



## Interim Results

6 months ended 30th September 2018

Brendan Mooney | Richard McCann | 26/11/2018



# First half highlights

Performance in-line with upgraded market expectations.

Strong performance across all key operational areas, with strong sales execution underpinning future growth prospects.

## Very strong performance across all financial indicators.

- Revenue, profit, cash and sales orders all recording very strong growth.

## Strong revenue diversification.

- International up 28% to £12.8m.
- Commercial up 30% to £17.6m.
- SaaS and software-related revenues up 13% to £9.9m.

## Ongoing demand within Digital Services.

- Significant engagements within UK Government.
- Strengthened as leading Workday partner, now appointed as partner for Canada.

## Digital Platforms making progress against milestones.

- Revenue growth of 13% to £9.9m (H1 2018: £8.7m).
- 139 customers on Kainos Smart (H1 2018: 103).

## Maintained strong R&D activity with investment of £2.2m expensed (H1 2018: £2.6m).

## Continue to build an exceptionally talented team.

- 1,324 people now working in Kainos, across 11 offices.

<sup>(1)</sup> Adjusted pre-tax profit calculated by taking the profit before tax and adding back £1.3 million share-based payments (H1 2018: £0.3 million).



# £67.2m

REVENUE UP 62%



# £10.1m

ADJUSTED PRE-TAX  
PROFIT<sup>(1)</sup> UP 42%



# £38.8m

CASH UP 42%



# £90.2m

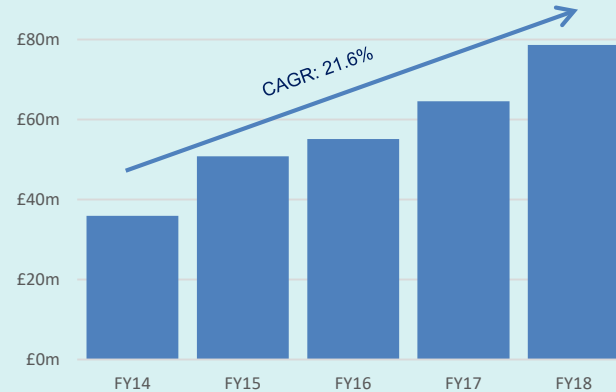
SALES ORDERS UP 42%

# Group overview

Digital Services: we are a key partner to UK government and the leading European boutique partner for Workday.

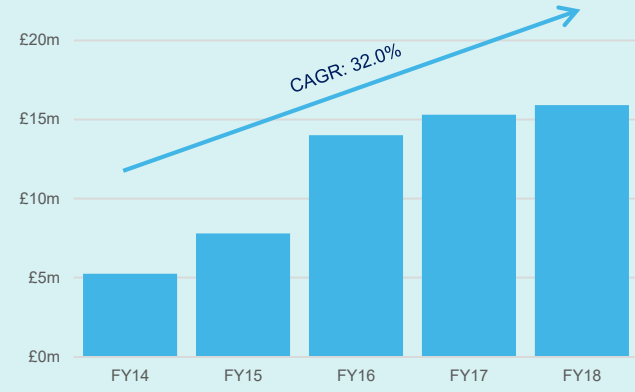
Digital Platforms: our software is used by over 170 national and international clients.

## DIGITAL SERVICES



- Digital Transformation: Online digital platforms for commercial and government clients.
- Workday Services: Deployment of Workday SaaS HR and Financial platform for enterprise customers.

## DIGITAL PLATFORMS<sup>(1)</sup>



- Smart: Automated testing software that allows Workday customers to verify their Workday configuration both during implementation and in live operation.
- Evolve EMR: Digitised patient records platform, focused on the UK and Ireland markets.

<sup>(1)</sup> Excludes 3<sup>rd</sup> party revenue. Revenue inclusive of 3<sup>rd</sup> party for the same periods are: £6.0m, £10.0m, £21.5m, £19.0m and £18.1m representing CAGR of 31.5% (FY14 – FY18).

# Financial Summary

Kainos is a high growth, high margin company providing digital services and digital platforms.

Kainos is head-quartered in the UK, with a growing international presence.

