kainos®

Welcome

(Speaker: Russell Sloan, CEO)

Good morning everyone, sorry to keep you for a couple of minutes, usual technical issues.

You are all very welcome. This is our Interim Results presentation up to the end of the 30th of September 2023 and the first time that I have the opportunity to present the results. Greetings from a very wet and miserable Belfast this morning as well, I don't what it's like in any other part of the country.

I will flag that I have been busy, in addition to some of the media commitments this morning, I've been packing my bag to head to Barcelona where the forecast is 22 degrees and sunny. But more importantly I'm heading out to Workday Rising, it's the European leg of their annual conference where I'll be meeting Angelique De Vries who is the head of Europe for Workday and some others, so very much looking forward to that.

Housekeeping

So, I'm going to start going the presentation in a couple of minutes, a couple of quick housekeeping points. The presentation from Richard and I will take around about 40 minutes, give or take.

During the presentation, your connection will be muted so please feel free to ask questions in the chat or the Q&A functionality. At the end of the presentation, FTI will moderate the Q&A session. We are recording this broadcast and we'll be using Teams to generate a transcript of the call. We'll edit the transcript for clarity before publishing on our website.

So, with that in mind, I will get into the presentation.

Firstly, Safe harbour statement which you are all very familiar with. So have a very quick read through and then into the actual contents.

Contents

So, you'll notice we have taken the opportunity to update some of the images on our slides. So, the slide that you see here is from our Birmingham graduate cohort in the lift up to our revamped Birmingham office. And the guys are clearly very pleased to be there.

So, the rest of the presentation follows a familiar format. We'll do a business overview; we'll talk about the individual divisional performance. Then Richard is going to cover off the financial performance and finish up with a look ahead before we get into the Q&A.

Business Overview

So, in the business overview, the first thing that always strikes me when I look at this slide is that we have three very strong divisions. They're all performing well with strong growth over an extended period of time and strong growth both in margins and strong future opportunities.

In the current climate, we've spent a bit of time reassessing and confirming the size of the market and the estimates. We believe that these are still valid today. So it's important just to remind ourselves the scale of the opportunity and the markets that we're in. So, the scale adds up to a combined market value of £4.5 billion.

Expertise at a global scale

So, some of our customers - we are very proud of the customers we work with and the projects that we undertake and do with them. So, our customer cohort is now nearly 900. We work with ambitious organisations and some incredibly well-known international brands.

We have 30 on the screen and one of the things that you'll see as a theme from today is the use of the word "international". It's important. Nearly 40% of our revenues now are derived internationally and we need to start thinking of Kainos as being a truly international company rather than [just] a UK company.

Highlights

But, in terms of the highlights for the first half of the year, a very pleasing performance. We're delivering further growth on top of a very strong growth from last year where we grew at 26% and this is in the backdrop of some macro-economic uncertainty.

So, we had strong performance from our core growth engines of public sector, of Workday Products [and] of Workday Services. In the healthcare sector, we've seen further reductions as Covid-19 spending has fully unwound and we've seen some reductions in scope for commercial sector business in Digital Services. We are not expecting any further material declines in either of these.

Probably, the thing that's most pleasing for me is the disciplined execution in the first half of the year. Our adjusted profit margin is now 20% so it's up 11% from this time last year and it's really in that sort of top-class level of execution.

We think about what the drivers behind that are - our utilisation has increased by 2%, our contractor numbers have reduced from 303 down to 111. And our average salary cost over the period of the last year increased by only 1% compared to last year, where I've been talking about an 11% increase.

So, as part of our agile model, and the way we are able to move our people around the business, we've been able to move people from less busy areas to more busy areas, just demonstrating that flexibility and resilience that we have in the business.

So, within our Workday Products, we have continued to invest in research and development and in sales and the investment is up 34% to £12 million. But importantly, we remain very much on track to achieve our £100 million ARR target by 2026. We are now past the halfway point, at the end of September, ARR was over £55 million. And while we've not yet achieved the £100 million target, it is firmly in our sights and just to share with you, the internal conversations are now you very much about setting the next milestone beyond £100 million.

So, our bookings mirror some of the revenue comments; the core growth engines are excellent. The lower levels, we've seen lower levels in commercial sector in digital services and in healthcare. It is down as a comparator, but it is a tough comp. This time last year, we were talking about Workday Services increase in bookings of 125% where we signed a couple of big contracts in the first half of the year. So, the plaudits were taken last year so I think I need to address just the underlying comparison this year as well.

