



Interim Results

6 months ended 30th September 2019

Brendan Mooney (CEO) and Richard McCann (CFO)

11 November 2019



Highlights

Performance in-line with market expectation.

Performance in-line with market expectations, with ongoing momentum.

- Revenue, profit and sales orders all showing double digit growth.

Revenue diversification continues.

- International revenues up 86% to £17.9m.
- Commercial revenues up 66% to £29.3m.

Digital Services – very strong growth.

- Significant projects in UK Public Sector digital transformation programme.
- Leading European Workday partner with growing presence in North America.

Digital Platforms - accelerating and strong international expansion.

- Revenues up 34% to £13.2m (H1 19: £9.9m).
- Maintained strong R&D activity, investment of £1.9m expensed (H1 19: £2.2m).

Continuing to build an exceptionally talented team.

- 1,562 people now working at Kainos, across 12 offices



£86.9m

REVENUE UP 29%



£12.8m

ADJUSTED PRE-TAX
PROFIT⁽¹⁾ UP 27%



£41.3m

CASH UP 6%



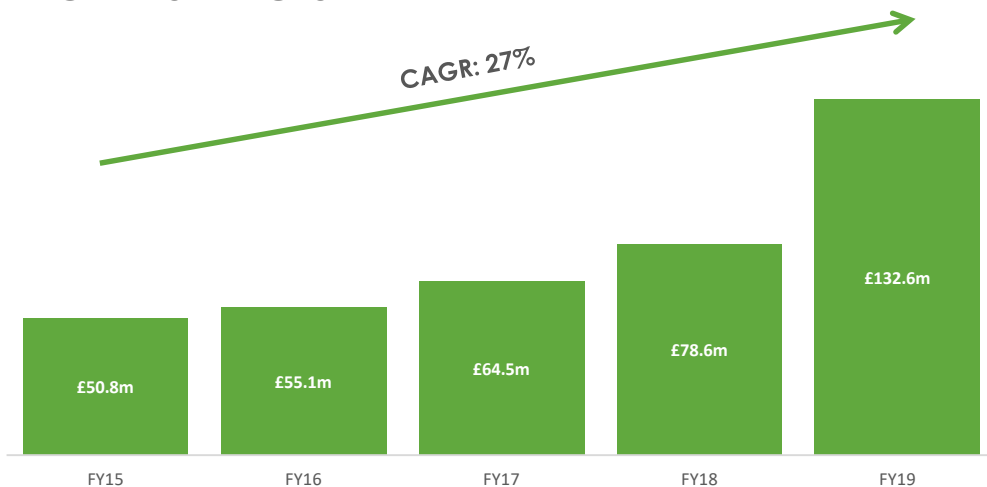
£99.5m

SALES ORDERS UP 10%

Group Overview

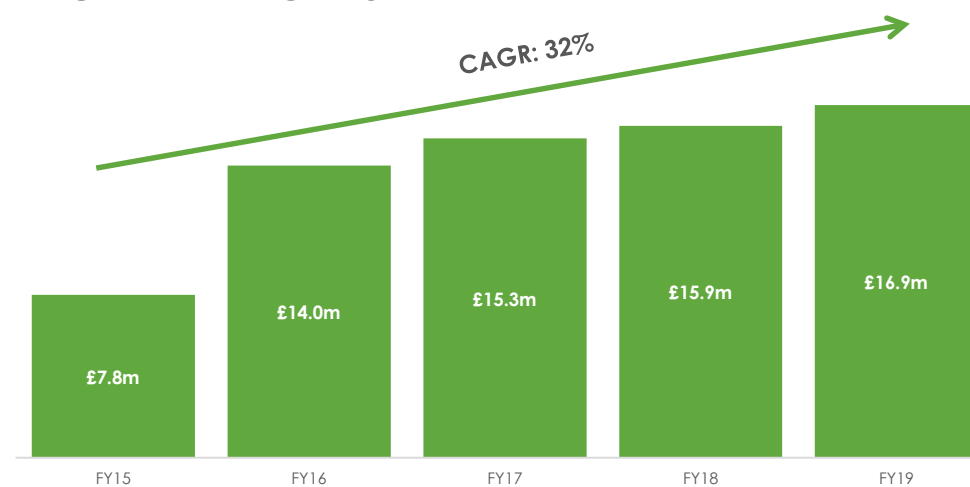
Long-term, strong revenue growth trends in both digital services and platforms.

DIGITAL SERVICES



- Digital Transformation: Delivery of digital solutions for commercial, healthcare and government clients.
- Workday Services: Deployment of Workday SaaS HR and Financial platform for enterprise customers.

DIGITAL PLATFORMS⁽¹⁾



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

⁽¹⁾ Excludes 3rd party revenue. Revenue inclusive of 3rd party for FY15 – FY19: £10.0m, £21.5m, £19.0m, £18.1m and £18.7m representing CAGR of 17%

Financial Summary

An established track record of high growth, high margin performance.

