

## Brendan Mooney – CEO

Good morning everyone, and welcome to the Kainos results presentation for the year ended 31<sup>st</sup> March 2022.

I'm joined this morning by Richard McCann. Before I start the presentation, I'm going to launch it on my laptop in a second, but first three quick pieces of housekeeping.

The first is that Richard and I are going to take about 35 minutes to go through our most recent results, and then we will open up the session for Q&A.

When I launch my presentation on my laptop, it switches off my camera, I don't know why it does that, but that's what it does, so you'll just hear my voice rather than see my face.

And we are recording the broadcast, and we will publish the transcript of myself and Richard's presentation to our website later today after it's been edited for clarity.

So, if you bear with me, I will launch the presentation.

## Group Overview

Hopefully that is successfully launched and on your screens.

Back in November, whenever we started talking about our results at the interim update, we moved our vocabulary away from Smart as being a singular thing and talked about 'Smart Products' and our 'Smart Portfolio', and this slide really is a kind of development of that conversation. I really want to highlight the success of Digital Services and of the Workday Services parts of our business, but really want to call out the progress that Smart Products has made, not just in the past 12 months, but over a prolonged period of time.

Again, these three charts just show great progress of all three parts of the business.

## Highlights

Looking at the last 12 months and probably before jumping into the detail of the results it's probably useful to talk about the overall demand environment that we see across all parts of the business.

In short, it has been very strong. There's been no cancelled procurements, few if any deferrals to projects as well.

And for us, myself and Richard, obviously we have been very involved in this market and when we think back to pre-pandemic, we described the demand as being very strong, and we described it as being very strong during the pandemic when the importance of digital really was emphasized across our various markets, and that demand has remained very strong after the pandemic as well.

One of the questions we guess we get asked often is "how long will this last?" Back in 2015 at our IPO we predicted that the demand environment would be strong for 15 or 20 years; and I think seven years later, our answer is still the same, that it is still a 15- or 20-years strong growth market.

Looking at those results, revenue is up 29%, or 26% organically, that does really reflect that demand environment, alongside our execution.

Our profit growth has been moderated as a result of our investments and the expected normalisation of costs across our business. I will touch on that in a little bit more detail during my presentation, and I know Richard will talk about it in his section as well.

As you can see, our backlog and bookings showing very strong growth. Our cash balance, which is strong, is down 5% on last year – really reflective of the four acquisitions completed in the year.

As you can see, across the business a really strong performances from Digital Services, Workday Services and Smart. I'll talk more about that in a few slides time.

For us, talking about diversification and stability of our revenue streams, and again, these results really talk to the improvement there as well. We've got a great balance across public, commercial and healthcare sectors. And, again, we've seen our international revenues grow to almost £87m.

For us, the people are the important part of the story, inside Kainos great to see the organization growing both in size and also in capability. Staff numbers just under 2700 people, up 670 versus last year, and that includes 153 colleagues who joined us through acquisitions.

## Financial Summary

The charts on the right-hand side of this slide talk to the consistency of our performance, the charts cover the last five years, but really that consistency of performance has been over the last 12 years, and we are delighted to see this continuing trend for us.

As mentioned, our adjusted pre-tax profit has moderated as our costs have normalised through the year. You can see that through our training, marketing and recruitment costs, again now all at typical, or pre-pandemic levels. Utilisation, having spiked during 2021 has returned to more sustainable levels. There are for sure, salary inflation pressures there as well, but we continue to use a high number of contract staff.

Finally, we have invested quite strongly within the product development, linked to Smart, and also the sales and marketing capability there as well.

## People

Alongside the markets that we work in, it really is the energy of our colleagues, their expertise and experience that drives our business as well.

Staff numbers are up by a third to just under 2,700 people, and we have grown that headcount across all parts of the business, so in our core markets region of UK and Ireland, but now those developing markets of Central Europe and the Americas.

The flip side of increased demand for our digital services, is increased demand for digital skills across the world. It's a well telegraphed shortage at the moment. The skills market does lag behind that demand market and will probably take 12-18 months to catch up.

