

Kainos Group plc
“Kainos” or the “Group”

Preliminary results for the year ended 31 March 2019

Kainos Group plc (KNOS), a leading UK-based provider of digital services and platforms, is pleased to announce its results for the year ended 31 March 2019.

Financial highlights

	2019	2018	Change
Revenue	£151.3m	£96.7m	56%
Adjusted pre-tax profit ¹	£23.3m	£15.3m	52%
Statutory profit before tax	£21.1m	£14.3m	48%
Cash	£42.5m	£29.0m	47%
Sales orders	£171.7m	£130.7m	31%
SaaS sales orders	£18.4m	£13.3m	38%
Backlog ²	£122.2m	£110.7m	10%
Adjusted diluted earnings per share ¹	15.4p	10.4p	48%
Diluted earnings per share	13.9p	9.6p	45%
Proposed total dividend	9.3p	6.6p	41%

Operational highlights

- A strong performance, representing the ninth consecutive year of growth in revenue and adjusted pre-tax profit, delivered organically.
- Very strong sales execution continues to underpin further revenue growth.
 - Revenue growth of 56% to £151.3 million (2018: £96.7 million).
 - Adjusted pre-tax profit increased 52% to £23.3 million (2018: £15.3 million).
 - Sales orders up 31% to £171.7 million (2018: £130.7 million).
 - Contracted backlog growth of 10% to £122.2 million (2018: £110.7 million).
- Revenue diversification continues, across a number of segments.
 - International revenues up 44% to £29.0 million (2018: £20.2 million).
 - Commercial revenues up 42% to £40.0 million (2018: £28.1 million).
 - Healthcare revenues up 42% to £21.4 million (2018: £15.0 million).
 - SaaS and software-related revenues up 6% to £16.9 million (2018: £15.9 million).
- Very strong revenue growth in Digital Services, up 69% to £132.6 million (2018: £78.6 million).
 - Significant ongoing engagements in UK government’s digital transformation programme.
 - Further strengthening of position as leading European Workday specialist, appointed partner in France; building presence in North America and appointed partner in Canada.
- Digital Platforms continues to make progress against key milestones.
 - Revenue growth of 3% to £18.7 million (2018: £18.1 million).
 - New clients boost Smart revenues by 45% to £11.3 million (2018: £7.8 million).
 - Research and Development expenditure of £4.3 million expensed (2018: £4.9 million).
- Customer approval rated as ‘good’ or better by 91% of customers (2018: 99%).
- Headcount of 1,470 people in Kainos, up 26%, with ongoing recruitment activity.
- Highly cash generative, strong underlying cash conversion of 100% (2018: 96%) and period-end net cash of £42.5 million (2018: £29.0 million).

¹Adjusted measures are based on reported statutory profit numbers excluding the effect of share-based payments. Reconciliations between the reported and adjusted measures are included in the Financial Review.

²The value of contracted revenue that has yet to be recognised.

Brendan Mooney, CEO, commented:

“In what is our ninth consecutive year of growth, I am pleased to report the strongest annual performance in that period, with significant increases in the number of people working in Kainos and in sales, revenue and adjusted pre-tax profit growth.

In Digital Transformation we continue to deliver significant programmes in partnership with UK government and with leading commercial and international clients. In what is now a familiar pattern, our growth is fuelled by demand from both existing and new clients.

Within Workday Implementation we continue to be the European partner of choice for forward-thinking organisations that are choosing Workday’s innovative Software-as-a-Service platform to support their people and finance requirements. To support our growing international client base, we have opened offices in Paris and Toronto in 2019, alongside existing offices in Amsterdam, Copenhagen, Frankfurt, Gdansk and Atlanta.

Smart, our market-leading Software as a Service (SaaS) platform for automated testing of the Workday suite, continues to win global brands as customers, adding Home Depot, Prudential and Vassar College during the year.

As a Group, our healthcare-related revenues have grown strongly, however Evolve, our market-leading Electronic Medical Records (EMR) solution for the NHS continues to experience the headwinds within the NHS funding landscape.

As a Group, we remain focused on providing exceptional careers for our staff and exceptional digital products and services for our customers. The Group’s pipeline of prospects continues to strengthen, and the Board believes that the Group is well-positioned for growth both in the short term and in the coming years.”

