

30 May 2017

Kainos Group plc

“Kainos” or the “Group”

Preliminary Results for the year ended 31 March 2017

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 2017.

Financial Highlights

	2017	2016	Change
Revenue	£83.5m	£76.6m	+9%
Adjusted pre-tax profit ¹	£14.3m	£14.1m	+1%
Statutory profit before tax	£13.3m	£14.3m	-7%
Cash	£23.7m	£15.0m	+58%
Sales orders	£94.8m	£87.2m	+9%
SaaS sales orders	£10.1m	£8.6m	+17%
Backlog ²	£76.4m	£71.5m	+7%
Adjusted diluted earnings per share ¹	9.5p	10.5p	-10%
Diluted earnings per share	8.7p	10.6p	-18%
Proposed total dividend	6.3p	6.0p	+5%

Notes

¹ Calculated by taking the statutory profit before tax and adding back £0.95 million share based payments (2016: £0.52 million) and £Nil exceptional items (2016: £0.68 million gain)

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

Operational Highlights

- Sixth consecutive year of revenue and adjusted pre-tax profit growth (compound revenue growth of 46% over last six years)
- Continued growth in Digital Services driven by existing customer demand:
 - Significant ongoing engagements in UK government’s digital transformation programme
 - Accelerated growth in Workday implementation, and strengthened position as the leading European implementation partner following market consolidation
 - Opening of Frankfurt office to support further European expansion
- Digital Platforms showing progress against key milestones:
 - 37 new Kainos Smart customers bringing the total on the platform to 92
 - Evolve Integrated Care now in live use at 38 hospitals in the US
 - Doubled research and development expenditure to £4.6 million
- Customer approval of Group services rated as ‘good’ or better by 92% of customers
- Strong recruitment has seen staff numbers increase by 135 to 975 at year end
- Fifth consecutive year in the Sunday Times ‘Best Companies to Work For’ Top 100, ranked 44th
- The business is highly cash generative with strong underlying cash conversion

Brendan Mooney, Chief Executive, said:

“I am delighted to report another year of growth, in both our domestic and international markets.

For the sixth consecutive year we are reporting strong growth in Digital Services, driven by demand from existing customers, new customer acquisition and geographic expansion. We continue to deliver major transformation programmes across UK government and we have also experienced very strong growth within the Commercial Sector, which is now the fastest growing segment within the division. Client demand across Europe has resulted in the opening of our Frankfurt office, alongside the established offices in Amsterdam and Gdansk.

Our Digital Platforms division continues to make progress, despite the funding challenge in the NHS. The addition of 37 new customers for Smart, our market-leading Software as a Service (SaaS) platform for automated testing of the Workday suite is particularly exciting as it brings the total number of global customers on the platform to 92. Evolve Integrated Care has signed a significant contract with a UK-based NHS Clinical Commissioning Group and post-period end, live operation has started across 38 US hospitals.

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 across all divisions and the Board believes that the Group is well-positioned for growth 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 largest 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; and Evolve Integrated Care ('IC') is a SaaS-based integrated care platform for the NHS and international healthcare providers.

Kainos employs approximately 1,000 staff across eight offices in Europe and the US, working interchangeably across its Services and Platforms businesses.

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

Overview

The financial results for the year ended 31 March 2017 represent the sixth consecutive year of revenue and adjusted pre-tax profit growth, and continued investment, particularly in the Group's Digital Platforms, and provide an excellent platform for future growth.

Revenue for the year ended 31 March 2017 grew by 9% to £83.5 million (2016: £76.6 million). Adjusted pre-tax profits increased by 1% to £14.3 million (2016: £14.1 million), which included expenditure of £4.6 million in research and development (2016: £2.3 million).

Sales orders for this period amounted to £94.8 million (2016: £87.2 million), a total that included £10.1 million (2016: £8.6 million) of SaaS product sales orders, an increase of 17%. The contracted backlog for the Group increased by 7% to £76.4 million (2016: £71.5 million). The proportion of revenue generated from customers outside the UK increased by 40% in 2017 and now accounts for 21% of total Group revenue (2016: 15%).

