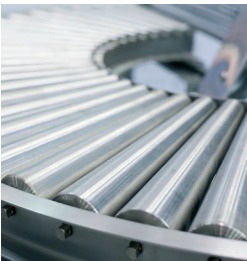


SANDERSON GROUP PLC

Interim Report

for the six months to 31 March 2016

Innovative Technology Solutions





About Sanderson

Sanderson is a publicly owned UK provider of software solutions and IT services. We supply innovative, market-focused solutions to the **retail**, **manufacturing**, **wholesale distribution** and **logistics** sectors.

Highly experienced in the markets we serve, we forge long-term relationships with our customers. This allows us to consistently deliver real business benefit and help our customers achieve rapid return on their investment in IT.

Established in 1983, Sanderson has a multi-million pound turnover and a track record of profitable trading. We strive to be the best in our chosen fields and achieve market leadership through the quality of our products, people and services.

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Highlights

Financial

- Revenue increased by 8% to £9.86 million (2015: £9.09 million).
- Gross margin increased to 86% (2015: 85%).
- Operating profit* increased 7% to £1.47 million (2015: £1.37 million).
- Basic earnings per share of 1.7 pence (2015: 1.5 pence), an increase of 13%.
- Net cash at the half year end of £3.39 million (2015: £3.95 million) after acquisition-related cash consideration payments of £1.54 million.
- Interim dividend up 11% to 1.0 pence per share (2015: 0.9 pence).
- Pre-contracted recurring revenues of £5.19 million (2015: £4.76 million), representing approximately 53% of total revenue.

Operational

- New reporting structure comprising two divisions: Digital Retail Division providing IT solutions to businesses operating in ecommerce, mobile commerce and retail sectors in the UK and Enterprise Division comprising two market-focused businesses based on manufacturing (principally food and drink processing industries) and wholesale distribution and logistics.
- Significantly improved order intake during the period of £6.02 million (2015: £4.94 million).
- New customers contributed £2.08 million of orders during the period (2015: £1.03 million).
- Robust order book of £3.20 million at period end (2015: £2.84 million).
- Digital Retail revenue increased to £2.95 million (2015: £2.80 million); strong demand from existing customers including Hotel Chocolat and Scotts of Stow; successful completion of Phase 2 European roll-out for Superdry.
- Enterprise Division revenues of £6.92 million (2015: £6.29 million) and operating profit* of £1.15 million (2015: £0.89 million); strong order book of £2.42 million at period end (2015: £1.81 million); new manufacturing customers gained during period, including Thistle Seafoods Limited and Dunkleys, with average order value significantly higher than in comparative period.
- Continued investment in product development, sales and marketing across the Group with particular emphasis on proprietary solutions using mobile technologies.
- Mr Philip Kelly, a Non-Executive Director since November 2004, retires from the Board following the release of the Interim Results announcement, after over eleven years of valued service and support to the Group, to the Board and to the shareholders.

* Operating profit is stated before amortisation of acquisition-related intangibles, share-based payment charges and acquisition-related and restructuring costs.

Chairman's statement



Christopher Winn
Chairman

The Group has made further progress during the period with revenue increasing to £9.86 million (2015: £9.09 million) and operating profit* rising to £1.47 million (2015: £1.37 million).

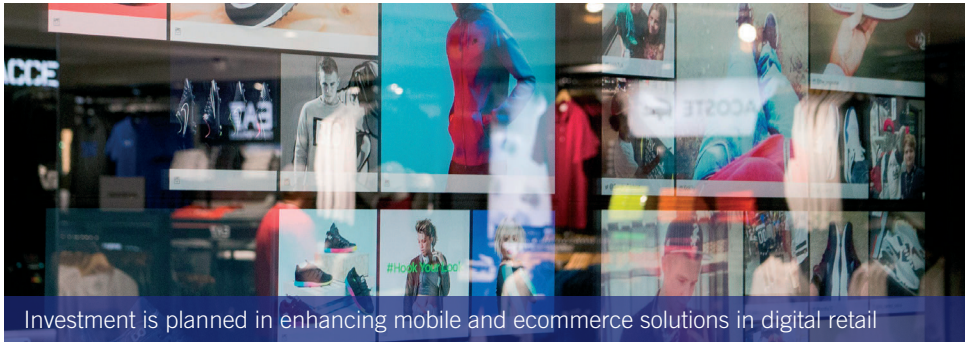
Sanderson Group plc ('Sanderson' or 'the Group'), the software and IT services business specialising in digital technology and enterprise software for businesses operating in the retail, manufacturing, wholesale distribution and logistics sectors, announces its interim results for the six month period ended 31 March 2016.

