

IT solutions driving continual business improvement



About Sanderson

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Sanderson is a publicly owned, UK provider of software solutions and IT services. We supply innovative, market-focused solutions primarily to the **multi-channel retail** and **manufacturing** 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

- Revenues from continuing operations of £6.14m (2011: £7.04m)
- Operating profit from continuing operations of £0.80m (2011: £0.75m)
- Basic earnings per share of 3.40p (2011: 0.70p)
- Basic earnings per share from continuing operations of 0.40p (2011: 0.60p)
- Net cash at period-end of £3.56m (2011: net debt of £7.23m)
- Increased interim dividend declared of 0.50p per share (2011: 0.30p)

Operational

- Disposal of Sanderson RBS Limited in January realised cash proceeds of £11.75m
- Order book in respect of continuing operations at period-end increased to £1.95m (2011: £1.67m), with much of it scheduled for delivery in second half of current financial year
- Gross margins up 3% reflecting delivery of more proprietary software and other 'owned' services
- Recurring revenues in respect of continuing operations rose to £3.79m (2011: £3.61m)
- First order received for new mobile solution applications

Comparative figures have been restated to report the activities of Sanderson RBS Ltd as a discontinued activity. Further details are provided in the Chairman's statement and notes 2 and 4 to the interim results.

Chairman's statement



Christopher Winn

"Whilst UK economic conditions have been challenging, Sanderson has continued to make good progress in what has become a year of transition, following the disposal of Sanderson RBS Limited ('Sanderson RBS'). New products and services have strengthened the Group's competitive market position and a focus on active and expanding market sectors, such as online sales and ecommerce, has provided improved growth and development prospects. The Group continues to generate cash and following the disposal of Sanderson RBS in January for £11.75m cash, debt has been eliminated and the balance sheet greatly strengthened."

Introduction

In January 2012, the Group sold Sanderson RBS, which specialised in the provision of electronic point of sale systems for major high street retailers to Torex Retail Holdings Limited for a total cash consideration of £11.75m. The income statement for the six month period ending 31 March 2012 ('the period') reports the trading results of the Group's continuing operations. The three and a half months' trading contribution from Sanderson RBS Limited has been combined with the profit arising on disposal and reported separately in the income statement as 'profit on discontinued operation'. Comparative figures have been restated accordingly.

Whilst UK economic conditions have been challenging, Sanderson has continued to make good progress in what has become a year of transition, following the disposal of Sanderson RBS. New products and services have strengthened the Group's competitive market position and a focus on active and expanding market sectors, such as online sales and ecommerce, has provided improved growth and development prospects.

The trading results from continuing operations for the period show revenue of £6.14m

(2011: £7.04m), gross margin of 84.3% (2011: 81.4%) and operating profit rising to £0.80m (2011: £0.75m). The order book at 31 March 2012 was £1.95m (2011: £1.67m) and represents a 44% improvement during the period (30 September 2011: £1.35m). As has been the pattern in the previous two financial years, we expect the benefits of this larger order book to be reflected in the trading result for the second half year, during which most of the projects are scheduled for implementation and delivery to customers.

The Group has continued to generate cash and following the January business disposal, all bank debt was repaid together with the settlement of the associated interest rate hedging arrangements relating to the bank loan. The net cash balance of £3.56m at 31 March 2012, compares with bank debt of £7.23m at 31 March 2011 and with a peak of £12.5m at 31 March 2008.

Business review

Sanderson provides a wide and comprehensive range of modern software solutions together with associated services to businesses in the manufacturing and multi-channel retail markets. The Group has developed a business model where solutions now primarily comprise

Sanderson proprietary owned software, integrated with other market-leading products and importantly, delivered, supported and serviced by expert Sanderson staff. This model has enabled the Group to deliver a reliable and consistent quality service and has ensured the development of long-term relationships with customers. Overall sales were £6.14m (2011: £7.04m) and partially reflecting the emphasis onto the higher margin 'owned' software and services, gross margins improved to 84.3% (2011: 81.4%).