## H1 2019 results underpin FY19 full year performance.

- Based on consensus market forecasts, FY19 will represent the ninth consecutive year of revenue and adjusted pre-tax profit growth

## Financial Metrics.

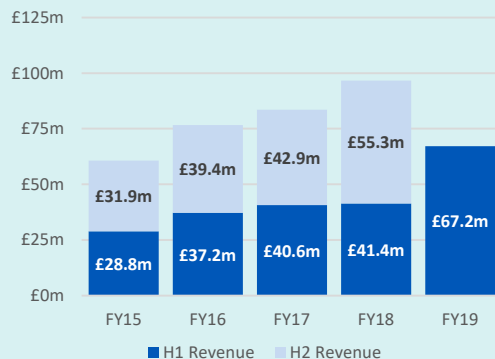
- Five-year revenue growth CAGR of 23% (FY14-FY18).
- Growth has been entirely organic.
- Excellent revenue visibility: backlog up 29% to £125.6m (H1 2018: £97.1m).
- Strong, sustainable adjusted pre-tax profit<sup>(1)</sup> margin: 15% (H1 2018: 17%).
- Cash balance up 42% to £38.8m (H1 2018: £27.3m).

## Earnings.

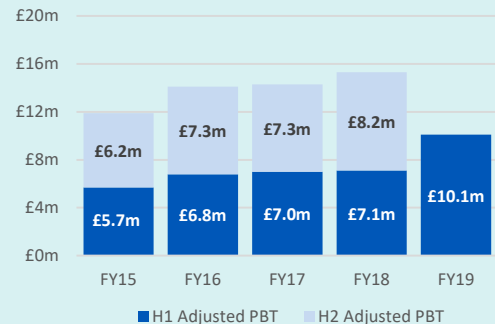
- Adjusted diluted EPS: up 35% to 6.6p per share (H1 2018: 4.9p).
- Dividend declared: increased by 40% to 2.8p per share (H1 2018: 2.0p).
- Payment date: 28/12/2018.
- Ex Dividend date: 06/12/2018.

(1) Adjusted to remove the effect of share-based payments

## REVENUE



## ADJUSTED PRE-TAX PROFIT



# People

We continue to build an exceptionally talented and engaged workforce.

Our international expansion continues and our 12<sup>th</sup> office, Toronto, will open in early 2019.

## Talent development and retention is key to long term success.

- Good levels of engagement, although attrition has increased to 14% (H1 FY2018: 12%).

## Recruitment key to our growth plans, with 30% headcount increase to 1,324.

- 244 people joined, 91 from education, 153 from industry.
- 78% hired directly, 22% via agencies.

## Where they live.

- |                     |                    |
|---------------------|--------------------|
| • Northern Ireland: | 678 (+100 people). |
| • Great Britain:    | 324 (+171 people). |
| • Poland:           | 251 (+20 people).  |
| • Rest of World:    | 71 (+14 people).   |

## What they work on.

- |                      |                    |
|----------------------|--------------------|
| • Digital Services:  | 946 (+338 people). |
| • Digital Platforms: | 226 (-49 people).  |



**1,324**  
PEOPLE, UP 30%



**9,282**  
JOB APPLICANTS;  
1,857 INTERVIEWS



# Customers

We build long-term relationships with our customers by delivering exceptional value and best-in-class service.

Over 90% of revenue is from our existing clients, a pattern that has repeated over many years.

## Revenue diversification continues, across a series of segments.

- Commercial up 30% to £17.6m (H1 2018: £13.6m).
- International up 28% to £12.8m (H1 2018: £10.0m).
- Healthcare up 67% to £11.0m (H1 2018: £6.6m).

## Existing customers underpin revenue growth.

- Recurring revenue: 19% (H1 2018: 23%).
- Repeat customer revenue: 76% (H1 2018: 69%).

## Best-in-class customer service.

- 90% of customers rating the overall Kainos performance as 'good', 'very good' or 'excellent' (H1 2018: 99%).

