23 May 2022

Full year results for the year ended 31 March 2022

Kainos Group plc 'Kainos' or the 'Group'

Kainos Group plc (KNOS), a leading IT provider, operating through two specialist business areas, Digital Services and its Workday Practice, is pleased to announce its results for the year ended 31 March 2022.

Financial highlights

	2022	2021	Change
Revenue	£302.6m	£234.7m	+29%
Statutory profit before tax	£46.0m	£50.3m	-9%
Adjusted pre-tax profit	£58.8m	£57.1m	+3%
Cash(1)	£76.6m	£80.9m	-5%
Bookings	£349.8m	£258.8m	+35%
Product Annual Recurring Revenue (ARR)	£34.3m	£23.6m	+45%
Contracted backlog	£259.7m	£206.2m	+26%
Diluted earnings per share	28.5p	32.1p	-11%
Adjusted diluted earnings per share	38.1p	36.8p	+4%
Total dividend per share(2)	22.2p	28.2p	-21%

Operational highlights

We have recorded our 12th 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 29% (26% organic) to £302.6 million (2021: £234.7 million).
- Adjusted pre-tax profit increased 3% to £58.8 million (2021: £57.1 million) as margins moderated following increased investment and the further normalisation of costs.
- Bookings up 35% to £349.8 million (2021: £258.8 million).
- Contracted backlog growth of 26% to £259.7 million (2021: £206.2 million).
- Following dividend payments and acquisition expenses, period-end cash amounted to £76.6 million (2021: £80.9 million); with cash conversion at 83% (2021: 112%).

We continue to add to the talents of our global team.

- We now have 2,692 people (2021: 2,024) based across 22 countries. This reflects strong recruitment in our core markets which has been enhanced through the year with the expertise of 153 new colleagues who joined via the acquisitions of Cloudator, Une Consulting, Blackline Group and Planalyse.
- Against the backdrop of a global shortage in digital skills, our employee retention has reduced to 86% (2021: 92%). Our focus remains on being a great employer and we have retained our Sunday Times, 'Top 100 Best Companies to Work For' accreditation and were awarded '50 Best Places To Work in the UK' by Glassdoor.

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(1) *FY21 includes treasury deposits of £18.0 million.*

(2) *Total dividend for FY21 includes a special dividend of 6.7p per share (paid September 2020), interim dividend of 6.4p per share (paid December 2020) and final dividend of 15.1p per share. Total dividend for FY22 includes interim dividend of 7.1p per share and proposed final dividend of 15.1p per share.*

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

- Customer approval rating[3] remains high at 98% (2021: 98%).
- Existing customer revenue increased by 34% to £267.7 million (2021: £199.7 million).
- Customer numbers increased to 731 (2021: 546), an increase of 34%.

We continue with our ambition to be a responsible organisation.

- We retained our carbon neutral status for 2022 and remain on track to achieve carbon net zero by 2025.
- Our gender balance improved, with the proportion of women in Kainos increasing to 33% (2021: 30%), ahead of the industry average of 19%[4]; we remain committed to further improvement.
- We delivered over 1,100 work placements 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, healthcare and commercial sector.

- This extensive project portfolio has driven very strong revenue growth of 24%, with revenues growing to £199.8 million (2021: £161.6 million).
- Customer demand remains very high across all sectors as digital transformation continues to be a business priority.

We continue to be the leading pan-European Workday specialist and we have established a significant presence in the North American market.

- Our Workday Services recorded very strong revenue growth of 45% (29% organic) to £70.9 million (2021: £49.0 million).
- Focused on the opportunity in North America, we have doubled our presence and now have 323 colleagues (2021: 142) based across USA, Canada and Argentina.

Our Workday-related products, Smart Test and Smart Audit, achieved very strong growth, particularly in North America.

- Smart product revenues grew 32% to £31.9 million (2021: £24.2 million); at the same time the Annual Recurring Revenue (ARR) increased 45% to £34.3 million (2021: £23.6 million).
- We continued to invest in our Smart products, increasing our R&D expenditure by 67%, to £6.0 million (2021: £3.6 million), all of which was expensed during the year.

Our focus on sector diversification has ensured that we have built a robust and well-balanced business across sector and region.

- Overall, our revenues: 41% Commercial, 37% Public Sector and, 22% Healthcare.
- Commercial revenues are up 53% to £123.8 million (2021: £81.1 million).
- Public sector revenues are up 5% to £111.0 million (2021: £105.5 million).
- Healthcare revenues are up 41% to £67.9 million (2021: £48.1 million).
- International revenues are up 48% to £87.0 million (2021: £59.0 million).

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(3) 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.

(4) *BCS diversity report 2021: Women in IT.*

Commenting on the results, CEO Brendan Mooney said:

"Our latest business results outline the consistency of our long-term performance, as we recorded our twelfth consecutive year of growth – in terms of people, customers, revenue and profitability.

Over those twelve years, we have helped organisations drive their digital transformation programmes and realise their ambitions. That digitalisation trend gathered further pace during the pandemic as our customers responded to the changing ways of delivering essential services to citizens, patients, customers, and employees.

That sustained demand, and the trust that our customers have placed in Kainos, has allowed our business to thrive and this year we continued to pass significant milestones. We now have over 2,600 colleagues and over 700 customers, whilst our revenues have exceeded £300 million.

In similar fashion, our business is becoming increasingly global. Over two-thirds of our customers are based in Central Europe and North America, with one-third of our colleagues based in the same regions.

Looking forward, we remain confident in our business as the demand for our services has never been higher, our reputation for delivery continues to flourish, while the scale and capability of our organisation continues to grow at pace.

Underpinning that confidence is the quality and talents of our colleagues. Their expertise, experience and energy have been the driving force behind all that we have achieved. We share their excitement about the future – the journey is just starting."

For further information, please contact

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About Kainos Group plc

Kainos Group plc is a UK-headquartered IT provider, across two specialist business areas, Digital Services and its Workday Practice.