Sanderson continues to focus on supplying new and existing customers with value for money solutions, which often provide the opportunity for customers to achieve cost savings and business efficiencies. Since 2010, the Group has accelerated the introduction of new products and services, which now include Factory and Warehouse Automation, Green IT solutions, as well as, SaaS ('Software as a Service') and Cloud delivery models. The Factory and Warehouse Automation solutions have been very successful, delivering in excess of £2m of new sales since their launch in 2010.

The Group is excited by the growth opportunities presented by the development of mobile applications ('apps'). The explosive growth and adoption by businesses of smartphones and tablet devices is generating substantial demand for access to the Group's solutions via 'always-on' mobile devices. We have recently launched an 'app' enabling the Group's wholesale and cash and carry customers to access real-time information, greatly assisting their ability to improve customer service and to increase sales. Current developments include furniture manufacturers with retail outlets being able to process real-time customised orders on iPads and an 'app' to enable food manufacturers to more cost-effectively comply with food hygiene and safety legislation.

The rapid growth of online, ecommerce and catalogue retail channels is continuing with annual growth rates in excess of 10% in what continues to be a tough retail environment. This growth is expected to continue into the mid-term and will be fuelled by the development and expansion of m-commerce (ecommerce with



Chairman's statement *continued*

mobile devices). The optimisation of ecommerce sites offers the Group a further development opportunity in this expanding market.

A cornerstone of the Sanderson business model is the provision of software licencing, support and services on a pre-contracted basis providing good visibility of earnings. In the period to 31 March 2012, these pre-contracted recurring revenues represented 62% (£3.79m) of total revenues.

The Group gained nine new customers in the period (2011: seven new customers) at an average initial contract value of £76k (2011: £102k).

Review of manufacturing

Businesses in the food and drink, engineering, plastics, aerospace, electronics and print manufacturing sectors represent the main areas of specialisation for Sanderson in manufacturing markets. Whilst order intake in general manufacturing and engineering was lower in the period than for the comparative period of 2011, order intake from the food and drink sector showed a 10% increase. Divisional recurring revenues represent 62% of total revenues and

cover over 80% of the divisional overheads. Revenue was £2.95m (2011: £3.01m) and operating profit was £293k (2011: £349k). Three new customers were gained in the period (2011: two new customers), including Tyzack Machine Knives and Bayview Seafoods. The order book of £784k (2011: £825k) is strong and an improved trading result is anticipated for the second half year.

Review of multi-channel retail

Sanderson provides comprehensive IT solutions to businesses operating in the areas of online sales, ecommerce, catalogue sales, wholesale distribution, cash and carry and retail stores. Whilst revenue was lower at £3.20m (2011: £4.03m) reflecting the transition to more 'owned' products and services, the operating profit was much improved at £508k (2011: £403k) reflecting improved gross margins. The Group's wholesale distribution business continued to perform well, but the highlight during the first half year has been the performance of the Sanderson online sales, ecommerce and catalogue business, winning four new customers, including Toni & Guy and Barrington Sports, and increasing sales order intake by over 25% compared with the comparative period of 2011.



The period end order book was strong at £1.27m (2011: £836k) and more than double the order book value of £562k at 30 September 2011.

Strategy

The Group strategy is to build upon and develop our position as a provider of modern software solutions which continue to provide customers with competitive advantage and cost efficiencies. This will enable Sanderson to achieve growth, build value and to improve shareholder returns. Whilst Sanderson will continue to invest across its businesses, particular emphasis and focus will be made in further developing the range and scope of solutions for online sales and ecommerce businesses as well as the development of mobile solutions across all of the Group's target markets. Selective acquisition opportunities will also be made to augment organic growth.

Balance sheet

As a result of the disposal of Sanderson RBS, the Group has a significantly strengthened balance sheet, which the Board feels is important in the current economic climate. Bank debt has been repaid in full and the Group's derivative financial instrument, accompanying the bank loan, has also been settled resulting in a net cash balance of £3.56m being reported at 31 March 2012. Notwithstanding the Group's strategy and the need to invest cash resources to achieve the Group's objectives, Sanderson will endeavour to accrue cash from ongoing trading operations to ensure the continued strength of the balance sheet.