Ends

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About Kainos

Kainos Group plc is a UK-headquartered provider of Digital Services and Digital Platforms.

The Group's Digital Services include full lifecycle development and support of customised Digital Services for government and commercial customers. Kainos is also the leading boutique partner for Workday, Inc. ('Workday') in Europe, responsible for implementing Workday's innovative Software-as-a-Service (SaaS) platform for enterprise customers.

The Group's Digital Platforms comprise specialised digital products in the mobile healthcare and automated testing arenas. Smart is an automated testing platform for Workday customers; Evolve Electronic Medical Records (EMR) is the market-leading product for the digitisation of patient notes in the Acute sector of the NHS.

Kainos has 1,470 people across 12 offices in Europe and North America, working interchangeably across its Services and Platforms businesses.

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

Overview

The financial results for the year ended 31 March 2019 represent the ninth consecutive year of revenue and adjusted pre-tax profit growth; the success in winning projects with new and existing customers provides an excellent platform for future growth.

Revenue for the year ended 31 March 2019 grew by 56% to £151.3 million (2018: £96.7 million). Adjusted pre-tax profits increased by 52% to £23.3 million (2018: £15.3 million), which also included £4.3 million in R&D expensed in the year (2018: £4.9 million).

Sales orders for this period amounted to £171.7 million (2018: £130.7 million), a total that included £18.4 million (2018: £13.3 million) of SaaS product sales orders, an increase of 38%. The contracted backlog for the Group increased by 10% to £122.2 million (2018: £110.7 million). The proportion of revenue generated from customers outside the UK increased by 44% in 2019 and now accounts for 19% of total Group revenue (2018: 21%).

Staff and contractor numbers increased by 301 to 1,470 at 31 March 2019 (2018: 1,169). The Group continues to attract very strong interest from both graduates and experienced senior candidates in key employment markets, with 21,890 job applications received during the year; 73% of people joining Kainos were recruited directly rather than via recruitment agencies (2018: 80%). Employee engagement remains high, although the Group placed outside the Sunday Times Top 100 'Best Companies to Work For' for the first time in seven years. Attrition across the Group rose to 15% (2018: 13%) but remains below UK average (19.7%)³.

Customer satisfaction remains high, with 91% of customers rating Group service 'good' or better. This high level of customer service underpins the Group's long-term customer relationships, with existing customers accounting for 88% of Group revenue (2018: 86%). In the year to 31 March 2019, the Group acquired 68 new customers, making a total of 362 active customers.

Across sectors, 59% of revenue is derived from government customers (2018: 56%), 27% from commercial sector (2018: 30%) and 14% from healthcare (2018: 16%). Commercial sector revenue grew 42% to £40.0 million (2018: £28.1 million).

In the year ended 31 March 2019, Digital Services experienced very strong growth across both Digital Transformation (a 70% increase) and Workday Implementation (a 63% increase) service lines. Digital Transformation continues to play a major role in the UK government's digitisation programme, with ongoing demand from existing customers and with an increasing number of programmes for commercial customers. Workday Implementation experienced very strong growth with increased demand from existing customers, new customer acquisition and geographic expansion. The appointment of Kainos as a Workday partner in France and Canada and the subsequent opening of the Paris and Toronto offices provides the platform for further growth.

In the Digital Platforms division, the Kainos Smart automated testing platform continued its growth trajectory, adding further global customers during the period to bring the total number of customers on the platform to 154 at 31 March 2019.

³2018 XpertHR Survey.

The funding landscape within the NHS continues to be challenging and this has had an impact on Evolve revenues, decreasing by 27% to £7.5 million (2018: £10.3 million), which is in line with previous guidance.

Finally, the Group finished the year with a strong net cash balance of £42.5 million at 31 March 2019 (2018: £29.0 million), representing 100% cash conversion (2018: 96%).

Business Strategy

The strategy of the Group is to achieve sustained revenue, adjusted pre-tax profit and cash flow growth in its chosen markets through:

- Growing the Group's reputation;
- Capitalising on its established market position and significant growth opportunities;
- Building strong, long-term relationships with its customer base;
- Exploiting favourable market dynamics and drivers;
- Identifying favourable, future technology and market trends;
- Nurturing and expanding its experienced and highly skilled employee pool; and
- Recruiting high calibre entry-level and experienced staff.

