

## Kainos Group plc

### Kainos Group plc “Kainos” or the “Group”

### Preliminary results for the year ended 31 March 2020

Kainos Group plc (KNOS), a leading IT provider, operating across two specialist business areas, Digital Services and Workday Practice, is pleased to announce its results for the year ended 31 March 2020.

#### Financial highlights

	2020	2019	Change
<b>Revenue</b>	£178.8m	£151.3m	+18%
<b>Adjusted pre-tax profit<sup>1</sup></b>	£25.5m	£23.3m	+9%
<b>Statutory profit before tax</b>	£23.2m	£21.1m	+10%
<b>Cash</b>	£40.8m	£42.5m	-4%
<b>Sales orders</b>	£243.6m	£171.7m	+42%
<b>SaaS sales orders</b>	£30.5m	£18.4m	+66%
<b>Backlog<sup>2</sup></b>	£180.0m	£122.2m	+47%
<b>Adjusted diluted earnings per share<sup>1</sup> (note 7)</b>	16.6p	15.4p	+8%
<b>Diluted earnings per share</b>	15.1p	13.9p	+9%
<b>Total dividend</b>	3.5p	9.3p	-62%

#### Operational highlights

- A strong performance, representing the tenth consecutive year of growth in revenue and adjusted pre-tax profit.
  - Revenue growth of 18% (17.5% organic) to £178.8 million (2019: £151.3 million).
  - Adjusted pre-tax profit increased 9% to £25.5 million (2019: £23.3 million).
- Very strong sales execution continues to underpin further revenue growth.
  - Sales orders up 42% to £243.6 million (2019: £171.7 million).
  - Contracted backlog growth of 47% to £180.0 million (2019: £122.2 million).
- Revenue diversification continues, across a number of segments.
  - International revenues up 72% to £39.9 million (2019: £23.2 million).
  - Commercial revenues up 58% to £63.1 million (2019: £40.0 million).
  - Healthcare revenues up 9% to £23.3 million (2019: £21.4 million).
  - SaaS and software-related revenues up 57% to £24.9 million (2019: £15.9 million).
- Solid revenue growth in Digital Services, up 4% to £122.5 million (2019: £117.3 million).
  - Significant ongoing engagements in UK government's digital transformation programme.
- Very strong revenue growth in Workday Practice, up 66% to £56.3 million (2019: £34.0 million).
  - Smart revenues increase by 69% to £19.1 million (2019: £11.3 million).

<sup>1</sup> Adjusted measures are based on reported statutory profit numbers excluding the effect of share-based payments and acquisition-related costs. Reconciliations between the reported and adjusted measures are included in the Financial Review.

<sup>2</sup> The value of contracted revenue that has yet to be recognised.

- Further strengthening of position as the leading European Workday specialist; building presence in North America.
- Completed the acquisitions of Formulate (UK), IntuitiveTEK (USA) and Implexa (Germany) to enhance the Adaptive Insights practice. These contributed £1.1 million of revenue during the period.
- Research and Development expenditure of £3.9 million expensed (2019: £4.3 million).
- Customer approval rated as 'good' or better by 97% of customers (2019: 91%).
- Headcount of 1,715, up 17% (2019: 1,470 people).
- Highly cash generative with cash conversion of 97% (2019: 100%) and period-end net cash of £40.8 million (2019: £42.5 million).
  - This includes outlay of £7.4 million for the purchase of a site for the development of Kainos' future Belfast office at Bankmore Square.

## Covid-19 impact

The end of FY20 brought the impact of the Coronavirus pandemic to our business. Throughout the Coronavirus pandemic our priorities have been ensuring the wellbeing of our people and supporting our customers in these difficult times.

We invoked our response plan on 5 March 2020, implementing home working for over 1,700 staff in a seamless fashion and without disruption to our customer projects. We are grateful for the active agreement of our customers in placing our people in the safest possible environment to provide ongoing support for all our customer engagements.

We anticipate that our customers in the public sector and in healthcare will likely be more robust than those in other sectors during this crisis. Nevertheless, we feel it is important to be prudent and manage the cost base, without limiting our longer-term growth prospects.

Therefore, Kainos has implemented several cost and cash containment measures, which include placing staff on furlough, pausing recruitment and reducing all non-essential expenditure, including deferment of the capital investment relating to the proposed new office in Belfast. These will result in significant cost savings on the prior year cost run-rate.

Given the backdrop, several measures have also been taken in relation to remuneration to ensure further cost containment. Across the Group, pay increases have been deferred until 2021 and bonus schemes have been curtailed. Additionally, for a period of six months, effective 1 April 2020, the Executive Directors (CEO, CFO and SVP Business Development) have elected to take no salary or bonus, the remaining members of the Executive Team have reduced their compensation by 50% and the Non-Executive Board members have reduced their fees by 20%.

Notwithstanding our strong cash balance (£40.8 million) and the cost reduction measures already implemented, in order to preserve the Group's liquidity during this period, the Board considers it prudent to maintain flexibility on dividends at this stage. Accordingly, the Board has decided not to declare a final dividend for FY20 and to take the opportunity to review the dividend position later in the year, when the impact of the Coronavirus pandemic becomes clearer.

## **Brendan Mooney, CEO, commented:**

“We are delighted to have achieved our tenth consecutive year of growth and we extend our thanks to our ambitious customers and talented colleagues who have made the achievement of this significant milestone possible.