Staff numbers increased by 135 to 975 at 31 March 2017 (2016: 840). The Group continues to attract very strong interest from both graduates and experienced senior candidates in key employment markets, with 9,380 job applications received during the year; 82% of people joining Kainos were recruited directly rather than via recruitment agencies. Employee engagement remains high, with the Group being ranked in the Sunday Times Top 100 'Best Companies to Work For' for the fifth consecutive year. As a result, attrition across the Group remains very low at 8% (2016: 10%).

Customer satisfaction remains high, with 92% of customers rating Group service 'good' or better. This high level of customer service underpins the Group's long-term relationships with customers, with existing customers accounting for 91% of Group revenue. In the year to 31 March 2017, the Group acquired 59 new customers, making a total of 247.

Across sectors, 54% of Group revenue is derived from government customers (2016: 52%), 29% from commercial sector (2016: 23%) and 17% from healthcare (2016: 25%). Commercial sector revenue grew 40% to £24.4 million (2016: £17.4 million).

As previously announced, the Group is now presenting its operations in terms of Digital Services and Digital Platform offerings (rather than by operating division – Digital Services, Evolve, WorkSmart). The directors believe this better represents the Group's business by highlighting more clearly how each offering is positioned in the market, and more easily allowing the application of appropriate performance metrics to each part of the business. Note 11 to the accounts sets out a reconciliation of the previous reporting structure to the new one.

In the year ended 31 March 2017, Digital Services experienced strong growth across both Digital Transformation and Workday Implementation service lines. Workday Implementation services in particular experienced accelerated growth through increased demand from existing customers, new customer acquisition and geographic expansion. The opening of the Frankfurt office is viewed by the Group as an important development in supporting further European expansion.

In the Digital Platforms division, the Kainos Smart automated testing platform continued its growth trajectory, adding 37 new customers during 2017 to bring the total number of customers on the platform to 92 at 31 March 2017.

Evolve EMR continued to face headwinds in 2017 caused by the reduction in funding in the NHS. As a result, Evolve EMR revenue (excluding third party)¹ reduced by 12% to £10.0 million (2016: £11.4 million) which is in line with previous guidance.

Evolve IC achieved a significant milestone after period close, moving to live use across 38 hospitals in a large US Health Network.

As noted above, Group expenditure on research and development increased significantly in the year ended 31 March 2017, with £4.6 million expensed (2016: £2.3 million).

Finally, cash generation was exceptionally high, with a cash balance of £23.7 million at 31 March 2017 (2016: £15.0 million), representing 109% cash conversion² (2016: 77%).

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 and maintaining 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;
- 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 government, regional government and local government departments and agencies ("UK government") and for commercial sector organisations. The solutions provided are highly cost-effective and make public services more accessible and easier to use for the citizen and customer.

¹ Third party revenue includes fees charged to customers for third party services and products, such as scanning services and computer hardware. Evolve EMR revenue (including third party) reduced by 27% to £13.8 million (2016: £18.9 million).

² Calculated as adjusted pre-tax profit adding back finance income and depreciation, divided by cash generated by operations.

- *Workday Implementation*: the provision of consulting, project management, integration and support services for Workday's Enterprise Resource Planning (ERP) 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 2017 grew by 17% to £64.5 million (2016: £55.1 million). Gross profit for the division increased by 23% to £31.2 million (2016: £25.4 million). Digital Services revenue from customers in commercial sectors accounted for £19.7 million (2016: £15.0 million), an increase of 31%. Sales orders in Digital Services increased by 18% to £74.6 million (2016: £63.4 million) and contracted backlog for the division increased by 9% to £36.1 million (2016: £33.0 million).

Digital Services - Digital Transformation

The UK government's programme of digitisation of public sector services is now well established. Involved from the early stages of public sector digitisation, Kainos now holds a leading position in the supplier ecosystem, and continues to extend its engagement on flagship transformation programmes for existing and new customers across several departments.

At the Driver and Vehicle Standards Agency, Kainos continues to work on the ambitious IT modernisation programme following its involvement on the highly successful MoT replacement project last year. At Her Majesty's Prison and Probation Service, Kainos has helped design and implement the Assisted Prison Visits Scheme, which provides financial assistance to prisoners' close relatives or partners who visit them in prison. The Land Registry has engaged Kainos to work on the nationwide Local Land Charges programme to provide a central, digital service by consolidating local authority registers into a single register. Outside central government, the Group continues to work on digital projects for the Northern Ireland Civil Service, the National Assembly for Wales and the Scottish Courts and Tribunals Service.