Divisional Review

Digital Services

The Digital Services division comprises two areas of activity:

- **Digital Transformation:** the delivery of customised online digital solutions, principally for central, regional and local government departments and agencies ("UK government") and for commercial sector organisations. The solutions provided are highly cost-effective and make public-facing services more accessible and easier to use for the citizen and customer.
- **Workday Implementation:** the provision of consulting, project management, integration and post deployment services for Workday's software suite, which includes cloud-based software for Human Capital Management (HCM) and Financial Management that enables enterprises to organise their staff efficiently and to support financial reporting requirements.

Digital Services revenue for the year ended 31 March 2019 grew by 69% to £132.6 million (2018: £78.6 million). Digital Services revenue from customers in commercial sectors accounted for £29.8 million (2018: £20.8 million), an increase of 43%. Sales orders in Digital Services increased by 38% to £149.1 million (2018: £108.4 million) and backlog for the division increased by 14% to £80.6 million (2018: £70.6 million).

Digital Services – Digital Transformation

Despite the Brexit debate continuing to generate uncertainty within the wider UK economy, Digital Transformation delivered 70% growth, underpinning previous guidance that there was minimal negative impact to the programmes with which Kainos has been involved. Furthermore, the Group believes that there will be significant IT change as a result of the EU Exit, with over 300 IT systems impacted, which will present growth opportunities; the challenge, as with Brexit in general, is predicting when this will occur.

Within central government, Kainos continues to consolidate our position across key accounts, extending our services to deliver a number of the most high profile digital programmes including the Passport Application service for Home Office and the recently launched NHS App for NHS Digital. We also continue to expand our footprint in large scale digital services including the Courts Reform programme for Ministry of Justice and have commenced a two year digital partner programme with Land Registry.

Progress continues in the commercial sector, both within the UK and in Germany where contracts have been signed with Concardis and Skeyos. The partnership with NHS Digital continues to strengthen, with Kainos having a leading role in the delivery of the NHS App. The NHS App entered private beta in September 2018 and is presently being rolled out across England with a national launch planned for September 2019.

Looking forward, the Group remains optimistic about the future of digitisation in the UK public sector and is confident that it is well positioned to maintain a central role in public sector transformation. In the near term, there is an increased possibility that Brexit, a general election and a spending review all occur within a similar timeframe. Whilst this is unlikely to disrupt in-flight programmes, it may cause the deferral of significant new programmes by a number of months.

Outside of UK public sector, a growing reputation in the commercial sector, opportunities within NHS Digital and international expansion, most particularly in Germany, are expected to generate further long-term growth for the Group.

Digital Services – Workday Implementation

Kainos first engaged with Workday in 2010 and is now one of the most experienced participants in Workday's partner ecosystem. Kainos remains the only boutique Workday partner headquartered in the UK and one of only 34 partners globally accredited to implement Workday's innovative SaaS platform.

Within Europe, Kainos continues to consolidate its position as a leading Workday partner, being appointed as a partner in France during the period. This leadership position is a result of geographic expansion and high satisfaction levels within the Kainos customer base, but is also aided by the consolidation within the partner ecosystem⁴.

Kainos has continued its geographic expansion, with the opening of an office in Paris in January 2019 to support growth within the French market. This is in addition to offices opened in Copenhagen (2017 to develop the Nordic markets of Denmark, Sweden, Norway and Finland), Amsterdam (2015, covering Belgium, Netherlands and Luxembourg) and Frankfurt (2017, covering Germany, Austria and Switzerland). Kainos now has 45 clients for Workday Implementation in mainland Europe (2018: 29).

In North America, Kainos has been appointed partner for Canada (October 2018) and has already secured eight customers; an office has been opened in Toronto in 2019 to support this expansion within this market. Within the US, Kainos is delivering two Workday Financials projects for clients that have substantial international operations.

⁴Recent transactions include the Appirio acquisition by Wipro (2016), DayNine by Accenture (2016) and Ataraxis by HR Path (2018). In 2016, Wipro acquired Appirio, a boutique Workday and Salesforce consultancy, in 2019 Alight acquired the Workday elements of the Appirio business from Wipro, for a reported \$110 million, with 350 consultants joining Alight.