Dividend

The Board is committed to improve dividend levels and is pleased to declare an increased interim dividend of 0.50 pence per share (2011: 0.30 pence), to be paid on 17 August 2012, to shareholders on the register at the close of business at 20 July 2012. It is the Board's intention to propose a 0.70 pence (2011: 0.45 pence) final dividend, making a total payment for the financial year of 1.20 pence (2011: 0.75 pence).

Management and staff

The Group employs approximately 150 staff, most of whom have a high level of experience and expertise in the specialist markets which the Group addresses. I would like to thank everyone for their support, hard work, dedication and contribution to the development of the business over the period of recovery and business transition since 2009.

Outlook

Notwithstanding the uncertain economic outlook and continuing challenging market conditions, the Sanderson Board, which still adopts a cautious approach, has a good level of confidence that going into the second half of the financial year the strengthened balance sheet and improved market position of the Group, together with the large order book, will enable the Group to achieve its full year targets.

Christopher Winn

Chairman
15 May 2012

Consolidated income statement

for the six months to 31 March 2012

	Note	Unaudited Six months to 31/03/12 £000	Unaudited Six months to 31/03/11 £000	Audited Year to 30/09/11 £000
Revenue – continuing operations	2	6,143	7,043	14,059
Cost of sales		(964)	(1,312)	(2,493)
Gross profit – continuing operations		5,179	5,731	11,566
Other operating expenses		(4,378)	(4,979)	(9,855)
Results from continuing operating activities	2	801	752	1,711
Movement in fair value of derivative financial instrument		16	190	55
Net finance costs		(177)	(577)	(1,014)
Exceptional finance expense	3	(227)	—	(379)
Profit before tax – continuing operations		413	365	373
Tax		(247)	(86)	115
Profit on discontinued operation, net of tax	4	1,312	40	316
Profit for the period		1,478	319	804
Earnings per share				
From profit attributable to the owners of the parent undertaking during the period				
Basic	5	3.4p	0.7p	1.9p
Diluted	5	3.1p	0.7p	1.7p
From continuing operations				
Basic	5	0.4p	0.6p	1.1p
Diluted	5	0.3p	0.6p	1.0p

Following the disposal of Sanderson RBS Limited in January 2012 (note 4), the Consolidated income statement has been restated to separately identify the Group's continuing and discontinued operations.

Consolidated statement of comprehensive income

for the six months to 31 March 2012

	Unaudited Six months to 31/03/12 £000	Unaudited Six months to 31/03/11 £000	Audited Year to 30/09/11 £000
Profit for the period	1,478	319	804
Other comprehensive income/(expense)			
Actuarial result on defined benefit pension scheme	—	—	(429)
Income tax relating to components of other comprehensive income	—	—	116
Other comprehensive expense, net of tax	—	—	(313)
Total comprehensive income for the period	1,478	319	491

Consolidated statement of financial position

at 31 March 2012

	Unaudited As at 31/03/12 £000	Unaudited As at 31/03/11 £000	Audited As at 30/09/11 £000
Non-current assets			
Intangible assets	22,123	32,372	32,066
Property, plant & equipment	230	614	746
Deferred tax asset	1,357	1,455	1,614
	23,710	34,441	34,426
Current assets			
Inventories	21	325	162
Trade and other receivables	3,657	7,088	7,124
Cash and cash equivalents	3,559	141	619
	7,237	7,554	7,905
Current liabilities			
Bank overdraft and loans	—	(1,644)	(975)
Trade and other payables	(2,559)	(4,774)	(4,922)
Current tax liabilities	(24)	(5)	(53)
Derivative financial instrument	—	(295)	(430)
Deferred income	(4,217)	(6,912)	(6,683)
	(6,800)	(13,630)	(13,063)
Net current assets/(liabilities)	437	(6,076)	(5,158)
Non-current liabilities			
Deferred tax liabilities	(35)	(567)	(439)
Pension and other employee obligations	(3,872)	(3,662)	(3,994)
Provisions	(460)	—	—
Loans and borrowings	—	(5,726)	(6,360)
	(4,367)	(9,955)	(10,793)
Net assets	19,780	18,410	18,475
Equity			
Called-up share capital	4,352	4,338	4,338
Share premium	4,205	4,178	4,178
Retained earnings	11,223	9,894	9,959
Total equity	19,780	18,410	18,475

