22 May 2023

Full year results for the year ended 31 March 2023

Kainos Group plc 'Kainos' or the 'Group'

Kainos Group plc (KNOS), a UK-headquartered IT provider with expertise across three divisions - Digital Services, Workday Services, and Workday Products, is pleased to announce its results for the year ended 31 March 2023.

Financial highlights

	2023	2022	Change
Revenue	£374.8m	£302.6m	+24%
Statutory profit before tax	£54.3m	£46.0m	+18%
Adjusted pre-tax profit	£67.6m	£58.8m	+15%
Cash	£108.3m	£76.6m	+41%
Bookings	£427.8m	£349.8m	+22%
Product Annual Recurring Revenue (ARR)	£47.9m	£34.3m	+40%
Contracted backlog	£322.9m	£259.7m	+24%
Diluted earnings per share	33.1p	28.5p	+16%
Adjusted diluted earnings per share	42.5p	38.1p	+12%
Total dividend per share	23.9p	22.2p	+8%

Operational highlights

We have recorded our 13th consecutive year of growth across a wide range of key metrics. Our very strong business performance reflects robust underlying market demand, high levels of customer engagement and the ongoing commitment of our colleagues.

- Revenue growth of 24% (22% organic) to £374.8 million (2022: £302.6 million).
- Adjusted pre-tax profit increased by 15% to £67.6 million (2022: £58.8 million) reflecting strong underlying performance and increased investment in Workday Products, where product development and sales & marketing expenditure increased by £9.3 million.
- Workday Products revenues ARR increased by 40% to £47.9 million (2022: £34.3 million) representing significant progress towards our 2026 target of £100 million ARR.
- Bookings up 22% to £427.8 million (2022: £349.8 million).
- Contracted backlog growth of 24% to £322.9 million (2022: £259.7 million).
- Cash at 31 March 2023 was £108.3 million (2022: £76.6 million), with cash conversion at 104% (2022: 83%).

We continue to grow as a global business with over one-third of revenues generated internationally.

- Very strong international growth, up 52% to £132.0 million (2022: £87.0 million), and now representing 35% of total revenue.

Commercial sector customers now generate half our revenues.

- Commercial revenues are up 51% to £186.4 million (2022: £123.8 million), representing 50% of total revenue.
- Public sector revenues up 24% to £138.0 million (2022: £111.0 million) or 37% of revenue.

- Healthcare revenues, as anticipated, have reduced by 26% to £50.4 million (2022: £67.9 million), which is 13% of total revenue.

We continue to grow a global, talented and engaged team.

- We now have 2,990 people (2022: 2,692) based across 22 countries.
- Our employee retention has increased to 88% (2022: 86%), and engagement levels remain high, measuring 81% on our internal surveys, and we were again awarded '50 Best Places To Work in the UK' by Glassdoor.

Excellent customer service drives customer satisfaction and retention, underpinning revenue growth.

- Customer approval rating [(1)] remains high at 99% (2022: 98%).
- Existing customer revenue increased by 26% to £337.6 million (2022: £267.7 million), which represents a Net Revenue Retention of 126%.
- Customer numbers increased to 821 (2022: 731), an increase of 12%.

We continue with our ambition to be a responsible organisation.

- We retained our carbon neutral status in 2023 and remain on track to achieve carbon net zero by 2025.
- Our gender balance improved, with the proportion of women in Kainos increasing to 34% (2022: 33%), well above the industry average of 22%[(2)] and we remain committed to further improvement.
- We hosted over 1,800 young people on our outreach programmes, including targeted programmes aimed at improving gender diversity, supporting social mobility and for those students with special educational needs.

In Digital Services, we continue to deliver significant digital transformation programmes across the public sector, commercial sector and healthcare.

- This extensive project portfolio has driven strong revenue growth of 12%, with Digital Services revenues increasing to £224.4 million (2022: £199.8 million).
- Customer demand remains strong as digital transformation continues to be a business and political priority.

We continue to be the leading pan-European Workday specialist and during the year we were appointed Workday Phase 1 Prime partner in the US market.

- Workday Services recorded very strong revenue growth of 49% (41% organic) to £105.7 million (2022: £70.9 million).
- Our international expansion continues with North America now representing over half of Workday Services revenues at £55.9 million (2022: £30.4 million) an increase of 84%.

Our Workday-related products, Smart Test, Smart Audit and Smart Shield delivered very strong growth, and we remain on track to achieve our target of £100 million ARR by 2026.

- Workday Products revenues grew 40% to £44.7 million (2022: £31.9 million) and ARR increased by 40% to £47.9 million (2022: £34.3 million).
- We continued to invest in our Workday Products, increasing research & development expenditure by 52%, to £9.1 million (2022: £6.0 million) and sales & marketing spend increased 135% to £10.8 million (2022: £4.6 million).

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(1) Data from all completed customer surveys in the year. There are five possible designations: 'Poor', 'Satisfactory', 'Good', 'Very Good' or 'Excellent'; the rating reflects the percentage of customers that rate our performance 'Good' or better.

(2) BCS diversity report 2022: Women in IT.

Commenting on the results, CEO Brendan Mooney said:

"Our latest results, the eighth as a public company, outline another excellent performance as we once again achieved strong growth in terms of people, customers, revenue and profitability.

Our performance as a business is influenced by many factors, but it is our relationships with our customers and the talents of our colleagues that are the key drivers. The strength and depth of both have continued to grow this year and we are grateful for the trust and confidence that our customers continue to place in Kainos and the expertise, experience, and energy of our colleagues, who have been the driving force behind all that we have achieved.

These results describe our performance over the past twelve months. While we draw a sense of satisfaction from the consistency of our performance, representing the thirteenth consecutive year of growth, our attention is firmly fixed on the future.

The digital transformation market continues to grow in importance for organisations operating in government, in healthcare and in the commercial sector.

This importance is translating into continued demand for the work we do for our customers. Despite the economic uncertainty, there is an urgency for our customers about extending existing projects and starting new projects, as they change the ways they deliver essential services to citizens, patients, customers and employees.

In addition to responding to the needs of our customers we have also been focused on building solid foundations for our business – across the services we offer, the sectors within which we operate and in the regions where we are based.

As a result, our business is becoming increasingly resilient. We work with over 800 organisations, many of whom are international in scale and who operate across a range of industries including healthcare, public sector, banking, insurance, pharmaceuticals and education. From our UK base we have expanded globally, with over one-third of our revenues now generated internationally.

It is all these factors combined - our customers, our people, our consistent performance, the opportunity and the scale and resilience of our business – that underpin the confidence that we have about the future.

Alongside our confidence, we also have a sense of excitement – technology continues to develop at pace and the positive impact it can have on people's lives increases. It is energising to be at the forefront of these developments."

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About Kainos Group plc

Kainos Group plc is a UK-headquartered IT provider with expertise across three divisions: Digital Services, Workday Services, and Workday Products.

- Digital Services develops and supports custom digital service platforms for public sector, commercial, and healthcare customers. Our solutions transform the delivery of these services, ensuring they are secure, accessible, and cost-effective, and provide better outcomes for users.

- Workday Services specialises in the deployment of Workday, Inc.'s Finance, HR and Planning products to leading organisations across Europe and North America. We are one of Workday's most respected partners, experienced in complex deployment and trusted by our customers to launch, test, expand, and support their Workday systems.

- Workday Products develops products that complement Workday. Our Smart product suite, including Smart Test (for automated testing), Smart Audit (for compliance monitoring), and Smart Shield (for data masking), are used by more than 350 customers globally to safeguard their Workday systems.

Our people are central to our success. We employ more than 2,900 people in 22 countries across Europe and the Americas.

We are listed on the London Stock Exchange (LSE: KNOS) and you can discover more about us at **www.kainos.com**.

Definition of terms

We use the following definitions for our key metrics:

Active customer: a customer who has paid us to deliver a product or service within the current financial year.

Adjusted EBITDA: calculated as being adjusted pre-tax profit excluding interest, tax, depreciation of property, plant and equipment and right-of-use assets, and amortisation of intangible assets.

Adjusted pre-tax profit: profit before tax excluding the effect of share-based payment expense, acquisition-related expenses including amortisation of acquired intangible assets and post-combination remuneration expense (relating to contingent deferred consideration subject to future service conditions).