The UK public sector is now a key market for Workday and Kainos has been instrumental in securing early customers. Of the eight deals signed by Workday to date, Kainos is undertaking the implementation with seven customers and Workday is delivering the remaining project directly. Kainos customers include Crown Commercial Services and the Department for Education.

In addition to the delivery of Workday for new customers, Kainos is increasingly involved in supporting the operation of customers that are already live on the Workday platform. This annuity-style revenue stream, described as Post Deployment Services, accounts for £8.8 million revenue (2018: £4.5 million) and has 84 customers (2018: 44).

The number of accredited Workday consultants in the Group's Digital Services division has increased by 48% to 251 people (2018: 170 people).

Looking forward, growth prospects remain very strong, driven by geographic expansion, increased penetration within the UK public sector and the further development of the Post Deployment Services offering. These prospects are, in turn, underpinned by very strong revenue growth at Workday Inc.

Digital Platforms

The Digital Platforms division comprises two discrete platforms:

- *Smart Automated Testing (Smart)*: Smart is a proprietary software tool that allows Workday customers to automatically verify their Workday configuration both during implementation and in live operation. Smart is the only automated testing platform specifically designed for the Workday product suite. Smart is a cloud-based SaaS solution licensed on a subscription basis to customers.
- *Evolve Electronic Medical Record (EMR)*: EMR is a proprietary software product that removes paper from the care process by digitising NHS patient records, thereby enabling efficient healthcare. Evolve EMR can be consumed either on-premise or in a hosted environment, with perpetual and subscription licensing options.

In aggregate, Digital Platforms revenue for the 12 months ended 31 March 2019 increased by 3% to £18.7 million (2018: £18.1 million). Sales orders for Digital Platforms increased by 1% to £22.6 million (2018: £22.3 million) of which sales orders for the Group's SaaS platforms increased by 38% to £18.4 million (2018: £13.3 million).

Within Smart, revenue for the period increased by 45% to £11.3 million (2018: £7.8 million), of which £9.4 million relates to SaaS subscriptions (2018: £6.4 million). New sales bookings for the period amounted to £20.2 million (2018: £10.7 million), an increase of 88%. The Annual Recurring Revenue (ARR) for Smart at period end was £11.0 million (2018: £7.1 million); backlog for Smart is £22.8 million (2018: £14.2 million).

The ongoing funding constraints within the NHS continue to impact Evolve revenues. Despite a stable maintenance revenue stream, there has been a reduction in revenue, decreasing 27% to £7.5 million (2018: £10.3 million). Sales orders for the period amounted to £2.4 million (2018: £11.5 million), suggesting no material increase in revenues in the short term.

Digital Platforms – Smart

Smart is now used by 154 global customers to automatically verify their Workday configurations (2018: 115). Kainos has four Smart modules: HCM, Security, Financials and Payroll.

Workday Inc. has a Platform-as-a-Service offering known as Workday Cloud Platform (WCP), which is expected to have general availability by late 2019. Kainos has been part of the early adopter programme since 2017, and while WCP is at an early stage it may offer new future growth opportunities – such as additional IP development for Kainos or specialised development services to other Workday customers and partners.

Looking forward, continued strong growth for Smart will be powered by increased penetration of Smart in the Workday Inc. customer base, by expansion of the Workday customer base itself and by the development and adoption of new Smart modules.

Digital Platforms – Evolve

Evolve EMR continues to be a leading supplier to the NHS and is now deployed at enterprise scale across 30 Health Trusts, managing over 2.0 billion images with 39 million patients registered on the system.

The dominant feature of the UK NHS market is that of restricted funding, which has significantly reduced procurement activity across the sector. Within the existing client base, there is growing interest in migrating to Cloud EMR.

Looking forward, the Group believes that the opportunity for Evolve EMR growth remains in the longer term, with over 90 Health Trusts in England still to address their considerable paper challenge, representing an available market of c. £200 million. Near-term, expectations are for a continued, subdued market, offering limited growth opportunities.

Financial Review

Kainos achieved revenue of £151.3 million (2018: £96.7 million), representing an increase of 56%. Digital Services revenue grew 69% to £132.6 million (2018: £78.6 million) which was driven by growth in both Digital Transformation and Workday Implementation. Whilst the headline Digital Platform revenue increased by a modest 3% to £18.7 million (2018: £18.1 million), this is a combination of 45% growth in Smart to £11.3 million (2018: £7.8 million) and a decline of 27% in Evolve to £7.5 million (2018: £10.3 million).