Consolidated statement of changes in equity

for the six months to 31 March 2012

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 October 2011	4,338	4,178	9,959	18,475
Shares issued	14	27	(41)	—
Dividend paid	—	—	(196)	(196)
Share-based payment charge	—	—	23	23
Transactions with owners	14	27	(214)	(173)
Profit for the period	—	—	1,478	1,478
At 31 March 2012	4,352	4,205	11,223	19,780

for the six months to 31 March 2011

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 October 2010	4,338	4,178	9,703	18,219
Dividend paid	—	—	(152)	(152)
Share-based payment charge	—	—	24	24
Transactions with owners	—	—	(128)	(128)
Profit for the period	—	—	319	319
Balance at 31 March 2011	4,338	4,178	9,894	18,410

for the year ended 30 September 2011

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 October 2010	4,338	4,178	9,703	18,219
Dividend paid	—	—	(282)	(282)
Share-based payment charge	—	—	47	47
Transactions with owners	—	—	(235)	(235)
Profit for the year	—	—	804	804
<i>Other comprehensive income:</i>				
Actuarial result on employee benefits	—	—	(429)	(429)
Deferred tax on above	—	—	116	116
Total comprehensive expense	—	—	491	491
At 30 September 2011	4,338	4,178	9,959	18,475

Consolidated statement of cash flows

for the six months to 31 March 2012

	Unaudited Six months to 31/03/12 £000	Unaudited Six months to 31/03/11 £000	Audited Year to 30/09/11 £000
Note			
Cash flows from continuing operating activities			
Profit for the period	1,478	319	804
<i>Adjustments for:</i>			
Depreciation and amortisation	75	141	252
Share-based payment charges	13	12	23
Post tax profit on discontinued operations	(1,312)	(40)	(316)
Net finance expense	388	387	1,338
Income tax expense	247	86	(115)
Operating cash flow from continuing operations before working capital movements	889	905	1,986
Movement in working capital	(161)	330	258
Cash generated by continuing operations	728	1,235	2,244
Payments to defined benefit pension scheme	(172)	(168)	(305)
Discontinued operation – operating cash flows	(301)	489	1,116
Interest paid	(703)	(368)	(591)
Income taxes received	377	84	466
Net cash from operating activities	(71)	1,272	2,930
Investing activities			
Purchases of property, plant & equipment	(19)	(62)	(93)
Disposal of discontinued operation, net of cash disposed of	4	10,856	–
Discontinued operation – investing cash flows	(140)	(237)	(530)
Expenditure on product development	(90)	(60)	(193)
Net cash received from/(used in) investing activities	10,607	(359)	(816)
Financing activities			
Equity dividends paid	6	(196)	(282)
Inception of new bank borrowing	–	–	7,400
Repayment of bank borrowing	(7,400)	(864)	(8,577)
Fees paid in respect of change of banker	–	–	(275)
Repayment of finance lease principal	–	(4)	(9)
Net cash used in financing activities	(7,596)	(1,020)	(1,743)
Increase in cash and cash equivalents	2,940	(107)	371
Cash and cash equivalents at start of the period	619	248	248
Cash and cash equivalents at end of the period	3,559	141	619

Following the disposal of Sanderson RBS Limited in January 2012 (note 4), the Consolidated statement of cash flows has been restated to separately identify the Group's continuing and discontinued operations.

Notes to the interim results

1. Basis of preparation

The Group's interim results for the six month period ended 31 March 2012 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 2012. 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 14 May 2012.

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 2011, which were prepared under IFRS, have been filed with the Registrar of Companies. These statutory accounts carried an unqualified Auditors' Report and did not contain a statement under either Section 498(2) or (3) of the Companies Act 2006.

2. Segmental reporting

The Group is managed as two separate divisions, manufacturing and multi-channel retail. Substantially all revenue is generated within the UK.