Financial results

The Group has made further progress during the period with revenue increasing to £9.86 million (2015: £9.09 million) and operating profit* rising to £1.47 million (2015: £1.37 million). Gross margin has improved to 86% (2015: 85%), reflecting continuing emphasis on the supply of Sanderson 'owned' proprietary software and services. The recurring revenue from pre-contracted licence and ongoing support services grew to £5.19 million (2015: £4.76 million) representing 53% of total revenue in the period. The Group's order book at the period end was very strong and stood at £3.20 million (2015: £2.84 million) compared with £2.35 million at 30 September 2015.

The Sanderson Board remains committed to pursuing a growth strategy based upon a conservative financing policy, the cornerstone of which is a strong balance sheet. The Group has an established history of converting substantially all of its profit to cash and at 31 March 2016, after the payment of £1.54 million deferred consideration in respect of acquired businesses, the Group's net cash balance was £3.39 million (2015: £3.95 million).

* Operating profit is stated before amortisation of acquisition-related intangibles, share-based payment charges and acquisition-related and restructuring costs.



Dividend

The Board remains committed to maintaining a progressive dividend policy and is pleased to declare an increase of 11% in the level of the interim dividend to 1.0 pence per share (2015: 0.90 pence). The dividend will be paid on 19 August 2016 to shareholders on the register at the close of business on 29 July 2016.

Strategy

The strategy of the Board is to achieve sustained growth by continuing to build and to develop the Sanderson businesses which address the Group’s target markets. Whilst investment is planned across all of its businesses, particular emphasis will again be placed on enhancing the range of mobile and ecommerce solutions in digital retail and on further strengthening the proposition for food and drink processing. Mobile solutions continue to be developed to address all of the Group’s target markets.

In order to augment organic growth, selective acquisition opportunities continue to be considered and a number of potential opportunities are currently being developed. The Board adopts a careful and measured approach to acquisitions and management

is very much focused on further increasing shareholder value by delivering continued growth and achieving ‘on target’ results.

Management and staff

Sanderson now employs nearly 230 staff who have a high level of experience and specialist expertise in the market sectors which the Group addresses. On behalf of the Board, I would again like to thank everyone for their hard work, support, dedication and contribution to the ongoing development of the Group.

Mr Philip Kelly, a Non-Executive Director since November 2004, retires from the Board following the release of the Interim Results announcement, after over eleven years of valued service and support to the Group, the Board and shareholders. On behalf of the Board, I would like to thank Philip for his support and contribution to the development of the Group.

Christopher Winn

Chairman
8 June 2016

* Operating profit is stated before amortisation of acquisition-related intangibles, share-based payment charges and acquisition-related and restructuring costs.

Group Chief Executive's business review



Ian Newcombe
Group Chief Executive

The general economic environment has continued to improve and although sales cycles do remain protracted, the Group has achieved a very high level of business from new customers during the period.

The primary target market for Sanderson products and services consists of small and medium-sized enterprises ('SMEs') whose current business outlook we would generally describe as 'cautiously optimistic'. At the core of the Group's well-developed business model is a strategy to foster long-term customer relationships which result in a high proportion of sales arising from pre-contracted recurring revenue. Sanderson proprietary software is marketed, sold under licence, delivered, supported and serviced by expert Sanderson staff.

