation over a number of years within the wholesale distribution market and further investment is planned developing a new suite of digital based solutions.

In order to augment organic growth selective complementary acquisitions are under continuous consideration. We are pleased that Anisa is now part of the Group and a number of potential opportunities have been and are being considered. Sanderson management endeavours to adopt a careful and measured approach to acquisition opportunities and cautiously considers any risks which might be involved. The Board remains focused upon further increasing shareholder value by continuing to deliver both organic and acquisitive growth, achieving 'on target' results, increasing earnings, thereby achieving strong cash generation and maintaining a robust balance sheet. This enables the Board to maintain progressive dividend returns to shareholders.

Management and staff

At 30 September 2017, Sanderson employed almost 230 staff, who have a high level of experience and specialist expertise in the market sectors in which the Group operates. Following the acquisition of Anisa, the Group now has over 300 employees. The commitment of staff is crucial to achieving further progress and on behalf of the Board, I would again like to express our appreciation and thank everyone for their hard work, support, dedication and contribution to the ongoing development of the Group.

Adrian Frost, who had served as Group Finance Director since 2005, left Sanderson in September and we wish Adrian every success with his new employer. Richard Mogg joined Sanderson as Group Finance Director in October from Capita, where latterly, he worked in the Capita Education Software Services business. Richard's considerable commercial, financial and business experience will further enhance the management team and we are very much looking forward to working together over the years to come.

Christopher Winn
Chairman

SANDERSON GROUP PLC
Preliminary Results for the year ended 30 September 2017

GROUP CHIEF EXECUTIVE'S BUSINESS REVIEW

The target market for Sanderson products and services primarily comprises of 'SME's' ('small and medium-sized enterprises'). The Group's well-developed business model is to foster long-term customer relationships which result in a high proportion of sales arising from pre-contracted recurring revenue, complemented by incremental sales to its strong, well-established and growing customer base. This robust business stream usually accounts for around 50% of Group revenues. Sanderson proprietary software is developed in anticipation of technological developments and often in conjunction, collaboration and partnership with its large customer base. Sanderson proprietary software is marketed and sold under a 'right to use' licence with all sales, marketing, delivery, support and services being carried out by the Group's own expert staff.

Group business solutions are developed and marketed in order to provide customers with 'value for money' IT systems, designed to offer cost effective, timely and tangible business benefits. These solutions typically enable customers to increase revenue whilst also achieving additional efficiencies by making and maintaining cost savings, both often within twelve months of implementation. Such robust and agile systems will be key to help customers remain competitive in challenging market times.

The Group continues to invest in the development of its software products and services, as well as in increasing its sales and marketing capacity and capability. Particular emphasis has been placed on the Group businesses specialising in the UK food and drink processing and wholesale distribution sectors, and especially, in the market for digital retail solutions with the continued development of mobile and ecommerce solutions. These solutions enable retailers to capitalise on the significant growth opportunities arising from the widespread adoption of smartphones and tablets and to exploit 'mobile' as a sales channel that is becoming fully integrated with existing business systems.

At the core of the Group's well-developed business model is Sanderson proprietary software with both on-premise, as well as, cloud-based solutions being offered to customers on an ongoing annual contractual basis, together with the accompanying consultancy, support and maintenance services. In the year ended 30 September 2017, these pre-contracted recurring revenues amounted to £11.18 million (2016: £10.75 million) representing 52% of total revenues (2016: 50%). The gross margin from recurring revenues covered 67% of total Group overheads in the financial year (2016: 63%).

Reflecting both prior and continuing investment in the Group's sales and marketing function, Sanderson continued to achieve a significantly improved level of order intake during the year, up 12% to £13.69 million compared with £12.26 million in the prior year. During the year, thirteen new customers contributed orders to the value of £1.60 million (2016: 22 new customers generated orders to the value of £3.83 million). The financial year ending 30 September 2016 had been exceptional in terms of new sales orders from new customers. New customer orders for the financial year ending 30 September 2017 are 'in line' with the longer term, four-year average. The development of opportunities from new customers and prospects, remains a key focus for the business.