	Manufacturing			Multi-channel retail			Total		
		Six months	Year ended		Six months	Year ended		Six months	Year ended
	Six months	31/03/11	30/09/11	Six months	31/03/11	30/09/11	Six months	31/03/11	30/09/11
	31/03/12	Restated	Restated	31/03/12	Restated	Restated	31/03/12	Restated	Restated
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Revenue	2,947	3,014	6,145	3,196	4,029	7,914	6,143	7,043	14,059
Operating profit	293	349	807	508	403	904	801	752	1,711
Net finance expense							(388)	(387)	(1,338)
Profit before tax; continuing operations							413	365	373

Revenue, operating profit and profit before tax shown above have been restated to report continuing operations only. The Group disposed of its subsidiary undertaking Sanderson RBS Limited on 20 January 2012 (see note 4). Allocation of centrally incurred costs has been restated to reflect current allocations to continuing operations. The discontinued operation contributed revenue in the period of £3.53m (half year to 31 March 2011: £6.10m, full year to 30 September 2011: £12.36m). The operating result of the discontinued operation for the period, stated after amortisation of acquisition related intangibles and shared-based payment charges, was a loss of £0.4m (half year to 31 March 2011: profit of £0.1m, full year to 30 September 2011: profit of £0.4m).

Notes to the interim results *continued*

3. Exceptional finance costs

Term debt advanced by the Group's banker, HSBC Bank plc, was repaid in full ahead of schedule in January 2012 following the disposal of subsidiary undertaking Sanderson RBS Limited (see note 4). An early repayment fee, together with unamortised arrangement fees relating to the loan, has been treated as exceptional finance costs in the period.

4. Discontinued operation

The Group disposed of its subsidiary undertaking Sanderson RBS Limited on 20 January 2012.

	Unaudited Six months to 31/03/12 £000	Unaudited Six months to 31/03/11 £000	Audited Year to 30/09/11 £000
Consideration and net cash inflow			
Cash received on completion	11,500	—	—
Cash balance of discontinued operation	(452)	—	—
Costs relating to disposal	(192)	—	—
Net cash inflow at period end	10,856	—	—
Deferred consideration	250	—	—
	11,106	—	—
Net assets disposed of (other than cash)			
Property, plant and equipment	584	—	—
Intangible assets	9,735	—	—
Inventories	124	—	—
Current and deferred tax	165	—	—
Trade and other receivables	3,147	—	—
Trade and other payables	(4,472)	—	—
	9,283	—	—
Pre-tax gain on disposal of discontinued operation	1,823	—	—
Related tax expense	—	—	—
Post-tax gain on disposal	1,823	—	—

4. Discontinued operation continued

The post-tax profit on discontinued operations was determined as follows:

	Unaudited Six months to 31/03/12 £000	Unaudited Six months to 31/03/11 £000	Audited Year to 30/09/11 £000
Revenue	3,527	6,097	12,364
Expenses other than finance costs and share-based payment charge	(3,942)	(6,055)	(11,962)
Share-based payment charge	(10)	(12)	(24)
Exceptional costs arising on disposal	(645)	—	—
Tax credit/(expense)	559	10	(62)
Gain on disposal of discontinued operation, after tax	1,823	—	—
	1,312	40	316

Notes to the interim results *continued*

5. Earnings per share

	Six months to 31/03/12 £000	Six months to 31/03/11 Restated £000	Year to 30/09/11 Restated £000
Earnings from continuing operations			
Profit for the period	166	279	488
Earnings from discontinued operations			
Profit for the period	1,312	40	316
Average number of shares during period	No. 000	No. 000	No. 000
In issue at the start of the period	43,384	43,384	43,384
Effect of shares issued during the period	118	—	—
Effect of share options	4,768	3,842	3,918
Weighted average number of shares (diluted) at period end	48,270	47,226	47,302
Earnings per share	pence	pence	pence
Continuing operations: – basic	0.4	0.6	1.1
– diluted	0.3	0.6	1.0
Discontinued operations: – basic	3.0	0.1	0.8
– diluted	2.8	0.1	0.7
Total attributable to owners of parent undertaking:			
– basic	3.4	0.7	1.9
– diluted	3.1	0.7	1.7

6. Equity dividends paid

	Six months to 31/03/12 £000	Six months to 31/03/11 £000	Year to 30/09/11 £000
Interim dividend	—	—	130
Final dividend	196	152	152
Total dividend paid in period	196	152	282

7. Interim report

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

Group information

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Adrian Frost

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