While not having a significant impact on FY20, during March 2020 we started to see the impact of the Coronavirus pandemic on the global economy. It is too early to predict the duration or the severity of the economic disruption and the impact it will have on our customers. We maintain confidence in our strategy and believe that we have reacted to the uncertainty of the current situation swiftly and prudently, leaving us well positioned when the economic impacts of the Coronavirus on the broader economy begin to recede.

In Digital Services we continue to deliver significant programmes in partnership with the UK government and with leading commercial and healthcare clients. In what is now a familiar pattern, our growth is fuelled by demand from both existing and new clients, such as Quantexa Limited, The Pensions Regulator and Intelligent Growth Solutions.

Within the Workday Practice 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. 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 Match Group and Scotts Miracle-Gro as customers during the year. To support our growing international client base, we have opened offices in Indianapolis, Hamburg and Denver, and we now operate from a total of 10 international offices.

As a Group, we remain focused on providing exceptional careers for our staff and exceptional services to our customers. Notwithstanding the near-term uncertainty generated by the Coronavirus, the Board believes that the Group is well-positioned for growth.”

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**About Kainos**

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

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

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

Kainos has over 1,700 people across 15 offices in Europe and North America.

Kainos is listed on the London Stock Exchange (LSE: KNOS).

For further information, please visit [www.kainos.com](http://www.kainos.com).

## Overview

The financial results for the year ended 31 March 2020 represent the tenth consecutive year of revenue and adjusted pre-tax profit growth; our success in winning projects with new and existing customers provides an excellent platform for future growth.

Revenue for the year ended 31 March 2020 grew by 18% to £178.8 million (2019: £151.3 million). Adjusted pre-tax profits increased by 9% to £25.5 million (2019: £23.3 million), which also included £3.9 million in R&D expensed in the year (2019: £4.3 million).

The Group finished the year with a strong net cash balance of £40.8 million at 31 March 2020 (2019: £42.5 million), representing 97% cash conversion (2019: 100%).

Sales orders for this period amounted to £243.6 million (2019: £171.7 million), a total that included £30.5 million (2019: £18.4 million) of SaaS product sales orders, an increase of 66%. The contracted backlog for the Group increased significantly by 47% to £180.0 million (2019: £122.2 million). The proportion of revenue generated from customers outside the UK increased by 72% in 2020 and now accounts for 22% of total Group revenue (2019: 15%).

Staff and contractor numbers increased by 17% to 1,715 at 31 March 2020 (2019: 1,470). The Group continues to attract very strong interest from both graduates and experienced senior candidates in key employment markets, with the majority of people joining Kainos recruited directly rather than via recruitment agencies. Employee engagement remains high, with the Group placing 86<sup>th</sup> in the Sunday Times 'Best Companies to Work For' survey. Employee retention across the Group rose to 90% (2019: 85%).

Customer satisfaction remains high, with 97% 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 87% of Group revenue (2019: 88%). In the year to 31 March 2020, the Group acquired 103 new customers, making a total of 465 active customers.

From a Group perspective, 52% of revenue is derived from public sector customers (2019: 59%), 35% from commercial sector (2019: 27%) and 13% from healthcare (2019: 14%).

## Business Strategy

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

### People

The fundamental component of our strategy is our people. Our business is successful because of the talent, skill and motivation of our colleagues as they deliver on commitments to external and internal customers.

We will continue to recruit high calibre people, from school, college and industry; we will continue to invest in developing their skills and careers and we will continue to strive to be a great employer.

### Customers

Our business model is based on the conviction that by delivering consistently to our customers we will build long-lasting, mutually beneficial relationships that will see us thrive as a business.

These relationships are built, not only on a reputation for delivery, but on exemplary customer service. By being responsive to and supportive of our customers' complex and

changing business needs, we reinforce the strength of our relationships.

Therefore, our purpose is to help our customers with their most challenging projects and, together with our partners, help them build the capability to succeed in the digital age.

### Markets

We are a growth-orientated business and, while we are always confident of growing market share in subdued markets, we naturally orientate towards higher growth and dynamic markets. It is in these markets where the talents of our people shine the brightest and opportunities for growth are the strongest.

We have, deliberately, developed from a national to an international organisation, both internally and in the customers and markets that we serve. We expect our international presence to expand in terms of people and locations.

It is our preference to grow organically within our markets; we will undertake acquisitions only in exceptional circumstances, for instance to obtain unique skills.

Our ambition is to be a global, independent company operating towards the disruptive end of technology, that will thrive not just today, but for generations.

### Innovation

Markets and opportunities never remain static. This reality, coupled with our growth ambition, requires us to actively seek out new opportunities for our business.

Our innovation activity will focus on incremental improvement within our existing business streams and informed by our foresight activity, identify new and separate opportunities.

## Divisional review

Kainos operates across two specialist business areas:

- Our Digital Services division focuses on the delivery of customised online digital solutions, principally for public sector, commercial sector and healthcare organisations. The solutions provided are highly cost-effective and make public-facing services more accessible and easier to use for the citizen and customer.
- The Workday Practice is closely linked to Workday Inc's software suite, which includes cloud-based software for Human Capital Management ("HCM"), Financial Management and Planning that enables enterprises to organise their staff efficiently and to support financial reporting requirements. The division comprises two areas of activity, the provision of consulting services ("Workday Services") and the Smart Automated Testing Platform ("Smart") that allows Workday customers to automatically verify their Workday configuration.

As outlined in our Interim Results, we have opted to amend our reporting structure, now grouping our business as Digital Services (formerly reported as Digital Transformation and Evolve) and Workday Practice (previously reported as Workday Implementation and Smart).