Remain on track to deliver our tenth consecutive year of revenue and adjusted pre-tax profit growth.

Growth has been entirely organic, delivering five-year (FY15-FY19) revenue CAGR of 26%.

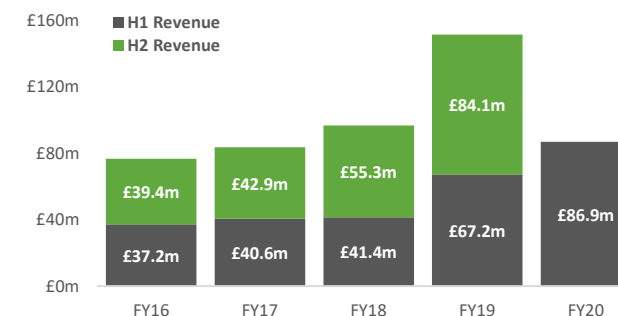
Key Financial Metrics.

- Good revenue visibility: backlog up 4% to £131.0m (H1 19: £125.6m).
- Strong, sustainable adjusted pre-tax profit⁽¹⁾ margin: 15% (H1 19: 15%).
- Cash balance up 6% to £41.3m (H1 19: £38.8m).

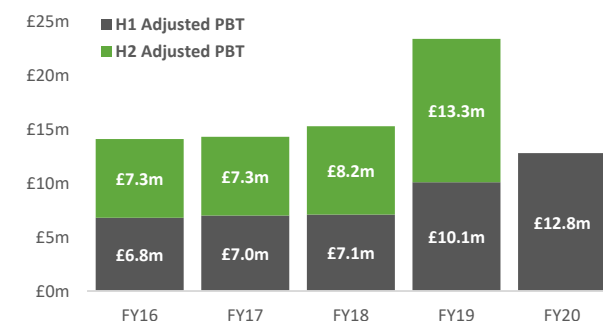
Earnings - Dividend.

- Adjusted diluted EPS: increased 27% to 8.4p per share (H1 19: 6.6p).
- Dividend declared: increased by 25% to 3.5p per share (H1 19: 2.8p).
- Ex Dividend date: 28/11/2019.
- Payment date: 20/12/2019.

REVENUE



ADJUSTED PRE-TAX PROFIT⁽¹⁾



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



People

We continue to build an exceptionally talented and engaged workforce.

Building a talented team is key to our long-term success.

We continue to attract strong interest in key recruitment markets, with an 18% increase in staff numbers.

- 232 people joined, 79 from education, 153 from industry.

Employee engagement is positive and remains a key priority.

- Retention has improved to 87% (H1 19: 86%).

Increased international expansion reflected in recruitment.

- UK & Ireland: 1,181 (+151 people).
- Poland: 285 (+34 people).
- Central Europe: 49 (+22 people).
- North America: 47 (+31 people).

Future HQ property funding requirements being finalised for Board review.



1,562
PEOPLE, UP 18%



8,879
JOB APPLICANTS



79% Recommend
to a Friend
glassdoor

Customers

We build long-term customer relationships, over 94% of our revenue is from existing clients.

Existing customers underpin revenue growth, generating 94% of revenue.

- Existing client revenue up 29% to £81.9m, (H1 19: £63.7m).

There has also been strong customer acquisition, providing expansion potential.

- 60+ new customers signed in H1 20, bringing total customers to over 380.

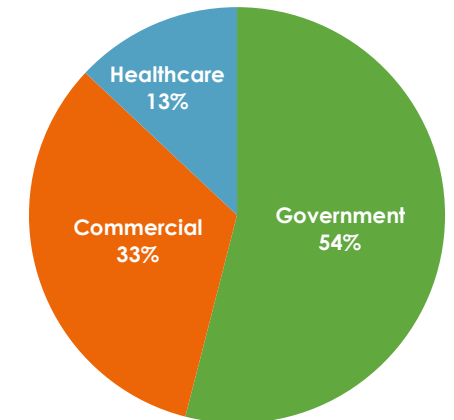
Customer concentration remains consistent with prior periods.

- Top 10 customers: 54% (H1 19: 59%); Top 20 customers: 64% (H1 19: 68%)

Best-in-class customer service.

- 98% of customers rate the overall Kainos performance as 'good' or better (H1 19: 90%).

REVENUE BY SECTOR



Recent Customer Wins

Vassar

SpencerStuart

quantexa
Connecting Data | Empowering Decisions

Keurig
DrPepper

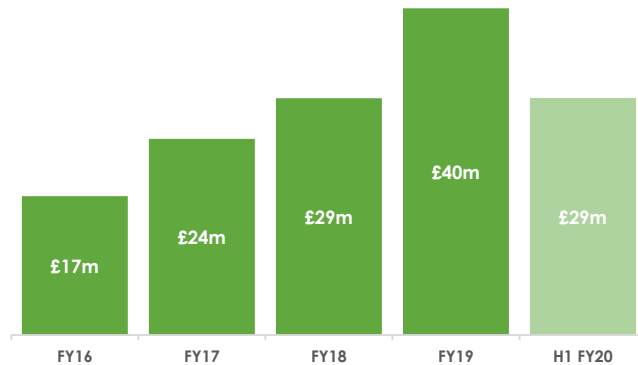
The
Pensions
Regulator

Making workplace pensions work

Revenue Progression

We have made excellent progress in building balance into our revenue streams.