The Group's Digital Services include full lifecycle development and support of customised digital services for public sector, healthcare and commercial customers. These transformative solutions encompass a range of services from experience design to artificial intelligence and cloud to deliver truly intelligent solutions that are secure, accessible and cost-effective.

The Group's Workday Practice is one of Workday, Inc.'s most respected partners. As a full-service partner, we are experienced in complex deployment and integrations, and the leader in Workday test automation. We are trusted by our customers to launch, test, expand and safeguard their Workday systems.

Kainos has over 2,600 people across 22 countries in Europe and the Americas.

Kainos is listed on the London Stock Exchange (LSE: KNOS), for further information, please visit our website: **www.kainos.com**.

Definition of terms

We use the following definitions for our key metrics:

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.

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

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

Carbon net zero: any CO2, 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.

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.

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 revenues excluding revenue from acquisitions completed in the year.

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 on-going subscription to use the software rather than purchasing it once and installing it.

Kainos at a glance

We are a UK-headquartered IT provider, operating through two specialist business areas, Digital Services and our Workday Practice.

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

FY22 revenue: £199.8 million, 66% of Group total, 5-year growth: 28% 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, delivers efficiencies, increases their capabilities and future-proofs their businesses.

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

We deliver services to over 130 clients, including the Foreign, Commonwealth and Development Office (UK), the Defence and Science Laboratory (UK), NHS England (UK), Concardis (Germany) and Hello Fresh (Germany).

Workday Practice

Our Workday Practice is closely linked to Workday, Inc.'s software suite, which includes cloud-based software for Human Capital Management (HCM), Financial Management and Planning, enabling enterprises to organise their staff efficiently and support their financial reporting requirements.

Workday Services

FY22 revenue: £70.9 million, 23% of Group total, 5-year growth: 50% 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 100 international clients, we are proud to work with Kion Group (Germany), Shopify (Canada), Kone (Finland), TransferWise (UK), ASOS plc (UK), Takeaway.com (Netherlands) and Match.com (USA).

Smart product suite

FY22 revenue: £31.9 million, 11% of Group total, 5-year growth: 42% CAGR.

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

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.

Both 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 2013 and is now used by over 300 clients, including Salesforce (USA), Whole Foods (USA), Xero (New Zealand), Netflix (USA), CapitalOne (USA), Servicenow (USA), Aegon (Netherlands) and Condé Nast (USA).

Smart Audit was launched in 2021 and is now used by over 40 clients, including SpencerStuart (USA), Chanel (UK), Rand Corporation (USA), BlueCross BlueShield (USA) and QBE (Australia).

FY22 key statistics

People

- Number of staff and contractors: 2,692 (2021: 2,024).
- Employee retention: 86% (2021: 92%).
- People by region: UK & Ireland (72%), Central Europe (15%), Americas (13%).
- Offices: (20) Amsterdam, Antwerp, Atlanta, Belfast, Birmingham, Buenos Aires, Copenhagen, Denver, Derry, Dublin, Gdansk, Hamburg, Helsinki, Indianapolis, London, Oslo, Paris, San Francisco, Stockholm and Toronto.

Customers

- Active customers: 731 (2021: 546).
- Customers rating our service as good or better: 98% (2021: 98%).
- Revenue from existing customers: 88% (2021: 85%).

Financial

- Revenue: £302.6 million (2021: £234.7 million).
- Adjusted profit: £58.8 million (2021: £57.1 million).
- Bookings: £349.8 million (2021: £258.8 million).
- Contracted sales backlog: £259.7 million (2021: £206.2 million).
- Revenue by sector: Commercial 41% (2021: 35%), Public 37% (2021: 45%), Healthcare 22% (2021: 20%).
- Revenue by region: UK & Ireland 71% (2021: 75%), North America 19% (2021: 16%), Central Europe 9% (2021: 8%), Rest of World 1% (2021: 1%).

CEO Statement

Resilience and gratitude

Our performance during 2021 must be viewed through the lens of a prolonged pandemic – lockdowns, working from home and, eventually, the controlled and gradual easing of restrictions.

To look backwards creates the opportunity, once again, to express our thanks and admiration for all of those involved in the front-line response to the health and economic crisis that the pandemic caused. Our sense of gratitude is amplified for our customers in the NHS as they prioritised the health of the nation above all else.

Our appreciation is also directed towards our colleagues who, throughout the year, continued to support all our customers, ensuring that they could continue to deliver critical services to their citizens, patients, customers or employees. That appreciation was mirrored from our customers, as we once again recorded a 98% customer approval rating.

Alongside the resilience of our colleagues and customers, we are also grateful for the strength and resilience of our business. We recorded another excellent performance, a reflection of the trust our customers place in Kainos and the expertise, experience and energy of our colleagues, who have been the driving force behind all that we have achieved.

An excellent business performance

The digital transformation market has been growing quickly for the past decade and the pandemic has further demonstrated how important it is for organisations to invest in their digital capabilities, both internally and externally. Our customers have responded and 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 £302.6 million, a 29% increase, and our adjusted pre-tax profit growing 3% to £58.8 million. As expected, our profit growth moderated as recruitment, training and marketing costs returned to normal levels and as we experienced increased salary costs and the increased use of contract staff. During the year we also accelerated our investment in our Smart products, both in research and development and in sales and marketing, all of which was expensed in the year.

We continued to add to the talents of our global team, as numbers increased by 33% to 2,692 colleagues. This increase was the result of very strong recruitment as well as welcoming the expertise of 153 new colleagues who joined us through the acquisitions of Cloudator (Nordics), Une Consulting (Argentina), the Blackline Group (USA) and Planalyse (Netherlands). Our teams are now based in 22 countries.

Our Digital Services division recorded growth of 24% to £199.8 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 New Ireland and Genomics England, and new clients including Hello Fresh and National Highways.

We are keen to open up new opportunities for Digital Services and our investments continue to make progress. Our engagements in Central Europe and Canada have continued to grow, with our revenues now £5.5 million, from £2.6 million a year ago. Our Data and AI practice grew 95% to £15.8 million, with our Intelligent Automation practice delivering revenues of £1.0 million, having been launched in mid-2020.