This revised reporting structure reflects our internal operational grouping, but more importantly reflects how our customers interact with the Group – Smart customers are increasingly seeking Workday consulting services and vice versa. We expect this trend to accelerate in subsequent years.

We have shown a reconciliation of the revised reporting and previous reporting structures in note 10 of this financial information.

## Digital Services

Revenue for the period grew by 4% to £122.5 million (2019: £117.3 million), sales orders increased 38% to £169.3 million (2019: £122.7 million) with backlog increased by 48% to £123.5 million (2019: £83.6 million).

### Public sector

In the public sector, the financial year was overshadowed by an unsettled environment which included the UK Conservative Party leadership contest, the general election and the uncertainty generated by the Brexit debate.

Against this backdrop, our revenues increased by 2% to £86.4 million (2019: £84.6 million), which is consistent with previous company guidance – that the number of new projects started in the public sector might decrease, but existing programmes were unlikely to be impacted.

Within central government, Kainos continues to consolidate a strong position across key accounts, extending services to deliver a number of the most high-profile digital programmes including the Passport Application service for Home Office and the future theory testing services for DVSA. In the period, we also increased our presence in large scale digital services adding new projects such as Late Filing Penalties Appeal Service for Companies House and data migration for The Pensions Regulator.

### Commercial sector

We continue to make progress in building our presence in the commercial sector, with revenues up 15% to £15.3 million (2019: £13.3 million). In addition to on-going demand with existing clients, contracts have been signed with Quantexa Ltd, Canada Life Group Services and Gulf Agency Company.

### Healthcare sector

Healthcare revenues, including Evolve, increased by 7% to £20.8 million (2019: £19.4 million). Kainos continues to enjoy a strong partnership with NHS Digital, having been awarded the renewal of the NHS App programme and having secured a second key project to deliver the National Integration Adaptor programme. As the NHS has responded to the pandemic, Kainos has been working closely with NHS Digital to help deliver a number of urgent requirements to support the NHS response. Through the year, Kainos also added to its Evolve client base with the addition of Children's Health Ireland.

### Digital Services outlook

In the near-term, the digital services horizon is dominated by Covid-19. We anticipate that our customers in the public sector and in healthcare will likely be more robust than those in other sectors during this crisis. We continue to support our customers in responding to immediate requirements resulting from the pandemic - from Covid-19 amendments to the NHS App; supporting consular services for UK citizens living or stranded overseas; to emergency passport applications for urgent and compassionate reasons.

In the medium-term, 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.



Outside of the UK public sector, a growing reputation in the commercial sector and opportunities supporting NHS Digital and NHSx are expected to generate further long-term growth for the Group.

### Workday Practice

Kainos first engaged with Workday Inc. in 2010 and is now one of the most experienced participants in Workday's partner ecosystem. Kainos remains the only specialist Workday partner headquartered in the UK and one of only 32 partners globally accredited to implement Workday's innovative SaaS platform.

The Workday Practice comprises two areas of activity:

- *Workday Services*: 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"), Financial Management and Planning that enables enterprises to organise their staff efficiently and to support financial reporting requirements.
- *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.

Revenue for the period grew by 66% to £56.3 million (2019: £34.0 million), sales orders increased 52% to £74.3 million (2019: £49.0 million) and backlog for the division increased by 46% to £56.5 million (2019: £38.6 million).

The number of accredited Workday consultants increased by 51% to 380 people (2019: 251 people).

### Workday Services

Within Europe, Kainos continues to consolidate its position as a leading Workday partner. 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 ecosystem<sup>3</sup>.

Kainos has continued its geographic expansion, with the opening of an office in Paris in 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).

In North America, Kainos has been an appointed partner in Canada since 2018, opening an office in Toronto to support the expansion in this market. Within the US, Kainos has offices in Denver, Indianapolis and Atlanta. In total the Workday Practice has 106 people based in North America as at year end.

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

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<sup>3</sup> Recent transactions include the Ataraxis acquisition by HR Path (2018). In 2019 Alight acquired the Workday-related business elements of Wipro, for a reported \$110 million, with 350 consultants joining Alight. In 2020 Accenture acquired US-focused Sierra-Cedar (275 consultants) and Cognizant announced the acquisition of Collaborative Solutions (c.1,000 consultants).



annuity-style revenue stream, described as Post Deployment Services, accounts for £17.0 million revenue (2019: £8.8 million).

### *Adaptive Insights*

In June 2018, Workday Inc purchased Adaptive Insights for \$1.6 billion. Adaptive Insight's Business Planning Cloud is a leading cloud-based platform for modernising business planning, used by over 4,700 customers worldwide.

During the reporting period, Kainos completed the acquisition of three leading Adaptive Insights consulting organisations: Formulate (UK, 16 people), Implexa (Germany, 5 people) and IntuitiveTEK (USA, 38 people), creating one of the largest Adaptive Insights practices globally. In total the three contributed £1.1 million of revenue for the Group during the period.

In March 2020 Adaptive Insights announced IntuitiveTEK as Global Solution Provider of the Year and Formulate as EMEA Solution Provider of the Year (having placed 2<sup>nd</sup> globally).

Adaptive Insight's Business Planning Cloud can be deployed as an integrated part of the Workday Suite to an existing Workday customer, or independently as a standalone platform for non-Workday customers.

By acquiring these businesses, Kainos has strengthened its capabilities to sell, deliver and support Adaptive Insights financial planning customer success globally.

### *Smart*

Within Smart, revenue for the period increased by 69% to £19.1 million (2019: £11.3 million), of which £15.4 million relates to SaaS subscriptions (2019: £9.3 million).