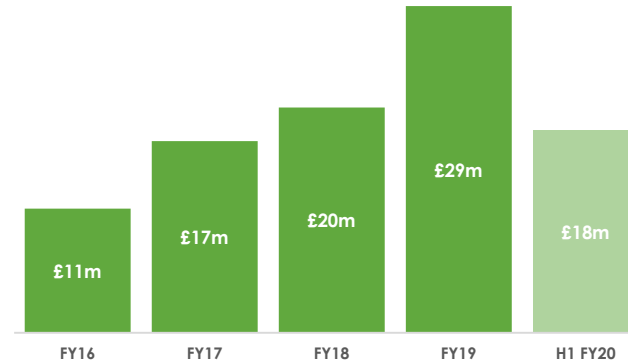
COMMERCIAL REVENUES



Revenue from Commercial customers has seen strong growth and is now 34% of total revenue.

- Commercial revenue up 66% to £29.3m (H1 19: £17.6m).

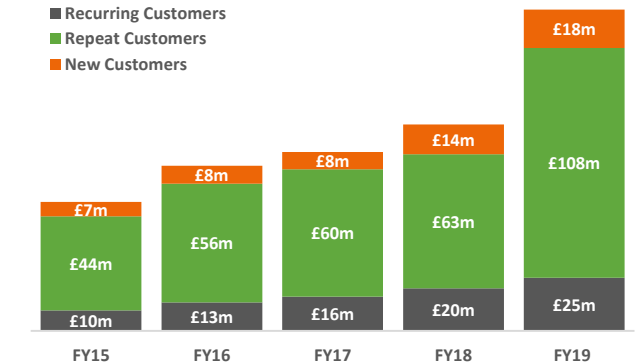
INTERNATIONAL REVENUES ⁽¹⁾



International revenue now represents 21% of our total, with the trend set to continue.

- International revenue up 86% to £17.9m (H1 19: £9.6m).

REVENUE BY CUSTOMER TYPE



Our existing customers underpin our growth, accounting for 94% of total revenue.

- Recurring revenue up 28% to £16.3m (H1 19: £12.8m).
- Repeat revenue up 29% to £65.6m (H1 19: £50.9m).

⁽¹⁾ Our internal reporting combines UK & Ireland as a single territory. In FY19, revenues of £5.8m were from customers based in the Republic of Ireland,

Digital Services





Digital Services Overview

A very strong revenue performance and confident outlook.

Very strong revenue performance, up 29%.

- Digital Transformation revenue up 21% to £56.8m (H1 19: £47.0m).
- Workday Services revenue increased 64% to £16.9m (H1 19: £10.3m).
- Growth in Commercial Sector (70%), outpacing Public Sector (21% growth).

Sales performance divergence, in aggregate down 7%.

- Workday Services sales orders up 61% to £24.9m (H1 19: £15.5m).
- Digital Transformation sales orders down 23% to £51.4m (H1 19: £67.0m), although against a tough comparator.

Backlog decreased by 12% to £79.4m (H1 19: £90.3m).

- Workday Services backlog up 62% to £22.4m (H1 19: £13.9m).
- Digital Transformation backlog down 25% to £57.0m (H1 19: £76.4m).

REVENUE

£73.7m

UP 29%

SALES ORDERS

£76.3m

DOWN 7%

BACKLOG

£79.4m

DOWN 12%

Digital Transformation

Stable demand from UK Public Sector and continued progress in Commercial Sector.

Very strong revenue growth, up 21% to £56.7m (H1 19: £47.0m).

Public Sector revenue increased 23% to £43.7m (H1 19: £35.6m).

Revenue diversification continues, strong progress in Commercial Sector, up 50%.

- Commercial Sector revenue increased 50% to £8.1m (H1 19: £5.4m).
- Strong growth with projects underway with New Day, BP, Telensa (UK), Concardis and Skeyos (Germany).

Brexit: a game of three halves!

- 1. Limited impact on existing programmes** as Government Departments focus on delivering on existing commitments.
- 2. Reduction in major new programmes being launched** as Government Departments await greater clarity on spending plans, including around EU Exit.
- 3. Accelerated digital spend for EU Exit**, with c. 300 IT systems identified for change after EU Exit.

MARKET SIZE

£1,290m

UK PUBLIC SECTOR FY19 SPEND

COMPETITIVE LANDSCAPE



methods  **Deloitte.**

"bjss **Atos** **ThoughtWorks**

COMMERCIAL DYNAMICS

- Direct sales model.
- Primarily time and materials.