We've seen record levels of backlog, our backlog now stands at £327 million and that underpins and drives our confidence in the future performance of the business. And our cash balance is at a very healthy level and well in excess of £100 million.

So, I'll finish this slide by talking about our people, our people numbers have increased by 8% to 3139, but let me expand more on that on the following page.

Our People

As a reminder, our people are always the driving force of our business. It's about their energy, their expertise and experience that really drives a business performance.

The 8% increase in People does not tell the whole story, however. I mentioned about the contractor reduction. If you actually take the contractor reduction as well, we've seen a 16% increase in our permanent head count. So that's really a statement of confidence about our business. And again, just coming back to that operational excellence - we've seen a contractor reduction, we've seen a strong graduate intake, and that's allowed us to rebalance some of the cost in the business as well. We've seen the increased utilisation which I already talked about and this is also on the backdrop of a recruitment market which has cooled a little and it's making it slightly easier to get permanent staff.

Thinking about our global locations, through the acquisition of Rapid-IT Cloudbera, we've now established a presence in India and we have 78 people based in India.

Employee engagement is a real focus for us, it always has been and I think it always will be. We continue to focus on just how we look after our people. Our employment employee retention levels are now at the highest level that they've been in the last ten years at 92%. And you think about that as a trend over the last three months, we've seen that trending up slightly to 93%. Umm, albeit the short-term measures are slightly less reliable than the longer-term measures as well.

We are now surveying our staff on a monthly basis through Peakon, which is a Workday product, where we ask them a number of questions and we take their feedback, and we act on that as well.

Our Customers

So, we have a fabulous set of customers and we tend to work with our customers over a long period of time and you'll have heard us speak about that before.

Our longest standing customer did their first project back with us in 1988, so way before my time in Kainos. Each of these charts tells a slightly different but important story about our business. We have borrowed the term net revenue retention from the world of SaaS and we've applied that to our services business and our net revenue retention currently stands at 107%.

So, this is the level of net revenue retention which represents the value that we deliver to our customers and the excellent customer satisfaction levels that we generate.

You will see that we are now surveying all our customers using that promoter score. And just as a reminder, anything above 50 is deemed to be excellent. So, we are sitting, at the minute, at 62 which we are delighted about.

So, our customers are not immune to economic conditions, but the consistent message is one of continued investment in their projects and we now work with nearly 900 customers. That’s an increasingly broad view about customers and how we can do that long term work.

Now, when you think about Sector coverage, 50% of our revenues are now generated from commercial sector clients and we're pleased about that balance across our sectors. So, it’s a good point to stress again the resilience of our business and our agile model. We're being able to move people around to the greatest opportunity and away from business areas that are slowing a little bit, even if it's on a temporary basis.

So, I’ve already mentioned the increase in our international revenue and it does bear repeating. So today, 40% of our revenues are generated from rendered national markets. So, one of the themes is about us growing a global business. And, just as a cross reference, when we IPO’d back in 2015, only 6% of our revenue came from international business.

Our responsibilities

So, we've aligned our activities around the United Nations Sustainable Development Goals. In terms of our climate action, we continue to be carbon neutral and remain to be on track to be carbon net 0 by 2025.

Our targets have been approved by SBTi and our emissions are well below the corresponding SBTi target. Indeed, our progress in the climate agenda over the last few years means that our current emissions are below the financial year '20 levels despite the business doubling in size over that period of time. So, the focus for the incoming year will now turn to our supply chain, which represents almost 50% of our total emissions.

So, we know that the technology sector has a significant gender imbalance. Our improvement plan focuses on three elements, so it's first to develop and retain the talents of women already working in Kainos. Second, is to become the destination employer for talented women in the sector and third, to inspire more young women into the sector.

We've been working hard on the plan, I'm personally the Executive sponsor for our Women's employee network within Kainos. I'd also say that I am the proud father of four daughters as well, so it's also a personal issue for me to be looking at gender imbalance.

So also in this update, we are highlighting the work that we've being doing to encourage more young women to explore a career in technology. 300 young women have been engaged in one of our schools' programmes in the last year and that's 50% more than this time last year.