There has been a high level of political uncertainty in the UK over the past two years, with a general election in May 2015, the 'Brexit' referendum in June 2016, the collapse of Northern Ireland political institutions in January 2017 and a further general election scheduled for June 2017. Despite this, the importance of the UK government's digitisation programme – and its support by the main political parties – has remained constant. Projects and contract signature have not been significantly delayed, and new programmes continue to be initiated, reflecting both the importance of the various departmental digitisation initiatives and the maturity of the market. As a result, 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.

The implementation of the IR35 anti-tax avoidance reforms on 6 April 2017 is widely expected to reduce the number of independent IT contractors operating in the public sector. While there has been limited impact to date, the Group views this as broadly positive for Kainos, which operates an employee rather than a contractor model.

Digital Services – Workday Implementation

Kainos first engaged with Workday in 2010, deploying Workday's HCM platform at organisations such as Grant Thornton, EasyJet and Travelex, 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 35 global partners accredited to implement Workday's innovative SaaS platform.

There has been further consolidation in the Workday partner ecosystem during the year ended 31 March 2017, with Appirio acquired by Wipro (October 2016) and DayNine acquired by Accenture (November 2016). The reduced competitive landscape in the boutique partner segment provides further growth opportunities for the Group.

Internationally, Kainos now provides Workday implementation services across mainland Europe, with offices in Amsterdam servicing customers in the Benelux region, and in Frankfurt (opened in March 2017 following the appointment of a regional director) servicing customers in Germany, Switzerland and Austria (DACH region). The Group is engaged in five significant Workday implementation projects across these two regions.

Workday segments its customers as Medium Enterprise (those with up to 3,000 employees) and Large Enterprise (those with more than 3,000 employees). The Group continues to win and deliver projects in both these segments, and has successfully deployed systems into live operation for Tullet Prebon (UK), Financial Times (UK), TomTom (Benelux) and United Drug Group plc (Ireland), with the latter project covering 7,500 employees across 16 countries.

The number of accredited Workday consultants in the Group's Digital Services division has increased by 47% to 110 people (2016: 75 people), with further recruitment anticipated over the course of 2018.

Looking forward, growth prospects remain very strong as Kainos extends its presence across Europe and the opportunity to establish the Workday platform in the UK Public Sector as a viable alternative to legacy 'on-premise' solutions. These prospects are underpinned by very strong revenue growth at Workday³ and by reduced competition in the Workday ecosystem following consolidation in the boutique segment.

Digital Platforms

The Group Digital Platforms division comprises three discrete platforms:

- *Smart Automated Testing (Smart)*: Smart is a proprietary software tool that allows Workday customers to automatically verify their Workday configuration. This SaaS platform is used during implementation projects, and to validate weekly updates of the live Workday platform for customers. Smart is the only automated testing platform available for the Workday product suite. Smart is a cloud-based SaaS solution licensed on a subscription basis to customers.

³ Workday Fourth Quarter and Full Year Fiscal 2017 Financial Results which highlighted revenue growth of 35% to \$1.57 billion.

- *Evolve Electronic Medical Record (Evolve EMR)*: Evolve EMR is a proprietary software product that removes paper from the care process by digitising patient records, thereby enabling efficient healthcare and supporting Digital Maturity programmes. EMR features in-built electronic forms and workflow that allows patient information to be captured and routed electronically, saving time and effort, and helping to improve quality of patient care. The Evolve EMR core product is sold to customers on a one-off perpetual license basis, although a small number of Evolve EMR add-on modules are licensed on a subscription basis.
- *Evolve Integrated Care (Evolve IC)*. Evolve IC is a mobile-optimised integrated care platform, designed to automate everyday care pathways for healthcare delivery organisations. It simplifies the provision of healthcare by integrating disparate healthcare systems and results in easier access, better outcomes and lower cost. Evolve IC is a cloud-based SaaS solution licensed on a subscription basis to customers.