Digital Transformation

We have established a clear reputation for delivering value, at scale and at pace.

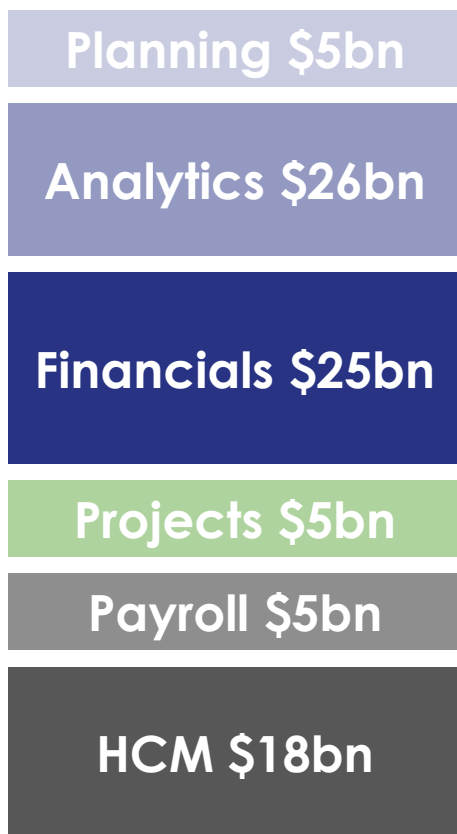




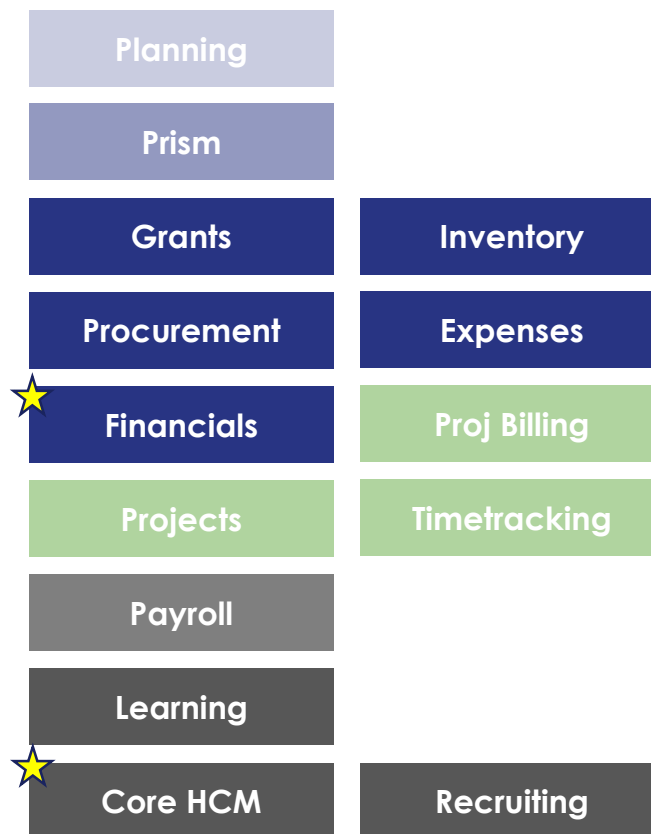
Workday at-a-glance

Workday continues to execute strongly, extending reach and product set.

**\$88BN TOTAL ADDRESSABLE
MARKET, 8.7% CAGR**



**CURRENT WORKDAY MODULES AND
PRODUCT ATTACH RATE**



**NEW PRODUCTS
ANNOUNCED Q3**



**ONGOING
MOMENTUM**

**Workday continues to
gain market share in
key segments.**

40%+ Fortune 500 on
Workday HCM.

17% Global 2000 on
Workday HCM.

2,800+ total customers,
with **725+** on Financials.
2,200+ in US, with **600+**
rest of world.

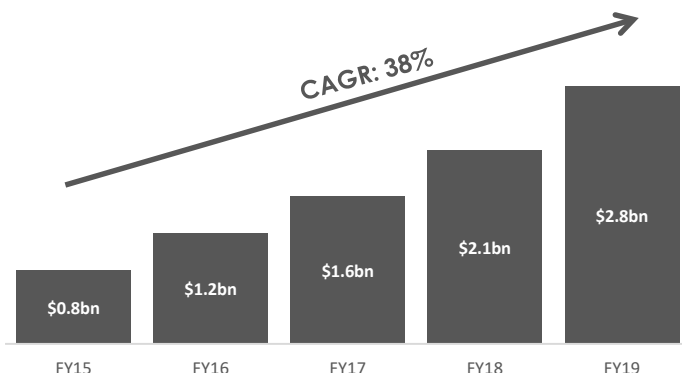
81% revenues from
HCM, **19%** Financials.

A total of 9 new products were
announced at Workday Rising in
October 2019.