Annual Recurring Revenue (ARR): the value at the end of the accounting period of the software and subscription recurring revenue annualised.

Bookings: the total value of sales contracted during the period.

Carbon net zero: any CO_2, released into the atmosphere from a company's entire value chain is reduced as much as possible and the rest is removed.

Carbon neutral: any CO_2 released into the atmosphere from a company's entire value chain activities is balanced by an equivalent amount being removed.

Cash conversion: cash generated from operating activities as a percentage of adjusted EBITDA.

Constant currency (ccy): Excludes the effect of foreign currency exchange rate fluctuations on year-on-year performance by translating the relevant prior year figure at current year average exchange rates.

Contracted backlog: the value of contracted revenue that has yet to be recognised.

Compound annual growth rate (CAGR): annual growth rate over a specified period of time.

Net revenue retention (NRR): is the percentage of recurring revenue from existing customers we retained over the year. This considers increases or reductions in customer spending and those customers where the engagement has ended; it does not include revenue from new customers. NRR therefore shows how our business could continue to grow solely from our current customer base alone, without acquiring any new ones.

Organic revenue: our revenue excluding revenue from acquisitions completed in the current and comparative reporting periods.

Software as a service (SaaS): is a software distribution model that delivers application programs over the Internet, with users typically accessing the program through a web browser. Users pay an ongoing subscription to use the software rather than purchasing it once and installing it.

Science Based Targets initiative (SBTi) – partnership between Carbon Disclosure Project (CDP), the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF) created to encourage companies to design clearly defined emission reduction plans in line with the Paris Agreement goals.

Kainos at a glance

We are a UK-headquartered IT provider, operating through three specialist business areas: Digital Services, Workday Services and Workday Products.

Purpose

Our purpose is to help our customers with their most challenging projects and, together with our partners, help them build the capability to succeed in the digital age.

Our operating divisions

Digital Services

FY23 revenue: £224.4 million, 60% of Group total, 5-year growth: 18% CAGR.

Our Digital Services division helps our customers to solve their business problems by using technology, enabling them and their users to work smarter, faster and better.

Working collaboratively with customers around the world, our innovative and transformative solutions are secure, accessible, cost-effective, and take a user-first approach. We leverage the benefits of the public cloud and enable customers to utilise their data to drive better decision-making.

In the public sector, we have delivered projects helping more than 60 million citizens, while saving our customers hundreds of millions of pounds.

In the commercial sector, customers trust us to provide digital transformation programmes that evolve their services, deliver efficiencies, increase their capabilities and future-proof their businesses.

In healthcare, we help providers deliver a service that is faster, more cost-effective and patient-centric.

We deliver services to over 160 clients, including Allied Irish Bank, NHS Digital, and the Department for Environment Food and Rural Affairs, and new clients including the London Mayor's Office for Policing and Crime and the NHS Business Services Authority.

Workday Services

FY23 revenue: £105.7 million, 28% of Group total, 5-year growth: 47% CAGR.

In our Workday Services business we provide consulting, project management, integration and post-deployment services for Workday's software suite. We work with clients globally and have an outstanding relationship with Workday, Inc.

With over 300 international clients, we are proud to work with customers such as Kion Group (Germany), Shopify (Canada), Novozymes (Denmark), Kone (Finland), ASOS plc (UK), Takeaway.com (Netherlands) and Match.com (USA).

Workday Products

FY23 revenue: £44.7 million, 12% of Group total, 5-year growth: 41% CAGR.

We have developed three proprietary software tools, Smart Test, Smart Audit and Smart Shield.

Smart Test allows Workday customers to automatically test and verify that their unique Workday configuration is operating effectively, both during implementation and in live operation. Smart Test is the leading automated testing platform specifically designed for Workday.

Smart Audit is our compliance monitoring tool that allows Workday customers to maintain operational controls over their Workday HCM and Financials environments, particularly in the areas of Segregation of Duties, Privileged Access Controls and Personal and Sensitive employee data protection.

Smart Shield is a data masking tool that can easily and seamlessly mask sensitive data without impacting the Workday user experience. It ensures that sensitive data remains controlled when Workday environments are made available to broader internal or external teams, for instance, during support and maintenance activities, or for ongoing internal Workday training and onboarding programmes.

These tools are implemented as cloud-based Software as a Service (SaaS) solutions and customers utilise them on a subscription basis.

Smart Test was launched in 2014 and is now used by over 350 clients, including Webhelp (France), AT&T (USA), State of Oregon (USA), Veolia ES (UK), Werner Enterprises (USA), University of Miami (USA) and Sentara Healthcare (USA).

Smart Audit was launched in 2021 and is now used by over 70 clients, including Booking.com (Netherlands), Metropolitan Museum of Art (USA), Magna International (Canada) and Whole Foods (USA).

Smart Shield was launched in 2022 and is now used by over 40 clients including Ohio State University (USA), Loews Corporation (USA), John Lewis (UK) and Netflix (USA).

FY23 key statistics

People

- Number of staff and contractors: 2,990 (2022: 2,692).
- Employee retention: 88% (2022: 86%).
- People by region: UK & Ireland (71%), Central Europe (16%), Americas (13%).
- Offices: (14) Antwerp, Atlanta, Belfast, Birmingham, Buenos Aires, Copenhagen, Derry, Dublin, Gdansk, Hamburg, Indianapolis, London, Paris, and Toronto.

Customers

- Active customers: 821 (2022: 731).
- Customers who rated our service as good or better: 99% (2022: 98%).
- Revenue from existing customers: 90% (2022: 88%).

Financial

- Revenue: £374.8 million (2022: £302.6 million).
- Adjusted pre-tax profit: £67.6 million (2022: £58.8 million).
- Bookings: £427.8 million (2022: £349.8 million).
- Contracted sales backlog: £322.9 million (2022: £259.7 million).
- Revenue by sector:
  - Commercial sector: 50% (2022: 41%),
  - Public sector: 37% (2022: 37%), and
  - Healthcare: 13% (2022: 22%).
- Revenue by region:
  - UK & Ireland; 65% (2022: 71%),
  - North America: 25% (2022: 19%),
  - Central Europe: 9% (2022: 9%), and
  - Rest of World: 1% (2022: 1%).

Chief Executive Officer's statement

Consistency in a turbulent environment

This is our eighth annual report as a public company. On review of our previous seven reports, it is obvious that we have recycled many of the adjectives that we have used to describe our business performance – with 'consistency' amongst the most reused terms.

Those same seven reports also describe an economic environment that has been subject to significant volatility. From localised events such as Brexit to global impacts from the pandemic, organisations have needed to respond urgently to rapidly changing circumstances.

That theme of turbulence is repeated in this report. The ebb of the pandemic has been followed by war in Ukraine, the energy crisis, inflation, interest rate rises, recession fears and, more recently, concerns about the global banking sector.

Despite the volatility seen throughout the year, our execution has remained consistent, and we have again recorded strong growth and robust financial performance, alongside pleasing customer satisfaction and employee engagement levels.

An excellent business performance

The digital transformation market has been growing quickly for over a decade, initially with a focus on the replacement of ageing and inefficient legacy systems. This driver has been augmented by organisations striving for greater agility, to allow them to react quickly to changes, whether accelerating new opportunities or, more typically, responding to challenges. As a result, our customers continue to prioritise their critical digital programmes and we continue to help them deliver these ambitious projects.

This strong demand has resulted in our revenues growing to £374.8 million, a 24% increase, and our adjusted pre-tax profit growing 15% to £67.6 million. Our moderated profit growth is mainly because of increased investment in our Workday Products, both in research and development and in sales and marketing, an increase of £9.3 million, all of which was expensed in the year.

We continued to add to the talents of our global team, as numbers increased by 11% to 2,990 colleagues. Despite the high demand for digital talent and the global shortage of the same people, our retention increased to 88%, with further improvements in recent weeks as people became increasingly cautious about changing jobs. Our teams are now based in 22 countries.

Our Digital Services division recorded revenue growth of 12% to £224.4 million. We continued to deliver significant programmes in partnership with the UK Government and with leading healthcare and commercial clients. As always, our growth is a result of demand from existing clients, such as Allied Irish Bank, NHS Digital, and the Department for Environment Food and Rural Affairs, and new clients including the Mayor's Office for Policing and the NHS Business Services Authority.