Against that demand for digital skills, we are pleased to see that our retention is still very high, down obviously from 92% this time last year, and 89% back in November, but I think probably a very strong performance nonetheless.

And again, the recruitment market has become more competitive, but there is still significant talent in the market there. In the past year we have received 42,000 applications for jobs. So yes, more competitive but still good pockets of talent out there.

During the year we welcomed 153 new colleagues from our four acquisitions, and I have to say the addition of their expertise has been very helpful during the year given how busy it's been. In terms of the integration of all four, it's now largely complete – although I do think it's fair to point out that the acquisition of Cloudator, with operations in ten different countries, did take longer than expected and took more effort than we had anticipated as well.



In terms of office-based working, up until March of this year our guidance to our colleagues was very much to work from home where possible. Since March we have been encouraging them to get back into the office to meet-up with our colleagues and to work in a shared workspace as well. I really would stress the word 'encourage' as opposed to the word 'mandate'. If we look at peak office usage over the last 12 months, it has been just under 20% of people coming into the office on a regular basis, often centred around social and collaboration activities, and that trend has been moving up slightly over the last few weeks, so it'll be interesting to see where that plateaus at as well.

## Our Customers

We introduced this slide to emphasise the long-term nature of our business.

Once again, almost 90% of our business comes from existing clients and it really does reflect the value that we deliver to our clients, and the high level of satisfaction they have of the work that we do for them.

Back in November I borrowed the term of "net revenue retention" from the world of SaaS and applied it to our overall business, and to do the same again: if you look at our net revenue retention for last year, it was 150% from clients that placed work with us in FY20, and if you look at the last three years, that net revenue retention has averaged out at 133%.

The fact that our customers stay with us for many, many years is demonstrated both by the graphs but also by that kind of follow-on revenue as well.

## Business Balance

We also want to chart the changing nature of our revenue as well, so how it changes across sector and across region, and really just to emphasise that resilience we have inside our revenue streams, that's across service line, sector, region and indeed across clients.

Looking at the charts on the left-hand side of the screen, I think we have achieved what we described seven years ago as a near perfect balance: we wanted to have about 40% of our business in Commercial, 40% in Public Sector, and then the balance, 20% in Healthcare, so it's great to see that kind of balance achieved across the business.

We've always had that international aspiration as well, not just for Workday Services but increasingly, for Digital Services as well. And we have grown the international aspect of our business over the last two years: for the year just closed out, £87m of our revenue has come from Central Europe, or from North America, compared to just £1m or £2m at the time of IPO.

## Our Responsibilities

We have aligned all of our activities in terms of our wider responsibilities around the United Nations Sustainable Development Goals.

In terms of Climate Action, Kainos is a carbon-light business, so we are focused on lots of small improvements, rather than something that is transformative. This year, those small improvements included improving the energy efficiency of our offices, further migration to renewable electricity and a series of employee-focused events; from education through to the launch of our UK Salary Sacrifice electric vehicle scheme, with 90 colleagues purchasing cars through that scheme.

We are very conscious that the technology sector has a really significant gender imbalance issue. Our plan focuses on three elements: The first is about retaining and developing women already in Kainos; the second is about being the destination employer for talented women in the sector and the third is to inspire more young women to take up a career in digital technology. You can see how we've improved in the last 12 months. We are pleased with that progress, but there is clearly much more for us to do.

For our outreach programmes, the move to being virtual and being online has allowed us to expand the regional provision of those programmes, which is super. And it has also allowed us to launch programmes to support young women, those from under-represented communities and students with special educational needs.

And we've augmented what we're doing around school careers, with that in university so our bursary program does support young people, typically young women who are traditionally underrepresented in university, in digital technology courses.

## Digital Services

In Digital Services, there really has been a situation of very strong demand across the sectors: Public, Healthcare and in Commercial Sector as well. That kind of demand has very much outstripped our ability to service that demand, and so we have to be very selective about the projects and engagements we've taken on over the course of the year. So yes, obviously prioritising the needs of our existing clients, but for those new engagements we have to be very selective.