Kainos has four Smart modules: HCM, Security, Financials and Payroll.

The Annual Recurring Revenue ("ARR") for Smart at period end was £19.4 million (2019: £11.0 million); backlog for Smart is £35.0 million (2019: £22.8 million).

Smart is now used by 206 global customers to automatically verify their Workday configurations (2019: 154).

### *Workday Extend*

Workday Inc. has a Platform-as-a-Service offering known as Workday Extend, which is expected to have general availability by late 2020. Kainos has been part of the early adopter programme since 2017, and while Workday Extend 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.

### *Workday Practice outlook*

As an internationally focused business, the Workday Practice has the additional complexity of operating across a number of countries, each with a different health and economic response to Covid-19.

We anticipate that our SaaS-related revenues in Smart will remain robust. Our consulting revenues will be more heavily influenced by the sector within which our clients operate, with sectors experiencing the most significant pressure likely to defer or cancel projects. Alongside this challenge, there remain opportunities for growing market share within the existing consulting market.

In the medium-term, 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.

In a similar timeframe, our consulting activity growth prospects remain very strong, driven by geographic expansion and the further development of the Post Deployment Services offering. These prospects are, in turn, underpinned by the performance of Workday Inc.

## Financial review

Kainos achieved revenue of £178.8 million (2019: £151.3 million), representing an increase of 18%. Digital Services revenue grew 4% to £122.5 million (2019: £117.3 million) which was driven by modest growth in both Digital Services and Evolve. Workday Practice revenue grew by 66% to £56.3 million (2019: 34.0 million) which was driven by 64% growth in Workday Services to £37.2 million (2019: £22.7 million) and 69% growth in Smart to £19.1 million (2019: £11.3 million).

Overall gross margin was 47% (2019: 46%). Digital Services margins decreased to 40% (2019: 42%) mainly due to a reduction in utilisation, whilst Workday Practice margins increased to 62% (2019: 59%) driven by increased SaaS margins within Smart and improved margins in Workday Services.

Operating expenses excluding share-based payments and acquisition-related expenses for 2020 increased by 24% to £56.9 million (2019: £45.8 million). This increase is partially driven by revenue growth combined with geographic expansion and sales investment within the Workday Practice.

Investment in product development reduced to £3.9 million (2019: £4.3 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 £1.9 million (2019: £2.0 million).

The share-based payment and acquisition-related expenses incurred in the period were £2.4 million (2019: £2.2 million). This increase relates mainly to acquisition expenses of £0.3 million. Adjusted pre-tax profit increased by 9% to £25.5 million (2019: £23.3 million). Statutory profit before tax increased by 10% to £23.2 million (2019: £21.1 million).

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

To arrive at adjusted results, adjustments made include acquisition expenses, amortisation related to acquired intangibles and share-based payments.

The adjusted profit measures can be reconciled to the reported statutory numbers as follows:

	2020 (£000s)	2019 (£000s)
<b>Statutory profit before tax</b>	<b>23,150</b>	<b>21,125</b>
Share-based payments	2,100	2,196
Acquisition-related expenses	266	-
<b>Adjusted profit before tax</b>	<b>25,516</b>	<b>23,321</b>

	2020 (£000s)	2019 (£000s)
<b>Statutory profit after tax</b>	<b>18,564</b>	<b>16,939</b>
Share-based payments (net of associated taxes)	1,701	1,823
Acquisition-related expenses (net of associated taxes)	219	-
<b>Adjusted profit after tax</b>	<b>20,484</b>	<b>18,762</b>

The effective tax rate for 2020 was 20% (2019: 20%). The 2020 effective tax rate was above the UK corporation tax rate due to overseas activity. Going forward we expect the effective tax rate to remain broadly in line with the UK corporation tax rate.

The Group continues to have a strong financial position with £40.8 million of cash (2019: £42.5 million), no debt and net assets of £59.2 million (2019: £48.2 million). During the year, the Group completed the purchase of the site for the development of Kainos' future Belfast office at Bankmore Square. The purchase price of £7.4 million was funded fully from cash resources.

The Group implemented IFRS16 "Leases" effective 1 April 2019. The Group adopted this standard using the modified retrospective approach and recognised right-of-use assets of £6.1 million and lease liabilities of £5.6 million as at 1 April 2019.

Cash conversion, calculated by taking cash generated by operations over EBITDA<sup>4</sup>, continued to be strong at 97% (2019: 100%). The combined underlying trade debtor and accrued income totalled £43.3 million (2019: £37.5 million). The increase of 16% is in line with expectations, given revenue growth.

During the reporting period, the Group completed three transactions to enhance its Adaptive Insights offering globally as part of its Workday Practice. The acquisitions were Formulate (UK) and IntuitiveTEK (USA) and a customer referral agreement with Implexa (Germany). In total, Kainos welcomed 59 employees to its Adaptive Insights practice.

Total consideration of £6.6 million was satisfied via cash of £4.6 million during the period (£0.4 million to be settled during FY21) and shares £1.6 million. The acquisitions resulted in the recognition of goodwill (£3.2 million) and customer relationship intangible assets (£4.0 million). Deferred consideration for these transactions will be treated as post combination remuneration and will be expensed as incurred.

## Dividend

Consistent with the guidance set out in our 2015 IPO Prospectus, to date 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. An interim dividend of 3.5p per share for the year ended 31 March 2020 was paid in October 2019. The Board has decided not to declare a final dividend for FY20 and to take the opportunity to review the dividend position later in the year, when the impact of the Coronavirus pandemic becomes clearer. The final dividend for the year ended 31 March 2020 will be 0.0p. The total dividend for FY20 is 3.5p.