We are keen to open new opportunities for Digital Services and our investments continue to make progress. Our international engagements in Central Europe and Canada have continued to grow, with our revenues now £9.6 million, from £5.5 million a year ago. Collectively, our Cloud, Data and AI and Intelligent Automation practices now generate £41.9 million, representing an increase of 47% in the past year.

Our Workday Services team continues to help forward-thinking organisations such as Kone, Kion Group and Takeaway.com deploy Workday's innovative Software as a Service (SaaS) platform to support their people and finance requirements. We remain the leading

European partner within the Workday ecosystem and in July we were appointed Workday Phase 1 Prime Status Partner for the US market, accelerating our access to the single largest global market for Workday consulting services.

Over the course of the year our Workday Product revenues grew 40% to £44.7 million. Our products, Smart Test (automated testing), Smart Audit (compliance monitoring) and Smart Shield (data masking) are used by organisations like Netflix, Salesforce and match.com. We believe that there is an opportunity to grow our Workday Product revenues to £100 million by 2026 and as a result we invested further in product development (increased by £3.1 million to £9.1 million) and in our sales & marketing capacity during the year (increased by £6.2 million to £10.8 million).

Being a responsible business

We have maintained our focus on positive climate action. We have been carbon-neutral for the past two years and remain firmly on track to achieve carbon net zero by 2025. Our climate targets have now been certified by SBTi, with our actual Scope 1, 2 and 3 emissions significantly below the corresponding SBTi target. We are increasingly able to record the carbon and cost savings that our solutions deliver to our customers, for instance the United Nations International Organisation for Migration where the carbon saving of 594 tonnes per year, represented a 92% reduction in emission of IOM's IT estate.

Gender diversity remains a challenge within the wider technology sector, where just 22% of roles are undertaken by women. During the year, the proportion of women in Kainos increased from 33% to 34% reflecting focused recruitment campaigns and we recognise that a sustained effort is required to make further improvements.

We seek to inspire the next generation of digital talent and to improve the diversity of the sector. Last year over 1,800 young people participated in our outreach programmes, where we had targeted programmes aimed at improving gender diversity and social mobility for young people and for students with special educational needs. Our digital bursaries will support 60 young people from backgrounds that are traditionally under-represented at university.

Maintaining a confident outlook

The ongoing economic volatility means that the pressure on our customers remains intense. In response they are looking to reduce their costs and increase their organisation's agility. Digital transformation is a key foundation in achieving both these ambitions and the market will continue its growth, especially as organisations redirect their spending from inefficient legacy systems to agile, modern systems. The execution of our strategy has placed us in leading positions within our core markets, which allow us to look confidently to the future.

Our confidence is strengthened with the success of our additional growth initiatives:

Within Digital Services, our international expansion and our Cloud, Data and AI and Intelligent Automation practices already generates revenues in excess of £51 million; together these provide a platform for further growth.

Workday's focus on international expansion creates a strong backdrop for our European growth plans; at the same time our appointment as a Workday Prime Partner in the US market provides accelerated access to the largest Workday services market globally.

With our Workday Products, we can accelerate the adoption of our software across the Workday ecosystem, creating a significant software business.

We can be certain that the economic uncertainty will continue. While it is sensible to be confident about our markets, our customers and our abilities, it is equally sensible to remain vigilant and be responsive to any changes. That too is a sentiment that has been reflected in our previous seven annual reports.

A sense of gratitude

In each of our previous reports, the final words of this statement have focused on thanking our customers and our colleagues; and this year we continue to observe this important tradition.

Our performance as a business is influenced by many factors, but it is our relationships with our customers and the talents of our colleagues that truly shape our future.

The strength and depth of both have continued to grow this year and we are grateful for the trust and confidence that our customers continue to place in Kainos and the expertise, experience, and energy of our colleagues, who have been the driving force behind all that we have achieved.

Brendan Mooney

Chief Executive Officer

Our strategy

We are a growth-orientated business and while we are always confident of growing our market share in subdued markets, we naturally orientate towards higher growth, dynamic markets. It is in these markets where the talents of our people shine the brightest and opportunities for growth are the strongest.

Our ambition is to be a global, independent company operating towards the disruptive end of technology, that will thrive not just today, but for generations. In building for the long-term, we aspire to provide our people with rewarding and fulfilling long-term careers.

As part of this ambition, we believe that we can achieve sustained growth in terms of revenue, adjusted pre-tax profit and cash flow.

We have, deliberately, developed from a national to an international organisation, both internally and in the customers and markets that we serve. We expect our international presence to continue to expand in terms of locations, people and customers.

It is our preference to grow organically; we will undertake acquisitions only in exceptional circumstances, for instance, where we need to obtain unique skills.

We also look to ensure that we have a well-balanced business, which is not overly reliant on any one customer, market or sector. This occasionally requires us to prioritise smaller, early-stage opportunities ahead of established market growth. We are comfortable with taking this long-term view.

People

The fundamental component of our strategy is our people. Our business is successful because of the talent, skill and motivation of our colleagues as they deliver on commitments to internal and external customers.

We will add to our existing talented workforce by recruiting high calibre people from school, college and industry; we will continue to invest in developing their skills and careers; and we will continue to strive to be a great employer.

Progress in FY23	Priorities for FY24
• Headcount increased by 298, to a total of 2,990 colleagues (2022: 2,692). This included 184 early careers colleagues. • Invested over 18,000 days of technical and skills development in our people.	• Maintain high standards when recruiting new applicants. • Ongoing investment in skills and career development of all colleagues in Kainos.
• Employee retention increased to 88%. • We were ranked in the '50 Best Places to Work in the UK' by Glassdoor. • As measured through Workday Peakon, we have maintained high levels of employee engagement (81%), and high ratings for diversity and inclusion (D&I) (84%) and wellbeing (78%).	• Maintain our high levels of employee retention (achieve over 85%). • Maintain or improve our scores for employee engagement, D&I and wellbeing.
• Involved over 1,800 young people and those from under-represented groups in our outreach programmes.	• Continue to inspire and educate young people and those from under-represented groups for potential careers in IT.

Customers

Our business model is based on the conviction that by delivering consistently to our customers we will build long-lasting, mutually beneficial relationships that will see us thrive as a business.

These relationships are built on our reputation for delivery and exemplary customer service. By being responsive to and supportive of our customers' complex and changing business needs, we reinforce the strength of our relationships.

Therefore, our purpose is to help our customers with their most challenging projects and, together with our partners, help them build the capability to succeed in the digital age.

Progress in FY23	Priorities for FY24
• Customer satisfaction levels recorded as 99% (2022: 98%). • Net revenue retention recorded as 126% (2022: 134%).	• Maintain high levels of customer satisfaction, resulting in high levels of net revenue retention.

Markets

Digital Services

Our focus is to:

- continue to grow within the public and healthcare sectors, being engaged in ambitious transformation projects across UK Government and the NHS;
- repeat our digital transformation success within the UK commercial sector, with a focus on financial services; and
- expand internationally, focused initially within Germany and Canada where we already have established delivery teams, have built business development expertise and have an existing Workday Services and Products client base.

Progress in FY23	Priorities for FY24
• Public sector revenues increased by 26% to £137.0 million (2022: £108.4 million). • Following the easing of pandemic-related spending, healthcare revenues decreased by 25% to £49.7 million (2022: £66.3 million).	• Grow our business in both sectors, supporting existing clients and projects, and adding new long-term clients in line with our delivery capacity.
• Commercial sector revenues increased by 51% to £37.8 million (2022: £25.1 million).	• Continue to build reputation and references in the sector to maintain our accelerated growth.
• International revenues from Central Europe and North America increased by 75% to £9.6 million (2022: £5.5 million).	• Continue to build reputation and references within both regions. • Refine sales and marketing approach as market penetration increases. • Build in-region delivery capability in line with success.

Workday Services

Our focus is to:

- continue to grow in our existing, established markets as Workday continues to expand within these markets;
- gain market share, replacing incumbent providers to existing Workday customers through a reputation for higher service levels; and
- expand internationally, establishing operations in countries with large and growing numbers of Workday customers.