## New customers.



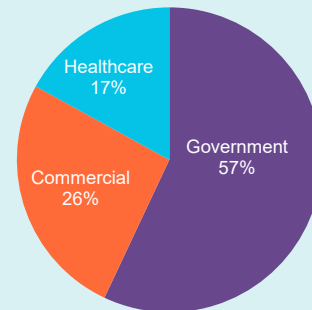
East Suffolk and North Essex  
NHS Foundation Trust



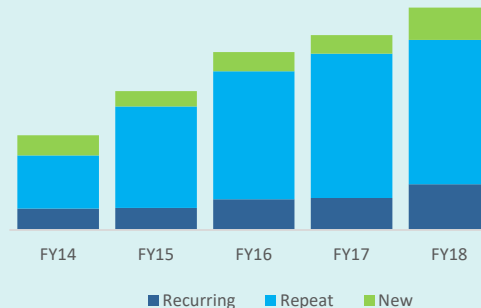
Department for  
International Trade



## H1 SECTORAL REVENUE



## REVENUE TYPE



# kainos®

## Digital Services



# Digital Services

A very strong revenue and margin performance in the past reporting period.

A very strong sales performance, up 50%, has resulted in a very strong backlog and excellent future revenue opportunity.

**Digital Services represents 85% of Group revenue.**

**Very strong revenue performance, up 75%.**

- Digital Transformation revenue up 78% to £47.0m (H1 2018: £26.4m).
- Workday Services revenue increased 64% to £10.3m (H1 2018: £6.3m).

**Very strong sales performance, up 50%.**

- Digital Transformation sales orders up 42% to £67.0m (H1 2018: £47.3m).
- Workday services sales orders up 102% to £15.5m (H1 2018: £7.7m).

**Backlog increased by 58% to £90.3m (H1 2018: £57.3m).**

**Good progress in Commercial Sector (27% growth), but outpaced by Public Sector expansion (81% growth).**

## REVENUE

# £57.3m

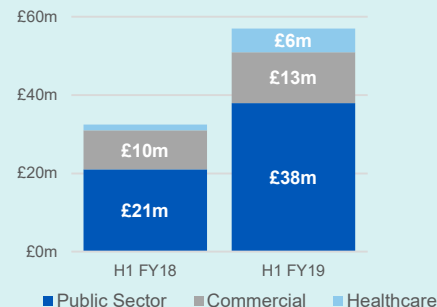
UP 75%

## SALES ORDERS

# £82.4m

UP 50%

## REVENUE TRENDS





# Digital Transformation

With over 80 projects delivered in the UK Public Sector, we have established a clear reputation for delivering value, at pace.

We remain well-positioned to maintain a central role in Public Sector transformation.



## Driver & Vehicle Standards Agency

- MOT Replacement
- Mobile IT
- Cloud hosting migration
- Drivers Theory Test



## HM Prison & Probation Service

- Assisted Prison Visits
- Workload Management Tool
- Digital Prisons Cloud and IdAM Platform
- Prisoner Phone No. PoC



## Driver & Vehicle Licensing Agency

- View Driver Records
- View Vehicle Records
- Online Enforcement Payments
- Digital Services Platform



## Department for Business, Energy & Industrial Strategy

- Digital Mortgage
- Student Finance
- Local Land Charges digital register



## Foreign & Commonwealth Office

- Emergency Travel Documents
- Digital Maintenance



## Department for Work & Pensions

- New State Pensions
- Tell Us Once Re-platform



## Department for International Trade

- Lite Export Licensing System



## Department for International Development

- Foreign Aid Development Tracker



## Home Office

- Allegations
- Digital Services at the Borders
- Special Case Review
- Home Office Platform Storage
- Registered Traveller
- Civil Service Learning
- Passport Applications



## Cabinet Office

- GOV.UK PaaS
- Licence Application
- Innovations
- Civil Service Tools
- Register to Vote
- Dashboards
- Spend Controls



## Department for Environment Food & Rural Affairs

- Rural Payments
- International Trade Programme



## Ministry of Justice

- CJS Common Platform
- Identity and Access Management
- Automated Case Management
- Azure migration
- HMCTS Reform

# Digital Transformation

Continued demand from UK Public Sector and continued progress in the Commercial Sector.

Early business generation activity in UK NHS market showing promise.

## Very strong performance in Central Government.

- Extended our presence Central Government, now operating across 16 major departments and agencies, adding Department for International Trade in the past period.

## Brexit: no impact.

- Clear, unwavering Government commitment to deliver key digital programmes, reflected in revenue growth and strong sales order closure.

## Progress continues in the Commercial Sector.

- A total of 37 clients engaged in digital projects; across UK, Ireland and Germany.
- New projects focused on data and data insights, typically the starting point for major transformation programmes.