In terms of those engagements in the Public Sector, very much focussed on widening our account base and activities there as well. We've been appointed to the £300m Met Police Framework, we're currently bidding to join the £1.3bn MoD DIPS Framework as well, and also in Defence, we've won engagements with the Atomic Weapons Establishment and with the Defence Science and Technology Lab. Outside of Defence, we have also been awarded good sized contracts in both DWP

and HMRC. All of this is really broadening out our account base inside the Public Sector.

In Healthcare, part of our growth has been linked to Covid-19 programs, that's been the case last year. We're seeing the spend on Covid-19 diminish, and there's also been quite a lot of broader digital transformation programs as well. As we look into FY23, for Healthcare, I'd have to say that there will be growth, but that it'll be slightly more subdued, with the merger of NHSX and NHS Digital, two of our key customers, are merged together to form the Transformation Directorate within NHS England.

The Commercial Sector has been our fastest-growing sector over the past 12 months, and that's a combination of existing clients increasing their spending and us acquiring new customers as well. During the course of the year, we have started to see repeated success in the areas of the insurance, assurance, and in the payments sub-sectors of Financial Services. Again, we expect that trend to continue going forward.

## Digital Services

We have a long track record in Public Sector, more recently in Healthcare, we thought it would be useful on this slide to call out some of the things that we are doing, that are underway, to expand the markets that we are currently addressing.

I have already talked about Commercial Sector on the previous slide, some really strong growth over the course of the year.

Inside the company we have a New Business Investment process which allows us to develop and to launch those new ideas that we think have genuine appeal for our customers. Our Data and AI Practice launched back in 2019, and last year generated close to £16m of revenue, and Intelligent Automation launched in mid-2020. Again, we're seeing good traction, albeit of a different scale than AI. In both those areas, we expect to see strong growth in the year ahead.

And finally, we believe that there are also opportunities to become a leading digital transformation player across international markets – so we are really focusing on Germany and Switzerland, where we have a very strong Workday consulting presence that helps us to penetrate those markets, and in Canada, again we have a very strong Workday presence there as well.

In the case of Canada, we're quite involved in conversation with the Canadian government about their digital transformation of public services. They're starting that journey so probably five or six years behind where the UK is at the moment; we will expect to see them invest heavily over the next few years.

## Digital Services Customer Stories

I've talked about the new things that we're doing at the moment, but our two case studies are around our customers and very much drawn from longstanding engagements that we have.

We worked both with the Foreign and Commonwealth Office and the Department for International Development, before they were merged together back in 2020 to become the Foreign, Commonwealth and Development Office.

One of our very first engagements was around the Emergency Travel Documents, or what you and I would call an Emergency Passport, when a citizen is outside the UK and their passport has been lost, damaged or stolen. That system processes over 30,000 applications every year, with the passport ready in about two days.

Our engagement with FCDO has expanded and we now support 14 different services across their estate, including Emergency Travel Documents, also applications like the Crisis Hub, which is used by FCDO staff to support UK citizens located in crisis areas – that can include natural disasters, but also can involve volatile military situations as have occurred in Afghanistan and Ukraine.

We provide the service 24x7 – the UK operates almost 200 consulates across the world and as you can appreciate some of those services are critical ones.

DVSA is one of our very first large transformation projects. We were appointed back in 2013 to help and lead on the Modernising the MoT Service. That project went live in 2015, allowing the decommissioning of a mainframe and a private network, and saved our client almost £160m in the first phase of the service.

Since then, DVSA has expanded and improved the MoT service, and as well as that current improvement activity they are undertaking; we have also added new functionality around emissions, around MOT reminders and most recently started on the safety recall part of the service.

Alongside MoT, we have partnered with the DVSA on Commercial Vehicles and on the Driver Examiner Service, and in September of last year the first phase of the Digital Theory Test went live, which allowed DVSA to exit a 17-year legacy contract.

And just on DVSA and the expenditure with us, over the past almost 10 years, it has been £100m worth of revenue for us, and significant investment for DVSA as well.

## Workday Services

So Workday Services also had a very strong performance over the past twelve months recording 45% growth year on year or 29% growth organically. Bookings and backlog, as you can see, also growing very strongly. So it was a busy year just in



terms of organic growth. In the business we also completed four acquisitions. Two of those, Blackline and Planalyse were very much focused around specialized skills in both spend management, and in adaptive planning. While Cloudator and Une Consulting were about capacity and regional coverage.