Review of Digital Retail

Sanderson provides comprehensive IT solutions to businesses operating in the ecommerce, mobile commerce and retail sectors of the UK. Mobile solutions, in-store technology and the 'digital experience' continue to be key business drivers in this very active and rapidly developing market.

The Digital Retail Division, which works with leading retailers such as JD Sports and Superdry, continued to make good progress, achieving double digit revenue growth of 13.8% to £7.28 million (2016: £6.40 million). Operating profits grew by a third to

£1.18 million (adjusted for amortisation of acquisition-related intangibles, share-based payment charges and one-off non-recurring items) (2016: £0.89 million). The Group continues to invest in product innovation and delivery capacity in order to address this rapidly expanding market. The leadership team was further strengthened during the year and the business undertook a consolidation to a single location in order to generate additional efficiencies going forward.

We previously reported that a large new retail customer had been gained towards the end of the financial year ended 30 September 2016. This was the very highly rated home entertainment retailer, Richer Sounds, confirmed by the 'Which?' organisation as the 'Best High Street Shop 2017'. With a high level of effort and teamwork, both from the excellent Richer Sounds team, as well as from our own support team, the Sanderson solution was successfully installed and implemented, 'on time' and 'on budget', during the financial year ending 30 September 2017. Large orders from existing customers included Axminster Tool Centre Limited, The Savile Row Company and QUIZ plc.

Digital Retail is continuing to experience increased levels of sales activity. A significant order was received from an existing customer which is scheduled to be delivered over the course of the next two financial years. In addition, following receipt of an initial order worth over £200,000, from a leading global fashion brand, a large pilot scheme is now underway with this new customer.

The year-end order book was £3.99 million (2016: £0.92 million) and included the large order, to be delivered over the next two years, which is mentioned above. With a number of developing sales prospects, active pilot projects and strengthening partnerships with existing customers, the Digital Retail business is well-positioned to take advantage of the growth in this market.

Review of Enterprise

The Enterprise Division of Sanderson comprises two market-focused businesses which operate in the manufacturing and in the wholesale, distribution and logistics sectors. The Enterprise Division has achieved a solid trading performance. Sales prospects are good but sales cycles have been protracted with the timing of the receipt of sales orders, as ever, being critical to business performance. We have not yet perceived any market effect which might be caused by any uncertainty relating to Brexit. A restructure and strengthening of management took place across the Division and this should improve the prospects for the Group's Enterprise businesses in the future. Divisional revenue was £14.28 million (2016: £14.92 million) following an exceptional performance in the prior financial year. Operating profit (adjusted for amortisation of acquisition-related intangibles, share-based payment charges and one-off non-recurring items) was £2.71 million (2016: £2.80 million). The Group continues to invest in product development and in its sales and marketing capability. The Enterprise Division optimised delivery during the year, reflected in the order book which, at the financial year-end, was valued at £1.81 million (2016: £2.10 million).

Enterprise - Manufacturing
Businesses in the engineering, plastics, aerospace, electronics, print ('general manufacturing') and food and drink processing sectors, represent the main areas of specialisation for Sanderson in manufacturing markets. The Group's manufacturing business is very much driven by activity in the food and drink industry, with the Sanderson business addressing this sector, outperforming market growth. Traceability of ingredients through the supply chain and compliance with the latest regulatory standards are key requirements for food and drink businesses and are strong features of the Group's solution. Overall, the manufacturing business gained six new customers during the year (2016: seven), including Tomlinson's Dairies and Ragus Sugars Limited, with large orders from existing customers including The Burger Manufacturing Company Limited.

Enterprise - Wholesale Distribution and Logistics
Sanderson activities in wholesale distribution and logistics are now extended into the specialist warehousing, logistics and supply chain markets which augment the solutions provided to the wholesale, cash and carry and fulfilment sectors. Six new customers were gained during the year, at an average initial order value of £89,000 (2016: £160,000) and this compares with thirteen new customers in the prior year. Across the Division, sales prospects are strong and ahead of this time last year. A large order gained in the prior

financial year, was successfully delivered during the period to DPD, one of the UK's leading delivery and distribution businesses. Major sales orders were gained from a number of existing customers including Tottenham Hotspur Football Club and the Kitwave Wholesale Group. During the year, the Group has invested in some post-acquisition restructuring and has built a new management team in the specialist warehousing and logistics business. Improved levels of growth and profit are now anticipated.