Our Workday Services team continues to help forward-thinking organisations such as Kone, Kion Group and Takeaway.com deploy Workday, Inc.'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 continue to make significant progress addressing the opportunity in North America, where our teams in Canada, Argentina and the US have more than doubled, growing from 142 to 323 colleagues in the past year.

Over the course of the year our Smart product revenues grew 32% to £31.9 million. Our products, Smart Test (automated testing) and Smart Audit (compliance monitoring) are used by organisations like Netflix, Salesforce and match.com. We believe that there is the opportunity to grow our Smart product revenues to £100 million and as a result we invested further in product development (increased by £2.4 million to £6.0 million) and in our sales and marketing capacity during the year.

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. Over 60% of our workforce are now in offices that use renewable energy sources, with work underway to make further progress in the year ahead.

Gender diversity remains a challenge within the wider industry, where just 19% of roles are undertaken by women. During the year, the proportion of women in Kainos increased from 30% to 33% reflecting focused recruitment campaigns. It is good progress, but sustained effort is required to achieve our gender parity target.

We seek to inspire the next generation of digital talent and to improve the diversity of the sector. Last year over 1,100 school students participated in our work placement programmes, where we had targeted programmes aimed at improving gender diversity, social mobility and for those students with special educational needs. At university, our digital bursaries will support 60 young people from backgrounds that are traditionally under-represented at university.

A confident outlook

The digital transformation market has been growing strongly for over a decade, with the pandemic accelerating the need for organisations to invest in their digital capabilities. Our leading position within our core markets allows us to look confidently to the future.

Our confidence is strengthened with the success of our additional growth initiatives. Within Digital Services, international expansion, our Data and AI practice, and our Intelligent Automation practice provide a platform for further growth. Workday, Inc.'s focus on international expansion creates a strong backdrop for our European growth plans; at the same time our growing scale in the North American market provides an excellent foundation in the largest Workday market globally. With our Smart products, we have the opportunity to accelerate the adoption of our software across the Workday ecosystem, creating a significant software business.

The pandemic has demonstrated that our sector is resilient, but it has also demonstrated that the future can be unpredictable. Notwithstanding our confidence, challenges remain: the Russia-Ukraine war, the possible resurgence of Covid-19, inflation and the global shortage of digital talent dominate the short-term landscape. Without minimising the significance of any of these factors it feels that, collectively, they represent a lower risk than a global pandemic.

A sense of gratitude

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 adds to our sense of excitement about the future.

That sense of anticipation is combined with a sense of gratitude.

We continue to be grateful for all the support, confidence and trust that everyone has placed in Kainos. Thank-you.

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 careers.

As part of our 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; and we will continue to invest in developing their skills and careers and we will continue to strive to be a great employer.

Progress in FY22	Priorities for FY23
• Headcount increased by 668, to a total of 2,692 colleagues. • This included 159 people who joined from school or college.	• Maintain high standards when recruiting new applicants. • Invest in skills and career development of all colleagues in Kainos.
• Maintained our Sunday Times 'Best Companies to Work For' Top 100 ranking. • We were ranked in the '50 Best Places to Work in the UK', by Glassdoor.	• Maintain or improve our employee engagement scores as measured independently. • Ensure that employee retention remains high.

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 FY22	Priorities for FY23
• Customer satisfaction levels recorded as 98%. • Net revenue retention recorded as 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 Practice client base.

Progress in FY22	Priorities for FY23
• Public sector revenues increased by 6% to £108.4 million (2021: £102.2 million). • Healthcare revenues increased by 52% to £66.3 million (2021: £43.7 million).	• Maintain growth trajectory 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 60% to £25.1 million (2021: £15.7 million).	• Continue to build reputation and references in the sector to maintain our accelerated growth.
• Central Europe revenues increased by 101% to £5.2 million (2021: £2.6 million). • North American activity started during the year, generating £0.3 million in revenues.	• 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 Practice

Our focus is to:

- continue to grow in our existing, established markets as Workday, Inc. continues to expand within these markets;
- gain market share, replacing incumbent providers to existing Workday customers through a reputation for higher service levels;
- expand internationally, establishing operations in countries with large and growing numbers of Workday customers; and
- invest in Smart Test, Smart Audit and Workday Extend and develop additional products within the Workday ecosystem, where our blend of software skills and Workday experience makes us uniquely positioned.

Progress in FY22	Priorities for FY23
• Workday Services revenues increased by 45% to £70.9 million (2021: £49.0 million). • Smart product revenues increased by 32% to £31.9 million (2021: £24.2 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 to 30+ customers where earlier phases of the project were undertaken by a different partner.	• Continue to excel in customer service.
• International revenues increased 46% to £81.5 million (2021: £55.7 million). • Four international acquisitions completed in Argentina, Netherlands, USA and the Nordics, adding 153 new colleagues.	• Maintain growth trajectory in all regions. • Continue to welcome our new colleagues to Kainos, combining their capabilities with existing Kainos teams. • Ensure consistent, high-quality service to new clients originated by the acquisitions.
• Smart R&D investment increased 67% to £6.0 million (2021: £3.6 million). • Annual Recurring Revenue for Smart products increased 45% to £34.3 million (2021: £23.6 million).	• Accelerate growth trajectory of Smart products. • Launch our third Smart product, gaining significant early adoption.

New opportunities

Our focus is to:

- continue to invest in our Data and Artificial Intelligence and Cloud practices, building capability and creating international, high growth businesses;
- support the early progress of our Intelligent Automation practice, ensuring the foundations are in place to create a significant long-term business;
- establish our Digital Advisory practice; and
- through our innovation process, identify and promote ideas that have the potential to become sizeable revenue streams in the future.