So, on the theme of our schools' programmes - during the last six months, we've had 900 young people attend one of our programmes and they vary from one week work placements to our award winning Code Camp and the one Day Insights programme. So, as well as the 900 young people attending these programmes, over 170 of our colleagues were actively involved in all of these activities. So as always, we can't do anything without our colleagues being involved with it.

Digital Services

So, as we turn your attention to our divisional performance - so strong performance in our core public sector market and digital services, which accounts for about two-thirds of our digital services business. Just as a reminder, there are 768 citizen interactions and government are looking to digitise over 300 of them. So, the assessment is that under 40% are complete or underway so this still represents a massive opportunity.

The Government have announced the next 75, with 50 to be largely complete by 2025. So, I think '*largely complete*' may be a political statement as we know [that] when we deliver a project, we tend to deliver ongoing change of the back of that as well. We tend to see that happen over a multi-year programme.

An election does feature in our planning, and remember that back in 2009, the reform of the UK public sector was kicked off by Martha Lane-Fox. This election cycle would be #5 for us and every government that we've seen so far has reaffirmed the commitment to digital transformation. While improving public services are the core, there is the money saving element [that] never seems to go out of fashion.

So, when we look at our healthcare sector, your eye is drawn to minus 31% in terms of the revenue. It's an eye watering level, we've flagged their reductions in the past and the healthcare reduction has largely been driven by unwinding of the COVID-19 spending. But it's important also to look back just at our healthcare journey and our healthcare business is now actually two times the size before COVID-19 and it's a much better-balanced business. So, we are not expecting material reductions from here. We'll continue to operate in healthcare, it's an important market for us. It's important for our people to feel a real sense of pride from the work that we do, but it's not a large market. We assess it to be £365 million for us.

There have been some constraints in the ongoing merger of the NHS, and some of the general funding challenges, and one of the trends in that part of the market is that it tends to prefer cost over quality and big brands over reliable delivery.

So, within the commercial sector, we've also registered some reductions in digital services, albeit say on a smaller scale, we've seen revenue decrease by just under three million. It is disappointing, but our clients are in financial services and most of them in insurance and the payments sector. So, I'm probably not telling you anything that's surprising or you haven't heard from other organisations as well. So, as a theme, it's more a reduction in the scope of in-flight programs and things being elongated rather than being cancelled completely.

So, as we look forward to the H2, there may be a smaller deduction or maybe even a smaller recovery. But remember this is also in the backdrop of this time last year, we were talking about stellar commercial sector performance where it grew 51% in the same period.

Case Study: Department for Environment, Food & Rural Affairs Extended Producer Responsibility (EPR)

Look, I'll talk you through a case study here just around our digital services business. This is about the Extended Producer Responsibility, their EPR. It's a global policy tool.

26 countries globally have adopted it, including the US and Japan, and the aim is that producers of packaging are responsible for the full net cost of managing packaging waste, right to the end of the life. So, it incentivises producers to reduce packaging and think about the recyclability. Environmental regulators will monitor and enforce this and, in the case in the UK, that is DEFRA.

Kainos were brought in after quite an unsuccessful first phase of this project where we were not involved and, as quite often is the case, the timescales were tight. It was driven by legislation.

We released the first part of the service four months after we started. The registration for Go Live was back in July and we plan to release three different EPR services to go live this year. So, when you think about the producer payments are expected to bring in about £1.7 billion per year to UK Treasury and the aim is to divert 4.1 million tonnes of waste away from landfill each year. So, it's a huge benefit, both financial and environmental.

Our Artificial Intelligence Projects

But, AI has continued to be quite a talking point, so I thought it would be useful to include this slide again, just talking about our data and AI work.

So, you will recall that we've been working with data and AI back from 2016. We talked, particularly the last time, about how we had our data and AI practice.

So we have 190 professionals delivering significant leading edge projects and data, but that doesn't really tell the full story. Because, as we think about Generative AI, in particular, it's becoming a skill for the many and not the few and we're thinking about how we embed AI skills right across our development teams.

To support this, we announced a 3-year investment of £10 million for AI enablement, which covers education, training, licences [and] accelerator development. And the investment also covers an increased investment working with academia in our AI Research Centre in Ulster University, for example, and an investment in ethics and engagement with partners. So, it's all important work.

So, when we talk about generative AI, quite often we hear about efficiencies being driven. The efficiencies are really important but also the interesting part is how we work with clients. So, we have 25 proofs of concept, either completed or being undertaken with clients, and two of them are moving into production.