Overall gross margin was 46% (2018: 48%) with Digital Services decreasing to 44% (2018: 46%), whilst Digital Platforms gross margin decreased to 56% (2018: 59%). The reduction in Digital Services gross margin was mainly a result of increasing the number of contractors to support the significant revenue growth and the geographic expansion within Workday Implementation services. The decrease in gross margin for Digital Platforms was due to a change in revenue mix in Evolve.

Operating expenses excluding share-based payments for 2019 increased by 47% to £45.9 million (2018: £31.3 million). This increase is in line with revenue growth and relates to the geographic expansion and sales investment within the Digital Services division. Within Digital Platforms one loss making contract was identified which resulted in an onerous contract provision of £1.0 million. Investment in product development has reduced to £4.3 million (2018: £4.9 million), due to a reduction in staff involved in Evolve product development which was partially offset by a growth in Smart product development. All product development costs were expensed in the period. Research and Development Expenditure Credit (RDEC) grants recognised in the period totalled £2.0 million (2018: £2.8 million).

The share-based payment expense incurred in the period was £2.2 million (2018: £1.1 million). This increase relates mainly to social security costs associated with vesting of share awards. Adjusted pre-tax profit increased by 52% to £23.3 million (2018: £15.3 million). Statutory profit before tax increased by 48% to £21.1 million (2018: £14.3 million). The adjusted profit measures can be reconciled to the reported statutory numbers as follows:

	2019 (£000s)	2018 (£000s)
Statutory profit before tax	21,125	14,251
Share-based payments	2,196	1,096
Adjusted profit before tax	23,321	15,347

	2019 (£000s)	2018 (£000s)
Statutory profit after tax	16,939	11,666
Share-based payments (net of associated taxes)	1,823	910
Adjusted profit after tax	18,762	12,576

The effective tax rate for 2019 was 20% (2018: 18%). The 2019 effective tax rate was above the UK corporation tax rate due to increased overseas activity. Going forward we expect the effective tax rate to be broadly in line with the UK corporation tax rate.

The Group continues to have a strong financial position with £42.5 million of cash (2018: £29.0 million), no debt and net assets of £48.2 million (2018: £35.7 million). Cash conversion, calculated by taking cash generated by operations over EBITDA⁵, continued to be strong at 100% (2018: 96%). The combined underlying trade debtor and accrued income totalled £37.5 million (2018: £25.8 million) with the increase of 45% is in line with expectations given revenue growth. The Group has acquired a site for the development of Kainos' future Belfast headquarters, as announced on 12 February 2019. The purchase price is £7.1 million, with a 10% deposit paid during the period and the balance due upon completion, which is expected on 3 June 2019. The purchase will be funded using cash on the statement of financial position.

Dividend

Consistent with the guidance set out in our 2015 IPO Prospectus, the Group has adopted a progressive dividend policy, maximising shareholder return alongside retaining sufficient funds in the Group to invest in long-term growth. Kainos has consistently been profitable and has generated a strong cash balance. The final dividend, if approved by shareholders, will be 6.5p and payable on 25 October 2019 to shareholders on the register on 27 September 2019, with an ex-dividend date of 26 September 2019. This will make the total dividend for the year 9.3p (2018: 6.6p) which will represent a distribution of 60% of the adjusted profit after taxation for the year (2018: 63%).

⁵EBITDA is calculated as being adjusted pre-tax profit add back depreciation and finance income.

Summary and Outlook

The directors believe that the Group's very strong sales performance and consequent increase in contracted backlog underpin near-term performance.

Over the longer term, Kainos remains well placed to deliver further growth. The Group's Digital Services division continues to benefit from the UK government's digitisation programmes, and from the strong and sustained growth of Workday Inc. In the Group's Digital Platforms division, Smart remains in a commanding position as the only automated testing product for Workday globally.

In summary, the Group sees continued stability and growth opportunities for its Digital Services division and is encouraged by the strong position of its Digital Platform SaaS offerings globally. Going forward, the Group will remain focused on providing exceptional careers for staff and exceptional digital products and services for its customers.