Digital Platforms revenue (excluding third party revenue) for the year ended 31 March 2017 increased by 9% to £15.3 million (2016: £14.0 million). However, a decrease in third party revenue, which has a lower margin, meant that overall Digital Platforms revenue decreased by 12% to £19.0 million (2016: £21.5 million). Sales orders for Digital Platforms (excluding third party) decreased by 12% to £17 million (2016: £19.2 million), largely as a result of reduced order levels in the NHS. Sales orders for the Group's SaaS platforms increased by 17% to £10.1 million (2016: £8.6 million).

Digital Platforms – Smart

Smart is now used by 92 international customers to automatically verify their Workday configurations. Kainos has developed three Smart modules – HCM, Security and Financials – and a growing number of customers have subscribed to all three modules.

In the year ended 31 March 2017, the Group added 37 new Smart customers, including Blue Cross Blue Shield, Bristol-Myers Squib and GEICO. The increased level of activity in the US has resulted in expansion of the Smart presence in Los Angeles and Houston.

Smart revenue in the year ended 31 March 2017 increased by 96% to £4.7 million (2016: £2.4 million), of which £3.7 million relates to SaaS subscriptions. New sales in 2017 amounted to £9.2 million (2016: £6.1 million), an increase of 51%. The Annual Recurring Revenue (ARR) for Smart at 31 March 2017 is £5.5 million (2016: £2.5 million).

Looking forward, continued strong growth of Workday provides an opportunity to expand the pace and range of Smart successes in the coming year. There are opportunities to increase usage of all Smart modules across the Group's existing Smart customer base; similarly, there is an opportunity to develop additional modules to cover areas such as Payroll and Recruitment.

Digital Platforms – Evolve EMR

Evolve EMR continues to be a leading supplier to the NHS, and is now deployed at 35 Health Trusts in England, managing over 1.2 billion images and with 33 million patients registered on the system. During 2017, Colchester Hospital University NHS Foundation Trust became the latest NHS Trust to purchase Evolve EMR.

Funding for new technology in the NHS has remained limited despite an announcement from the Secretary of State for Health in February 2017 pledging over £4 billion to accelerate the adoption of digital solutions in the NHS. As a result, Evolve EMR revenue in the year ended 31 March 2017 (excluding third party revenue) decreased by 12% to £10.0 million (2016: £11.4 million). Sales orders in 2017 amounted to £4.8 million (2016: £9.9 million), a reduction of 52%; contracted backlog for Evolve EMR is £16.0 million (2016: £24.8 million).

Looking forward, the Group believes that the opportunity for Evolve EMR remains undiminished in the long term, with 98 Health Trusts in England still to purchase an EMR solution, representing an available market of approximately £200 million. However, it is likely that constrained technology funding in the NHS will persist in the near term, resulting in limited new procurements of Evolve EMR in 2018. During this period, the Group will seek to enhance the Evolve EMR product to meet the requirements of its existing customers.

Digital Platforms – Evolve IC

The Evolve IC platform was announced in February 2016 and is now operational in 38 US hospitals; it is also live at Cirdan Imaging Limited ('Cirdan'), a fast-growing medical diagnostics business. In 2017, a NHS Clinical Commissioning Group (CCG) signed a five-year subscription for Evolve IC as the central platform to integrate information from 11 different healthcare organisations.

Evolve IC revenue in the year ended 31 March 2017 was £0.6 million (2016: £0.03 million). New sales in 2017 amounted to £3.0 million (2016: £3.2 million), a decrease of 6%. (2016 performance was positively impacted by the signing of a landmark contract with US-based telehealth provider, InTouch Health).

Looking forward, the immediate priority is to support the NHS CCG and InTouch Health as they roll-out the Evolve IC platform. For InTouch Health, their network reaches a customer base of over 1,600 separate care locations across 130 individual Health Systems. In addition to the Stroke clinical workflow already in live use, workflows in the areas of Paediatrics, Cardiology, General Surgery, Neonatal Resuscitation, Dysphasia and Electroencephalogram (EEG) are currently under development for contracted customers.