Progress in FY22	Priorities for FY23
• Launched in 2019, our Data and Artificial Intelligence practice is now 120 people, and has grown revenues by 95% to £15.8 million (2021: £8.1 million)	• Maintain growth trajectory. • Manage investment levels in line with total 'new opportunities' investments.
• Launched in 2020, our Intelligent Automation practice is now 25 people and has grown revenues to £1.0 million (2021: <£0.1 million).	• Maintain growth trajectory. • Refine sales and marketing approach as we build increased scale in customers.
• Launched in 2017, our Cloud practice now encompasses 160 people, with revenues of £11.7 million (2021: £6.8 million), a growth of 73%.	• Maintain growth trajectory. • Extend offerings internationally, focused on Canada and Germany in the first instance.
• In 2021, we launched our Digital Advisory practice, it now includes 10 people on the team.	• Establish early adopter clients.

Within the innovation process, there were 10 ideas evaluated:
• Seven ideas stopped at investigation stage.
• Three ideas moved to investment stage.
    o One was approved (Digital Advisory).
    o One is undergoing further investigation.
    o One was stopped.
• Data and AI was approved for further investment.
• Intelligent Automation was approved for further investment.
	• Increase the number of submissions to the innovation process.

Operational Review

Our overall performance

Our established track record in helping ambitious organisations deliver large-scale digital transformation programmes is particularly relevant in a post-pandemic world. The underlying digitisation trend has been accelerated by the pandemic and we have continued to support new and existing customers as they respond to changing demands in their organisations.

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

Revenue grew by 29% to £302.6 million (2021: £234.7 million) with adjusted pre-tax profit increasing by 3% to £58.8 million (2021: £57.1 million). As expected, our profit growth moderated as recruitment, training and marketing costs returned to normal levels; as we experienced increased salary costs and the increased use of contract staff; and we increased investment in our software products.

Our sales performance underlines our success in winning business while continuing to operate on a remote basis – extensions to existing contracts, additional projects placed by existing customers and winning new customers. Bookings increased 35% to £349.8 million (2021: £258.8 million), which resulted in a 26% increase in the contracted backlog to £259.7 million (2021: £206.2 million).

On 31 March 2022, following dividend payments and acquisition expenses we had a strong cash balance of £76.6 million (2021: £80.9 million including treasury deposits), representing 83% cash conversion (2021: 112%).

Our people

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

Our employee engagement levels remain high. Once again, our people have voted us into the Top 100 in the Sunday Times 'Best Companies to Work For' survey and in early 2022 we were awarded '50 Best Places to Work For in the UK' by Glassdoor, the online career community.

During the year, 86% of our colleagues made the choice to stay and develop their career within Kainos (2021: 92%). While we remain focused on improving as an employer, we also recognise that these reduced levels of retention are also reflective of a global shortage of digital skills.

Since last year, our headcount has grown by 668 to 2,692 people (2021: 2,024), including 153 new colleagues who joined through our acquisitions. Of our colleagues, 12% are contractors (2021: 15%). By region, UK & Ireland increased to 1,940 people (+399), Central Europe increased to 415 people (+74) and the Americas increased to 337 people (+195).

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 – 98% of respondents to our customer surveys rated our service as 'good' or above (2021: 98%).

Existing customers continue to trust us to deliver their most challenging projects, and this is reflected in our revenues, with 88% of revenues coming from our existing clients (2021: 85%). We have also gained new customers during the year, and we now work with 731 customers (2021: 546).

From a sector perspective we have a well-diversified business, with 41% of our revenues from commercial clients (2021: 35%), 37% from public sector organisations (2021: 45%), and 22% from healthcare customers (2021: 20%).

Our international client base has also expanded and as a result our international revenues have grown by 48% to £87.0 million (2021: £59.0 million). Regionally, UK & Ireland accounts for 71% of our business (2021: 75%), North America for 19% (2021: 16%), Central Europe for 9% (2021: 8%), with the rest of the world representing 1% (2021: 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 24% to £199.8 million (2021: £161.6 million), while our bookings increased by 36% to £215.0 million (2021: £157.7 million); correspondingly the backlog increased by 11% to £132.7 million (2021: £119.4 million).

With more opportunities in our addressable markets than we have people to deliver them, we have been prioritising which work we undertake. At the top of that list is our existing project and customer commitments, followed by prioritising new engagements in the commercial and healthcare sectors as we work towards a more balanced sector coverage within the division. All sectors grew during the year, with public sector now representing 54% of divisional revenues (2021: 63%), healthcare 33% (2021: 27%) and commercial sector 13% (2021: 10%).

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. As a result, revenues increased by 6% to £108.4 million (2021: £102.2 million).

Within central government, we continue to consolidate our strong position across key accounts, securing new contracts to deliver digital programmes including Data Products for HM Passport Office (£92 million, five years) and with Defra to deliver their Europe and Trade Delivery Portfolio, and Future Farming and Countryside Programme (£54.5 million, two years).

Commercial sector

In the UK, the commercial sector 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.

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 Concardis and New Ireland and new customers such as IMCO, Danske Bank and Federated Hermes Limited.

Reflecting these higher activity levels, our revenues increased 60% to £25.1 million (2021: £15.7 million).

Healthcare sector

Our healthcare revenues increased by 52% to £66.3 million (2021: £43.7 million).

We have enjoyed strong partnerships with both NHS Digital and NHS X, who have now been merged to form NHS England's new Transformation Directorate. In the past year, our work has been a blend of providing ongoing support to Covid-19 initiatives and, increasingly, to broader healthcare provision and how technology can support the NHS with its ambitious digital plans. In this regard, we are delighted to be named on the £800 million Digital Capability for Health framework.

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 Concardis and in the commercial and public sector in Canada with Investment Management Corporation of Ontario (IMCO) and Government of Canada.

Our international revenues are reported in the figures in the above sectors, but for clarity, international revenues for the division have increased by 112% to £5.5 million (2021: £2.6 million).

Digital Services outlook

We remain extremely positive about the future of digitisation in the UK public sector and within the NHS, 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 year 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 our Workday Practice client base.

Workday Practice performance

Having first engaged with Workday, Inc. 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 39 partners globally who are accredited to implement Workday's innovative SaaS platform.

Revenue for the period grew by 41% to £102.8 million (2021: £73.1 million) and backlog for the division increased by 46% to £127.0 million (2021: £86.7 million), reflecting an increase in bookings of 33% to £134.8 million (2021: £101.1 million).