Our Workday Opportunity

The opportunity is growing locally, internationally and at pace.

WORKDAY INC REVENUES



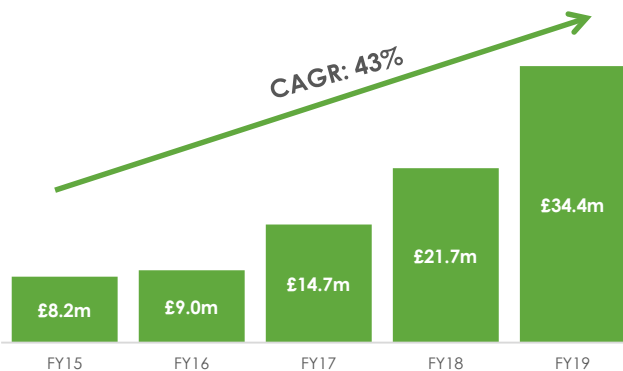
Workday global FY19 revenues \$2.4bn, growing at 34%.

Global Workday consulting market is ~\$1.6bn, with similar trajectory.

Workday have 33 partners.

- 9 Global; 24 Specialist.

KAINOS REVENUES



Our revenue sources:

- Initial Implementation.
- Phase X Implementation.
- Application Managed Service.
- Smart Subscriptions.

International expansion, module adoption and product extension offer further growth opportunities.

KAINOS EXPANSION

2010

- UK & Ireland.

2015

- Benelux.

2017

- Germany, Austria, Switzerland.
- Denmark, Sweden, Norway, Finland.

2018

- Canada, first US Projects.⁽¹⁾

2019

- France.
- Acquisitions of Formulate (UK) and Implexa (Germany).

⁽¹⁾ Kainos is not currently a Workday Implementation Partner for the US



Workday Services

We are one of the most experienced participants in the Workday partner ecosystem.

Strengthened our position as leading European partner.

- A total of 56 clients in mainland Europe (H1 19: 34).

Continued regional expansion.

- Significant projects secured in France.
- We now have a local presence in Sweden, Austria, Finland, Switzerland and Romania.

Maintained leadership position in UK Public Sector, some slowing in deal flow.

Increasing cross-over opportunity with the accelerated adoption of Smart, our unique testing platform for Workday.

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

- Accounts for £6.1m (H1 19: £4.0m) with 88 customers (H1 19: 68).

Continue to develop our people: 305 accredited consultants (H1 19: 197).

COMPETITIVE LANDSCAPE

 (NORDICS)

 (UK, EUROPE, US)

 (UK, EUROPE, US)

 (UK, EUROPE, US)

COMMERCIAL DYNAMICS

- Direct sales model.
- Primarily time and materials.

Adaptive Insights

Workday integration of Adaptive Insights remains on schedule.



Adaptive Insights provides business planning software to assist in Financial Planning and Analysis to over 4,500 customers globally.

Adaptive Insights was acquired by Workday Inc in June 2018 for \$1.55bn.

- Adaptive Insights Business Cloud will replace Workday Planning
- Investment in Workday Planning ended in September 2018.

We have acquired two specialist Adaptive Insight consulting organisations.

- **Formulate** is UK based, one of the largest Adaptive Insights partners worldwide.
- **Implexa** is one of four accredited Adaptive Insights partners in Germany.

Rationale:

- European leadership in key Workday Financial Planning module.

Terms of the acquisitions were not disclosed.



WORKFORCE: 16 PEOPLE
HQ: WORCESTERSHIRE, UK
CUSTOMERS: 100+ UK & EUROPE
FOUNDED: 2016



WORKFORCE: 5 PEOPLE
HQ: HAMBURG, GERMANY
CUSTOMERS: GERMANY, SWITZERLAND
FOUNDED: 2014

Workday Services

Our customer success has resulted in excellent local and international references.



Customer Stories

Significant projects for leading Commercial and Public Sector organisations.

Lombard Odier



3,000 employees.



Swiss banking group spanning across wealth and asset management.



Presence in 19 countries.

- Deployed HCM, Compensation, Absence and Recruiting.
- 37 week go-live.
- Phase 2 Advanced Compensation project in progress.

Defra



Approximately 3,500 staff.



Annual budget of approximately £2.2bn.



80% of Defra's work impacted by EU Exit.

- Estimated £36m cost saving over the next six years from the new import service.
- Kainos delivered 11 new digital services in just 18 months to support EU Exit readiness.

Customer Stories

Commercial clients in the UK and in Germany.

Merian Global Investors



250 employees.



Headquartered in London.



Formed from buy-out from Old Mutual.

- Workday Services project, deployed HCM and Financials in 5 countries.
- Implemented in 22 weeks, ahead of the start of the new financial year.

Concardis



Founded in 2003.



116,000 customers in Austria Germany and Switzerland.



Process €42bn transactions annually.

- Successful launch of new payment product, SmartPay in September 2019.
- Kainos led the integration layer connecting 7 simultaneously built systems.