Financial Review

Kainos achieved revenue of £83.5 million, representing a 9% growth on 2016 (£76.6 million). Gross profit margin increased from 48% to 52% mainly because of the decrease in third party revenue. Sales orders for this period amounted to £94.8 million (2016: £87.2 million), a total that included £10.1 million (2016: £8.6 million) of SaaS product sales orders, an increase of 17%.

The proportion of revenue generated outside the UK increased by 40% in 2017 and now accounts for 21% of total Group revenue (2016: 15%). Across sectors, 54% of Group revenue is derived from government customers (2016: 52%), 29% from commercial sector (2016: 23%) and 17% from healthcare (2016: 25%). Commercial sector revenue grew 40% to £24.4 million (2016: £17.4 million).

Operating expenses excluding share-based payments for 2017 increased by 27% to £29.3 million (2016: £23.1 million), largely driven by investment in the Group's Digital Platforms, primarily product development and sales and marketing. As anticipated, investment in product development has continued to grow, with overall expenditure increased by 100% to £4.6 million (2016: £2.3 million), all of which was expensed in the period. Kainos has implemented the Research and Development Expenditure Credit regime ("RDEC") during the period. As a result, research and development credits that were previously offset against the income tax expense are now received in the form of research and development grants and are offset against operating expenses, reducing operating expenses by £1.7 million⁴ in the period.

Adjusted pre-tax profit increased by 1% to £14.3 million (2016: £14.1 million). Statutory profit before tax decreased by 7% to £13.3 million (2016: £14.3 million), largely because of the effect of the exceptional gain of £2.0 million in 2016 in relation to the sale of SpeechStorm.

The effective tax rate for 2017 was 22% (2016: 13%). The increase in the effective tax rate is largely due to the impact of research and development credits and the exceptional gain on the SpeechStorm sale in 2016.

The Group has a robust balance sheet with £23.7 million of cash (2016: £15.0 million), no debt and net assets of £30.0 million (2016: £25.9 million). The net cash position increased by £8.7 million due to exceptionally high cash generation during the year ended 31 March 2017. Net cash from operating activities increased by 72% to £16.9 million in the period (2016: £9.8 million) driven by £4.0 million cash generated by working capital, primarily as a result of increased deferred income relating to Smart sales.

Dividend

The final dividend, if approved by shareholders, will be 4.4p and payable on 20 October 2017 to shareholders on the register on 22 September 2017, with an ex-dividend date of 21 September 2017. This will make the total dividend for the year 6.3p (2016: 6.0p).

⁴ The new RDEC Scheme was retrospectively adopted from 2015 and £1.1 million relates to prior periods.

Summary and Outlook

The directors believe that the Group remains well placed to deliver growth in the coming years. 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. In the Group's Digital Platforms division, Smart remains in a commanding position as the only automated testing product for Workday globally, and Evolve IC has passed a significant milestone with the successful deployment in 38 hospitals in the US. While the opportunity for Evolve EMR in 2018 is muted, the directors remain confident that it is well positioned to capitalise on its lead in the NHS marketplace in the medium term.

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

	Note	2017 (£000s)	2016 (£000s)
Continuing operations			
Revenue	2	83,504	76,594
Cost of sales	2	(39,968)	(39,485)
Gross profit	2	43,536	37,109
Operating expenses excluding share-based payments	2	(29,332)	(23,050)
Share-based payments		(949)	(524)
Operating expenses		(30,281)	(23,574)
Operating profit before exceptional items		13,255	13,535
Exceptional gain on disposal of investment	5	-	1,981
Exceptional expenses in relation to IPO	5	-	(1,297)
Exceptional items	5	-	684
Operating profit	2	13,255	14,219
Finance income		66	42
Finance expense		(1)	-
Profit before tax		13,320	14,261
Taxation on ordinary activities	6	(2,904)	(1,834)
Profit for the year		10,416	12,427

Consolidated statement of comprehensive income

	2017 (£000s)	2016 (£000s)
Profit for the year	10,416	12,427
Other comprehensive income:		
Currency translation difference	(249)	-
Total comprehensive income for the year	10,167	12,427