The number of accredited Workday consultants at Kainos increased by 53% to 638 (2021: 416).

Workday Services

Within Europe, we continue to consolidate our position as the leading Workday partner. This leadership position is the result of high satisfaction levels within our customer base, our geographic expansion and, more recently, the acquisition of Cloudator.

Our international growth started in Europe in 2015 when we opened our office in Amsterdam, we now have colleagues based across 17 European countries (2021: 13). Having entered the North American market in 2018, we now have 323 people (2021: 142) focused on clients in the region.

Within the ecosystem there is an established trend of larger partners buying smaller organisations[5], and we anticipate further transactions will occur in the future. The reduction in the number of partners provides further growth opportunities for Kainos.

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.

Revenue for the year grew by 45% to £70.9 million (2021: £49.0 million); backlog increased by 46% to £51.1 million (2021: £34.9 million); and bookings increased 31% to £78.2 million (2021: £59.9 million).

Acquisitions

In June 2021, we completed the acquisition of Cloudator (55 people), the largest Workday partner in the Nordic region. In September 2021 Buenos Aires-based Une Consulting (42 people) was also acquired, further strengthening our Workday capability in North and South America. In January 2022 we acquired US-based spend management specialist Blackline Group (50 people) and in February 2022 we acquired Planalyse (six people) a well-regarded Workday Adaptive Planning partner based in the Netherlands.

Through these acquisitions, we are delighted to have added the expertise of 153 new colleagues.

In total, the acquisitions completed during the period contributed revenue of £7.7 million (2021: £nil). The net cash-outflow in the period (cash paid less cash acquired) was £16.8 million.

Smart product suite

Workday is a comprehensive SaaS platform, but we believe that there are opportunities to develop software components that are complementary to the platform and 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 currently consists of six modules: HCM, Security, Financials, Payroll, Recruitment and Advanced Compensation, with a further three modules due to launch during 2022 and 2023. In Workday's inaugural Innovation Awards, Smart Test

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[5] *Recent transactions include the Ataraxis acquisition by HR Path (2018). In 2019 Alight acquired the Workday-related business elements of Wipro, for a reported $110 million (350 consultants). In 2020, Accenture acquired US-focused Sierra-Cedar (275 consultants) and Cognizant completed the acquisition of Collaborative Solutions (c.1,000 consultants).*

came first in the Product Innovation category. Smart Test is used by over 300 global customers, including Netflix, Johnson & Johnson and WWE.

Smart Audit became generally available in August 2021 and has already been deployed to over 40 customers including Match.com, University of Virginia and Viasat. Smart Audit is a compliance monitoring tool that allows Workday customers to maintain operational controls over 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 total, Smart product bookings increased 37% to £56.6 million (2021: £41.2 million). This very strong sales performance resulted in revenue increasing 32% to £31.9 million (2021: £24.2 million), of which £28.9 million relates to SaaS subscriptions (2021: £21.0 million); the Annual Recurring Revenue was £34.3 million (2021: £23.6 million), an increase of 45% and backlog increased 47% to £75.9 million (2021: £51.8 million).

Workday Extend

Workday, Inc. has a Platform-as-a-Service offering known as Workday Extend, (previously Workday Cloud Platform) 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 customers to build additional, specialised functionality on the Workday platform to further enhance their Workday deployment. As experts in Workday Extend, we have helped organisations such as Hilti and Aggreko build Workday Extend applications.

In addition to these services-based assignments, Workday Extend provides the opportunity to build further products. During 2021 we have built and deployed applications such as Return to Work, Vaccination Management and Rewards and Recognition. While the focus of these initial deployments has been to demonstrate the capability of Workday Extend, we believe that there are opportunities to create paid-for applications.

Workday Practice outlook

Our strong performance provides further evidence of the strength of the Workday market. With Workday, Inc.'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 goal of achieving $10 billion revenue by 2026.

In addition, we believe that we can outpace this rapid market growth by continuing our international expansion and by replacing other Workday partners in engagements where they are under-serving their customers.

For Smart Test and Smart Audit, and other products that we may develop, our growth will be powered by the increase in Workday clients and by higher penetration of our products 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 £6.2 million (2021: £4.2 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 spans the Company 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 (supporting 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 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. Now a team of 25 people, including externally recruited experts, have seen us 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 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 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, the Confederation of British Industry 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, Inc. 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

FY22 was another year of excellent financial performance as is detailed further in the 'Operational Review'.

In summary, we achieved revenue of £302.6 million (2021: £234.7 million), representing an increase of 29%. Digital Services revenue grew 24% to £199.8 million (2021: £161.6 million), reflecting increased demand for digital transformation across all sectors. Our Workday Practice grew in all its regional markets and as a result revenue grew by 41% (30% organic) to £102.8 million (2021: £73.1 million). This was driven by 45% growth (29% organic) in Workday Services to £70.9 million (2021: £49.0 million) and 32% growth in Smart products to £31.9 million (2021: £24.2 million).

Overall gross margin was 46.3% (2021: 50.4%). Digital Services margins decreased to 38.7% (2021: 44.6%) mainly due to the normalisation of utilisation levels, increased salary and contractor costs and the decrease of Covid-19 related cost savings previously highlighted as non-recurring in nature. Workday Practice margins decreased to 61.1% (2021: 63.3%), also driven mainly by reduced utilisation and increased salary and contractor costs.

Operating expenses

Operating expenses for the year increased by 37% to £93.6 million (2021: £68.2 million). The growth in operating expenses is higher than the revenue growth due to the reduction of non-recurring cost savings in training, recruitment, facilities and travel during the pandemic lockdown, increased investment in our Smart products in both sales and product development, and increased acquisition-related expenses.

Investment in product development increased to £6.2 million (2021: £4.2 million) with all product development costs expensed. Research and Development Expenditure Credit (RDEC) grants recognised during the year totalled £3.2 million (2021: £3.6 million).