Group solutions are developed and marketed to provide customers with 'value for money' IT systems, which offer timely and tangible business benefits. These solutions typically enable customers to increase sales and revenue whilst also achieving additional efficiencies by making and maintaining cost savings, often within twelve months of implementation. The Group has continued to invest in both the development of its software products and services, as well as in its sales and marketing capacity and capability. Particular emphasis has been placed on the Group businesses specialising in the UK food and drink processing sector and more especially in the market for digital retail solutions with the development of mobile and ecommerce solutions. These solutions enable retailers to capitalise on the huge growth in the widespread adoption of smartphones and tablets and to exploit 'mobile' as a sales channel integrated with existing business systems.

Reflecting both prior and continuing investment in the Group's sales and marketing function, Sanderson achieved a significantly improved level of order intake during the period of £6.02 million compared with £4.94 million in the comparative prior year period. The Group experienced a surge in sales orders towards the end of the period and ten new customers contributed orders to the value of £2.08 million (2015: thirteen new customers generated orders to the value of £1.03 million).

Review of Digital Retail

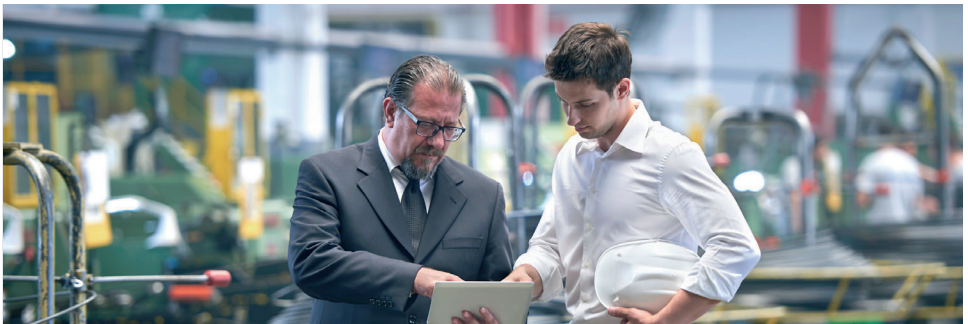
Sanderson provides comprehensive IT solutions to businesses operating in the ecommerce, mobile commerce and retail sectors of the UK. Mobile enablement and deployment continues to be a key business driver in this market sector with increasing levels of business activity.

Revenue increased to £2.95 million (2015: £2.80 million), whilst operating profits* of £0.33 million (2015: £0.49 million) reflect the planned further investment in management, sales and delivery capacity in anticipation of continued rapid growth within the digital retail

market. Demand from existing customers for the Group's latest release of its ecommerce solution continued to grow with sales orders gained from a number of customers including Hotel Chocolat and Scotts of Stow. The mobile solutions business had a busy first half, successfully completing phase two of a European roll-out for Superdry, delivered across eight countries and including major cities such as Munich, Paris, Brussels, Stockholm and Vienna. The 'connected retail' solution enables Superdry customers to order anywhere, on any device, using any payment method and have their order delivered wherever they choose.

The period end order book stood at £0.78 million (2015: £1.03 million) and with a number of good sales prospects, active pilot schemes and strengthening partnerships with existing customers, the Digital Retail business is well-positioned to take advantage of the growth in this market.

* Operating profit is stated before amortisation of acquisition-related intangibles, share-based payment charges and acquisition-related and restructuring costs.



The manufacturing business gained new customers at a significantly higher average order value

Review of Enterprise Division

The Enterprise division comprises two market-focused businesses which are based upon the manufacturing sector and the wholesale distribution and logistics sector. Divisional revenue and operating profit* increased to £6.92 million (2015: £6.29 million) and £1.15 million (2015: £0.89 million) respectively. The Enterprise division has built up a strong order book which, at period end, was valued at £2.42 million (2015: £1.81 million). The focus remains on delivering a significant proportion of these orders before the financial year-end on 30 September 2016.

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. Sanderson continues to invest in product development and in its sales and marketing capability. Traceability of products and ingredients through the food manufacturing and supply chain and the assurance of product compliance to the latest regulatory standards are strong features of the Group's solution; these are key requirements for businesses operating in the food and drink processing industry.

The manufacturing business gained five new customers during the period (2015: eight), including Thistle Seafoods Limited and Dunkleys, at an average order value significantly higher than in the comparative period. Revenue for the period was £3.25 million (2015: £3.14 million) and operating profit* was £0.51 million (2015: £0.37 million). Recurring revenue represents 58% of total divisional revenue and covers over three-quarters of divisional overheads.