So in terms of where we think the business is at today. I think that mix of strong organic growth and a total of seven acquisitions over the past three years we now have the right mix of skills, the right mix of location of skills as well. So we think, in terms of further acquisitions, in this part of our business, is highly unlikely.

In terms of the business, around 44% of our revenues come from North America, and just over one quarter come from Central Europe, then just under a quarter from UK and Ireland.

And our consultant numbers have continued to grow very strongly, mainly from hiring and from development. Out of the 638 consultants we have today about 38 joined via the acquisitions.

## **Smart Product Suite for Workday**

So we've said, on many occasions that Workday is a very comprehensive platform. We do believe that are opportunities for us to develop components that complement that platform and will allow Workday's customers to get better value from their Workday deployment.

So, part of a history lesson, we launched Smart Test back in 2013 but we really are now building a suite of products. Smart Audit launched summer of last year and Smart Shield, which is our data privacy tool, will launch at the end of the summer, 2022.

So that success of Smart Test but also that widening of the portfolio is really reflected in the performance. So revenue, bookings, backlog, and that all important ARR all increasing very strongly. Individually, Smart Test has had its strongest ever year, signing 68 new clients in the year. And thinking about the existing base, the net revenue retention was 109%, again an excellent KPI.

So Smart Audit has done really well as well. It launched in mid-2021, it has signed 26 new clients in fiscal 22 and added 16 more in the first few weeks of fiscal 23. So, in terms of that kind of progress, it took us, gosh, almost four years to make the same progress with Smart Test as we have done in the last nine months with Smart Audit.

And finally just finish off with Workday Extend. You will recall that Workday Extend is Workday's platform as a service offering. It allows customers to build additional specialized functionality on top of the Workday platform. So Extend has been in

development for several years and we've been part of their early adopter program since 2017.

So Extend became available generally, in May of 2020 and interest has been building steadily. Extend for us is both a services and product opportunity. So from a services perspective from the past twelve months, we have built applications for clients around incentive plans, around adhoc pay rises and around family and medical leave.

It is probably the product ideas that are most exciting for us. We have developed vaccine management which allows organisations to manage the vaccine status of their employees, return to office, tuition reimbursement, and document management.

This is very much a fast-moving environment. These applications I have mentioned are much smaller subscriptions than our Smart portfolio and we expect, as we move forward, to see two or three of those types of applications being released each year.

## **Increasing our product investment**

During the year we also took the opportunity to increase our investments in our Smart products. So that is first and foremost around our product investment. So really supporting the ongoing development of Smart Test, building out the Smart Audit platform and that early development of Smart Shield.

So, in total that's £2.4 million of additional product investment during the year and as you know, we expense all of our R&D to the P&L, in year. Alongside that product investment, naturally, we've increased our investment and sales and marketing, as well, to the tune of £1.3 million as we have built out that sales and demand generation team.

We have also taken the opportunity to simplify our sales model. The team is now focused solely on selling product, as opposed to a blend of services and product and really looking at how we address the US market. 75% of the Workday client base is in the US market therefore it is the biggest opportunity for us. We have expanded both the team in the US, and the team supporting the US activity. Looking forward into fiscal 23 we do expect to see further investments in both the product roadmap and in our sales and marketing capability, as well. We think the opportunity is definitely there and we're keen to get after it.

## **Workday Practice: Customer Stories**

Just picking up a couple of the customer stories from the Workday Practice.

So, AutoStore are a Norway headquartered manufacturer of “cube storage” automation robots and have 20,000 robots working throughout clients in close to 40 countries.

AutoStore were a very fast-growing company and still are a very fast growing company. They approached Workday to deploy Workday to support their growth and they asked for a recommendation from Workday around the partner they would recommend. And because Autostore were looking for a very quick deployment, they wanted to get live in four months, Workday recommended ourselves, which is what we did.