Consolidated income statement for the financial period ended 31 March 2019

	Note	2019 (£000s)	2018 (£000s)
Continuing operations			
Revenue	2	151,294	96,680
Cost of sales	2	(82,189)	(50,076)
Gross profit	2	69,105	46,604
Operating expenses excluding share-based payments	2	(45,895)	(31,308)
Share-based payments		(2,196)	(1,096)
Operating expenses		(48,091)	(32,404)
Operating profit		21,014	14,200
Finance income		111	53
Finance expense		-	(2)
Profit before tax		21,125	14,251
Taxation on ordinary activities	5	(4,186)	(2,585)
Profit for the year		16,939	11,666

Consolidated statement of comprehensive income

	2019 (£000s)	2018 (£000s)
Profit for the year	16,939	11,666
Other comprehensive income:		
Currency translation difference	240	(201)
Total comprehensive income for the year	17,179	11,465

Earnings per share

Basic	7	14.3p	10.0p
Diluted	7	13.9p	9.6p

Consolidated statement of financial position as at 31 March 2019

	Note	2019 (£000s)	2018 (£000s)
Non-current assets			
Property, plant and equipment		2,978	2,109
Investments		1,025	1,025
Deferred tax assets		1,310	1,289
		5,313	4,423
Current assets			
Trade and other receivables	8	29,302	23,157
Prepayments		2,652	2,647
Accrued income		11,305	6,106
Cash and bank balances		42,488	28,961
		85,747	60,871
Total assets		91,060	65,294
Current liabilities			
Trade creditors and accruals	9	(21,412)	(13,039)
Deferred income	9	(10,820)	(6,993)
Corporation tax	9	(2,755)	(3,157)
Other tax and social security	9	(6,514)	(6,028)
		(41,501)	(29,217)
Non-current liabilities			
Other provisions		(1,392)	(347)
		(1,392)	(347)
Total liabilities		(42,893)	(29,564)
Net assets		48,167	35,730
Equity			
Share capital		605	593
Share premium account		3,596	1,702
Capital reserve		665	666
Share-based payment reserve		3,895	2,549
Translation reserve		(210)	(450)
Retained earnings		39,616	30,670
Total equity		48,167	35,730

Richard McCann
 Director
 24 May 2019

Consolidated statement of changes in equity for the year ended 31 March 2019

	Share capital	Share premium	Capital reserve	Share- based payment reserve	Translation reserve	Retained earnings	Total equity
	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)
Balance at 31 March 2017	592	1,626	667	1,279	(249)	26,071	29,986
Profit for the year	-	-	-	-	-	11,666	11,666
Other comprehensive income	-	-	-	-	(201)	-	(201)
Total comprehensive income for the year	-	-	-	-	(201)	11,666	11,465
Share-based payment expense	-	-	-	1,096	-	-	1,096
Adjustments in respect of prior periods	-	-	-	174	-	(174)	-
Current tax for equity- settled share-based payments	-	-	-	-	-	82	82
Deferred tax for equity-settled share-based payments	-	-	-	-	-	606	606
Issue of share capital	1	76	(1)	-	-	-	76
Dividends	-	-	-	-	-	(7,581)	(7,581)
Balance at 31 March 2018	593	1,702	666	2,549	(450)	30,670	35,730
Profit for the year	-	-	-	-	-	16,939	16,939
Other comprehensive income	-	-	-	-	240	-	240
Total comprehensive income for the year	-	-	-	-	240	16,939	17,179
Share-based payment expense	-	-	-	1,346	-	-	1,346
Adjustments in respect of prior periods	-	-	-	-	-	33	33
Current tax for equity- settled share-based payments	-	-	-	-	-	899	899
Deferred tax for equity-settled share-based payments	-	-	-	-	-	(8)	(8)
Issue of share capital	12	1,894	(1)	-	-	-	1,905
Dividends	-	-	-	-	-	(8,917)	(8,917)
Balance at 31 March 2019	605	3,596	665	3,895	(210)	39,616	48,167