The Group's activities in the wholesale distribution and logistics sectors have been augmented by the 2013 and 2014 acquisitions, which have expanded the application of Sanderson solutions from the wholesale distribution, cash and carry and fulfilment sectors into warehousing, logistics and supply chain. Five new customers were gained during the period, including Pedigree Wholesale Limited, Robinson's on the Isle of Man and J W Gray & Co in the Shetland Islands. This compares with three new customers in the comparative period of 2015. Large orders from existing customers included Tottenham Hotspur and Clipper Logistics plc. Revenue and operating profits* amounted to £3.66 million (2015: £3.15 million) and £0.63 million (2015: £0.52 million) respectively.

Outlook

The general economic environment has continued to improve and although sales cycles do remain protracted, the Group has achieved a very high level of business from new customers during the period. Whilst the Board continues to adopt a cautious approach, the very strong order book and healthy balance sheet, together with an extensive list of sales prospects, provide a good level of confidence that the Group will continue to make further progress and deliver trading results in line with market expectations for the current year ending 30 September 2016.

Ian Newcombe

Group Chief Executive
8 June 2016

* Operating profit is stated before amortisation of acquisition-related intangibles, share-based payment charges and acquisition-related and restructuring costs.

Consolidated income statement

for the six months to 31 March 2016

	Note	Unaudited six months to 31/03/16 £000	Unaudited six months to 31/03/15 £000	Audited year to 30/09/15 £000
Revenue	2	9,860	9,090	19,182
Cost of sales		(1,359)	(1,388)	(2,964)
Gross profit		8,501	7,702	16,218
Other operating expenses		(7,327)	(6,696)	(13,797)
Results from operating activities	2	1,174	1,006	2,421
Results from operating activities before adjustments in respect of the following:	2	1,474	1,374	3,303
Amortisation of acquisition-related intangibles		(258)	(236)	(483)
Acquisition-related and restructuring costs		–	(87)	(310)
Share-based payment charges		(42)	(45)	(89)
Results from operating activities	2	1,174	1,006	2,421
Net finance expense		(84)	(75)	(138)
Acquisition-related finance expense		(61)	(26)	(252)
Profit before taxation		1,029	905	2,031
Taxation		(91)	(71)	(164)
Profit for the period attributable to equity holders of the parent		938	834	1,867
Earnings per share				
From profit attributable to the owners of the parent undertaking during the period				
Basic earnings per share	3	1.7p	1.5p	3.4p
Diluted earnings per share	3	1.7p	1.5p	3.3p

Consolidated statement of comprehensive income

for the six months to 31 March 2016

	Unaudited six months to 31/03/16 £000	Unaudited six months to 31/03/15 £000	Audited year to 30/09/15 £000
Profit for the period	938	834	1,867
Other comprehensive income/(expense)			
<i>Items that will not subsequently be reclassified to profit or loss</i>			
Remeasurement of net defined benefit liability	–	–	(90)
Deferred taxation effect of defined benefit pension plan items	–	–	18
	–	–	(72)
<i>Items that will subsequently be reclassified to profit or loss</i>			
Change in the fair value of available for sale financial asset	2	(22)	(31)
Foreign exchange translation differences	(63)	(6)	(78)
Total comprehensive income for the period	877	806	1,686