## Developing NHS Digital Opportunity.

- Delivering significant elements of NHS Online and the NHS App, both of which entered private beta testing in October 2018 and on schedule for general availability in December 2018.

## MARKET SIZE

# £885m

UK PUBLIC SECTOR FY18 SPEND

## COMPETITIVE LANDSCAPE

CENTRAL GOVERNMENT

valtech\_ "bjss ThoughtWorks®

methods  Deloitte.



COMMERCIAL SECTOR

"bjss ThoughtWorks®

## COMMERCIAL DYNAMICS

- Direct sales model.
- Primarily time and materials.

# Case Studies: Digital Transformation

Our services are driving digital transformation in government, healthcare and the commercial sectors, nationally and internationally.

## Department for Transport – Street Manager



Approx. 2.5 million street and road works each year.



Across 153 Local Highway Authorities and 60 utility companies in England.



£10m investment in Street Manager.

- A new digital service to transform planning, management and communication of street and road works.
- A single source of accurate data on live and planned works that will be used to minimise disruption and improve journeys for the public and emergency services.

## NewDay



6 million customers of popular credit cards - Amazon, Debenhams and Top Shop.



Ingesting 100GB of data daily.



Fully PCI DSS Compliant cloud hosted solution protecting 8 million credit cards.

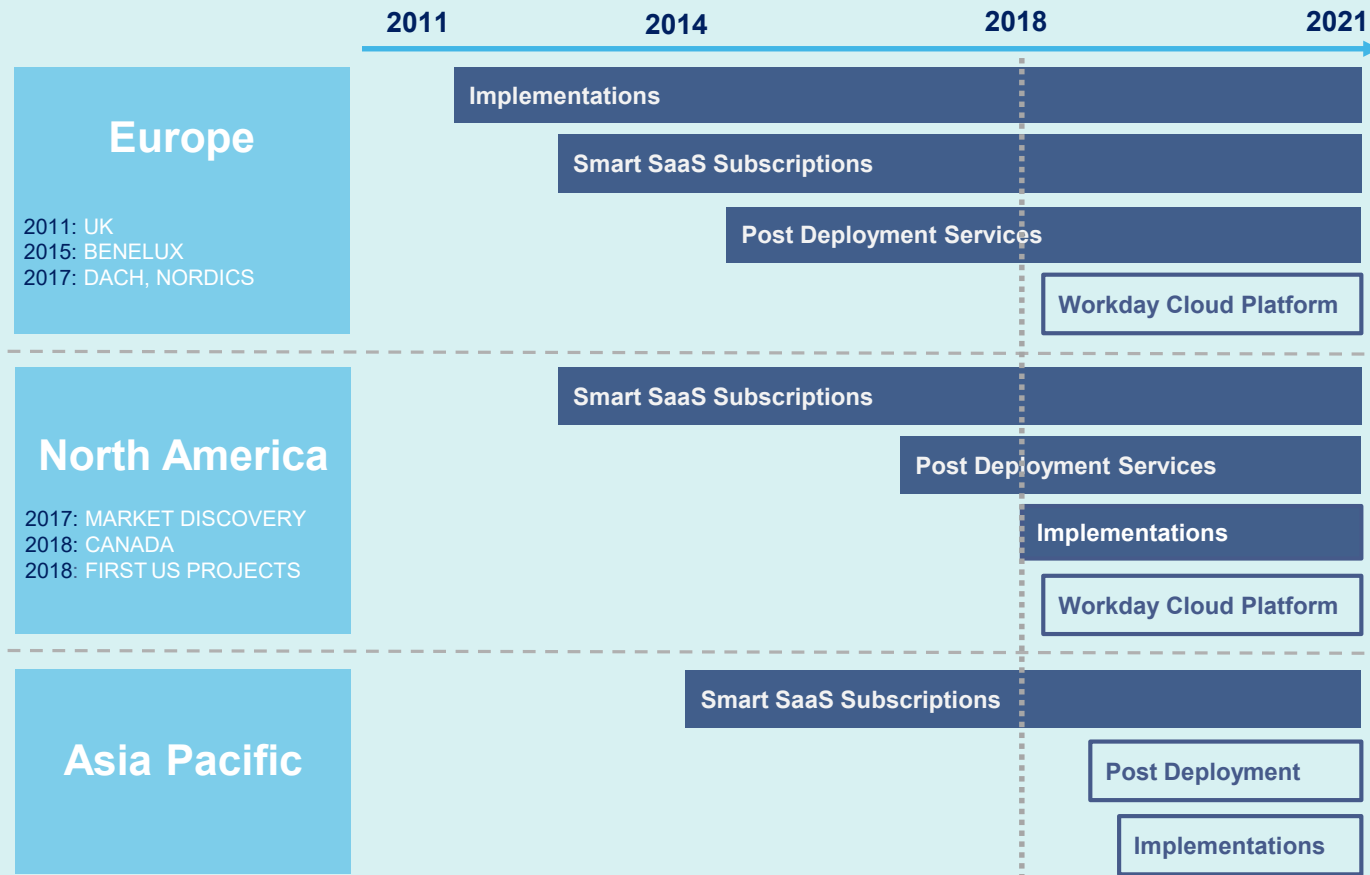
- We are NewDay's strategic data partner, creating a contemporary, scalable, agile data platform based on open source and cloud technologies.
- NewDay is on a journey to become the leading digitally-enabled consumer finance provider in the UK.