<sup>4</sup> EBITDA is calculated as being adjusted pre-tax profit add back depreciation, finance income and finance expenses.

## Summary and Outlook

Against the backdrop of an uncertain global economic climate, the Directors believe that the Group's very strong sales performance and consequent increase in contracted backlog provide a solid foundation which supports 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 we anticipate a greater adoption of digital services by government, healthcare and commercial organisations once the immediate health crisis has been brought under control.

Within the Workday Practice, growth prospects remain strong as a result of the on-going performance of Workday Inc., the blue-chip nature of the Group's client base, the on-going geographic expansion for the division and the commanding position of Kainos Smart as the only automated testing product for Workday globally.

As a Group, we remain focused on providing exceptional careers for our people and exceptional services to our customers; and we recognise the importance of the support that both staff and customers continue to demonstrate to the Company.

While the Group believes it prudent to remain cautious about the near-term economic climate and to manage costs accordingly, it remains confident about the medium-term opportunities for both Digital Services and the Workday Practice.

## Consolidated income statement for the financial period ended 31 March 2020

Continuing operations	Note	2020 (£000s)	2019 (£000s)
<b>Revenue</b>	2	<b>178,778</b>	151,294
Cost of sales	2	<b>(94,817)</b>	(82,189)
<b>Gross profit</b>	2	<b>83,961</b>	69,105
Operating expenses excluding share-based payments and acquisition-related expenses	3	<b>(56,912)</b>	(45,842)
Share-based payments		<b>(2,100)</b>	(2,196)
Acquisition-related expenses		<b>(266)</b>	-
Operating expenses		<b>(59,278)</b>	(48,038)
Impairment loss on trade receivables	8	<b>(1,840)</b>	(53)
<b>Operating profit</b>		<b>22,843</b>	21,014
Finance income		<b>368</b>	111
Finance expense		<b>(61)</b>	-
<b>Profit before tax</b>		<b>23,150</b>	21,125
Taxation on ordinary activities	5	<b>(4,586)</b>	(4,186)
<b>Profit for the year</b>		<b>18,564</b>	16,939

## Consolidated statement of comprehensive income for the financial period ended 31 March 2020

	2020 (£000s)	2019 (£000s)
<b>Profit for the year</b>	<b>18,564</b>	16,939
<b>Other comprehensive income:</b>		
Currency translation difference	<b>577</b>	240
<b>Total comprehensive income for the year</b>	<b>19,141</b>	17,179

### Earnings per share

Basic	7	<b>15.5p</b>	14.3p
Diluted	7	<b>15.1p</b>	13.9p

## Consolidated statement of financial position as at 31 March 2020

	Note	2020 (£000s)	2019 (£000s)
<b>Non-current assets</b>			
Goodwill		3,220	-
Other intangible assets		3,989	-
Property, plant and equipment		9,854	2,978
Right-of-use assets		4,468	-
Investments		1,025	1,025
Deferred tax asset		1,559	1,310
		<b>24,115</b>	<b>5,313</b>
<b>Current assets</b>			
Trade and other receivables	8	29,269	29,302
Prepayments		2,368	2,652
Accrued income		16,883	11,305
Cash and cash equivalents		40,785	42,488
		<b>89,305</b>	<b>85,747</b>
<b>Total assets</b>		<b>113,420</b>	<b>91,060</b>
<b>Current liabilities</b>			
Trade creditors and accruals	9	(23,599)	(21,412)
Deferred income	9	(13,752)	(10,820)
Corporation tax	9	(2,145)	(2,755)
Lease liabilities	9	(1,619)	-
Other tax and social security	9	(8,157)	(6,514)
		<b>(49,272)</b>	<b>(41,501)</b>
<b>Non-current liabilities</b>			
Other provisions		(2,528)	(1,392)
Lease liabilities		(2,466)	-
		<b>(4,994)</b>	<b>(1,392)</b>
<b>Total liabilities</b>		<b>(54,266)</b>	<b>(42,893)</b>
<b>Net assets</b>		<b>59,154</b>	<b>48,167</b>
<b>Equity</b>			
Share capital		610	605
Share premium account		5,446	3,596
Capital reserve		664	665
Share-based payment reserve		5,610	3,895
Translation reserve		655	(210)
Retained earnings		46,169	39,616
<b>Total equity</b>		<b>59,154</b>	<b>48,167</b>



This financial information was approved by the Board of Directors and authorised for issue on 22 May 2020. It was signed on its behalf by:

**Richard McCann**

Director

22 May 2020

## Consolidated statement of changes in equity for the year ended 31 March 2020

	Share capital	Share premium	Capital reserve	Share-based payment reserve	Translation reserve	Retained earnings	Total equity
	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)
<b>Balance at 31 March 2018</b>	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)
<b>Balance at 31 March 2019</b>	<b>605</b>	<b>3,596</b>	<b>665</b>	<b>3,895</b>	<b>(210)</b>	<b>39,616</b>	<b>48,167</b>
Profit for the year	-	-	-	-	-	18,564	18,564
Other comprehensive income	-	-	-	-	577	-	577
Total comprehensive income for the year	-	-	-	-	577	18,564	19,141
Share-based payment expense	-	-	-	1,715	-	-	1,715
Adjustments in respect of prior periods	-	-	-	-	288	(288)	-
Current tax for equity-settled share-based payments	-	-	-	-	-	541	541
Deferred tax for equity-settled share-based payments	-	-	-	-	-	(117)	(117)
Issue of share capital	5	1,850	(1)	-	-	-	1,854
Dividends	-	-	-	-	-	(12,147)	(12,147)
<b>Balance at 31 March 2020</b>	<b>610</b>	<b>5,446</b>	<b>664</b>	<b>5,610</b>	<b>655</b>	<b>46,169</b>	<b>59,154</b>