Progress in FY23	Priorities for FY24
• Workday Services revenues increased by 49% to £105.7 million (2022: £70.9 million).	• Maintain growth trajectory in all regions, supporting existing clients and projects, and adding new long-term clients in line with capacity.
• We were appointed by 40+ customers where earlier phases of the project were undertaken by a different partner.	• Continue to excel in customer service.
• International revenues increased by 60% to £81.1 million (2022: £50.7 million). • Achieved Workday Phase 1 Prime Partner status in US, the largest market for Workday consulting services globally.	• Maintain growth trajectory in all regions, in particular develop the Phase 1 opportunity in the US market.

Workday Products

Our focus is to:

- increase the number of Workday's customers who use our software;
- ensure high levels of customer satisfaction driving strong Net Revenue Retention (NRR); and
- invest in our existing products, and develop additional products within the Workday ecosystem, where our blend of software skills and Workday experience makes us uniquely positioned.

Progress in FY23	Priorities for FY24
• Our customer numbers increased, with 350+ customers using Smart Test, 70+ using Smart Audit and 40+ using Smart Shield. • Revenues increased by 40% to £44.7 million (2022: £31.9 million).	• Increase the total number of customers using our software. • Increase the adoption of multiple products by each customer.
• NRR is over 100%, driven by customer satisfaction levels of 99%.	• Maintain our high levels of customer satisfaction.
• We successfully launched Smart Shield (August 2022). • Overall investment, spanning product development and sales & marketing, increased by 88% to £19.9 million (2022: £10.6 million).	• Ensure that customer adoption and revenues reflect the very strong increase in investment. • Develop and launch one new product.

New opportunities

In addition to the investment we make in our Workday Products, our focus also includes:

- continue to invest in our Cloud (launched 2017), Data and Artificial Intelligence (2019) and Intelligent Automation (2020) practices, further building capability and creating international, high-growth businesses;
- through our innovation process, identify and promote new ideas that have the potential to become sizeable revenue streams in the future.

Progress in FY23	Priorities for FY24
• Our practices continued to grow in scale, achieving combined revenues of £41.9 million (2022: £28.5 million) an increase of 47%, and with 360 colleagues involved in the three areas (2022: 305).	• Maintain growth trajectory, embedding our new activities across several of our digital transformation projects. • Manage investment levels in line with total 'new opportunities' investments.
• Our innovation process evaluated several new ideas, however none were approved for further investment.	• Increase the number of submissions to the innovation process.

Operational review

Our overall performance

The level of digital transformation undertaken by ambitious organisations continues to increase as the industry enters its second decade. Our established track record in guiding and supporting customers to deliver their large-scale digital transformation programmes, as they respond to the changing demands in their organisations, continues to provide the bedrock for our own growth.

Our high levels of activity with our customers have translated into an excellent set of results for our financial year.

Revenue for the year grew by 24% (20% ccy) to £374.8 million (2022: £302.6 million) with adjusted pre-tax profit[3] increasing by 15% (increased 4% ccy) to £67.6 million (2022: £58.8 million). Adjusted pre-tax profit would have been c.£6.1 million lower under constant currency exchange rates.

In line with our previous guidance, we have increased investment in our software products, representing a total of £9.3 million. Research & development investment increased to £9.1 million (2022: £6.0 million) and our product-related sales & marketing investment increased to £10.8 million (2022: £4.6 million).

Our sales performance underlines our success in winning business – extensions to existing contracts, additional projects placed by existing customers and winning new customers. Bookings for the year increased by 22% (20% ccy) to £427.8 million (2022: £349.8 million), which resulted in a 24% increase in the contracted backlog to £322.9 million (2022: £259.7 million).

As at 31 March 2023, we had a very strong cash balance of £108.3 million (2022: £76.6 million), representing 104% cash conversion (2022: 83%).

Our people

We are clear that our success is driven by the ability, energy and expertise of the people in Kainos.

Since last year, our headcount has grown by 298 to 2,990 people (2022: 2,692). Of our colleagues, 7% are contractors (2022: 12%). By region, UK & Ireland increased to 2,130 people (+190), Central Europe increased to 465 people (+50) and the Americas increased to 395 people (+58).

Our employee engagement levels remain high. We now utilise Workday Peakon to continuously assess employee engagement and have achieved a rating of 81%. For the second consecutive year, we were awarded '50 Best Places to Work For in the UK' by Glassdoor, the online career community.

During the year, 88% of our colleagues made the choice to stay and develop their career within Kainos (2022: 86%). For much of the year, the global shortage of digital skills created recruitment and retention challenges, however these eased during the last weeks of the financial year.

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[3] *The Financial Review section includes reconciliations between adjusted pre-tax profit and profit before tax numbers.*

Our customers

We believe that by delivering consistently to our customers we build long-term relationships. This is a perspective shared by our customers, who continue to have a very positive view of our performance – 99% of respondents to our customer surveys rated our service as 'good' or above (2022: 98%).

Existing customers continue to trust us to deliver their most challenging projects, and this is reflected in our revenues, with 90% of revenues coming from our existing clients (2022: 88%). We have also gained new customers during the year, and we now work with 821 customers (2022: 731).

From a sector perspective we have a well-diversified business, with 50% of our revenues from commercial clients (2022: 41%), 37% from public sector organisations (2022: 37%), and 13% from healthcare customers (2022: 22%).

Our international client base has also expanded and as a result our international revenues have grown by 52% to £132.0 million (2022: £87.0 million). Regionally, UK & Ireland accounts for 65% of our business (2022: 71%), North America for 25% (2022: 19%), Central Europe for 9% (2022: 9%), with the rest of the world representing 1% (2022: 1%).

Digital Services performance

Our Digital Services division builds solutions that are highly cost-effective and make public-facing services more accessible and easier to use for the citizen, patient and customer.

Revenues grew by 12% (12% ccy) to £224.4 million (2022: £199.8 million). Bookings, at £238.2 million (2022: £215.0 million), represented an increase of 11% (11% ccy) and as a result, contracted backlog increased by 6% to £140.9 million (2022: £132.7 million).

During the year our healthcare revenues decreased as pandemic-related expenditure reduced. With strong opportunities in both the public sector and commercial sector we reallocated a number of teams to projects in these larger sectors.

Overall, public sector now represents 61% of divisional revenues (2022: 54%), healthcare 22% (2022: 33%) and commercial sector 17% (2022: 13%).

Public sector

Our public sector customers have remained committed to their digital transformation programmes and they remain ambitious in the scope of services that they wish to digitise, which is underpinned by a new digital transformation policy which outlines 50 of 75 services to be digitised by 2025. As a result of this commitment, our revenues increased by 26% to £137.0 million (2022: £108.4 million).

Within central government, we continue to consolidate our strong position across key accounts, securing new contracts to deliver digital programmes in Driver and Vehicle Standards Agency and Foreign Commonwealth & Development Office. Beyond our existing accounts, we are also delivering projects with new areas, in Defence (Defence Science & Technology Laboratory – Artificial Intelligence Delivery Partner) and the Mayor's Office for Policing (Cloud Migration Partner).

Commercial sector

In the UK, the commercial sector total expenditure on IT is over three times that of the public sector. While this represents significant opportunity, to increase our likelihood of success, we have initially chosen to focus our activity on financial services customers.

Like all large organisations post-pandemic, those within banking and insurance are increasing their levels of investment in digital transformation. This, coupled with our growing references in the sector, has driven a rapid increase in activity as we have helped established customers like Nets Group and New Ireland and new customers such as Investment Management Corporation of Ontario (IMCO), Danske Bank and Allied Irish Bank.

Reflecting these higher activity levels, our revenues increased by 51% to £37.8 million (2022: £25.1 million).

Healthcare sector

As flagged in our November update, our healthcare revenues reduced during the year to £49.7 million (2022: £66.3 million), a reduction of 25%.

The reduction in revenue is largely attributable to the easing of pandemic-related spending, although the merging of our customers NHS Digital and NHS X to form NHS England's new Transformation Directorate has also had an impact.

More positively, excluding pandemic-related expenditure, our healthcare revenues have been rising steadily, increasing by 85% from £19.4 million in 2019 to current levels. This year, our customers have included the Department for Health and Care Wales, where we delivered their Patient App, Genomics England and Our Future Health.