# The Workday opportunity

Globally, there are 33 partners accredited to implement Workday's SaaS platform.

24 of those are boutique (specialist) partners.

Our ambition is to be the #1 boutique partner, globally.



# Workday Services

Of the 33 partners accredited to implement Workday's innovative SaaS platform, we are one of the most experienced participants in the partner ecosystem.

## Strengthened our position as leading European partner.

- Strong sales closure: 33 deals signed (H1 2018: 16).
- A total of 34 clients in mainland Europe (H1 2018: 17).

## Continued regional expansion, entering North American market.

- Appointed as a Workday partner in Canada.
- Signed first implementation project in US.

## Maintained leadership position in UK Public Sector.

- Leveraging Kainos reputation within UK public sector.
- 7 customers now signed by Workday, 6 are being delivered by Kainos.

## Increased annuity-style Post Deployment Service, supporting customers already live on Workday.

- Accounts for £4.0m (H1 2018: £1.7m) with 68 customers (H1 2018: 23).

## Mercer acquired France-based Everbe in June 2018.

## Continue to develop our people: 197 accredited consultants (H1 2018: 137).


## MARKET SIZE

# £110m


UK & NORTHERN EUROPE

## COMPETITIVE LANDSCAPE

 (NORDICS)

 (UK, EUROPE)

 (UK, EUROPE)

 (UK, EUROPE)

 (BENELUX)

## COMMERCIAL DYNAMICS

- Direct sales model.
- Primarily time and materials.

# Case Studies: Workday Services

Our focus on delivering customer success has resulted in excellent client references, both locally and internationally.

## ConsenSys



1100 employees globally.



Operating in 14 offices inc San Francisco, Toronto, London, Bucharest and Dubai.



ConsenSys Labs is incubating over 50 active projects.

- Deployment of Workday Financials globally for ConsenSys across their 7 core countries USA, UK, France, Switzerland, Canada, Ireland and Romania within 12 weeks.
- An additional 5 countries will be completed in phases 2 and 3.
- First client in the Blockchain market.

## Innovate UK



500+ employees.



Government Agency, part of UK Research and Innovation.



Have invested £2.5bn in UK businesses.

- Appointed in 2017 to implement the HCM and Financials modules.
- Now been extended to include Post Deployment.

# kainos®

## Digital Platforms



# Digital Platforms Overview

Digital Platforms comprise specialised products in the automated testing and digital healthcare arenas.

Our software is used by over 170 national and international clients.

## Revenues increased 13% to £9.9m (H1 2018: £8.7m).

- Five-year CAGR of 32% (FY14-FY18).
- Currently represents 15% of Group revenue.
- Strong long-term revenue visibility, with backlog at £35.4m (H1 2018: £39.8m).

## Maintained strong R&D activity with investment of £2.2m expensed (H1 2018: £2.6m).

- Slight reduction in expenditure as major development milestones achieved.

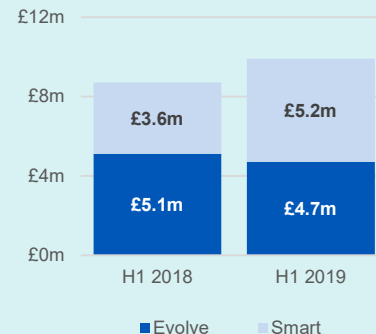
### Smart for Workday.