So, you'll see in the image there, myself on the right, we've got Satya Nadella, the global CEO of Microsoft standing in the middle alongside the lady in red who is Clare Barclay, the UK CEO from Microsoft. So, this picture came about where Clare had invited a number, quite a small number actually, of the UK partners to a round table discussion with Satya Nadella in London about three or four weeks ago. So, there are seven partners who were invited along, ourselves were one of them, we very pleased to be there as well. Satya Nadella was very much as impressive in person as he is online or when you see [and] listen to him speak.

Umm, there was a theme about the efficiencies that organisations are trying to drive through the use of Generative AI. What I was able to share was one of our projects where we talked about [having] engineers who inspect some machinery and normally at the end of that service, they help you fill out a form. It's a well constructed form and we might be biased in saying that because we created it. But, nonetheless, they have to take the time to fill out the form. As part of that proof of concept, we enabled the engineers to interact with the service through natural language processing and natural language interaction so they could query some of the things they were meant to be inspecting, they could record their findings just by speaking what they could see. And, at the end of that, using natural language process, and it made context of what the engineer was talking about and created the report automatically. So, there's a definite time saving from doing it. But, for me, the most interesting thing is that when we actually looked at the profile of the engineers undertaking these services, 40% are dyslexic and when you compare that to the normal population, where there's 5-10% of people who are dyslexic, this is a real improvement in the service. And, I think, a great illustration of how Generative AI can be used to improve the services we deliver for clients.

Workday Services

So, jumping on to Workday Services, another strong performance for Workday services, where the seeds were sewn back in H1 of last year where we signed two very large consulting engagements, One in the US and one in Europe. And again, I'll mention that that drove sales up by 125%.

So, we were, and we are, delighted with the sales and performance this time round again, but it's just a difficult comparator. So, despite the last six months being excellent, the performance is still the second highest sales in the sales half, so it's still a very pleasing result.

And to be clear, we're still seeing strong demand for Workday services. So Workday services have trimmed their forecast for their growth from 17 to 19%. That's still quite high growth and it's a great market to be in, especially in the current climate.

As with bookings, the comparison against a very strong prior period masks the fact that we have a very strong backlog as well. As always, strong backlogs allows us to be confident about our future.

We are delighted to have been appointed the Phase one partner in the US last July. It came at a particularly busy period having signed those two big contracts that I spoke about, and it presented a challenge with engagement with the Workday Inc sales organisation. So since then, we've been building on that capacity. We've been building on the engagements, we've been building relationships. And that has resulted in 8 phase one engagements.

So, 6 have been deployed, 2 projects are in flight and we're very happy with the pipeline that we have. We have about a dozen in late stage and we have three times that in the earlier stages.

So, when you think about our engagement, it's still building. We eventually hope to be getting visibility of about 150 projects per year, which may add up to 20 new customers per year for us in Americas. It's a competitive market and Workday have now 54 partners listed on their website as being active in the ecosystem.

From a growth perspective in the US, you may recall that revenues grew by 101% in the same period of last year. So, we've seen a more controlled growth period in the last period with lots of opportunity to go further. So, this is a market where 75% of the consulting expenditure happens globally and that's not just in phase one. But if you think about the Workday deployments, it tends to be Phase X and multiple deployments after that and the application management service beyond that. So, it's a brilliant market to be in.

In Europe, we continue to be hold our leading position and it's important to note that the European market is a key one for Workday Inc. So, they continue to call out international growth as one of their five key growth priorities.

So, also when we think about Workday Extend, we've been part of the early adopter program since 2017 and it's no surprise that we are today the global leader for Workday Extend. So, Workday Extend became generally available in May 2020 and, since then, has gained traction across the Workday customer base. So, over the last year, we've helped 60 customers build specialist applications on top of their Workday platform. So, Workday Extend just allows you add interface into the core Workday product. So, it does include some employee recognition, so managing contingent workers and workforce reduction.

So, I had the opportunity during the summer to meet with Aneel Bhusri, who's the co-founder and Co-CEO of Workday. And, actually, Extend was one of the topics that we discussed. And it's interesting listening to Aneel talk about Extend because he sees Extend as actually allowing Workday to concentrate on the core product, while suppliers like us can look at the other apps that impact a segment of the industry or individual customers and it means that Workday Inc. don't have to focus on that. So very clear indication from Aneel about the importance of Extend and we're delighted to be #1 in that network.