International expansion outside of UK and Ireland

With the UK as an early adopter of digital transformation, we believe that there is a significant opportunity to replicate our home market success internationally. Our initial focus is primarily on commercial customers in Germany and Switzerland, with organisations such as Hello Fresh and Nets Group and in the commercial and public sector in Canada with IMCO and Government of Canada.

Our international revenues are reported in the figures in the sectors listed above, but for clarity, international revenues for the division have increased by 75% to £9.6 million (2022: £5.5 million).

Digital Services outlook

We remain extremely positive about the future of digitisation in the UK public sector both immediately and over the long-term. We are confident that based upon our strong reputation and successful track record, we are well positioned to maintain a central role in this transformation drive.

The digitisation pressures and opportunities within the commercial sector are similar, and therefore the growth prospects for us are substantial. Our progress in the past eighteen months provides confidence that we will deliver significant growth in the years ahead.

We are similarly optimistic about the international opportunity, utilising the skills and expertise gained as a leading digital transformation specialist in the UK and focusing on international regions where we already have established delivery teams, sales expertise and a strong Workday client base.

Workday Services performance

Revenue for the year grew by 49% (40% ccy) to £105.7 million (2022: £70.9 million); contracted backlog increased by 42% to £72.8 million (2022: £51.1 million); and bookings increased by 56% (50% ccy) to £121.7 million (2022: £78.2 million).

The number of accredited Workday consultants at Kainos increased by 27% to 808 (2022: 638).

Having first engaged with Workday in 2011, we are now one of their most experienced partners. We are the only specialist Workday partner headquartered in the UK and one of only 49 partners globally accredited to implement Workday's innovative SaaS platform.

From our initial strong base in UK & Ireland, we expanded internationally – into Northern and Central Europe in 2015 and into the North American market in 2018. Within Europe, we are the leading Workday partner – this leadership position is the result of high satisfaction levels within our customer base, coupled with our geographic expansion in the region. Our European customers, including those in the UK & Ireland, generated 47% of total revenue (2022: 57%).

A similar focus on customer success in our North American market has resulted in our appointment, in mid-2022, as a Phase 1 Prime partner for the US market – which remains the largest market globally for Workday services. Our North American customers generated 53% of total revenue (2022: 43%).

In addition to the delivery of Workday for new customers, we are increasingly involved in supporting customers already live on the Workday platform. We describe this annuity-style revenue stream as Post Deployment Services.

Workday Extend

Alongside these typical consulting activities, there is a growing opportunity linked to Workday Extend, Workday's Platform-as-a-Service offering which became generally available to customers in May 2020. Kainos has been part of the Workday Extend early adopter programme since 2017.

Workday Extend allows organisations to build additional, specialised functionality on the Workday platform to further enhance customers' Workday deployment. As experts in Workday Extend, we have helped organisations such as Universal Music Group, Groupon and Cardinal Health build Workday Extend applications specific to their requirements.

Workday Services outlook

Our strong performance provides further evidence of the strength of the Workday market. With Workday's main competitors, Oracle and SAP, soon to mark 50 years in the ERP market, we believe that Workday's more innovative product suite can continue to gain significant market share for many years to come. This is reflected in Workday Inc's bold target of achieving $10 billion revenue by 2026[4], up from c.$6 billion today.

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[4] Workday, Inc.

In addition, we believe that we can outpace this rapid market growth by continuing our international expansion, especially within the US market, and by replacing other Workday partners in engagements where they are underserving their customers.

Workday Products performance

Our Workday Products revenue increased by 40% (26% ccy) to £44.7 million (2022: £31.9 million); the Annual Recurring Revenue was £47.9 million (2022: £34.3 million), an increase of 40% (33% ccy) and backlog increased by 44% to £109.3 million (2022: £75.9 million).

Workday is a comprehensive SaaS platform, but we have identified opportunities to develop our own software products that are complementary to the platform and that enable customers to further increase the benefit that they can realise from their investment in Workday.

In 2014, Kainos launched Smart Test which is used by organisations to automatically verify their Workday configurations. Smart Test is used by over 350 global enterprise customers, including Salesforce, Capital One and Whole Foods.

Our second product, Smart Audit, became generally available in August 2021 and has already been deployed to over 70 customers including Chanel, Arcbest and QBE Insurance. Smart Audit is a compliance monitoring tool that allows Workday customers to maintain operational security controls across their Workday environments. Our pre-built controls focus on safeguarding against Segregation of Duties conflicts, providing robust Privileged Access Controls and protecting Personal and Sensitive employee data.

In August 2022, we launched our third product, Smart Shield, a data-masking tool that can easily and seamlessly mask sensitive data without impacting the Workday user experience. It ensures that sensitive data remains controlled when Workday environments are made available to broader internal or external teams, for instance, during support and maintenance activities, or for ongoing internal Workday training and onboarding programmes. Although just released, Smart Shield is now used by over 40 customers, including Match.com and LKAB.

Workday Extend

In addition to the consulting services opportunity linked to Workday Extend, and described in the previous section, the platform provides us further opportunity to build products that are embedded inside Workday. During 2023 we have developed a new product, Employee Document Management, to help customers manage and simplify the full lifecycle of employee documents. Although not yet generally available, it is gaining traction with Workday customers.

Workday Products outlook

For our existing Workday products, our growth will be powered by the increase in Workday clients and by higher penetration of our products into the Workday client base.

We believe that we are well positioned to identify and develop additional products for the Workday ecosystem. Our growth will initially be determined by the product-market fit of our new products, followed by the penetration into the Workday client base.

Innovation, research and development

Successful businesses continue to challenge themselves and we are keen to improve our existing offerings, develop new business ideas and assess business and technology concepts that are likely to impact our clients in the future.

Including our product investment, our research and development expenditure for the year amounted to £9.1 million (2022: £6.2 million), which was wholly expensed in the year.

Innovation framework

We take the view that our people, who are often deeply engaged with our customers, are best placed to identify interesting problems. To support them, we have developed an innovation framework that is used across Kainos and comprises a body of knowledge, tools, methods and approaches for innovating, and processes to develop opportunities and ideas.

a) Spark & Scale

We create the conditions for our staff to identify interesting problems (finding the Spark) and support the development of ideas from conception through to launch (creating the Scale). This can range from applying cutting-edge technologies to existing customer problems, to identifying and testing a potential partnership or a new business offering.

Our dedicated innovation services team are on hand to explore the idea, developing an informed judgement of its early commercial potential. The Spark & Scale process is typically an investment of up to 20 days, with some external expenditure.

b) Practice Incubator

Through our dedicated incubator, we accelerate the creation of new practices, which focus on bringing new technologies to customers through dedicated, highly skilled practitioners. Proposals for new practices are evaluated by a panel composed of experienced Kainos leaders. If successful, new practices are given a formal investment package, typically composed of development time, specialist recruitment and external expenditure.

For example, our Intelligent Automation practice, graduated from this process and was launched in August 2020. The team, now 32 people, including externally recruited experts, has allowed us to undertake small, focused engagements for existing and new clients. We have every belief that our Intelligent Automation practice will follow the success of our Data and Artificial Intelligence practice, which is now over 120 specialists.

c) Technical and market research

To support innovation activities and strategic decision making across Kainos, we have invested in a team dedicated to technical and market research. The team's activities include providing foresight and research into emerging technologies, interpreting developing trends and identifying market insights.

The team is continuing research into: the advances of machine learning and AI, such as reinforcement learning; sustainability, including green technology and applying sustainable models to our services; fog, edge and distributed systems for the creation of smart environments, devices and places; the ethical use of data and AI; advances and emerging concepts in the development of healthcare technology; and a range of other emerging concepts, including quantum computing and ambient intelligence, with a goal of understanding when they should approach a level of maturity and the impact they will have on our business and clients.

Partnerships

In addition to internally sourced ideas, we nurture relationships with a broad network of partner organisations. We are active in start-up ecosystems, working with entrepreneurial young companies. Our people mentor and support their teams, helping to increase success prospects for their business, and with the aspiration of identifying and developing joint commercial opportunities.

We also work with academic research partners and leading industry organisations, such as the Turing Institute, Digital Catapult and the Institution of Engineering and Technology as well as working with our strategic partners on further-from-market technology and research.