Following the theme of increased digital transformation in the retail market, the Sanderson business operating in the wholesale distribution and cash and carry sector, has further invested in software development recently launching a new suite of digital solutions which further capitalise on the growing use of mobile devices. Product innovation together with the Group's track record in the wholesale industry, positions the business well for further growth in the coming financial year ending 30 September 2018.

Outlook

The Board has an ongoing business plan which is to accelerate the Group's growth and development both organically as well as by making selective acquisitions in order to further increase profitability and dividends thereby enhancing shareholder value. The acquisition of Anisa is the result of considerable work from both the Anisa and Sanderson management teams and provides the Group with an enlarged and stronger platform from which to operate. Further acquisitions are being considered and developed.

The Board will continue to invest in its digital retail solutions and in its enterprise software businesses in order to ensure that product offerings continue to both attract new customers, as well as to maximise and to encourage additional investment in system enhancements and new technological developments from existing customers. The combination of more rapid growth available via the Digital Retail Division and renewed impetus for growth from the Enterprise business, is expected to enable the Group to meet its strategic targets over the course of the coming years.

Whilst the Group has not yet detected any major loss of confidence from either existing or prospective customers, the Board and senior management continue to carefully monitor market conditions, customer confidence, as well as the development of sales prospects and the progression of these sales prospects into customers.

Sanderson has maintained a strong balance sheet, resulting from a robust business model which is built upon long-term customer relationships thereby generating strong recurring revenues. The Board believes that the Group, which now includes the Anisa business, is well positioned in its target markets. A healthy order book and good sales prospects provide the Board with a good level of confidence that, at this relatively early stage of the new financial year, the Group will make further progress and deliver trading results which are, at least, in line with market expectations for the year ending 30 September 2018.

Ian Newcombe
Group Chief Executive

Consolidated income statement
for the year ended 30 September 2017

	Note	2017 £000	2016 £000
Revenue	2	**21,559**	**21,320**
Cost of sales		**(3,830)**	**(3,399)**
Gross profit		**17,729**	**17,921**
Technical and development costs		**(8,566)**	**(8,428)**
Administrative and establishment expenses		**(3,860)**	**(3,875)**
Sales and marketing costs		**(2,423)**	**(2,592)**
Profit from operating activities		**2,880**	**3,026**
Profit from operating activities before adjustments in respect of the following:		**3,896**	**3,686**
Amortisation of acquisition-related intangibles		**(491)**	**(513)**
One-off non-recurring costs	3	**(485)**	**(62)**
Share-based payment charges		**(40)**	**(85)**
Profit from operating activities		**2,880**	**3,026**
Finance income	4	**18**	**27**
Finance expenses	5	**(183)**	**(180)**
Acquisition-related finance expense	5	**(2)**	**(92)**
Profit before taxation		**2,713**	**2,781**
Taxation	6	**154**	**(354)**
Profit for the year		**2,867**	**2,427**

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**	**4.4p**
Diluted earnings per share	8	**5.2p**	**4.3p**

Consolidated statement of comprehensive income
for the year ended 30 September 2017

	2017	2016
	£000	£000
Profit for the year	**2,867**	**2,427**
Other comprehensive income/(expense)		
Items that will not subsequently be reclassified to profit or loss		
Re-measurement of net defined benefit liability	**1,802**	**(3,678)**
Deferred taxation effect of defined benefit pension plan items	**(413)**	**568**
	1,389	**(3,110)**
Items that may subsequently be reclassified to profit or loss		
Change in fair value of available for sale financial asset	**(22)**	**19**
Foreign exchange translation differences	**3**	**31**
Total other comprehensive income/(expense)	**1,370**	**(3,060)**
Total comprehensive income/(expense) attributable to equity holders of the parent	**4,237**	**(633)**