Consolidated statement of financial position

at 31 March 2016

	Unaudited as at 31/03/16 £000	Unaudited as at 31/03/15 £000	Audited as at 30/09/15 £000
Non-current assets			
Intangible assets	30,502	30,573	30,627
Property, plant and equipment	528	359	469
Deferred tax asset	1,311	1,048	1,319
	32,341	31,980	32,415
Current assets			
Inventories	98	27	83
Trade and other receivables	5,534	5,157	5,472
Current tax	–	–	–
Other short-term financial assets	192	200	190
Cash and cash equivalents	3,386	3,954	4,607
	9,210	9,338	10,352
Current liabilities			
Trade and other payables	(3,871)	(3,431)	(3,909)
Deferred consideration	(201)	(860)	(1,594)
Current tax liabilities	(83)	(39)	–
Deferred income	(4,827)	(4,853)	(4,830)
	(8,982)	(9,183)	(10,333)
Net current assets	228	155	19
Total assets less current liabilities	32,569	32,135	32,434
Non-current liabilities			
Deferred tax liabilities	(936)	(747)	(936)
Deferred consideration	(160)	(606)	(244)
Pension and other employee obligations	(4,539)	(4,600)	(4,627)
	(5,635)	(5,953)	(5,807)
Net assets	26,934	26,182	26,627
Equity			
Called-up share capital	5,480	5,455	5,460
Share premium	9,048	9,015	9,023
Available for sale reserve	62	69	60
Foreign exchange reserve	(150)	(15)	(87)
Retained earnings	12,494	11,658	12,171
Total equity	26,934	26,182	26,627

Consolidated statement of changes in equity

for the six months to 31 March 2016

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 October 2015	5,460	9,023	(27)	12,171	26,627
Exercise of share options	20	25	–	–	45
Dividend paid	–	–	–	(657)	(657)
Share-based payment charge	–	–	–	42	42
Transactions with owners	20	25	–	(615)	(570)
Profit for the period	–	–	–	938	938
<i>Other comprehensive income:</i>					
Foreign exchange translation difference	–	–	(63)	–	(63)
Change in market value of short-term financial asset	–	–	2	–	2
Total comprehensive income/(expense)	–	–	(61)	938	877
At 31 March 2016	5,480	9,048	(88)	12,494	26,934

for the six months to 31 March 2015

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 October 2014	5,406	8,809	82	11,520	25,817
Exercise of share options	49	206	–	(150)	105
Dividend paid	–	–	–	(544)	(544)
Settlement of share options	–	–	–	(47)	(47)
Share-based payment charge	–	–	–	45	45
Transactions with owners	49	206	–	(696)	(441)
Profit for the period	–	–	–	834	834
<i>Other comprehensive income:</i>					
Foreign exchange translation difference	–	–	(6)	–	(6)
Change in market value of short-term financial asset	–	–	(22)	–	(22)
Total comprehensive income/(expense)	–	–	(28)	834	806
At 31 March 2015	5,455	9,015	54	11,658	26,182

Consolidated statement of changes in equity continued

for the year ended 30 September 2015

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 October 2014	5,406	8,809	82	11,520	25,817
Exercise of share options	54	214	–	(150)	118
Settlement of share options	–	–	–	(48)	(48)
Dividend paid	–	–	–	(1,035)	(1,035)
Share-based payment charge	–	–	–	89	89
Transactions with owners	54	214	–	(1,144)	(876)
Profit for the year	–	–	–	1,867	1,867
<i>Other comprehensive income:</i>					
Remeasurement of net defined benefit liability	–	–	–	(90)	(90)
Deferred tax on above	–	–	–	18	18
Foreign exchange translation differences	–	–	(78)	–	(78)
Change in fair value of available for sale financial asset	–	–	(31)	–	(31)
Total comprehensive income/(expense)	–	–	(109)	1,795	1,686
At 30 September 2015	5,460	9,023	(27)	12,171	26,627

Consolidated statement of cash flows

for the six months to 31 March 2016

	Note	Unaudited six months to 31/03/16 £000	Unaudited six months to 31/03/15 £000	Audited year to 30/09/15 £000
Profit for the period		938	834	1,867
<i>Adjustments for:</i>				
Depreciation and amortisation		596	490	1,138
Share-based payment charges		42	45	89
Net finance expense		145	101	390
Income tax expense		91	71	164
Operating cash flow from continuing operations before working capital movements		1,812	1,541	3,648
Movement in working capital		(179)	(792)	(771)
Cash generated by continuing operations		1,633	749	2,877
Income tax paid		–	–	(5)
Payments to defined benefit pension scheme		(180)	(300)	(450)
Net cash from operating activities		1,453	449	2,422
Investing activities				
Purchases of property, plant and equipment		(127)	(101)	(296)
Acquisition of subsidiary, net of cash acquired		–	(948)	(1,041)
Deferred consideration paid		(1,538)	(845)	(895)
Dividend received		–	–	12
Bank interest received		6	12	35
Expenditure on product development		(403)	(286)	(824)
Net cash used in investing activities		(2,062)	(2,168)	(3,009)
Financing activities				
Equity dividends paid	4	(657)	(544)	(1,035)
Issue of shares, net of costs		45	105	118
Settlement of share options		–	(47)	(48)
Net cash used in financing activities		(612)	(486)	(965)
Decrease in cash and cash equivalents		(1,221)	(2,205)	(1,552)
Cash and cash equivalents at start of the period		4,607	6,159	6,159
Cash and cash equivalents at end of the period		3,386	3,954	4,607