Digital Platforms



Digital Platforms Overview

Implementing our specialised products in automated testing and digital healthcare.

Very strong performance across all key financial metrics.

- Revenues increased 34% to £13.2m (H1 19: £9.9m).
- Sales orders increased 198% to £23.3m (H1 19: £7.8m).
- Contracted backlog increased 46% to £51.6m (H1 19: £35.4m).

Continued R&D activity with investment of £1.9m expensed (H1 19: £2.2m).

- Slight reduction in overall expenditure, with increases in Smart offset by reductions in Evolve.

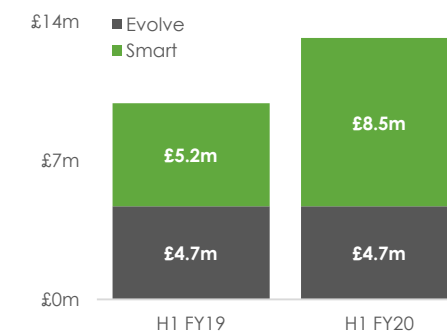
Smart for Workday.

- Our SaaS platform is uniquely engineered for the Workday product suite and is used to automatically verify Workday configurations for 190+ customers globally.

Evolve Electronic Medical Record (EMR).

- The leading EMR platform, selected by 30 Health Trusts and Hospital Groups, with 39 million patients registered and managing 2.0 billion images.

REVENUE



INVESTMENT



Smart for Workday

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

Strong sales execution with over 38 new clients signed (H1 19: 28).

- New clients signed included AIA, Bowdoin and Zillow.

Financial performance underlines strength of product and market opportunity.

- Revenue: up 63% to £8.5m (H1 19: £5.2m).
- Sales Orders: up 100% to £14.5m (H1 19: £7.3m).
- Annual Recurring Revenue (ARR): up 75% to £16.2m (H1 19: £9.2m).

Currently four Smart modules: HCM, Security, Financials and Payroll.

- Audit module due to launch Q4.

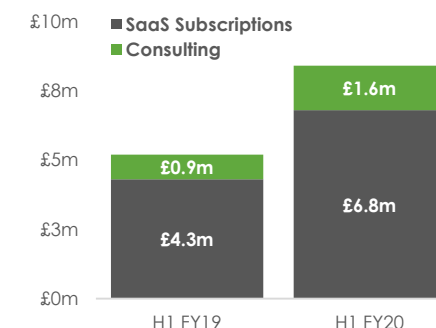
Service option, including testing and triage support, introduced in Q2 FY19.

- Over 50% of clients now migrated to the service option.

Workday Cloud Platform (WCP).

- Workday's Platform as a Service (PaaS) offering, available H1 2020, offers future opportunity - additional IP development and specialised development services.
- Kainos is part of Workday's early adopter programme.

REVENUE



COMPETITIVE LANDSCAPE



COMMERCIAL DYNAMICS

- Direct sales model.
- Subscription (SaaS).

Smart for Workday

Customers across the world use Smart to reduce their manual testing by 90%.



Customer Stories

Customers across the world use Smart to reduce their manual testing by 90%.

Keurig Dr Pepper



25,000 employees.



\$11bn in Revenues.



7th largest food and beverage company in the US.

- Deployed Smart HCM and Smart Security.
- Assist with their implementation testing of Workday.
- Reduced manual testing, on time delivery of Workday.

Saint Luke's Health System



12,000 employees.



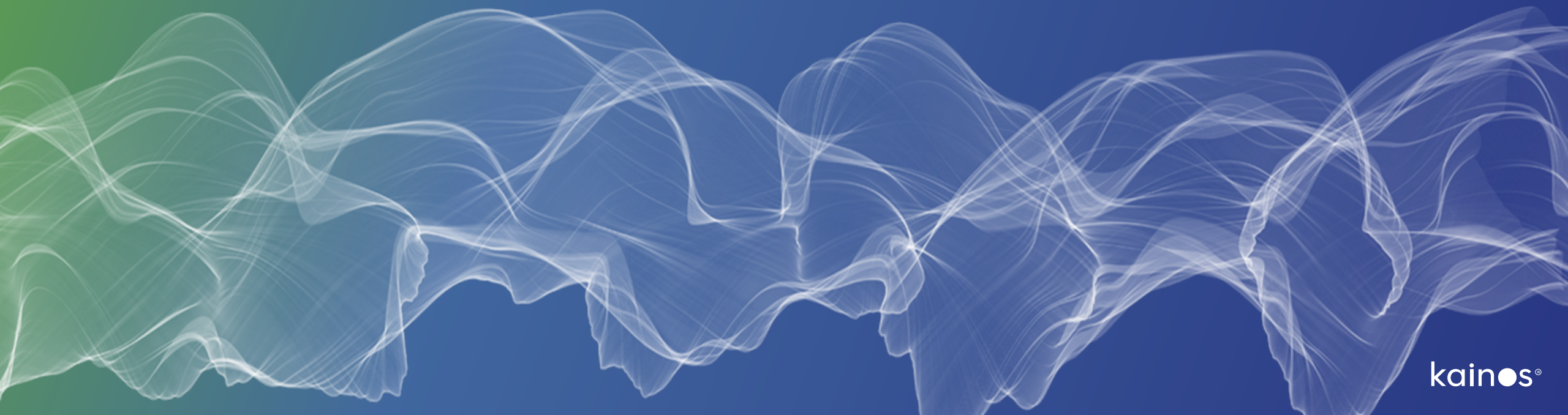
Hospitals are used as teaching centres for 3500+ nurses.