Consolidated statement of financial position

at 30 September 2017

	2017	2016
	£000	£000
Non-current assets		
Property, plant and equipment	**467**	**524**
Intangible assets	**30,419**	**30,473**
Investment	**150**	**-**
Deferred tax assets	**1,244**	**1,755**
	32,280	**32,752**
Current assets		
Inventories	**35**	**20**
Trade and other receivables	**5,139**	**7,032**
Income tax receivable	**270**	**-**
Other short-term financial assets	**187**	**209**
Cash and cash equivalents	**6,176**	**4,344**
	11,807	**11,605**
Current liabilities		
Trade and other payables	**(3,653)**	**(4,570)**
Deferred consideration	**(24)**	**(155)**
Income tax payable	**-**	**(337)**
Deferred income	**(5,519)**	**(5,270)**
	(9,196)	**(10,332)**
Net current assets	**2,611**	**1,273**
Total assets less current liabilities	**34,891**	**34,025**
Non-current liabilities		
Pension obligations	**(6,176)**	**(8,155)**
Deferred consideration	**-**	**(115)**
Deferred tax liabilities	**(784)**	**(824)**
	(6,960)	**(9,094)**
Net assets	**27,931**	**24,931**
Equity attributable to equity holders of the parent company		
Share capital	**5,507**	**5,485**
Share premium	**9,133**	**9,056**
Available for sale reserve	**57**	**79**
Foreign exchange reserve	**(53)**	**(56)**
Retained earnings	**13,287**	**10,367**
Total equity	**27,931**	**24,931**

Consolidated statement of changes in equity

for the year ended 30 September 2017

	Share capital £000	Share premium £000	Available for sale reserve £000	Foreign exchange reserve £000	Retained earnings £000	Total equity £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**

for the year ended 30 September 2016

	Share capital £000	Share premium £000	Available for sale reserve £000	Foreign exchange reserve £000	Retained earnings £000	Total equity £000
At 1 October 2015	5,460	9,023	60	(87)	12,171	26,627
Exercise of share options	25	33	-	-	-	58
Dividend paid	-	-	-	-	(1,206)	(1,206)
Share-based payment charge	-	-	-	-	85	85
Transactions with owners	25	33	-	-	(1,121)	(1,063)
Profit for the year	-	-	-	-	2,427	2,427
Other comprehensive income:						
Remeasurement of net defined benefit liability	-	-	-	-	(3,678)	(3,678)
Deferred tax on above	-	-	-	-	568	568
Foreign exchange translation differences	-	-	-	31	-	31
Change in fair value of available for sale financial asset	-	-	19	-	-	19
Total comprehensive income/(expense)	-	-	19	31	(683)	(633)
At 30 September 2016	**5,485**	**9,056**	**79**	**(56)**	**10,367**	**24,931**

Consolidated statement of cash flows

for the year ended 30 September 2017

	2017	2016
	£000	£000
Cash flows from operating activities		
Profit for the year after taxation	**2,867**	**2,427**
Adjustments for:		
Amortisation of intangible assets	**1,048**	**1,026**
Depreciation	**237**	**199**
Share-based payment charge	**40**	**85**
Net finance expense	**167**	**245**
Release of contingent consideration	**(165)**	**-**
Income tax (credit)/charge	**(154)**	**354**
Operating cash flow before changes in working capital	**4,040**	**4,336**
Movement in trade and other receivables	**1,893**	**(1,560)**
Movement in inventories	**(15)**	**63**
Movement in trade and other payables	**(666)**	**1,135**
Cash generated from operations	**5,252**	**3,974**
Payments to defined benefit pension scheme	**(360)**	**(330)**
Income tax paid	**(394)**	**-**
Net cash flow from operating activities	**4,498**	**3,644**
Cash flow utilised by investing activities		
Purchase of property, plant and equipment	**(180)**	**(254)**
Acquisition of subsidiary undertakings, net of cash acquired	**-**	**-**
Payment of deferred consideration in respect of subsidiary undertakings	**(83)**	**(1,660)**
Dividend received	**15**	**15**
Bank interest received	**3**	**12**
Investment	**(150)**	**-**
Development expenditure capitalised	**(994)**	**(872)**
Net cash flow utilised by investing activities	**(1,389)**	**(2,759)**
Cash flow utilised by financing activities		
Issue of shares, net of costs	**99**	**58**
Equity dividends paid	**(1,376)**	**(1,206)**
Net cash flow utilised by financing activities	**(1,277)**	**(1,148)**
Net increase/(decrease) in cash and cash equivalents	**1,832**	**(263)**
Cash and cash equivalents at beginning of year	**4,344**	**4,607**
Cash and cash equivalents at the end of the year	**6,176**	**4,344**