- A SaaS platform uniquely engineered for the Workday product suite and is used to automatically verify Workday configurations in 139 customers globally.

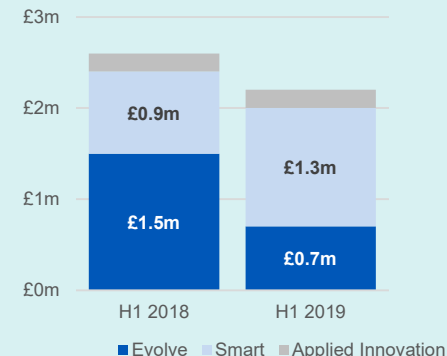
### Evolve Electronic Medical Record (EMR).

- The leading EMR platform, selected by 35 NHS Trusts, deployed across 110 hospitals, with 35 million patients registered and managing 1.5 billion images.

## REVENUE TREND



## INVESTMENT TREND





# Smart for Workday

Smart is a proprietary software tool that allows customers to automatically verify their Workday configuration.

Smart is the only automated testing platform specifically designed for Workday.

## Over 135 global customers using Smart.

- Further 28 signed in H1 including Cloudera, Deakin University Australia, Desjardins Insurance and Delivery Hero.

## Financial performance underlines strength of product and market opportunity.

- Revenue: up 43% to £5.2m (H1 2018: £3.6m).
- Sales Orders: up 27% to £7.3m (H1 2018: £5.7m).

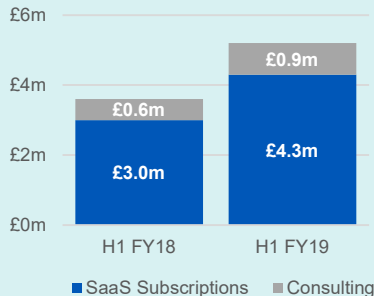
## Four Smart modules: HCM, Security, Financials and Payroll.

- Over 90% of customers have purchased both HCM and Security subscriptions.

## Workday Cloud Platform (WCP).

- Workday's Platform as a Service (PaaS) offering.
- Kainos is part of Workday's early adopter programme.
- Offers future opportunity – additional IP development, specialised development services to Workday customers and partners.

## REVENUE TREND



## MARKET SIZE

# £210m

3,600 WORKDAY Inc. CLIENTS BY FY21

## COMPETITIVE LANDSCAPE



## COMMERCIAL DYNAMICS

- Direct sales model.
- Subscription (SaaS).

# Case Studies: Smart for Workday

Smart is a cloud-based SaaS solution licensed on a subscription basis to customers.

## Sun Life Assurance of Canada



34,000 employees.



\$29.3 billion in revenues.



Presence in 26 countries.

- Smart reduced testing time for six-monthly Workday update by 75%.
- Also using Smart HCM and Security modules for weekly regression testing.
- Used Smart to test new functionality when rolling out Workday in AsiaPac.

## EW Scripps



4,100 employees.



Leading US broadcaster with 33 stations nationwide.



\$865 million in revenues.

- Utilising Smart to streamline testing during their initial Workday implementation.
- Smart automated testing modules: HCM & Integrations, Security and Payroll.
- Smart used to improve test coverage and save on manual test effort.

# Evolve

Evolve EMR is the leading product for the digitisation of patient records in the Acute Sector of the NHS.

Current projects in Ireland suggest a wider opportunity within the market.

## Performance reflects continuing NHS funding headwinds.

- Revenue down 8% to £4.7m (H1 2018: £5.1m).
- Sales Orders at £0.5m (H1 2018: £2.7m).

## Slight increase in NHS procurement activity, but generally a subdued picture.

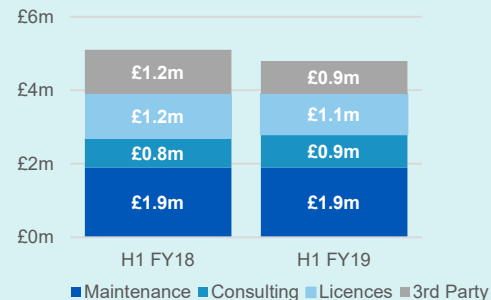
### First hospitals now live in Ireland.