Alternative performance measures

The business is managed and measured on a day-to-day basis using underlying results. The Directors believe that the 'adjusted profit before tax', 'adjusted EBITDA' and the 'adjusted diluted and basic earnings per share' measures presented are more representative of the underlying performance of the Group and enable comparability between periods.

To arrive at adjusted results, adjustments are made to 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 are not defined performance measures in UK-adopted IFRS standards. The Group's definition may not be comparable with similarly titled performance measures and disclosures in other entities. Adjusted profit measures can be reconciled to the reported numbers as follows:

Adjusted profit measures

	2022 (£000s)	2021 (£000s)
Profit before tax	**45,993**	50,341
Share-based payment expense and related costs	**3,727**	4,513
Amortisation of acquired intangible assets	**1,890**	383
Compensation for post-combination services	**5,520**	1,836
Acquisition-related expenses	**1,641**	-
Adjusted profit before tax	**58,771**	57,073

	2022 (£000s)	2021 (£000s)
Profit after tax	**35,768**	39,601
Share-based payment expense and related costs	**2,907**	3,656
Amortisation of acquired intangible assets	**1,890**	383
Compensation for post-combination services	**5,520**	1,760
Acquisition-related expenses	**1,641**	-
Adjusted profit after tax	**47,726**	45,400

Adjusted EBITDA

	2022 (£000s)	2021 (£000s)
Adjusted profit before tax	**58,771**	57,073
Depreciation of property, plant and equipment	**1,538**	921
Depreciation of right-of-use assets	**1,654**	1,786
Finance expense	**74**	78
Finance income	**(52)**	(84)
Adjusted EBITDA	**61,985**	59,774

Adjusted pre-tax profit increased by 3% to £58.8 million (2021: £57.1 million). Profit before tax decreased by 9% to £46.0 million (2021: £50.3 million) driven by acquisition-related expenses.

Corporation tax charge

The effective tax rate for the year was 22% (2021: 21%), which is higher than the UK tax rate of 19% due to acquisition expenses which are not deductible for tax and our geographic mix of profits.

Financial position

We continue to have a strong financial position, with £76.6 million of cash and treasury deposits (2021: £80.9 million), no debt and net assets of £107.7 million (2021: £87.6 million). The combined underlying trade receivables and accrued income totalled £74.7 million (2021: £52.1 million), which increased due to the revenue growth in FY22 and due to the fact FY21 had exceptionally high cash conversion.

Property, plant and equipment increased to £14.9 million at year end (2021: £10.3 million). Spending during the year related mainly to premises refurbishment costs and office equipment purchases.

The acquisitions of Cloudator, Une Consulting and Blackline completed during the year, increased the carrying value of goodwill to £18.8 million at 31 March 2022 (2021: £3.1 million) and intangibles to £6.0 million (2021: £3.3 million).

Cash flow and cash conversion

Cash conversion, calculated by taking cash generated by operating activities as a percentage of EBITDA continued to be strong at 83% (2021: 112%).

Dividend

We continue to adopt a progressive dividend policy; maximising shareholder return alongside retaining sufficient funds to invest in long-term growth. We have consistently been profitable and have generated a strong cash balance. The proposed final dividend, if approved by shareholders, is 15.1p and would be payable on 28 October 2022 to all shareholders on the Register of Members on 7 October 2022, and with an ex-dividend date of 6 October 2022. This will make the total dividend for the year 22.2p (2021: 28.2p) which will represent a distribution of 58% of the adjusted profit after taxation for the year (2021: 76%). The total dividend for FY21 of 28.2p includes a special dividend paid in September 2020 of 6.7p per share. Excluding this special dividend the total interim and final dividend for FY21 of 21.5p represents a distribution of 58% of the adjusted profit after taxation for this year.

Consolidated income statement for the year ended 31 March 2022

Continuing operations	Note	2022 (£000s)	2021 (£000s)
Revenue	2	**302,632**	234,694
Cost of sales	2	**(162,386)**	(116,396)
Gross profit	2	**140,246**	118,298
Operating expenses		**(93,625)**	(68,232)
Impairment (loss)/gain (including amounts recovered) on trade receivables and accrued income		**(606)**	269
Operating profit		**46,015**	50,335
Finance income		**52**	84
Finance expense		**(74)**	(78)
Profit before tax		**45,993**	50,341
Income tax expense		**(10,225)**	(10,740)
Profit for the year		**35,768**	39,601

Earnings per share

Basic	7	**29.1p**	32.5p
Diluted	7	**28.5p**	32.1p

Consolidated statement of comprehensive income for the year ended 31 March 2022

	2022 (£000s)	2021 (£000s)
Profit for the year	**35,768**	39,601
Items that may be reclassified subsequently to profit or loss:		
Foreign operations - foreign currency translation differences	**728**	(1,132)
Total comprehensive income for the year	**36,496**	38,469

Consolidated statement of financial position as at 31 March 2022

	Note	**2022 (£000s)**	2021 (£000s)
Non-current assets			
Goodwill		**18,765**	3,121
Other intangible assets		**5,993**	3,288
Property, plant and equipment		**14,867**	10,287
Right-of-use assets		**3,166**	3,857
Investments in equity instruments		**1,343**	1,225
Deferred tax asset		**4,282**	4,020
		48,416	25,798
Current assets			
Trade and other receivables	8	**38,358**	36,609
Prepayments	8	**4,377**	2,777
Accrued income	8	**39,462**	18,354
Treasury deposits		**-**	18,028
Cash and cash equivalents		**76,609**	62,896
		158,806	138,664
Total assets		**207,222**	164,462
Current liabilities			
Trade payables and accruals	9	**(49,199)**	(35,976)
Deferred income	9	**(30,966)**	(21,985)
Current tax liabilities		**(1,959)**	(2,863)
Lease liabilities		**(1,093)**	(1,249)
Provisions		**(872)**	-
Other tax and social security	9	**(11,917)**	(10,652)
		(96,006)	(72,725)
Non-current liabilities			
Provisions		**(1,258)**	(1,735)
Lease liabilities		**(2,268)**	(2,394)
		(3,526)	(4,129)
Total liabilities		**(99,532)**	(76,854)
Net assets		**107,690**	87,608
Equity			
Share capital		**619**	614
Share premium account		**6,433**	5,737
Capital reserve		**3,548**	662
Share-based payment reserve		**15,171**	9,083
Translation reserve		**251**	(477)
Retained earnings		**81,668**	71,989
Total equity		**107,690**	87,608