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 software sectors. The information provided to the CODM is analysed between the divisions as follows:

	Digital Retail		**Enterprise**		**Total**	
	2017 £000	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000
Revenue - external customers	**7,282**	6,398	**14,277**	14,922	**21,559**	21,320
Cost of sales	**(1,722)**	(1,099)	**(2,108)**	(2,300)	**(3,830)**	(3,399)
Gross profit	**5,560**	5,299	**12,169**	12,622	**17,729**	17,921
Depreciation +	**(67)**	(58)	**(170)**	(141)	**(237)**	(199)
Operating profit before adjustments	**1,183**	885	**2,713**	2,801	**3,896**	3,686
Amortisation*	**(266)**	(266)	**(225)**	(247)	**(491)**	(513)
One-off non-recurring items	**(198)**	-	**(287)**	(62)	**(485)**	(62)
Share-based payment charges	**(26)**	(53)	**(14)**	(32)	**(40)**	(85)
Result from operating activities	**693**	566	**2,187**	2,460	**2,880**	3,026
Net finance expense					**(167)**	(245)
Taxation					**154**	(354)
Profit attributable to equity holders					**2,867**	2,427

*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.

Included within other unallocated assets and liabilities are cash balances totalling £0.60m (2016: £0.72 million) and an investment held for resale. Amounts in respect of shared operations cannot be allocated between operating divisions.

2. Segmental reporting (continued)

Analysis of items contained within the Statement of Financial Position

	Digital Retail		**Enterprise**		**Total**	
	2017 £000	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000
Property, plant and equipment	**128**	135	**339**	389	**467**	524
Intangible assets	**5,857**	6,092	**24,562**	24,381	**30,419**	30,473
Investments	**150**	-	**-**	-	**150**	-
Deferred tax assets	**60**	117	**1,184**	1,638	**1,244**	1,755
Income tax	**95**	-	**175**	-	**270**	-
Inventory	**13**	20	**22**	-	**35**	20
Cash and cash equivalents	**1,968**	860	**3,603**	2,765	**5,571**	3,625
Trade and other receivables	**1,381**	1,912	**3,758**	5,120	**5,139**	7,032

Total assets	**9,652**	9,136	**33,643**	34,293	**43,295**	43,429
Trade and other payables	**(1,178)**	(1,214)	**(2,475)**	(3,356)	**(3,653)**	(4,570)
Deferred income	**(763)**	(717)	**(4,756)**	(4,553)	**(5,519)**	(5,270)
Income tax	**-**	(56)	**-**	(281)	**-**	(337)
Deferred taxation	**(265)**	(275)	**(519)**	(549)	**(784)**	(824)
Deferred consideration	**-**	(50)	**(24)**	(220)	**(24)**	(270)
Pension obligations	**-**	-	**(6,176)**	(8,155)	**(6,176)**	(8,155)
Total liabilities	**(2,206)**	(2,312)	**(13,950)**	(17,114)	**(16,156)**	(19,426)
Allocated net assets	**7,446**	6,824	**19,693**	17,179	**27,139**	24,003
Other unallocated assets and liabilities					**792**	928
Net assets					**27,931**	24,931

3. One-off non-recurring items

Recognised in arriving at operating profit from continuing operations:	**2017 £000**	2016 £000
Acquisition related costs	**275**	62
Internal reorganisation/redundancy	**430**	-
Group Finance Director departure	**162**	-
Customer settlement	**(217)**	-
Release of contingent consideration	**(165)**	-
	485	62

During the year the Group incurred restructuring costs of £430k (2016: Nil) in relation to redundancies, an office closure and post-acquisition reorganisation.