- Successful, live operation commenced in Saolta Group (Galway) in November 2018, with National Children's (Dublin) scheduled for early 2019.
- Irish market represents 48 hospitals and care locations.

## Termination of US partner arrangement referred to US counsel.

- Early termination by InTouch Health of partner arrangement being pursued in US courts for unpaid contracted revenues.

## REVENUE TREND



## MARKET SIZE

# £200m

OVER 90 TRUSTS IN ENGLAND TO PROCURE

## COMPETITIVE LANDSCAPE



ccubesolutions

CIVICA

## COMMERCIAL DYNAMICS

- Direct sales model.
- Historically perpetual licence, moving to a subscription/SaaS model.

# kainos<sup>®</sup>

## Financial Performance



# Financials: Income Statement

Exceptional revenue growth.

Gross margin impacted by use of contractors.

Net margins impacted by recruitment and geographic expansion costs.

## Digital Services:

- Very strong revenue growth in both segments.
  - Digital Transformation: 78%.
  - Workday Services: 64%.
- Gross Margin decreased by 4%.
  - Underlying staff margin unchanged.
  - Increased use of contractors and partners.
  - Utilisation 76% (H1 2018: 73%).

## Digital Platforms:

- Strong revenue growth: 13%.
  - Smart revenue growth: 43%.
  - Evolve revenue decline: 8%.
- Gross margin increased by 5%.
  - Mix related – higher margins for Smart.

## Operating expenses:

- Digital Services increase 94%
- Digital Platforms increase 3%.
  - Reduced Evolve R&D spend.
  - Increased Smart R&D spend.
- Central overheads increase 88% (58% excluding recruitment costs and Evolve OEM write off).

**Tax rate 20% (H1 2018: 19%).**

## INCOME STATEMENT

£m	H1 2019	H1 2018	FY 2018	HY Change
Digital Services	57.3	32.7	78.6	75%
Digital Platforms	9.9	8.7	18.1	13%
<b>Revenue</b>	<b>67.2</b>	<b>41.4</b>	<b>96.7</b>	<b>62%</b>
Digital Services	25.0	15.4	36.0	62%
Digital Platforms	5.8	4.7	10.6	23%
<b>Gross profit</b>	<b>30.8</b>	<b>20.1</b>	<b>46.6</b>	<b>53%</b>
Operating expenses	(20.8)	(13.0)	(31.3)	(59%)
<b>Adjusted pre-tax profit</b>	<b>10.1</b>	<b>7.1</b>	<b>15.3</b>	<b>42%</b>
<i>Adjusted pre-tax profit margin</i>	15%	17%	16%	
Share based payments	(1.3)	(0.3)	(1.1)	
<b>Profit before tax</b>	<b>8.7</b>	<b>6.8</b>	<b>14.2</b>	<b>28%</b>
Taxation	(1.8)	(1.3)	(2.6)	
<b>Profit after tax</b>	<b>7.0</b>	<b>5.5</b>	<b>11.7</b>	<b>27%</b>

# Financials: Balance Sheet and Cashflow

Strong Balance Sheet.

Cash conversion 93%.

Dividend growth: 40%.

## Balance Sheet:

- Limited fixed assets; IT, office equipment.
- Underlying trade receivables/WIP total 68 days (FY 2018: 75 days).
- Increase in WIP at period end to £9.1m (H1 2018: £8.1m).
- Significant cash reserves £38.8m.
- Debt free.

## Cashflow:

- Cash conversion 93%<sup>(1)</sup> (H1 2018: 63% <sup>(1)</sup>).
  - Improved working capital.
- Dividend declared 2.8p (H1 2018: 2.0p).

<sup>1</sup> Cashflow from Operations (CFFO) divided by adjusted EBITDA

<sup>2</sup> EBITDA adjusted for share based payments

## BALANCE SHEET

As at 30 September (£m)	H1 2019	H1 2018
Fixed assets and investments	3.6	2.9
Receivables and WIP	30.1	22.4
Other assets	3.7	2.4
Cash	38.8	27.3
<b>Total assets</b>	<b>76.2</b>	<b>55.0</b>
Liabilities	(30.4)	(18.8)
<b>Shareholders' funds</b>	<b>45.8</b>	<b>36.2</b>