## Consolidated cash flow statement for the year ended 31 March 2020

	2020 (£000s)	2019 (£000s)
<b>Net cash from operating activities</b>	<b>24,231</b>	22,520
<b>Investing activities</b>		
Interest received	368	-
Purchases of property, plant and equipment	(8,186)	(2,016)
Acquisition of subsidiaries	(4,464)	-
<b>Net cash used in investing activities</b>	<b>(12,282)</b>	(2,016)
<b>Financing activities</b>		
Dividends paid	(12,147)	(8,917)
Interest paid	(61)	-
Repayment of lease liabilities	(1,716)	-
Proceeds on issue of shares	253	1,905
<b>Net cash used in financing activities</b>	<b>(13,671)</b>	(7,012)
Net (decrease)/increase in cash and cash equivalents	(1,722)	13,492
<b>Cash and cash equivalents at beginning of year</b>	<b>42,488</b>	28,961
Effects of foreign exchange rate changes	19	35
<b>Cash and cash equivalents at end of year</b>	<b>40,785</b>	42,488

	2020 (£000s)	2019 (£000s)
<b>Net cash from operating activities</b>		
<b>Profit for the year</b>	<b>18,564</b>	16,939
<i>Adjustments for:</i>		
Finance income	(368)	-
Finance expense	61	-
Income tax expense	4,586	4,186
Share-based payment expense	2,100	2,196
Depreciation of property, plant and equipment	1,310	1,147
Depreciation of right-of-use assets	1,884	-
Amortisation of intangible assets	56	-
Profit on disposal of property, plant and equipment	-	(22)
Increase in provisions	243	1,045
<b>Operating cash flows before movements in working capital</b>	<b>28,436</b>	25,491
Increase in trade and other receivables	(3,612)	(11,215)
Increase in trade and other payables	2,749	10,146
<b>Cash generated by operations</b>	<b>27,573</b>	24,422
Income taxes paid	(3,342)	(1,902)
<b>Net cash from operating activities</b>	<b>24,231</b>	22,520

## Notes to the consolidated financial information

### 1. General information and basis of preparation

Kainos Group plc ("the Company") is a public company limited by shares incorporated in the United Kingdom under the Companies Act 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 information is presented in Pounds Sterling and rounded to the nearest thousand. The consolidated financial information consolidates that of the Company and its subsidiaries (together "Kainos", or "the Group").

The financial information set out in this document does not constitute full statutory financial statements but has been derived from the Group financial statements for the year ended 31 March 2020. The financial information does not constitute statutory accounts within the meaning of sections 435(1) and (2) of the Companies Act 2006 or contain sufficient information to comply with the disclosure requirements of International Financial Reporting Standards ("IFRS").

This financial information was authorised for issue by the Directors on 22 May 2020.

### 2. Segment reporting

All of the Group's revenue during the period to 31 March 2020 was derived from continuing operations. Kainos is structured into two divisions: Digital Services and the Workday Practice.

The Digital Services division focuses on the delivery of customised online digital solutions, principally for public sector, commercial sector and healthcare organisations. The solutions provided are highly cost-effective and make public-facing services more accessible and easier to use for the citizen and customer.

The Workday Practice is closely linked to Workday Inc's software suite, which includes cloud-based software for Human Capital Management ("HCM") and Financial Management and Planning that enables enterprises to organise their staff efficiently and to support financial reporting requirements. The division comprises two areas of activity, the provision of consulting services ("Workday Services") and the Smart Automated Testing Platform ("Smart") that allows Workday customers to automatically verify their Workday configuration.

The Group has opted to amend the reporting structure, both internally to the CEO and publicly, by now grouping the business as Digital Services (formerly Digital Transformation and Evolve) and Workday Practice (previously Workday Implementation and Smart, our Workday testing product).

This revised reporting structure better reflects the internal operational grouping and more importantly reflects how customers interact with the Group – Smart customers are increasingly seeking Workday consulting services and vice versa. This trend is expected to accelerate in subsequent years.

A full reconciliation between the previous and current segmental reporting is provided in note 10.

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

<b>2020</b> <b>12 months to 31 March</b>	<b>Digital Services (£000s)</b>	<b>Workday Practice (£000s)</b>	<b>Consolidated (£000s)</b>
Revenue	122,500	56,278	178,778
Cost of sales	(73,580)	(21,237)	(94,817)
<b>Gross profit</b>	<b>48,920</b>	<b>35,041</b>	<b>83,961</b>
Direct expenses <sup>5</sup>	(15,158)	(23,053)	(38,211)
<b>Contribution</b>	<b>33,762</b>	<b>11,988</b>	<b>45,750</b>
Central overheads <sup>5</sup>			(20,234)
<b>Adjusted pre-tax profit</b>			<b>25,516</b>

<b>2019</b> <b>12 months to 31 March</b>	<b>Digital Services (£000s)</b>	<b>Workday Practice (£000s)</b>	<b>Consolidated (£000s)</b>
Revenue	117,299	33,995	151,294
Cost of sales	(68,299)	(13,890)	(82,189)
<b>Gross profit</b>	<b>49,000</b>	<b>20,105</b>	<b>69,105</b>
Direct expenses <sup>5</sup>	(13,378)	(13,486)	(26,864)
<b>Contribution</b>	<b>35,622</b>	<b>6,619</b>	<b>42,241</b>
Central overheads <sup>5</sup>			(18,920)
<b>Adjusted pre-tax profit</b>			<b>23,321</b>