Consolidated cash flow statement for the year ended 31 March 2019

	2019 (£000s)	2018 (£000s)
Net cash from operating activities	22,520	14,152
Investing activities		
Purchases of trading investments	-	(125)
Purchases of property, plant and equipment	(2,016)	(1,130)
Net cash used in investing activities	(2,016)	(1,255)
Financing activities		
Dividends paid	(8,917)	(7,581)
Proceeds on issue of shares	1,905	76
Net cash used in financing activities	(7,012)	(7,505)
Net increase in cash and cash equivalents	13,492	5,392
Cash and cash equivalents at beginning of year	28,961	23,722
Effects of foreign exchange rate changes	35	(153)
Cash and cash equivalents at end of year	42,488	28,961

	2019 (£000s)	2018 (£000s)
Net cash from operating activities		
Profit for the year	16,939	11,666
Adjustments for:		
Income tax expense	4,186	2,585
Share-based payment expense	2,196	1,096
Government grants released	-	(13)
Depreciation	1,147	976
(Profit)/loss on disposal of property, plant and equipment	(22)	47
Increase in provisions	1,045	50
Operating cash flows before movements in working capital	25,491	16,407
Increase in receivables	(11,215)	(8,087)
Increase in payables	10,146	7,370
Cash generated by operations	24,422	15,690
Income taxes (paid)	(1,902)	(1,538)
Net cash from operating activities	22,520	14,152

Notes to the consolidated financial statements

1. General information and basis of preparation

Kainos Group plc (“the Company”) is a public company limited by shares incorporated in the UK 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 financial statements are presented in Pounds Sterling and rounded to the nearest thousand. The consolidated financial statements consolidate those of the Company and its subsidiaries (together “Kainos”, or “the Group”).

The Group’s operations and principal activities are outlined in the Overview and Divisional Review. The financial position is outlined in the Financial Review and the notes to the financial statements.

The financial statements were authorised for issue by the directors on 24 May 2019.

2. Segment reporting

All of the Group's revenue during the period to 31 March 2019 was derived from continuing operations. Kainos is structured into two divisions: Digital Services and Digital Platforms.

Digital Services include full lifecycle development and support of digital solutions for government and commercial customers. Kainos is also the largest partner for Workday in Europe, responsible for implementing Workday's innovative Software-as-a-Service (SaaS) platform for enterprise customers.

Digital Platforms comprise Evolve EMR, the market-leading product for the digitisation of patient notes in the Acute sector of the NHS; Evolve IC, an integrated care platform for NHS and international healthcare providers; and Smart, an automated testing platform for Workday customers.

Segment revenue and results

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

2019 12 months to 31 March	Digital Services (£000s)	Digital Platforms (£000s)	Consolidated (£000s)
Revenue	132,587	18,707	151,294
Cost of sales	(73,961)	(8,228)	(82,189)
Gross profit	58,626	10,479	69,105
Direct expenses ⁶	(16,926)	(9,938)	(26,864)
Contribution	41,700	541	42,241
Central overheads ⁶			(18,920)
Adjusted pre-tax profit			23,321

⁶ Operating expenses excluding share-based payments includes direct expenses, central overheads and finance income/expenses.

2018 12 months to 31 March	Digital Services (£000s)	Digital Platforms (£000s)	Consolidated (£000s)
Revenue	78,592	18,088	96,680
Cost of sales	(42,605)	(7,471)	(50,076)
Gross profit	35,987	10,617	46,604
Direct expenses ⁶	(9,297)	(9,099)	(18,396)
Contribution	26,690	1,518	28,208
Central overheads ⁶			(12,648)
Adjusted pre-tax profit			15,347

Reconciliation of adjusted pre-tax profit to profit before tax

	2019 (£000s)	2018 (£000s)
Adjusted pre-tax profit	23,321	15,347
Share-based payments	(2,196)	(1,096)
Profit before tax	21,125	14,251

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

	2019 (£000s)	2018 (£000s)
United Kingdom	122,304	76,478
Republic of Ireland	5,827	6,632
US	10,597	6,715
Other	12,566	6,855
	151,294	96,680

3. Profit for the year

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

	2019 (£000s)	2018 (£000s)
Total staff costs	73,899	55,881
Government grants	(984)	(3,076)
Operating lease rentals	2,272	1,499
Research and development costs	4,321	4,909
Research and Development Expenditure Credit grant	(2,014)	(2,781)
Depreciation of property, plant and equipment	1,147	976
Net foreign exchange (gain)/loss	(69)	43

4. Staff numbers

The average number of employees during the year was:

	2019	2018
	Number	Number
Technical	1,004	780
Administration	115	129
Sales	59	55
	1,178	964

The number of employees at 31 March 2019 was:

	2019	2018
	Number	Number
Technical	1,056	846
Administration	175	139
Sales	65	50
Contractors	174	134
	1,470	1,169

5. Taxation on ordinary activities

	2019	2018
	(£000s)	(£000s)
Corporation tax:		
Current year (UK)	3,657	2,434
Current year (overseas)	599	489
Adjustments in respect of prior years	(33)	19
	4,223	2,942
Deferred tax	(37)	(357)
	4,186	2,585

UK corporation tax is calculated at 19% (2018: 19%) of the estimated taxable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The effective tax rate for 2019 was 20% (2018: 18%).

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Act 2016 and Finance Act 2015. As a result, the main rate of corporation tax reduced to 19% from 1 April 2017 and will reduce to 17% from 1 April 2020. 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 statement of comprehensive income as follows:

	2019	2018
	(£000s)	(£000s)
Profit before tax on continuing operations	21,125	14,251
Tax at the UK corporation tax rate of 19% (2018: 19%)	4,014	2,708
Non-deductible expenses	66	19
Non-taxable income	(1)	-
Effect of foreign exchange on consolidation	29	(91)
Effect of non-UK tax rates	17	98
Movement in prior year unrecognised deferred tax assets	15	(218)
Adjustments to tax charge in respect of prior years	46	34
Change in UK tax rates	-	35
Tax expense for the year	4,186	2,585

In addition to the amount charged to the statement of comprehensive income, the following amounts relating to tax have been recognised directly in equity.

	2019	2018
	(£000s)	(£000s)
Current tax		
Permanent element of stock option deduction	899	82
Deferred tax		
Adjustments in respect of previous periods	-	28
Deferred tax on stock option	(8)	578
Total tax recognised directly in equity	891	688

6. Dividends

	2019	2018
	(£000s)	(£000s)
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for 2019 of 2.8p per share	3,382	-
Final dividend for 2018 of 4.6p per share	5,535	-
Interim dividend for 2018 of 2.0p per share	-	2,371
Final dividend for 2017 of 4.4p per share	-	5,215
	8,917	7,586

The proposed final dividend for 2019 is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements. The final dividend, if approved by

shareholders, will be 6.5p and payable on 25 October 2019 to shareholders on the register on 27 September 2019, with an ex-dividend date of 26 September 2019.

7. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable of ordinary shareholders to the parent company by the weighted average number of ordinary shares in issue during the period.

	2019	2018
	(£000s)	(£000s)
Profit for the period	16,939	11,666
	Thousands	Thousands
Weighted average number of ordinary shares for the purposes of basic earnings per share	118,318	117,231
Effect of dilutive potential ordinary shares from share options	3,250	3,668
Weighted average number of ordinary shares for the purposes of diluted earnings per share	121,568	120,899
Basic earnings per share	14.3p	10.0p
Diluted earnings per share	13.9p	9.6p

Adjusted basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the parent company, excluding exceptional items and share-based payments (including associated taxes) by the weighted average number of ordinary shares in issue during the period.

	2019	2018
	(£000s)	(£000s)
Profit for the period	16,939	11,666
Share-based payments (including associated taxes)	1,823	910
Adjusted profit for the period	18,762	12,576
	Thousands	Thousands
Weighted average number of ordinary shares for the purposes of basic earnings per share	118,318	117,231
Effect of dilutive potential ordinary shares from share options	3,250	3,668
Weighted average number of ordinary shares for the purposes of diluted earnings per share	121,568	120,899
Adjusted basic earnings per share	15.9p	10.7p
Adjusted diluted earnings per share	15.4p	10.4p

8. Trade and other receivables

	2019	2018
	(£000s)	(£000s)
Trade receivables	26,216	19,738
Allowance for doubtful debts	(53)	-
	26,163	19,738
Other debtors	3,139	3,419
	29,302	23,157

9. Trade and other payables

	2019	2018
	(£000s)	(£000s)
Trade creditors and accruals	21,412	13,039
Deferred income	10,820	6,993
Corporation tax	2,755	3,157
Other tax and social security	6,514	6,028
	41,501	29,217

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs, including payroll. For most suppliers, no interest is charged on payables.