You will have picked up from the entrance statement, we have an update about Blackline Group. Just as a quick refresh, Workday Inc. acquired Scout RFP in 2019 for $540 million and then in January ‘22, we acquired Blackline Group, which was a leading partner to Scout RFP.

Blackline Group had two service lines - there was a consulting around Scout RFP, now called Workday Strategic Sourcing in addition to standalone procurement consultancy. So, we have decided to, after review, to stop providing the standalone procurement services. So partly to do with a major contract that is going to expire in Q1 of next year and, also, it's not really aligned with our core business. So, although the Workday Strategic Sourcing has been slower than anticipated, we may still see some elements of that coming through in the future.

So, regarding the acquisition, we've been prudent and decided to write off the value of the acquisition and Richard will cover that in the numbers later on as well.

So, it's also worthwhile just drawing the comparison - Workday acquired adaptive planning back in 2018 for $1.55 billion, and on the back of that, we also acquired Formulate in 2019 and then IntuitiveTEK in 2020. Both acquisitions were to give us skills in those areas. The revenues for both of those organisations are now 2 and a half times of what we acquired them for. So, I'd say, the rationale for making the accusations was solid.

So, from a people perspective, we now have 814 accredited consultants in the Workday ecosystem. And that leaves us #7 globally which, I must say, I'm delighted to see as well.

Case Study: STIBO Multi-phase Workday Development

So, this is a great case study for STIBO and it really emphasises the ongoing nature of our Workday engagement.

So, STIBO group is a global leader of data management and media solutions with their headquarters in Denmark. They've 1500 employees operating in 34 countries. So, it's fascinating; STIBO was an organisation that was founded in 1794 in Denmark as a printing provider and are now a full platform customer. So, their modules include HCM, PSA, FINS, financial planning, and it covered a very large 1st Phase. And then we've delivered another 7 further projects on top of that over a four-year period. So, it's a great illustration of the long-term engagement you can have with these Workday customers.

But while Workday is a comprehensive SaaS platform, they're also opportunities to develop our own software around that and you've heard us talk lots about our product business as well.

Workday Products

So again, it's interesting having spoken to some of the senior team within Workday Inc., I mentioned about attending Workday Rising in EMEA. I also attended Workday rising in San Francisco for the main US conference for Workday. I met a lot of the senior team, including Carl Eschenbach who is the Co-CEO and, from January, will be the sole CEO of Workday.

So, again, Carl is very supportive of Kainos, as a whole, but particularly in our Products as well and, it's interesting getting that first hand feedback.

So, the performance of Workday Products has been excellent. You think about revenue, ARR and backlog all registering very strong increases. As we think of strong performance, it's appropriate to highlight that we changed the sales leadership at the start of the calendar year. So, we had a US based sales leader and we've now changed that to an ex-Workday sales leader based in Europe. So, while we've made good progress, I would love to see us make even more progress in this area. And I think we're well set to do so. So, it has been a successful change and we're getting towards the execution that we expect. I look forward to the H2 performance ahead.

We do continue to invest in both R&D and Sales & Marketing, so it's up 3 million which I previously mentioned. And part of that investment was Employee Document Management, which has now been successfully launched and in general availability. More of that in a minute.

We also completed the acquisition of RapidIT-Cloudbera, they are the creators of Genie. They were the only other dedicated Workday testing product in the market. So, the rationale for that was that Genie had some rapid auto-generation of test cases allowing customers to launch their testing effort quickly. So, it required a significant channel relationship with Alight here as Alight embed Genie as part of their testing service to over 100 clients.

So, this has allowed us to consolidate our leadership position in the automated testing market. So, we're really pleased with the progress so far in the integration. We've combined our tests and development teams, very impressed with the quality of the India based team and the way that they're working with our existing teams and we've been able to add the unique Genie functionality to Smart Test.

We're decommissioning the Genie platform this month, and we've already moved all weekly customers to Smart Test with the biannual testing customers to be complete by the end of March 2024.

Our Smart products are now used by over 400 customers. Test is the main product, but we're seeing strong attach rates for Audit where we've over 90 customers and for Shield where we've over 60.

And I talked about Employee Document Management. So, it is now on general release, we have signed up 11 customers, 9 were in the first half of the year. These customers include Hilti, Caterpillar, Rothschild Bank, Rabobank, Chanel and ING Bank.