Earnings per share

Basic	8	8.9p	10.7p
Diluted	8	8.7p	10.6p

Consolidated statement of financial position

	Note	2017 (£000s)	2016 (£000s)
Non-current assets			
Property, plant and equipment		2,002	2,086
Investments		900	900
Other non-current assets		324	379
		3,226	3,365
Current assets			
Trade and other receivables	9	18,750	15,048
Prepayments		1,559	1,970
Corporation tax		-	1,355
Accrued income		3,677	5,222
Cash and bank balances		23,722	15,045
		47,708	38,640
Total assets		50,934	42,005
Current liabilities			
Trade creditors and accruals	10	(8,683)	(7,901)
Deferred income	10	(6,320)	(4,218)
Corporation tax	10	(2,075)	-
Other tax and social security	10	(3,573)	(3,637)
		(20,651)	(15,756)
Non-current liabilities			
Other provisions		(297)	(297)
Deferred tax liability		-	(29)
		(297)	(326)
Total liabilities		(20,948)	(16,082)
Net assets		29,986	25,923
Equity			
Share capital		592	590
Share premium account		1,626	1,607
Capital reserve		667	668
Share-based payment reserve		1,279	524
Translation reserve		(249)	-
Retained earnings		26,071	22,534
Total equity		29,986	25,923

Richard McCann
 Director
 26 May 2017

Consolidated statement of changes in equity for the year ended 31 March 2017

	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 2015 (audited)	549	521	54	-	-	22,606	23,730
Balance at 31 March 2015 (restated)¹	549	-	575	-	-	22,606	23,730
Profit and total comprehensive income	-	-	-	-	-	12,427	12,427
Premium on shares issued prior to reorganisation (note 19)	-	-	100	-	-	-	100
Share-based payment expense (note 21)	-	-	-	524	-	-	524
Current tax for equity-settled share-based payments	-	-	-	-	-	917	917
Deferred tax for equity-settled share-based payments	-	-	-	-	-	(107)	(107)
Issue of share capital	41	1,607	(7)	-	-	-	1,641
Dividends	-	-	-	-	-	(13,309)	(13,309)
Balance at 31 March 2016	590	1,607	668	524	-	22,534	25,923
Profit for the year	-	-	-	-	-	10,416	10,416
Other comprehensive income	-	-	-	-	(249)	-	(249)
Total comprehensive income for the year	-	-	-	-	(249)	10,416	10,167
Share-based payment expense (note 21)	-	-	-	949	-	-	949
Adjustments in respect of prior periods	-	-	-	(194)	-	194	-
Current tax for equity-settled share-based payments	-	-	-	-	-	(12)	(12)
Deferred tax for equity-settled share-based payments	-	-	-	-	-	147	147
Issue of share capital	2	19	(1)	-	-	-	20
Dividends	-	-	-	-	-	(7,208)	(7,208)
Balance at 31 March 2017	592	1,626	667	1,279	(249)	26,071	29,986

¹ In connection with the admission to the London Stock Exchange, the Group undertook a reorganisation of its corporate structure which resulted in Kainos Group plc becoming the ultimate holding company of the Group. The transaction was accounted for as a capital reorganisation with the consolidated financial statements (including comparative information) of the Group reflecting the predecessor carrying amounts of Kainos Software Limited.

Consolidated cash flow statement at 31 March 2017

	2017 (£000s)	2016 (£000s)
Net cash from operating activities	16,927	9,761
Investing activities		
Purchases of trading investments	-	(900)
Proceeds on disposal of investment	-	1,981
Purchases of property, plant and equipment	(813)	(1,022)
Net cash (used in)/from investing activities	(813)	59
Financing activities		
Dividends paid	(7,208)	(13,309)
Proceeds on issue of shares	20	1,741
Net cash used in financing activities	(7,188)	(11,568)
Net increase/(decrease) in cash and cash equivalents	8,926	(1,748)
Cash and cash equivalents at beginning of year	15,045	16,793
Effects of foreign exchange rate changes	(249)	-
Cash and cash equivalents at end of year	23,722	15,045

	2017 (£000s)	2016 (£000s)
Net cash from operating activities		
Profit for the year	10,416	12,427
Adjustments for:		
Income tax expense	2,904	1,834
Share-based payment expense	949	524
Gain on investment disposal	-	(1,981)
Government grants released	(11)	(11)
Depreciation	897	687
Research and development expenditure grant	(1,715)	-
Decrease in provisions	-	(208)
Derivative financial instruments	-	(98)
Operating cash flows before movements in working capital	13,440	13,174
Decrease/(increase) in receivables	24	(1,657)
Increase in payables	3,155	852
Cash generated by operations	16,619	12,369
Income taxes received/(paid)	308	(2,608)
Net cash from operating activities	16,927	9,761

Notes to the consolidated financial statements

1. General information and basis of preparation

Kainos Group plc (“the Company”) is a company incorporated and domiciled in the UK (company registration number 09579188), having its registered office at 4th Floor, 111 Charterhouse Street, London EC1M 6AW.