These financial statements were approved by the Board of Directors and authorised for issue on 20 May 2022. They were signed on its behalf by:

Richard McCann
Director
20 May 2022

Consolidated statement of changes in equity for the year ended 31 March 2022

	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 2020	**610**	**5,446**	**664**	**5,610**	**655**	**46,169**	**59,154**
Profit for the year	-	-	-	-	-	39,601	39,601
Other comprehensive income	-	-	-	-	(1,132)	-	(1,132)
Total comprehensive income for the year	-	-	-	-	(1,132)	39,601	38,469
Equity-settled share-based payment	-	-	-	3,473	-	-	3,473
Current tax for equity-settled share-based payments	-	-	-	-	-	441	441
Deferred tax for equity-settled share-based payments	-	-	-	-	-	1,804	1,804
Issue of share capital	4	291	(2)	-	-	-	293
Dividends	-	-	-	-	-	(16,026)	(16,026)
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[6]	-	(1,600)	1,600	-	-	-	-
Dividends	-	-	-	-	-	(27,419)	(27,419)
Balance at 31 March 2022	**619**	**6,433**	**3,548**	**15,171[7]**	**251**	**81,668**	**107,690**

[6] 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.

[7] £10.3 million relates to exercised or lapsed options and is considered distributable.

Consolidated statement of cash flows for the year ended 31 March 2022

	2022 (£000s)	2021 (£000s)
Cash flows from operating activities		
Profit for the year	**35,768**	39,601
Adjustments for:		
Finance income	**(52)**	(84)
Finance expense	**74**	78
Tax expense	**10,225**	10,740
Share-based payment expense	**3,727**	4,513
Depreciation of property, plant and equipment	**1,538**	921
Depreciation of right-of-use assets	**1,654**	1,786
Amortisation of intangible assets	**1,890**	383
Loss on disposal of property, plant and equipment	**8**	114
Post-acquisition remuneration settled by shares	**2,950**	760
Increase/(decrease) in provisions	**395**	(793)
Operating cash flows before movements in working capital	**58,177**	58,019
Increase in trade and other receivables	**(22,996)**	(9,262)
Increase in trade and other payables	**16,571**	18,397
Cash generated from operating activities	**51,752**	67,154
Income taxes paid	**(7,089)**	(7,213)
Net cash from operating activities	**44,663**	59,941
Cash flows from investing activities		
Interest received	**52**	84
Purchases of property, plant and equipment	**(5,819)**	(1,468)
Acquisition of other investments	**(74)**	(200)
Amounts withdrawn/(placed) on treasury deposit	**18,028**	(18,028)
Acquisition of subsidiaries net of cash acquired	**(16,768)**	-
Net cash used in investing activities	**(4,581)**	(19,612)
Cash flows from financing activities		
Dividends paid	**(27,419)**	(16,026)
Interest paid	**(74)**	(78)
Repayment of lease liabilities	**(1,409)**	(1,763)
Proceeds on issue of shares	**2,301**	293
Net cash used in financing activities	**(26,601)**	(17,574)
Net increase in cash and cash equivalents	**13,481**	22,755
Cash and cash equivalents at beginning of year	**62,896**	40,785
Effect of exchange rate fluctuations on cash held	**232**	(644)
Cash and cash equivalents at end of year	**76,609**	62,896

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 IFRSs'). 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 2022 or 31 March 2021 but is derived from those accounts. Statutory accounts for the year ended 31 March 2021 have been delivered to the registrar of companies, and those for 2022 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 20 May 2022.

2. Segment reporting

All of the Group's revenue during the year to 31 March 2022 was derived from continuing operations. Kainos is structured into two operating divisions: Digital Services and the Workday Practice.

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

2022 ***12 months to 31 March***	**Digital Services (£000s)**	**Workday Practice (£000s)**	**Consolidated (£000s)**
Revenue	**199,831**	**102,801**	**302,632**
Cost of sales	**(122,430)**	**(39,956)**	**(162,386)**
Gross profit	**77,401**	**62,845**	**140,246**
Direct expenses[8]	**(21,723)**	**(37,598)**	**(59,321)**
Contribution	**55,678**	**25,247**	**80,925**
Central overheads[8]			**(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**

2021 ***12 months to 31 March***	**Digital Services (£000s)**	**Workday Practice (£000s)**	**Consolidated (£000s)**
Revenue	161,572	73,122	234,694
Cost of sales	(89,578)	(26,818)	(116,396)
Gross profit	71,994	46,304	118,298
Direct expenses[8]	(16,419)	(27,366)	(43,785)
Contribution	55,575	18,938	74,513
Central overheads[8]			(17,446)
Net finance income			6
Adjusted pre-tax profit			57,073
Share-based payments expense and related costs			(4,513)
Amortisation of acquired intangible assets			(383)
Compensation for post-combination remuneration			(1,836)

[8] 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.