Close-to-customer innovation

Technology continues to develop at pace, and we look to continuously improve our delivery approach for our customers. These improvements reflect our most recent experience in delivering projects, as well as using the improvements in the platforms from Workday, Microsoft, AWS, UI Path, and other partners.

Within Digital Services, our continued investment makes us leaders in cloud native software and data engineering, delivering technology, practices and principles that enable our customers to achieve long-term success with digital and data transformation. Through our Digital Advisory Practice, we work on customer innovation, bringing our leading technical expertise and wide network of partners to bear on real-world problems, quickly delivering value for users.

Workday frequently releases software and functionality updates for their platform, and we ensure that these latest developments are reflected in our delivery approach and methodology. We also assess new modules, particularly Workday Extend, which allows customers to add unique functionality to their Workday system.

Financial review

FY23 was another year of excellent financial performance.

In summary, we grew revenue by 24% (20% ccy) to £374.8 million (2022: £302.6 million). Digital Services revenue rose by 12% to £224.4 million (2022: £199.8 million), reflecting increased demand for digital transformation, primarily across the public and commercial sectors. Workday Services revenue grew 49% (40% ccy) to £105.7 million (2022: £70.9 million) driven by growth in North America. Workday Products revenue increased to £44.7 million (2022: £31.9 million), representing growth of 40% (26% ccy) (2022: 32%). The Operating Review provides more information on our revenue performance.

Our overall gross margin was 47.3% (2022: 46.3%). Digital Services' gross margin decreased to 38.1% (2022: 38.7%), mainly due to the two additional UK bank holidays in the period. Workday Services margin remained consistent at 54.2% (2022: 54.3%). Workday Products margin increased to 76.6% (2022: 76.3%).

Operating expenses

Operating expenses increased by 33% to £124.6 million (2022: £93.6 million). The growth in operating expenses is higher than revenue growth due to the increased investment in Workday Products in both sales and product development.

Our investment in product development increased to £9.1 million (2022: £6.0 million), all of which was expensed during the period. We recognised £4.2 million of Research & Development Expenditure Credit (RDEC) income during the year (2022: £3.2 million).

Alternative performance measures

We use underlying results to manage the business and measure performance day-to-day. We believe that 'adjusted profit before tax', 'adjusted EBITDA' and 'adjusted diluted and basic earnings per share' better represent the Group's underlying performance and make it easier to compare the Group's performance between periods.

Our adjusted results exclude the effect of share-based payment expense, acquisition-related expenses, including amortisation of acquired intangible assets, and compensation for post-combination services.

The adjusted profit measures we use are not defined in UK-adopted International Accounting Standards and our definitions may not be comparable with similarly titled performance measures and disclosures in other entities. The adjusted profit measures reconcile to the reported numbers as follows:

Adjusted profit measures

	2023 (£000s)	2022 (£000s)
Profit before tax	**54,338**	45,993
Share-based payment expense and related costs	**6,346**	3,727
Amortisation of acquired intangible assets	**2,642**	1,890
Compensation for post-combination services	**4,176**	5,520
Acquisition-related expenses	**57**	1,641
Adjusted profit before tax	**67,559**	58,771

	2023 (£000s)	2022 (£000s)
Profit after tax	**41,645**	35,768
Share-based payment expense and related costs	**4,886**	2,907
Amortisation of acquired intangible assets	**2,642**	1,890
Compensation for post-combination services	**4,176**	5,520
Acquisition-related expenses	**57**	1,641
Adjusted profit after tax	**53,406**	47,726

Adjusted EBITDA

	2023 (£000s)	2022 (£000s)
Adjusted profit before tax	**67,559**	58,771
Depreciation of property, plant and equipment	**2,249**	1,538
Depreciation of right-of-use assets	**1,163**	1,654
Finance expense	**71**	74
Finance income	**(1,463)**	(52)
Adjusted EBITDA	**69,579**	61,985

Adjusted pre-tax profit increased by 15% to £67.6 million (2022: £58.8 million). Profit before tax increased by 18% to £54.3 million (2022: £46.0 million).

Corporation tax charge

The effective tax rate for the year was 23% (2022: 22%). This is higher than the UK tax rate of 19% as we earn profits in countries with higher corporation tax rates than the UK.

Financial position

We continue to have a strong financial position, with £108.3 million of cash (2022: £76.6 million), no debt and net assets of £129.3 million (2022: £107.7 million). Underlying trade receivables and accrued income balance is similar to last year at £74.5 million (2022: £74.7 million), despite the growth in revenue, due to very strong cash conversion in the period.

Property, plant and equipment decreased to £9.5 million at the year end (2022: £14.9 million). During the year £5.2 million was transferred from property, plant and equipment to investment property, reflecting our agreement to sell part of the site acquired in 2019 for the development of our future headquarters in Belfast. Furthermore, we listed property located in Belfast for sale in February 2023. The carrying value of this property (£0.3 million) has been transferred to assets held for sale within current assets.

Cash flow and cash conversion

Cash conversion, which is cash generated by operating activities as a percentage of adjusted EBITDA, remained strong at 104% (2022: 83%).

Dividend

Our progressive dividend policy maximises shareholder returns, while ensuring we have sufficient funds to invest in long-term growth. The proposed final dividend recommended by Directors is 16.1p and, if approved by shareholders, will be paid on 20 October 2023 to shareholders on the register on 29 September 2023, with an ex-dividend date of 28 September 2023. This will make the total dividend for the year 23.9p (2022: 22.2p) which will represent a distribution of 56% of adjusted profit after taxation (2022: 58%).

Consolidated income statement for the year ended 31 March 2023

Continuing operations	**Note**	**2023 (£000s)**	2022 (£000s)
Revenue	2	**374,807**	302,632
Cost of sales	2	**(197,652)**	(162,386)
Gross profit	2	**177,155**	140,246
Operating expenses		**(124,597)**	(93,625)
Impairment gain/(loss) (including amounts recovered) on trade receivables and accrued income		**388**	(606)
Operating profit		**52,946**	46,015
Finance income		**1,463**	52
Finance expense		**(71)**	(74)
Profit before tax		**54,338**	45,993
Income tax expense	5	**(12,693)**	(10,225)
Profit for the year		**41,645**	35,768

Earnings per share

Basic	7	**33.6p**	29.1p
Diluted	7	**33.1p**	28.5p

Consolidated statement of comprehensive income for the year ended 31 March 2023

	2023 (£000s)	2022 (£000s)
Profit for the year	**41,645**	35,768
Items that may be reclassified subsequently to profit or loss:		
Foreign operations - foreign currency translation differences	**779**	728
Total comprehensive income for the year	**42,424**	36,496

Consolidated statement of financial position as at 31 March 2023

	Note	2023 (£000s)	2022 (£000s)
Non-current assets			
Goodwill		**19,007**	18,765
Other intangible assets		**3,816**	5,993
Investment property		**5,160**	-
Property, plant and equipment		**9,509**	14,867
Right-of-use assets		**1,261**	3,166
Investments in equity instruments		**1,299**	1,343
Deferred tax asset		**3,103**	4,282
		43,155	48,416
Current assets			
Trade and other receivables	8	**38,970**	38,358
Prepayments	8	**3,656**	4,377
Accrued income	8	**38,808**	39,462
Tax receivable		**400**	-
Cash and cash equivalents		**108,302**	76,609
Assets held for sale		**310**	-
		190,446	158,806
Total assets		**233,601**	207,222
Current liabilities			
Trade payables and accruals	9	**(52,348)**	(49,199)
Deferred income	9	**(37,087)**	(30,966)
Tax payable		**-**	(1,959)
Lease liabilities		**(794)**	(1,093)
Provisions		**(341)**	(872)
Other tax and social security	9	**(12,068)**	(11,917)
		(102,638)	(96,006)
Non-current liabilities			
Provisions		**(1,031)**	(1,258)
Lease liabilities		**(585)**	(2,268)
		(1,616)	(3,526)
Total liabilities		**(104,254)**	(99,532)
Net assets		**129,347**	107,690
Equity			
Share capital		**623**	619
Share premium account		**6,567**	6,433
Capital reserve		**3,548**	3,548
Share-based payment reserve		**23,394**	15,171
Translation reserve		**1,030**	251
Retained earnings		**94,185**	81,668
Total equity		**129,347**	107,690