4. Finance income

	2017 £000	2016 £000
Bank interest received	**3**	**12**
Dividend received	**15**	**15**
	18	**27**

5. Finance expenses

	2017 £000	2016 £000
Net interest on defined benefit pension scheme deficit	**183**	180

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 £2,000 (2016: £92,000) has been reported as an acquisition-related finance expense.

6. Taxation

	2017 £000	2016 £000
Current tax expense		
UK corporation tax for the current year	**104**	**334**
Relating to prior periods	**(316)**	**-**

Total current tax	**(212)**	**334**
Deferred tax		
Deferred tax for the current year	**116**	**29**
Relating to prior periods	**(24)**	**51**
Arising on change in rate of deferred tax	**(34)**	**(60)**
Total deferred tax	**58**	**20**
Taxation (credited)/charged to the income statement	**(154)**	**354**

6. Taxation (continued)

Reconciliation of effective tax rate

The current consolidated tax charge for the period is lower (2016: lower) than the average standard rate of corporation tax in the UK during the period of 19.5% (2016: 20%). The differences are explained below.

	2017 **£000**	2016 £000
Profit before taxation	**2,713**	**2,781**
Tax using the average UK Corporation tax rate of 19.5% (2016: 20%)	**529**	**556**
Effects of:		
Expenses not deductible for tax purposes	**70**	**70**
Utilisation and recognition of losses	**(95)**	**(153)**
(Over)/under provision in previous years	**(340)**	**51**
Change in tax rate	**(34)**	**(60)**
Expenses not reported in the income statement	**(284)**	**(110)**
Total tax in income statement	**(154)**	**354**

The Group has benefited from a prior year tax charge adjustment relating to a catch-up of R&D tax credit claims, which is why there is a large over-provision movement in respect of prior years.

7. Dividends

	2017 **£000**	2016 £000
Interim dividend of 1.1p per share (2016: 1.0p)	**606**	549
Final dividend relating to previous financial year of 1.4p per share (2016: 1.2p)	**770**	657
Total dividend for the financial year	**1,376**	1,206

A final dividend of 1.55 pence per ordinary share in respect of the financial year ended 30 September 2017 will be proposed at the Annual General Meeting of the Company, expected to be held on 15 February 2018. If approved by shareholders, the total final dividend payment will amount to £853,595. The directors will receive a proportion of this dividend by virtue of their shareholdings in the Company, details of which are disclosed in the Directors' Report.

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. During the year a third party specialist firm has been engaged to review the Group's qualifying expenditure with regard to R&D tax credits. As a result of this engagement, the Group has benefitted from a prior years tax charge adjustment in respect of these R&D claims and basic earnings per share is therefore higher.

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:	**2017**	2016
	£000	£000
Result for the year	**2,867**	**2,427**
Amortisation of acquisition-related intangibles	**491**	**513**
Share-based payment charges	**40**	**85**
One-off non-recurring items	**485**	**62**
R&D tax credit	**(388)**	**-**
Adjusted profit for the year	**3,495**	**3,087**

Number of shares:	**2017**	2016
	No.	No.
In issue at the start of the year	**54,851,985**	**54,600,550**
Effect of shares issued in the year	**136,646**	**173,846**
Weighted average number of shares at year end	**54,988,631**	**54,774,396**
Effect of share options	**587,918**	**1,520,615**
Weighted average number of shares (diluted)	**55,576,549**	**56,295,011**

Earnings per share:	**2017 (pence)**	2016 (pence)
Total attributable to equity holders of the parent undertaking:		
Basic	**5.2**	4.4
Diluted	**5.2**	4.3
Earnings per share, adjusted, from continuing operations:		
Basic	**6.4**	5.6
Diluted	**6.3**	5.5

9. 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 2017 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 2017 will be laid before the Company at the Annual General Meeting, expected to be held at the Company's registered office on 15 February 2018. 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.

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