The preliminary results announcement for the year ended 31 March 2017 has been prepared by the directors based on the results and position which are reflected in the statutory accounts. The statutory accounts are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (Adopted IFRS).

The financial information for the years to 31 March 2017 and 31 March 2016 does not constitute statutory accounts and has been extracted from the Company’s consolidated accounts for the year to 31 March 2017.

Statutory accounts for the year to 31 March 2016 have been delivered to the Registrar of Companies, and those for the year to 31 March 2017 will be delivered following the Company’s Annual General Meeting (‘AGM’). The auditor has reported on those accounts: its report was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report, and did not contain statements under Section 498(2) or 498(3) of the Companies Act 2006.

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”).

2. Segment reporting

All the Group's revenue for the year ended 31 March 2017 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 boutique partner for Workday in Europe, responsible for implementing Workday's 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.

To date the Group has presented its results by operating division (Digital, Evolve, WorkSmart). Going forward, the directors consider that presenting its operations in terms of Digital Services and Digital Platforms better represents the Group’s business by more clearly highlighting how each offering is positioned in the market, and more easily allowing the application of appropriate performance metrics

to each part of the business. This also reflects how the business is managed and reported internally. A full reconciliation between the previous and current segmental reporting is provided in note 11.

Segment revenue and results

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

2017 12 months to 31 March	Digital Services (£000s)	Digital Platforms (£000s)	Consolidated (£000s)
Revenue	64,526	18,978	83,504
Cost of sales	(33,374)	(6,594)	(39,968)
Gross profit	31,152	12,384	43,536
Direct expenses	(6,186)	(10,433)	(16,619)
Contribution	24,966	1,951	26,917
Operating expenses excluding share-based payments			(12,648)
Adjusted pre-tax profit			14,269

2016 12 months to 31 March	Digital Services (£000s)	Digital Platforms (£000s)	Consolidated (£000s)
Revenue	55,080	21,514	76,594
Cost of sales	(29,705)	(9,780)	(39,485)
Gross profit	25,375	11,734	37,109
Direct expenses	(5,450)	(6,839)	(12,289)
Contribution	19,925	4,895	24,820
Operating expenses excluding share-based payments			(10,719)
Adjusted pre-tax profit			14,101

Reconciliation of adjusted pre-tax profit to profit before tax

	2017 (£000s)	2016 (£000s)
Adjusted pre-tax profit	14,269	14,101
Share-based payments	(949)	(524)
Exceptional gain	-	684
Profit before tax	13,320	14,261

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

	2017 (£000s)	2016 (£000s)
United Kingdom	64,879	65,314
Republic of Ireland	8,725	5,371
US	4,420	4,005
Other	5,480	1,904
	83,504	76,594

3. Profit for the year

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

	2017 (£000s)	2016 (£000s)
Total staff costs	43,747	35,373
Government grants	(1,676)	(426)
Operating lease rentals	1,272	1,026
Research and development costs	4,641	2,332
Research and Development Expenditure Credit grant	(1,715)	-
Depreciation of property, plant and equipment	897	687
Net foreign exchange gains	(784)	(412)
Fair value measurement of foreign currency forward contracts	-	(98)

Kainos has implemented the Research and Development Expenditure Credit regime ("RDEC") during the period and, as a result, research and development grants are offset against operating expenses. In the year to 31 March 2017, RDEC grants have reduced operating expenses by £1.7 million, of which £1.1 million relates to prior periods.