These financial statements were approved by the Board of Directors and authorised for issue on 19 May 2023. They were signed on its behalf by:

Richard McCann
Director
19 May 2023

Consolidated statement of changes in equity for the year ended 31 March 2023

	Share capital (£000s)	Share premium (£000s)	Capital reserve (£000s)	Share-based payment reserve (£000s)	Translation reserve (£000s)	Retained earnings (£000s)	Total equity (£000s)
Balance at 31 March 2021	**614**	**5,737**	**662**	**9,083**	**(477)**	**71,989**	**87,608**
Profit for the year	-	-	-	-	-	35,768	35,768
Other comprehensive income	-	-	-	-	728	-	728
Total comprehensive income for the year	-	-	-	-	728	35,768	36,496
Equity-settled share-based payment	-	-	-	6,088	-	-	6,088
Current tax for equity-settled share-based payments	-	-	-	-	-	1,610	1,610
Deferred tax for equity-settled share-based payments	-	-	-	-	-	(280)	(280)
Issue of share capital – share options exercised	5	2,296	-	-	-	-	2,301
Issue of shares as purchase consideration	-	-	1,286	-	-	-	1,286
Transfer between reserves[5]	-	(1,600)	1,600	-	-	-	-
Dividends	-	-	-	-	-	(27,419)	(27,419)
Balance at 31 March 2022	**619**	**6,433**	**3,548**	**15,171**	**251**	**81,668**	**107,690**
Profit for the year	-	-	-	-	-	41,645	41,645
Other comprehensive income	-	-	-	-	779	-	779
Total comprehensive income for the year	-	-	-	-	779	41,645	42,424
Equity-settled share-based payment	-	-	-	8,223	-	-	8,223
Current tax for equity-settled share-based payments	-	-	-	-	-	237	237
Deferred tax for equity-settled share-based payments	-	-	-	-	-	(931)	(931)
Issue of share capital – share options exercised	4	134	-	-	-	-	138
Dividends	-	-	-	-	-	(28,434)	(28,434)
Balance at 31 March 2023	**623**	**6,567**	**3,548**	**23,394**[6]	**1,030**	**94,185**	**129,347**

[5] Premium on shares issued as consideration in FY20 reclassified from share premium account to capital reserve, in accordance with the requirements of the Companies Act 2006, S612.
[6] £12.1 million relates to exercised or lapsed options and is considered distributable.

Consolidated statement of cash flows for the year ended 31 March 2023

	2023 (£000s)	2022 (£000s)
Cash flows from operating activities		
Profit for the year	**41,645**	35,768
Adjustments for:		
Finance income	**(1,463)**	(52)
Finance expense	**71**	74
Tax expense	**12,693**	10,225
Share-based payment expense	**6,346**	3,727
Depreciation of property, plant and equipment	**2,249**	1,538
Depreciation of right-of-use assets	**1,163**	1,654
Amortisation of intangible assets	**2,642**	1,890
Loss on disposal of property, plant and equipment	**-**	8
Post-acquisition remuneration settled by shares	**3,200**	2,950
(Decrease)/increase in provisions	**(758)**	395
Operating cash flows before movements in working capital	**67,788**	58,177
Increase in trade and other receivables	**(3,380)**	(22,996)
Increase in trade and other payables	**8,076**	16,571
Cash generated from operating activities	**72,484**	51,752
Income taxes paid	**(10,585)**	(7,089)
Net cash from operating activities	**61,899**	44,663
Cash flows from investing activities		
Interest received	**1,463**	52
Purchases of property, plant and equipment	**(2,499)**	(5,819)
Acquisition of other investments	**-**	(74)
Amounts withdrawn/(placed) on treasury deposit	**-**	18,028
Acquisition of subsidiaries net of cash acquired	**-**	(16,768)
Net cash used in investing activities	**(1,036)**	(4,581)
Cash flows from financing activities		
Dividends paid	**(28,434)**	(27,419)
Interest paid	**(71)**	(74)
Repayment of lease liabilities	**(1,075)**	(1,409)
Proceeds on issue of shares	**138**	2,301
Net cash used in financing activities	**(29,442)**	(26,601)
Net increase in cash and cash equivalents	**31,421**	13,481
Cash and cash equivalents at beginning of year	**76,609**	62,896
Effect of exchange rate fluctuations on cash held	**272**	232
Cash and cash equivalents at end of year	**108,302**	76,609

Notes to the consolidated financial information

1. General information and basis of preparation

Kainos Group plc ('the Company') is a public company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales (company registration number 09579188), having its registered office at 21 Farringdon Road, 2nd Floor, London EC1M 3HA. The Company is listed on the London Stock Exchange.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group').

The Group financial statements have been prepared and approved by the Directors in accordance with UK-adopted International Accounting Standards ('UK-Adopted IFRS'). The financial statements are presented in Pounds Sterling, generally rounded to the nearest thousand.

The financial information set out in this document does not constitute the statutory accounts of the Group for the years ended 31 March 2023 or 31 March 2022 but is derived from those accounts. Statutory accounts for the year ended 31 March 2022 have been delivered to the registrar of companies, and those for 2023 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

This financial information was authorised for issue by the Directors on 19 May 2023.

2. Segment reporting

All of the Group's revenue during the year ended 31 March 2023 and for the year ended 31 March 2022 was derived from continuing operations.

The Group's Executive Directors are considered to be the Chief Operating Decision Maker ('CODM') of the Group. They use internal management reports to assess both performance and strategy of the Group and the three specialist business areas: Digital Services, Workday Services and Workday Products.

During the year, we opted to amend our divisional reporting structure both internally to our CODM (Executive Directors) and publicly. In prior years we reported results with respect to our Digital Services and Workday Practice divisions. Due to the continued growth of our Workday Services and Workday Products businesses, we are now reporting these areas as separate operating divisions. There is no change in reporting for our Digital Services division.

The tables below present the results for current and prior year in our current reporting structure. As such, the comparative information below has been represented to reflect the new reporting structure.

The following is an analysis of the Group's revenue and results by reportable segment:

2023 ***12 months to 31 March***	**Digital Services (£000s)**	**Workday Services (£000s)**	**Workday Product (£000s)**	**Consolidated (£000s)**
Revenue	224,384	105,741	44,682	374,807
Cost of sales	(138,798)	(48,406)	(10,448)	(197,652)
Gross profit	**85,586**	**57,335**	**34,234**	**177,155**
Direct expenses(7)	(24,326)	(36,439)	(21,687)	(82,452)
Contribution	**61,260**	**20,896**	**12,547**	**94,703**
Central overheads(7)				(28,536)
Net finance income				1,392
Adjusted pre-tax profit				**67,559**
Share-based payments expense and related costs				(6,346)
Amortisation of acquired intangible assets				(2,642)
Compensation for post-combination remuneration				(4,176)
Acquisition-related expenses				(57)
Profit before tax				**54,338**

(7) Direct expenses plus central overheads plus share-based payment expense and acquisition related expenses (including amortisation of acquired intangible assets and compensation for post-combination remuneration) equals the sum of operating expenses plus impairment losses and reversals on trade receivables and accrued income. Direct expenses are expenses that are directly attributable to each division.

2022 ***12 months to 31 March***	**Digital Services (£000s)**	**Workday Services (£000s)**	**Workday Products (£000s)**	**Consolidated (£000s)**
Revenue	199,831	70,868	31,933	302,632
Cost of sales	(122,430)	(32,388)	(7,568)	(162,386)
Gross profit	**77,401**	**38,480**	**24,365**	**140,246**
Direct expenses(7)	(21,723)	(24,666)	(12,932)	(59,321)
Contribution	**55,678**	**13,814**	**11,433**	**80,925**
Central overheads(7)				(22,132)
Net finance expense				(22)
Adjusted pre-tax profit				**58,771**
Share-based payments expense and related costs				(3,727)
Amortisation of acquired intangible assets				(1,890)
Compensation for post-combination remuneration				(5,520)
Acquisition-related expenses				(1,641)
Profit before tax				**45,993**

The Group's revenue from external customers by geographic location is detailed below:

	2022 (£000s)	2022 (£000s)
United Kingdom & Ireland	**242,787**	215,606
North America	**95,505**	58,712
Central Europe	**35,262**	27,125
Rest of world	**1,253**	1,189
	374,807	302,632

Disaggregation of revenue by type

In line with the change in divisional reporting structure, the Group considers the new revenue types as presented in the table below to be a more informative representation. Subscription revenue previously classed within 'SaaS and related' has been presented separately with related revenues represented as 'Services' or 'Third party and other' as appropriate. The Group has represented FY22 revenue categories in line with the current reporting period.