Notes to the interim results

1. Basis of preparation

The Group's interim results for the six month period ended 31 March 2016 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 2016. As permitted, this Interim Report has been prepared in accordance with the AIM rules and not in accordance with IAS 34 'Interim financial reporting'.

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 7 June 2016.

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 2015, which were prepared under IFRS, have been filed with the Registrar of Companies. These statutory accounts carried an unqualified auditor's report and did not contain a statement under either Section 498(2) or (3) of the Companies Act 2006.

2. Segmental reporting

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

	Enterprise			Digital Retail			Total		
	Six months	Six months	Year ended	Six months	Six months	Year ended	Six months	Six months	Year ended
	31/03/16	31/03/15	30/09/15	31/03/16	31/03/15	30/09/15	31/03/16	31/03/15	30/09/15
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Revenue	6,915	6,287	13,325	2,945	2,803	5,857	9,860	9,090	19,182
Operating profit before adjustments*	1,146	887	2,036	328	487	1,267	1,474	1,374	3,303
Amortisation	(125)	(103)	(217)	(133)	(133)	(266)	(258)	(236)	(483)
Share-based payment	(16)	(18)	(34)	(26)	(27)	(55)	(42)	(45)	(89)
Acquisition-related and restructuring costs	–	(87)	(284)	–	–	(26)	–	(87)	(310)
Operating profit	1,005	679	1,501	169	327	920	1,174	1,006	2,421
Net finance expense							(145)	(101)	(390)
Profit before tax; continuing operations							1,029	905	2,031

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

Notes to the interim results continued

3. Earnings per share

	Unaudited six months to 31/03/16 £000	Unaudited six months to 31/03/15 £000	Audited year to 30/09/15 £000
Earnings:			
Result for the period from continuing operations	938	834	1,867
Amortisation of acquisition-related intangibles	258	236	483
Share-based payment charges	42	45	89
Acquisition-related and restructuring costs	–	87	310
Adjusted profit for the period from continuing operations	1,238	1,202	2,749

	Unaudited six months to 31/03/16 No.	Unaudited six months to 31/03/15 No.	Audited year to 30/09/15 No.
Number of shares:			
In issue at the start of the year	54,600,550	54,063,808	54,063,808
Effect of shares issued in the period	81,658	152,155	347,143
Weighted average number of shares at period end	54,682,208	54,215,963	54,410,951
Effect of share options	1,626,719	1,465,785	1,446,115
Weighted average number of shares (diluted)	56,308,927	55,681,748	55,857,066

	Unaudited six months to 31/03/16 pence	Unaudited six months to 31/03/15 pence	Audited year to 30/09/15 pence
Earnings per share:			
Total attributable to equity holders of the parent undertaking:			
Basic	1.7	1.5	3.4
Diluted	1.7	1.5	3.3
Earnings per share, adjusted, from continuing operations:			
Basic	2.3	2.2	5.1
Diluted	2.2	2.2	4.9

4. Equity dividends paid

	Unaudited Six months to 31/03/16 £000	Unaudited Six months to 31/03/15 £000	Audited Year to 30/09/15 £000
Interim dividend	–	–	491
Final dividend	657	544	544
Total dividend paid in period	657	544	1,035

5. 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.

Group information

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Adrian Frost

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To find out more about our business please visit: www.sanderson.com

To go directly to our website,
scan the QR code above

www.sanderson.com