So, we have decided to build Workday EDM on Workday Extend as we believe that will drive greater engagement with Workday Inc. as it will generate customers for their Extend platform. So, we're seeing this early evidence of this within Workday where Workday themselves are now recommending EDM to some of their customers, and we'll see how that might enhance lead generation.

So, just again, to comment on the £100 million ARR headline. Our view is that was always a figure that was based on our Smart Suite. So, EDM further underpins the number and allows the team to start thinking about the next milestone beyond 100 million.

So, at Workday Rising in San Francisco, they also mentioned the early adopter program for the AI marketplace. So again, we're delighted and excited to be one of 15 companies who were named as early adopter and one of only two services companies. So, AWS were named and then there were another 12 product companies who are mainly smaller in nature. So, we're still working through the detail of that, but we already have some ideas for a number of AI apps that may be available in 2024.

Case Study: Hilti Employee Document Management (EDM)

So, again, a case study about EDM – Hilti, a happy Workday customer. They went live in 2020. They were somewhat frustrated with the process of creating, managing and storing employing employee related documents, so the legacy systems they used were a little bit outdated and fragmented. They're discontinued in some regions and from region to region, they're using vastly different systems.

So, Hilti were looking for a streamlined and secure approach and they're looking to utilise Workday sophisticated security model. So, this mirrors challenges that we were seeing across other Workday customers and Hilti agreed to become our first design partner for building Employee Document Management. So, it allows an organisation like Hilti to seamlessly integrate with Workday. Often the system that generates most of the employment related documentation is around your HR systems. In this case, we were able to use the Workday security model and organisation structures and the employment data.

So, Hilti, on the back of this were able to retire or stopped using four other document management systems and achieved their objectives around cost reduction, seamless integration, improved employee experience.

So, phase one went live in 11 countries, and phase two has already started with another 20 countries to follow.

On that note, I am going to hand over to Richard to talk about the financial performance.

Financial Performance

(Speaker: Richard McCann, CFO)

Group Income Statement

Thanks Russell, so starting with the digital services - revenue, as Russell mentioned, showed a wide variation in performance.

Public sector grew 17% against last H1, which is a very creditable performance.

Commercial sector fell by 16% against last year to 15.8 million, which is clearly a disappointing performance following the growth of last year. It is worth mentioning that three years ago, in H1 FY21, the equivalent figure was 6.9 million of revenue. So that's 129% growth over three years, which does give some perspective.

And, as we had flagged, the health sector fell by 31% as COVID related work in H1 last year came to an end.

Gross margin fell very slightly against H1 last year at 37.7% this year compared to 38.3 last year. We did see some aggressive pricing in the market from competitors, but this was offset by significantly reducing contractor numbers, as Russell said, from 303 to 111.

Also, we continue to hire mainly at entry level with much reduced experienced level hiring and in addition to that lower attrition helped improve utilisation. Direct expenses fell very slightly compared to last year with a 2% reduction, which meant that overall contribution fell by about 3%.

Workday services revenue growth overall was 18% up and this would have been 21% under constant currency. EMEA led the way on revenue growth of 26% and North America grew by 12%.

It was really pleasing to see groups margin expansion from 52.6% to 54.8% with both effective rate and utilisation improving and direct expenses only grew 3% compared to the 18% revenue growth. That helped to create a 66% improvement in contribution from 8.0 million last year to 13.3 million this H1, albeit last H1 was not our best performance.

And in terms of Workday products revenue growth was 28%, which was the best of the three divisions. Organic growth at constant currency was almost exactly the same at 27% with inorganic growth of about 4%, almost exactly offset by constant currency impact of 3%. And gross margin remained broadly similar [~~at]~~ falling slightly from 76.5% to 75.7%.

This is the one part of the business where direct expenses did grow significantly with an increase of 37% over last year. Product development increased by 48%. I'll take the chance, just to remind you that that's all expensed to PNL. And Sales and Marketing increased by 23%. Contribution grew, by 8% due to the growth in product development and Sales and Marketing costs. We continue to believe that these costs make sense to support new and existing products.

Central overhead grew by about 11%. We had a similar exchange gain on translation at the same time last year and, overall, this led to a growth in adjusted pre-tax profit of 11%.

The effective tax rate increased significantly by 7% for two reasons; the large reason was that UK corporation tax rate increased dramatically by 6%. The smaller reason was that acquisition costs were not tax deductible, leading to an extra 1% increase.