	Digital Services 2023 (£000s)	Workday Services 2023 (£000s)	Workday Products 2023 (£000s)	Total 2023 (£000s)
Type of revenue				
Services	217,490	98,961	1,625	318,076
Subscriptions	-	-	43,057	43,057
Third party and other	6,894	6,780	-	13,674
	224,384	**105,741**	**44,682**	**374,807**

	Digital Services 2022 (£000s)	Workday Services 2022 (£000s)	Workday Products 2022 (£000s)	Total 2022 (£000s)
Type of revenue				
Services	192,662	64,475	2,990	260,127
Subscriptions	-	-	28,943	28,943
Third party and other	7,169	6,393	-	13,562
	199,831	**70,868**	**31,933**	**302,632**

Disaggregation of revenue by sector

Digital Services	2023 (£000s)	2022 (£000s)
Public	**136,951**	108,400
Commercial	**37,782**	25,120
Healthcare	**49,651**	66,311
	224,384	199,831
Workday Services		
Public	**167**	1,311
Commercial	**105,423**	68,948
Healthcare	**151**	609
	105,741	70,868
Workday Products		
Public	**891**	1,271
Commercial	**43,171**	29,730
Healthcare	**620**	932
	44,682	31,933
Group		
Public	**138,009**	110,982
Commercial	**186,376**	123,798
Healthcare	**50,422**	67,852
Total	**374,807**	302,632

3. Profit for the year

Profit for the year has been arrived at after charging/(crediting):

	2023 (£000s)	2022 (£000s)
Total staff costs	**232,033**	168,395
Government grants	**(12)**	(479)
Research and development expensed as incurred	**9,061**	6,176
Research and Development Expenditure Credit	**(4,230)**	(3,205)
Depreciation of property, plant and equipment	**2,249**	1,538
Depreciation of right-of-use assets	**1,163**	1,654
Loss on disposal of property, plant and equipment	**-**	8
Net foreign exchange (gain)/loss	**(873)**	62
Amortisation of acquired intangibles	**2,642**	1,890

4. Staff numbers

The average number of employees during the year was:

	2023 Number	2022 Number
Technical	**2,107**	1,705
Administration	**311**	234
Sales	**188**	158
	2,606	2,097

5. Tax expense

	2023 (£000s)	2022 (£000s)
Current tax expense:		
Current year (UK)	**7,793**	7,882
Current year (overseas)	**5,271**	4,011
Adjustments in respect of prior years	**(385)**	(1,043)
	12,679	10,850
Deferred tax:		
Origination and reversal of temporary differences	**(1,130)**	(1,187)
Adjustments in respect of prior years	**1,144**	637
Change in tax rate	**-**	(75)
	14	(625)
Total tax expense	**12,693**	10,225

In addition to the amount charged to the statement of comprehensive income, the following amounts relating to tax have been recognised directly in equity in relation to share based payments:

	2023 (£000s)	2022 (£000s)
Current tax		
Permanent element of share-based payment deduction	**237**	1,610
Deferred tax		
Deferred tax on share-based payments	**(931)**	(883)
Effect of rate change	**-**	603
	(931)	(280)
Total tax recognised directly in equity	**(694)**	1,330

UK corporation tax has been calculated at 19% (2022: 19%) of the estimated taxable profit for the year, the prevailing rate at the balance sheet date. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The effective tax rate for 2023 was 23% (2022: 22%).

On 24 May 2021, the UK Finance Act 2021 was substantively enacted, increasing the corporate tax rate to 25% effective from 1 April 2023. The change to the main rate of corporation tax was substantively enacted as at 31 March 2022 and therefore included in the prior year financial statements. Temporary differences were remeasured in the prior year using these enacted tax rates that are expected to apply when the liability is settled, or the asset realised. The impact of this remeasurement, recognised in the year ended 31 March 2022 resulted in an uplift in deferred tax assets of £0.9 million.

We envisage our future effective tax rates to be broadly in line with the main UK corporation tax rate.

The Group's tax charge can be reconciled to the profit in the income statement and effective tax rate as follows:

	2023 (£000s)	2022 (£000s)
Profit before tax on continuing operations	**54,338**	45,993
Tax at the UK corporation tax rate of 19% (2022: 19%)	**10,324**	8,739
Expenses not deductible for tax purposes	**919**	1,050
Tax exempt income	**(3)**	(35)
Effect of foreign exchange on consolidation	**(92)**	214
Effect of tax rates in foreign jurisdictions	**740**	671
Adjustments to tax charge in respect of prior years	**759**	(406)
Change in UK tax rates	**46**	(8)
Tax expense for the year	**12,693**	10,225
Effective tax rate	**23%**	22%

6. Dividend

	2023 (£000s)	2022 (£000s)
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for 2023 of 7.8p per share	**9,702**	-
Final dividend for 2022 of 15.1p per share	**18,732**	-
Interim dividend for 2022 of 7.1p per share	**-**	8,774
Final dividend for 2021of 15.1p per share	**-**	18,645
	28,434	27,419

The Board has proposed a final dividend in respect of the year ended 31 March 2023 subject to approval by shareholders at the Annual General Meeting. This dividend has not been recognised as a liability in these financial statements and there are no tax consequences. The proposed final dividend, if approved by shareholders, will be 16.1p per share (£20.1 million in total) and payable on 20 October 2023 to all shareholders on the Register of Members on 29 September 2023, and with an ex-dividend date of 28 September 2023.

7. Earnings per share

Basic

The calculation of basic earnings per share (EPS) has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

	2023 (£000s)	2022 (£000s)
Profit attributable to ordinary shareholders	**41,645**	35,768
	Thousands	Thousands
Issued ordinary shares at 1 April	**124,078**	122,785
Effect of shares held in trust	**(786)**	(863)
Effect of share options vested and exercised	**392**	802
Effect of shares issued related to a business combination	**18**	31
Effect of shares issued related to free share awards	**99**	49
Weighted average number of ordinary shares at 31 March	**123,801**	122,804
Basic earnings per share	**33.6p**	29.1p

Diluted

The calculation of diluted EPS has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

	2023 (£000s)	2022 (£000s)
Profit attributable to ordinary shareholders	**41,645**	35,768
	Thousands	Thousands
Weighted average number of ordinary shares (basic)	**123,801**	122,804
Effect of share options on issue	**758**	1,256
Effect of shares held in trust	**786**	863
Effect of potential shares to be issued related to a business combination	**299**	410
Weighted average number of ordinary shares (diluted) at 31 March	**125,644**	125,333
Diluted earnings per share	**33.1p**	28.5p

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options was based on quoted market prices for the year during which the options were outstanding.

At 31 March 2023, 159,755 options (2022: 39,451) were excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been anti-dilutive.

Adjusted

Adjusted basic earnings per share is calculated using the adjusted profit for the year measure. The calculation of adjusted profit for the year is detailed in the Financial Review section.

	2023 (£000s)	2022 (£000s)
Adjusted profit for the year	**53,406**	47,726
	Thousands	Thousands
Weighted average number of ordinary shares for the purposes of basic earnings per share	**123,801**	122,804
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**125,644**	125,333
Adjusted basic earnings per share	**43.1p**	38.9p
Adjusted diluted earnings per share	**42.5p**	38.1p

8. Trade and other receivables

	2023 (£000s)	2022 (£000s)
Trade receivables	**35,693**	35,228
Other receivables	**3,277**	3,130
	38,970	38,358
Prepayments	**3,656**	4,377
Accrued income	**38,808**	39,462
	81,434	82,197

9. Trade and other payables

	2023 (£000s)	2022 (£000s)
Trade payables and accruals	**52,348**	49,199
Deferred income	**37,087**	30,966
Current tax liabilities	**-**	1,959
Other tax and social security	**12,068**	11,917
	101,503	94,041