## CASH FLOW

£m	H1 2019	FY 2018	H1 2018
<b>EBITDA</b>	<b>10.5</b>	<b>16.3</b>	<b>7.6</b>
Cash generated by operations	9.8	15.7	4.8
Cash Conversion	93%	96%	63%
Taxation	(0.5)	(1.5)	(0.6)
Capital expenditure	(1.0)	(1.2)	(0.5)
Dividends	-	(7.5)	-
<b>Net cash inflow/(outflow)</b>	<b>9.9</b>	<b>5.4</b>	<b>3.6</b>

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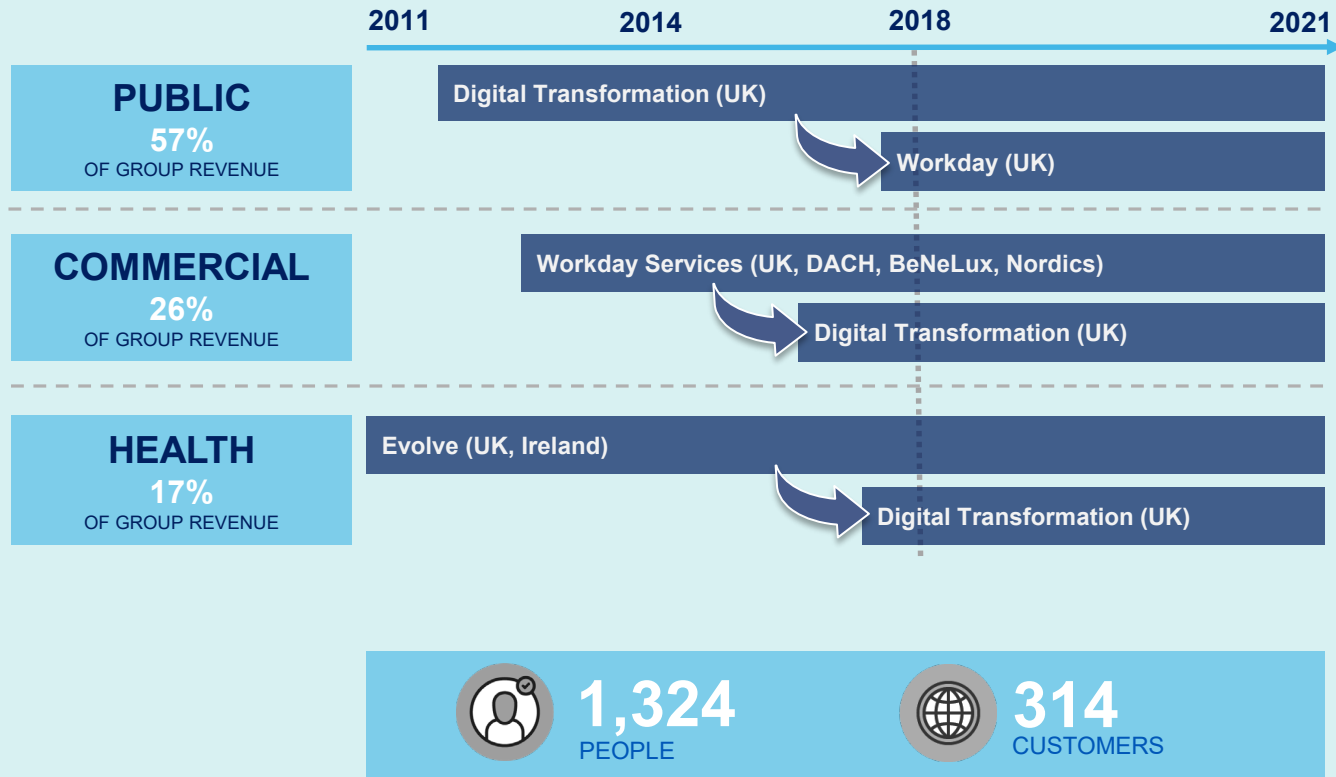
## Looking Ahead



# Market Expansion

Kainos remains on track to meet upgraded full year expectations.

We are expanding our offerings across our key sectors.





# Legal and Confidentiality Statement

This document contains statements about Kainos Group plc that are or may be forward-looking statements. Forward-looking statements include statements relating to (i) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, dividend policy, losses and future prospects; (ii) business and management strategies and the expansion and growth of Kainos Group plc's operations; and (iii) the effects of government regulation on business.

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