300 Locations including hospitals, labs, pharmacies and surgery centers.

- Using full Smart Suite - HCM, Financials, Payroll and Security.
- Increased test coverage and reduced risk.
- Were onboarded rapidly for WD 33 testing and this reduced their manual testing effort by 80%.

Financial Performance



Income Statement

Digital Services:

- Very strong revenue growth in both segments.
 - Digital Transformation: 21%.
 - Workday Services: 64%.
- Gross Margin increased by 1%.
 - Improved Workday Services margin.
 - Reduced use of contractors and partners.
 - Utilisation 72% (H1 19: 76%).

Digital Platforms:

- Mixed Revenue Performance.
 - Smart revenue growth: 63%.
 - Evolve revenue growth: 1%.
- Gross margin unchanged.

Operating expenses:

- Digital Services increase 63%.
 - Costs moved from central overheads 13% (£1.0m).
 - Additional costs of new regions.
- Digital Platforms reduced 1%.
 - Smart R&D spend increased 26%.
 - Smart operational gearing.
 - Evolve R&D and sales costs reduced.
- Central overheads increase 24%.
 - Growth in-line with revenue.

Tax Rate 20% (H1 19: 20%).

INCOME STATEMENT

£m	H1 20	H1 19	FY 19	HY Change
Digital Services	73.7	57.3	132.6	29%
Digital Platforms	13.2	9.9	18.7	34%
Revenue	86.9	67.2	151.3	29%
Digital Services	32.5	25.0	58.6	30%
Digital Platforms	7.8	5.8	10.5	35%
Gross profit	40.4	30.8	69.1	31%
Operating expenses	(27.7)	(20.8)	(45.9)	(33%)
Adjusted pre-tax profit	12.8	10.1	23.3	27%
<i>Adjusted pre-tax profit margin</i>	<i>15%</i>	<i>15%</i>	<i>15%</i>	
Share based payments	(0.8)	(1.3)	(2.2)	
Profit before tax	12.0	8.7	21.1	38%
Taxation	(2.4)	(1.8)	(4.2)	
Profit after tax	9.6	7.0	16.9	38%

Balance Sheet and Cashflow

Balance Sheet:

- Fixed assets
 - IT, office equipment etc. £2.7m (H1 19: £2.6m).
 - IFRS16 leases capitalised £4.9m (H1 19: N/A).
 - Land for office £7.4m (H1 19: N/A).
- Underlying trade receivables/WIP total 77 days (H1 19: 68 days).
- Increase in trade creditors and accruals £17.2m (H1 19: £12.4m).
 - Broadly in-line with revenue.
- Significant cash reserves £41.3m.
 - Debt free.

Cashflow:

- Cash conversion 60%⁽¹⁾ (H1 19: 93%⁽¹⁾).
 - If adjusted for bonus timing would be 75%.
 - High WIP on two accounts corrected post period end.
 - Ongoing guidance is approximately 85%.
- Future HQ property funding requirements being finalised.
- Dividend declared 3.5p (H1 19: 2.8p).

BALANCE SHEET

As at 30 September (£m)	H1 20	H1 19
Fixed assets and investments	16.0	3.6
Receivables and WIP	40.6	28.8
Other assets	4.9	5.0
Cash	41.3	38.8
Total assets	102.8	76.2
Liabilities	(43.6)	(30.4)
Shareholders' funds	59.2	45.8

CASHFLOW

£m	H1 20	FY 19	H1 19
EBITDA	14.1	24.4	10.5
Cash generated by operations	8.5	24.4	9.8
Cash Conversion	60%	100%	93%
Taxation	(1.3)	(1.9)	(0.5)
Capital expenditure	(7.8)	(2.0)	(1.0)
Dividends	-	(8.9)	-
Payment of lease liabilities	(0.8)	-	-
Proceeds from issue of shares	0.1	1.9	1.5
Net cash (outflow)/inflow	(1.2)	13.5	9.9

¹ Cashflow from Operations (CFFO) divided by adjusted EBITDA

² EBITDA adjusted for share based payments

Potential Segmental Reporting Change

Published Segmental Reporting

6 Months to 30 th September 2019	Digital Transformations £m	Workday £m	Total £m
Revenue	73.7	13.2	86.9
Cost of Sales	(41.1)	(5.4)	(46.5)
Gross Profit	32.5	7.8	40.4
Direct Expenses	(12.7)	(4.8)	(17.5)
Contribution	19.9	3.0	22.9
Op Expenses exc share based payments			(10.1)
Adjusted profit			12.8
Share based payments			(0.8)
Profit before tax			12.0

Rationale for current:

- Consistent over time.
- Less effort and hassle to change.
- Metrics on services and platforms are different.