Profit before tax	50,341

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

	2022 (£000s)	2021 (£000s)
United Kingdom & Ireland	**215,606**	175,710
North America	**58,712**	38,099
Central Europe	**27,125**	19,631
Rest of world	**1,189**	1,254
	302,632	234,694

Disaggregation of the Group's revenue is presented in the following tables:

	Digital Services 2022 (£000s)	Digital Services 2021 (£000s)	**Workday Practice 2022 (£000s)**	Workday Practice 2021 (£000s)	**Total 2022 (£000s)**	Total 2021 (£000s)
Type of revenue						
Services	**188,630**	151,163	**64,475**	46,920	**253,105**	198,083
SaaS and related	**5,947**	5,385	**38,295**	26,159	**44,242**	31,544
Third party and other	**5,254**	5,024	**31**	43	**5,285**	5,067
	199,831	161,572	**102,801**	73,122	**302,632**	234,694
Revenue recognition						
At a point in time	**5,254**	5,024	**31**	43	**5,285**	5,067
Over time	**194,577**	156,548	**102,770**	73,079	**297,347**	229,627
	199,831	161,572	**102,801**	73,122	**302,632**	234,694

Digital Services	**2022 (£000s)**	2021 (£000s)
Public	**108,400**	102,180
Commercial	**25,120**	15,653
Healthcare	**66,311**	43,739
	199,831	161,572
Workday Practice		
Public	**2,582**	3,314
Commercial	**98,678**	65,428
Healthcare	**1,541**	4,380
	102,801	73,122
Total	**302,632**	234,694

Revenue for the Workday Practice can also be analysed as follows:

	2022 (£000s)	2021 (£000s)
Workday Practice		
Workday Services	**70,868**	48,972
Smart	**31,933**	24,150
	102,801	73,122

3. Profit for the year

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

	2022 (£000s)	2021 (£000s)
Total staff costs	**168,395**	125,962
Government grants	**(479)**	(2,193)
Research and development expensed as incurred	**6,176**	4,162
Research and Development Expenditure Credit	**(3,205)**	(3,643)
Depreciation of property, plant and equipment	**1,538**	921
Depreciation of right-of-use assets	**1,654**	1,786
Loss on disposal of property, plant and equipment	**8**	114
Net foreign exchange loss/(gain)	**62**	(128)
Amortisation of acquired intangibles	**1,890**	383

4. Staff numbers

The average number of employees during the year was:

	2022 Number	2021 Number
Technical	**1,705**	1,283
Administration	**234**	190
Sales	**158**	111
	2,097	1,584

5. Tax expense

	2022 (£000s)	2021 (£000s)
Current tax expense:		
Current year (UK)	**7,882**	9,233
Current year (overseas)	**4,011**	2,433
Adjustments in respect of prior years	**(1,043)**	(47)
	10,850	11,619
Deferred tax		
Origination and reversal of temporary differences	**(1,187)**	(879)
Adjustment to prior years	**637**	-
Change in tax rate	**(75)**	-
	(625)	(879)
	10,225	10,740

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:

	2022 (£000s)	2021 (£000s)
Current tax		
Permanent element of share-based payment deduction	**1,610**	441
Deferred tax		
Deferred tax on share-based payments	**(883)**	1,804
Effect of rate change	**603**	-
Total tax recognised directly in equity	**1,330**	2,245

UK corporation tax has been calculated at 19% (2021: 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 2022 was 22% (2021: 21%).

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 by the balance sheet date and therefore included in these financial statements. Temporary differences have been remeasured using these enacted tax rates that are expected to apply when the liability is settled, or the asset realised. The impact of this remeasurement has 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:

	2022 (£000s)	2021 (£000s)
Profit before tax on continuing operations	**45,993**	50,341
Tax at the UK corporation tax rate of 19% (2021: 19%)	**8,739**	9,565
Expenses not deductible for tax purposes	**1,050**	544
Tax exempt income	**(35)**	(60)
Effect of foreign exchange on consolidation	**214**	(65)
Effect of tax rates in foreign jurisdictions	**671**	803
Adjustments to tax charge in respect of prior years	**(406)**	(47)
Change in UK tax rates	**(8)**	-
Tax expense for the year	**10,225**	10,740
Effective tax rate	**22%**	21%

6. Dividend

	2022 (£000s)	2021 (£000s)
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for 2022 of 7.1p per share	**8,774**	-
Final dividend for 2021 of 15.1p per share	**18,645**	-
Interim dividend for 2021 of 6.4p per share	**-**	7,831
Special dividend paid September 2020 of 6.7p per share	**-**	8,195
	27,419	16,026

The Board has proposed a final dividend in respect of the year ended 31 March 2022 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 15.1p per share (£18.7 million in total) and payable on 28 October 2022 to all shareholders on the Register of Members on 7 October 2022, and with an ex-dividend date of 6 October 2022.

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.

	2022 (£000s)	2021 (£000s)
Profit attributable to ordinary shareholders	**35,768**	39,601
	Thousands	Thousands
Issued ordinary shares at 1 April	**122,785**	122,089
Effect of shares held in trust	**(863)**	(917)
Effect of share options vested and exercised	**802**	646
Effect of shares issued related to a business combination	**31**	-
Effect of shares issued related to free share awards	**49**	80
Weighted average number of ordinary shares at 31 March	**122,804**	121,898
Basic earnings per share	**29.1p**	32.5p

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.

	2022 (£000s)	2021 (£000s)
Profit attributable to ordinary shareholders	**35,768**	39,601
	Thousands	Thousands
Weighted average number of ordinary shares (basic)	**122,804**	121,898
Effect of share options on issue	**1,256**	611
Effect of shares held in trust	**863**	917
Effect of potential shares to be issued related to a business combination	**410**	-
Weighted average number of ordinary shares (diluted) at 31 March	**125,333**	123,426
Diluted earnings per share	**28.5p**	32.1p

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 2022, 39,451 options (2021: 47,067) 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.

	2022 (£000s)	2021 (£000s)
Adjusted profit for the year	**47,726**	45,400
	Thousands	Thousands
Weighted average number of ordinary shares for the purposes of basic earnings per share	**122,804**	121,898
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**125,333**	123,426
Adjusted basic earnings per share	**38.9p**	37.2p
Adjusted diluted earnings per share	**38.1p**	36.8p

8. Trade and other receivables

	2022 (£000s)	2021 (£000s)
Trade receivables	**35,228**	33,739
Other receivables	**3,130**	2,870
	38,358	36,609
Prepayments	**4,377**	2,777
Accrued income	**39,462**	18,354
	82,197	57,740

9. Trade and other payables

	2022 (£000s)	2021 (£000s)
Trade payables and accruals	**49,199**	35,976
Deferred income	**30,966**	21,985
Current tax liabilities	**1,959**	2,863
Other tax and social security	**11,917**	10,652
	94,041	71,476