I'd like to take a little time to try to explain adjusting items which are more complicated than usual. Share based payments is a standard adjustment and broadly in line with previous years. In tangibles generated by acquisitions are typically amortised, which is the standard 0 .6 million element of this. However, as Russell mentioned earlier, we've chosen to write off all the intangibles associated with Blackline given the lack of success of that acquisition.

If we move on to post combination compensation - when we acquire a business that we're seeking to integrate, we structure the deal so that senior staff are incentivised to stay at least three years. We typically do not put sales or profit targets as we consider integrating the business as more valuable to us, but we do want people to stay. And this has worked well for the adaptive planning businesses like Intuitive Tech that we acquired or for UNE in Argentina.

But given that the procurement module has not grown in Workday in the way that we'd hoped, we've chosen to write the full intangible off. IFRS follows a strict legal form in relation to post combination remuneration, but I am completely convinced that economically this is part of the acquisition cost.

And then finally, on the other side we had two property gains of approximately £1million each.

Balance Sheet and Cashflow

If we move on to the balance sheet, fixed assets, show no significant changes other than those required by IFRS and I've already talked about intangibles.

In terms of debtors and WIP, or trade receivables - consistent at about 70 days compared to 69 days last year. All the issues associated with Silicon Valley Bank and the debacle there have largely been resolved.

In terms of cash - our cash conversion was excellent at 82%, which is very high for H1 and our cash balance of 113 million gives us lots of flexibility. It gives us the options around Bolt on acquisitions. It will help fund the Belfast office over the next few years, it also allows me to sleep well.

Our dividend was announced at 8.2 pence, which continues our progressive dividend policy since IPO.

Em, in closing, I think it would be remiss of me not to use this opportunity just to mark Brendan's retirement. I was looking for a football or a music analogy. Football is not a great place to look for smooth and positive management transitions. Music, perhaps even less so. I did think about talking about Dave Grohl stepping out from behind the drums at Nirvana to front the Foo Fighters. Given how much I've just spent on tickets for my kids to see the Foo Fighters, it would seem that, that went pretty well. But that would mean that Brendan is the Kurt Cobain figure in this scenario, and I wouldn't really want to compare Brendan to a suicidal drug addict. Well, there have been times. I should probably just stop there, say thanks for everything Brendan, pass back to Russell.

Looking Ahead

(Speaker: Russell Sloan, CEO)

Thank you Richard, so we'll finish up with a quick look ahead.

So again, across all three of our divisions, we continue to see significant market opportunity and the opportunity mainly continues to be as resilient in the face of the longer term economic and political changes.

So again, digital services, we continue to be a leader in the digital transformation space and UK public sector.

So, despite the headwinds and NHS, we continue to have us all solid position in healthcare.

The commercial sector team and digital services are making progress in financial services and they have faced some short term challenges, though we're not alone.

So, looking forward, we want to keep the progress in the UK. We also want to continue to grow digital services internationally. It is now about 5% of the divisional revenue and it has grown 40% in the last year.

So, we can now see a path to future growth in the public sector and Canada and across our Workday services clients in Europe and North America. So, it underpins our ambition and is a strong demand in the market, particularly in UK public sector.

For Workday Services, Workday Consulting is a great market to be in. And again, just to state, Workday Inc. are forecasting their revenue growth in the region of 17 to 19% in 2023.

So, our immediate focus is to continue to build in the established markets with further emphasis on growing in North America and to maximise the benefits of our US Phase one partner status.

Probably the area that I'm most excited about is our Workday products. So, I think the team behind the behind the Workday products business have built a truly great business and with £55 million ARR already, you know, that is evident. But we believe that they're only getting started. So, we've already crossed the midpoint, like I already mentioned, and the internal conversation is moving towards that next target.

So, we believe that we can achieve a high adoption of Smart Test, Smart Audit and Smart Shield to work across the Workday customer base well beyond the 400 customers we have today and stretching into the 5,000 odd customers work they have in their core customer base.

So again, our confidence is increased by the early success of EDM, which allows us to start thinking about that increased target and potentially more apps in the Workday AI marketplace.

So, on that note, I'm going to bring the presentation to a close. I'm probably slightly over in time. Hopefully, you will you give me a bit of a by ball for being the first time through it. And you probably get the sense that I'm both pleased and excited about the opportunities that lie ahead.

I'll now stop sharing and hand over to FTI to host some Q & A's.