**Reconciliation of adjusted pre-tax profit to profit before tax:**

	<b>2020</b> <b>(£000s)</b>	2019 (£000s)
<b>Adjusted pre-tax profit</b>	<b>25,516</b>	23,321
Share-based payments	<b>(2,100)</b>	(2,196)
Acquisition related expenses	<b>(266)</b>	-
<b>Profit before tax</b>	<b>23,150</b>	21,125

<sup>5</sup> Operating expenses excluding share-based payments and acquisition related costs includes direct expenses, central overheads, impairment loss on trade receivables and finance income/expenses.

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

	<b>2020</b> <b>(£000s)</b>	2019 (£000s)
United Kingdom	<b>133,935</b>	122,304
Republic of Ireland	<b>4,971</b>	5,827
USA	<b>21,530</b>	10,597
Other	<b>18,352</b>	12,566
	<b>178,788</b>	151,294

### 3. Profit for the year

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

	<b>2020</b> <b>(£000s)</b>	2019 (£000s)
Total staff costs	<b>94,456</b>	73,899
Government grants	<b>26</b>	(984)
Research and development costs	<b>3,863</b>	4,321
Research and Development Expenditure Credit	<b>(1,866)</b>	(2,014)
Depreciation of property, plant and equipment	<b>1,310</b>	1,147
Depreciation of right-of-use assets	<b>1,884</b>	-
Net foreign exchange loss/(gain)	<b>509</b>	(69)
Amortisation of acquired intangibles	<b>56</b>	-

### 4. Staff numbers

The average number of employees during the year was:

	<b>2020</b> <b>Number</b>	2019 Number
Technical	<b>1,189</b>	1,004
Administration	<b>163</b>	115
Sales	<b>72</b>	59
	<b>1,424</b>	1,178

The number of employees at 31 March 2020 was:

	<b>2020</b> <b>Number</b>	2019 Number
Technical	<b>1,311</b>	1,056
Administration	<b>179</b>	175
Sales	<b>79</b>	65
	<b>1,569</b>	1,296

## 5. Taxation on ordinary activities

	2020 (£000s)	2019 (£000s)
Corporation tax:		
Current year (UK)	3,917	3,657
Current year (overseas)	1,238	599
Adjustments in respect of prior years	(45)	(33)
	<b>5,110</b>	4,223
Deferred tax	(524)	(37)
	<b>4,586</b>	4,186

UK corporation tax is calculated at 19% (2019: 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 2020 was 20% (2019: 20%).

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 was expected to reduce to 17% from 1 April 2020. In the 2020 budget, the UK government announced that the main rate of corporation tax would not reduce and would remain at 19%. We envisage our future effective tax rates to be broadly in line with the main UK corporation tax rate.

The Group's tax charge can be reconciled to the profit in the income statement as follows:

	2020 (£000s)	2019 (£000s)
Profit before tax on continuing operations	23,150	21,125
Tax at the UK corporation tax rate of 19% (2019: 19%)	4,399	4,014
Non-deductible expenses	67	66
Non-taxable income	(9)	(1)
Effect of foreign exchange on consolidation	61	29
Effect of non-UK tax rates	64	17
Movement in prior year unrecognised deferred tax assets	-	15
Adjustments to tax charge in respect of prior years	14	46
Change in UK tax rates	(10)	-
<b>Tax expense for the year</b>	<b>4,586</b>	4,186



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

	<b>2020</b> <b>(£000s)</b>	2019 (£000s)
<b>Current tax</b>		
Permanent element of stock option deduction	<b>541</b>	899
<b>Deferred tax</b>		
Adjustments in respect of previous periods	<b>10</b>	-
Deferred tax on stock option	<b>(127)</b>	(8)
<b>Total tax recognised directly in equity</b>	<b>424</b>	891

## 6. Dividend

	<b>2020</b> <b>(£000s)</b>	2019 (£000s)
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for 2020 of 3.5p per share	<b>4,252</b>	-
Final dividend for 2019 of 6.5p per share	<b>7,895</b>	-
Interim dividend for 2019 of 2.8p per share	-	3,382
Final dividend for 2018 of 4.6p per share	-	5,535
	<b>12,147</b>	8,917

No final dividend will be declared for the financial year ended 31 March 2020.

## 7. Earnings per share

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

	2020 (£000s)	2019 (£000s)
<b>Profit for the period</b>	<b>18,564</b>	16,939
	<b>Thousands</b>	Thousands
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>120,112</b>	118,318
Effect of dilutive potential ordinary shares from share options	<b>2,957</b>	3,250
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>123,069</b>	121,568
<b>Basic earnings per share</b>	<b>15.5p</b>	14.3p
<b>Diluted earnings per share</b>	<b>15.1p</b>	13.9p

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

	2020 (£000s)	2019 (£000s)
<b>Profit for the period</b>	<b>18,564</b>	16,939
Share-based payments (including associated taxes)	<b>1,701</b>	1,823
Acquisition-related expenses (including associated taxes)	<b>219</b>	-
<b>Adjusted profit for the period</b>	<b>20,484</b>	18,762
	<b>Thousands</b>	Thousands
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>120,112</b>	118,318
Effect of dilutive potential ordinary shares from share options	<b>2,957</b>	3,250
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>123,069</b>	121,568
<b>Adjusted basic earnings per share</b>	<b>17.1p</b>	15.9p
<b>Adjusted diluted earnings per share</b>	<b>16.6p</b>	15.4p