In four months, we launched the Core HCM and Advanced Compensation modules to support AutoStore’s growth as an organisation. We are now moving on to the next phase of the project. We are currently deploying Time Tracking for AutoStore and there are a further four modules identified for future phases. That is very much a pattern we see, pretty much across all of our Workday customers which is that first core HCM deployment and then, over several years, the deployment of additional modules.

Moving to Smart and to Chemours Chemical. Chemours is a spin-out of Du Pont Chemical, which I think is four years old at this stage. It has already 6,500 employees and revenues of \$5bn so it is a substantial business in its own right. They were a Workday customer and they had originally outsourced their testing to a manual provider, but found it slow, rigid and expensive and it was also occupying, pretty much, all of the time of their small team of six Workday specialists.

So they switched to using Smart Test which we were able to deploy for them very quickly. So it has allowed them to increase the test coverage, the quality, the capacity of the testing as well. And at the same time freeing up those six individuals to focus on higher value tasks inside the organisation.

So, I’m going to hand over to Richard to cover off the financial performance of the last 12 months, Richard if you would let me know when you would like me to change the slides and I will do the needful.

## Richard McCann, CFO

### Financial Performance

Thanks very much Brendan. If you would move forward to the group income statement.

### Group income statement

I suppose CFO's frequently like to talk about the previous year, as being a tough comparison.

I suppose in this case, more of an unusual comparison. We're comparing to a year where people could barely leave their homes were no one travelled further than Portrush, obviously talking about myself, and we did no recruitment in the first half of that year. I'll try to make sense of that but also at the end look at a comparison, to a couple of years ago as well.

So, in terms of Digital Services, public sector as Brendan said it's the largest part of the business unit. It grew about 6% which was solid performance, considering how much is moving within public sector.

Brendan mentioned the standout performance the commercial sector, up 60%. If you remember it had a relatively difficult start to Covid-19, as commercial businesses, pulled back investment but it bounced back very strongly in second half of last year. It is really pleasing to see that going right through this year as well, albeit of a smaller base. And healthcare, another astounding year. It had an amazing FY21 in terms of growth, it's managed to beat that and beat that very well with the further 52% growth.

In terms of gross margins these largely returned to pre pandemic levels and we've used the word normalised on couple of occasions here, particularly around utilization which had been extremely high, and has gone back to more normal levels.

And also there's the impact of salary inflation there as well. I suppose, I might as well cover salary inflation now. I think at half year I said there are business a bit like Abba, lots of talented parts to it. And I said salary inflation was a bit like their outfits, which weren't particularly to my taste. I'm still not a fan of the outfits but the lapels haven't got any wider, and the heels aren't getting any higher. Hopefully, that continues is flat and in the long-term moderate. We will take a long-term view of this, we're certainly not going to lead salary inflation, we will try to pay our staff fairly, and we will try to pass on salary inflation to customers, over time

In terms of Workday Practice, services revenue grew 45% of which 29% was organic and as Brendan mentioned, product revenue was a healthy 32% growth as well.

Gross Margin here decreased by 2%. Most of that decline was in services for the same reasons that I have mentioned in relation to Digital Services, albeit to a slightly lesser extent. Product margin increased very slightly, again salary inflation is less of an issue in this area.

Op ex (operational expenditure) in the Workday Practice grew in line with revenue and Brendan has touched on the particular investments already, in product development and sales and marketing, within the product side.

Central overheads grew broadly in line with revenue. And that left adjusted pre-tax profit margins returning to more, again, normal levels. Our tax increased by about 1%, due to the impact of non-deductible acquisition costs.

Moving on to the balance sheets and cash flow, if you will move that ahead Brendan.

## Balance Sheet and Cashflow

First time you see a big increase in a goodwill and intangibles, to do with the four small acquisitions, that Brendan mentioned earlier. Property, plant and equipment also increased a bit more than normal, partially that's due to the high recruitment during the year, partially due to a bit of spending that had been deferred due to Covid-19. We also refurbished and moved offices, during the year, which hopefully won't happen on a regular basis.

Looking at accrued income and receivables, we always look at those two together as lock in days, you can get fluctuations in one or the other, just depending on timing of billing and payments and so on. But broadly we saw WIP broadly flat, debtors increased, and overall returned pre pandemic lock in days of about 71. The 60 last year again was lower than usual.