Potential Segmental Reporting

	Digital Transformations £m	Workday £m	Total £m
	61.5	25.4	86.9
	(37.1)	(9.5)	(46.5)
	24.4	15.9	40.4
	(8.0)	(9.5)	(17.5)
	16.4	6.5	22.9
			(10.1)
			12.8
			(0.8)
			12.0

Rationale for proposed change:

- Better balance 71%/29% compared to 85%/15%.
- Increasingly selling services and Smart together.
- Future Workday related products e.g. Adaptive Insights and Workday Cloud Platform are product and services.

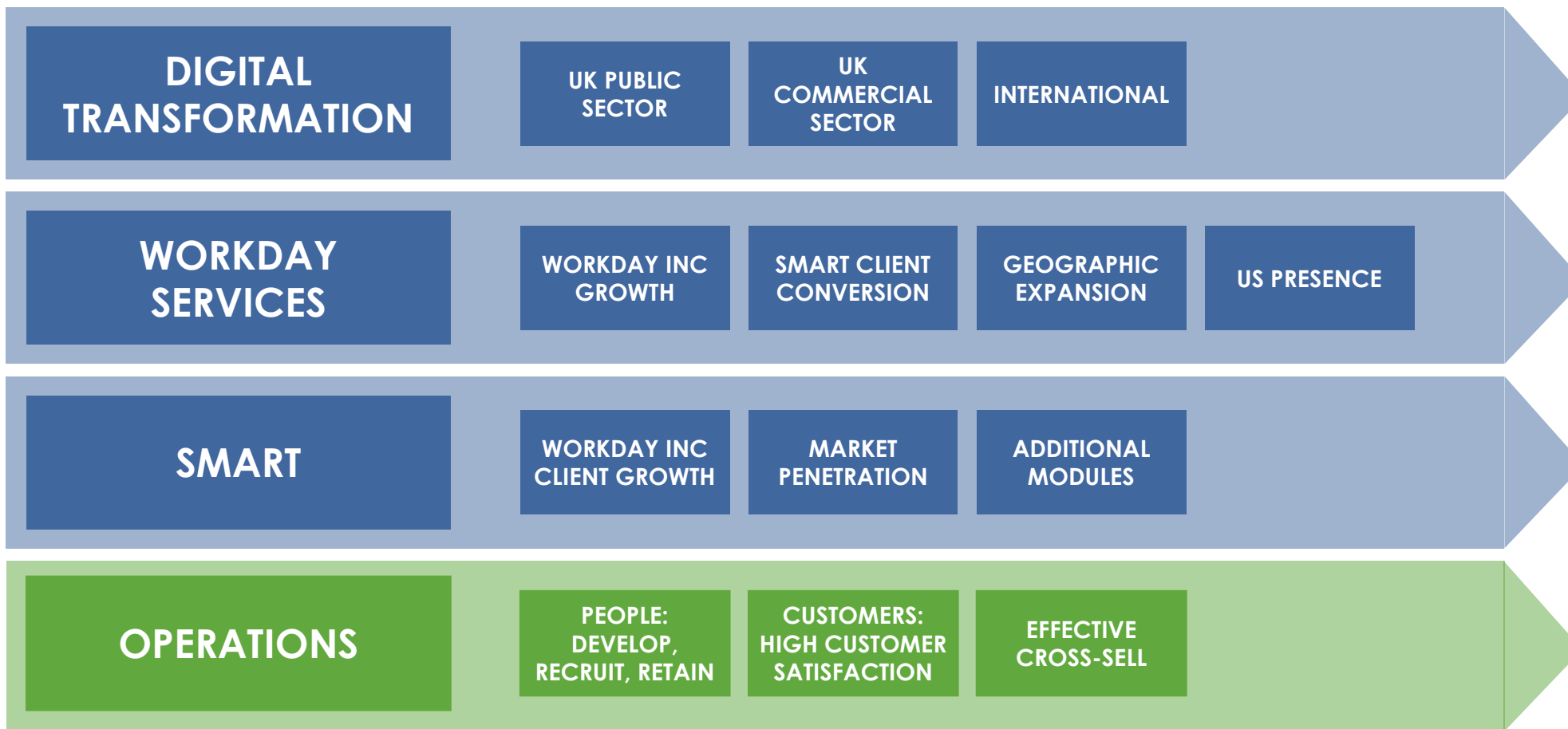
Looking Ahead





Growth Drivers

With positive end markets, our next phase of growth is all about execution.



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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