## 8. Trade and other receivables

	<b>2020</b> <b>(£000s)</b>	2019 (£000s)
Trade receivables	<b>28,294</b>	26,216
Loss allowance	<b>(1,840)</b>	(53)
	<b>26,454</b>	26,163
Other receivables	<b>2,815</b>	3,139
	<b>29,269</b>	29,302

## 9. Trade and other payables

	<b>2020</b> <b>(£000s)</b>	2019 (£000s)
Trade creditors and accruals	<b>23,599</b>	21,412
Lease liabilities	<b>1,619</b>	-
Deferred income	<b>13,752</b>	10,820
Corporation tax	<b>2,145</b>	2,755
Other tax and social security	<b>8,157</b>	6,514
	<b>49,272</b>	41,501

## 10. Impact of change in segmental reporting

As described in note 2, during the period the Group implemented a change on how it reports the results from its underlying business operations. The tables below present the results for periods ending 31 March 2020 and 31 March 2019 in the current segmental reporting structure and as per the previous reporting structure for comparison purposes.

### New Segmental

2020 12 months to 31 March	Digital Transformation (£000s)	Evolve (£'000s)	Digital Services (£'000s)	Workday implementation (000s)	Smart (£000s)	Workday Practice (£000s)	Consolidated (£'000s)
Revenue	112,238	10,262	122,500	37,213	19,065	56,278	178,778
Cost of sales	(67,437)	(6,143)	(73,580)	(16,341)	(4,896)	(21,237)	(94,817)
<b>Gross profit</b>	<b>44,801</b>	<b>4,119</b>	<b>48,920</b>	<b>20,872</b>	<b>14,169</b>	<b>35,041</b>	<b>83,961</b>
Direct expenses			(15,158)			(23,053)	(38,211)
<b>Contribution</b>			<b>33,762</b>			<b>11,988</b>	<b>45,750</b>
Central overheads							(20,234)
<b>Adjusted pre-tax profit</b>							<b>25,516</b>

### Previous Segmental

2020 12 months to 31 March	Digital Transformation (£000s)	Workday implementation (£'000s)	Digital Services (£'000s)	Smart (000s)	Evolve (£000s)	Digital Platforms (£000s)	Consolidated (£'000s)
Revenue	112,238	37,213	149,451	19,065	10,262	29,327	178,778
Cost of sales	(67,437)	(16,341)	(83,778)	(4,896)	(6,143)	(11,039)	(94,817)
<b>Gross profit</b>	<b>44,801</b>	<b>20,872</b>	<b>65,673</b>	<b>14,169</b>	<b>4,119</b>	<b>18,288</b>	<b>83,961</b>
Direct expenses			(28,135)			(10,076)	(38,211)
<b>Contribution</b>			<b>37,538</b>			<b>8,212</b>	<b>45,750</b>
Central overheads							(20,234)
<b>Adjusted pre-tax profit</b>							<b>25,516</b>

### New Segmental

2019 12 months to 31 March	Digital Transformation (£000s)	Evolve (£'000s)	Digital Services (£'000s)	Workday implementation (000s)	Smart (£000s)	Workday Practice (£000s)	Consolidated (£'000s)
Revenue	109,847	7,452	117,299	22,740	11,255	33,995	151,294
Cost of sales	(63,215)	(5,084)	(68,299)	(10,746)	(3,144)	(13,890)	(82,189)
<b>Gross profit</b>	<b>46,632</b>	<b>2,368</b>	<b>49,000</b>	<b>11,994</b>	<b>8,111</b>	<b>20,105</b>	<b>69,105</b>
Direct expenses			(13,378)			(13,486)	(26,864)
<b>Contribution</b>			<b>35,622</b>			<b>6,619</b>	<b>42,241</b>
Central overheads							(18,920)
<b>Adjusted pre-tax profit</b>							<b>23,321</b>

### Previous Segmental

2019 12 months to 31 March	Digital Transformation (£000s)	Workday implementation (£'000s)	Digital Services (£'000s)	Smart (000s)	Evolve (£000s)	Digital Platforms (£000s)	Consolidated (£'000s)
Revenue	109,847	22,740	132,587	11,255	7,452	18,707	151,294
Cost of sales	(63,215)	(10,746)	(73,961)	(3,144)	(5,084)	(8,228)	(82,189)
<b>Gross profit</b>	<b>46,632</b>	<b>11,994</b>	<b>58,626</b>	<b>8,111</b>	<b>2,368</b>	<b>10,479</b>	<b>69,105</b>
Direct expenses			(16,926)			(9,938)	(26,864)
<b>Contribution</b>			<b>41,700</b>			<b>541</b>	<b>42,241</b>
Central overheads							(18,920)
<b>Adjusted pre-tax profit</b>							<b>23,321</b>

## 11. Significant events

In early 2020, the existence of a new coronavirus (Covid-19) was confirmed. It since spread across a significant number of countries and was declared a pandemic by the World Health Organization on 11 March 2020. There has been significant disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets.

At 31 March 2020, the Group has a strong cash balance of £40.8 million and going forward it anticipates that its customers in the public sector and in healthcare will likely be more robust than those in other sectors during this crisis. Despite this, the Group considers it important to be prudent and manage the cost base and has implemented several cost and cash containment measures effective 1 April 2020.