In terms of cash flow, I've looked back at the notes from last year and I described 112% cash conversion, as an impossible comp and so it proved. We had a good solid year of cash conversion, albeit a game of two halves. The overall figure of 83% is broadly in line with the sort of guidance we've been giving for years of about 80%, being in reasonable target. The other 15%, essentially allows for working capital growth, as we grow the business.

Overall cash reduced by approximately £4 million to about £77 million and that was largely due to the effect of cash outflow of £17 million related to acquisitions.

## Underlying Performance Assessment

The last slide is hopefully the last time I'm going to have to use this slide. What am I talking about, an underlying performance by comparing to FY20.

I described FY21 as unusual. Other adjectives are available for that. And I think looking two years back, gives a slightly better picture in many ways. So, over those two years revenue growth, just short of 70%. Gross profit growth in line with revenues and contribution growth slightly ahead of revenue growth which meant that our adjusted pre-tax profits over that period have more than doubled.

I'm a Leeds United fan and on the first of April 2020, if you offered me promotion to the Premier League, two seasons in that league and survival yesterday, even during the last few minutes, happily I would have taken it. As CFO of Kainos, which is a much less important position obviously, on the first of April 2020, if you offered me 70% growth across all parts of our business continued, cash generation and the outlook that Brendan described, I think it would have taken that as well.

Brendan.

## Brendan Mooney, CEO

### Looking Ahead

Richard, thank you very much.

I will finish off the presentation by giving a view about the outlook across the three parts of our business. So when it comes to Digital Services, I do think we can credibly lay claim to being the UK leader in digital transformation in the public sector. But our ambition is to, to make the same claim around healthcare and around the commercial sector as well. So as we look at a fiscal 23, it's very much about strong growth across commercial and maintaining that growth profile in the UK in public sector and healthcare.

To really just remind us all of the underlying market dynamic here, as well I mean, if you just look at the UK public sector spending over the last five years, it has been very robust with 22% growth over that period of time. It would be remiss of me not to point out the Digital Services grew by 28% over that period of time. We can, we believe, continue to avail of that very strong market growth and, in fact, outpace the market growth as well.

That theme of outpacing market growth is also true for Workday Services. Again, just to reflect on the market, Workday, have been growing very strongly, they are heading towards a \$10 billion revenue target. They've upgraded their forecast, this year from last year and seeing an acceleration in their business. So it is a great



demand environment we are working in and for us that the priorities for fiscal 23 very much about maintaining that growth in our well established markets across UK, Europe and Canada and to build out that scale in the US. So we have significant business in the US already and we are keen to get our Phase One partner status, this year as well, but regardless it is the biggest market for consulting services in the world.

For Workday Extend, again, it's a small part of the plan for the year ahead but it is an important part of the plan. We think Workday Extend is a very interesting opportunity, particularly for us, in Kainos because it blends our deep knowledge of Workday with our heritage in software engineering. And some of the ideas and we will see and experience across Workday Extend will become ideas for our Smart portfolio and how we expand that.

I think the team behind Smart inside Kainos have done just a great job in building a super business. It is already a £34 million ARR business. We believe they're only getting started, and over the next four years, you know, £100 million of SaaS subscription is a credible target. So we believe that we can achieve that, with a higher adoption of Smart Test across the Workday customer base. Well beyond the 300 customers who use Smart Test today.

I have mentioned already Smart Audit has been officially available only for nine months, having signed up 40 customers in that period of time, it has been able to achieve in nine months what took us four years to achieve in Smart Test. Obviously having launched Smart Audit last year we are very keen that we have the same success with Smart Shield at the end of Summer 2022. We expect that to be adopted in the same kind of manner as Smart Audit.

Again Workday is a high growth market and when we think about the customer base inside Workday as well, is growing strongly. It is over 4000 customers today, selling 600 new core customers every year as well. That's a great market to be selling the Smart products into as well.

So that brings us to the end of our presentation, if you bear with me I'll stop sharing my screen, and we will start the Q&A session.