4. Staff numbers

The average number of employees during the year was:

	2017 Number	2016 Number
Technical	749	643
Administration	80	58
Sales	55	32
	884	733

The number of employees at 31 March 2017 was:

	2017	2016
	Number	Number
Technical	781	674
Administration	80	68
Sales	55	35
Contractors	59	63
	975	840

5. Exceptional items

In 2017 the Group had no exceptional items. In the prior year the Group completed the disposal of its entire shareholding in SpeechStorm for a consideration of £2.0 million, all of which was recognised as an exceptional gain during the prior year. Exceptional expenses in the prior year of £1.3 million related to costs associated with the IPO of Kainos Group plc shares on the London Stock Exchange on 10 July 2015.

6. Tax on ordinary activities

	2017	2016
	(£000s)	(£000s)
Corporation tax:		
Current year (UK)	2,497	1,723
Current year (overseas)	377	496
Adjustments in respect of prior years	218	(439)
	3,092	1,780
Deferred tax	(188)	54
	2,904	1,834

UK corporation tax is calculated at 20% (2016: 20%) 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 2017 was 22% (2016: 13%). The increase in the effective tax rate is largely due to the impact of Research and Development credits in 2016 and the exceptional gain on the SpeechStorm sale both reducing the effective tax rate last year. From 1 April 2016 there is a requirement for the Group to move from submitting research and development expenditure related tax claims under the previous large company super deduction scheme (which resulted in additional tax deductions accounted for within the tax charge) to the RDEC scheme (which results in credits accounted for within operating profit).

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. Whilst there is expected to be a reduction in future UK corporation tax rates we expect this to be offset by growth in overseas profits and therefore consider that the sustainable tax rate is likely to be similar to the rate for 2017.

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

	2017	2016
	(£000s)	(£000s)
Profit before tax on continuing operations	13,320	14,261
Tax at the UK corporation tax rate of 20% (2016: 20%)	2,664	2,852
Non-deductible expenses	61	409
Non-taxable income	(6)	(396)
Research and development super deduction	-	(472)
Effect of net losses utilised in the period	-	9
Effect of non-UK tax rates	(11)	(114)
Movement in prior year unrecognised deferred tax asset	(23)	-
Adjustments to tax charge in respect of prior years	201	(439)
Change in UK tax rates	18	(15)
Tax expense for the year	2,904	1,834

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

	2017	2016
	(£000s)	(£000s)
Current tax		
Excess tax deductions for share-based payments on exercised options	-	(917)
Permanent element of stock option deduction	(12)	-
Deferred tax		
Change in estimated tax deductions related to share-based payments	(4)	107
Adjustments in respect of previous periods	(39)	-
Deferred tax on stock option	190	-
Total tax recognised directly in equity	135	(810)

7. Dividends

	2017 (£000s)	2016 (£000s)
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for 2017 of 1.9p per share	2,248	-
Final dividend for 2016 of 4.2p per share	4,960	-
Interim dividend for 2016 of 1.8p per share	-	2,133
Dividend for 2015 of 2.3p per share	-	2,548
Dividend for 2015 of 7.5p per share	-	8,628
	7,208	13,309

The proposed final dividend for 2017 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 4.4p and payable on 20 October 2017 to shareholders on the register on 22 September 2017, with an ex-dividend date of 21 September 2017.

8. 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.

	2017 (£000s)	2016 (£000s)
Profit for the period	10,416	12,427
	Thousands	Thousands
Weighted average number of ordinary shares for the purposes of basic earnings per share	117,200	115,775
Effect of dilutive potential ordinary shares from share options	2,773	1,233
Weighted average number of ordinary shares for the purposes of diluted earnings per share	119,973	117,008
Basic earnings per share	8.9p	10.7p
Diluted earnings per share	8.7p	10.6p

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.

	2017	2016
	(£000s)	(£000s)
Profit for the period	10,416	12,427
Exceptional expenses in relation to IPO	-	1,297
Exceptional gain on disposal of investment	-	(1,981)
Share-based payments (including associated taxes)	949	524
Adjusted profit for the period	11,365	12,267

	Thousands	Thousands
Weighted average number of ordinary shares for the purposes of basic earnings per share	117,200	115,775
Effect of dilutive potential ordinary shares from share options	2,773	1,233
Weighted average number of ordinary shares for the purposes of diluted earnings per share	119,973	117,008
Adjusted basic earnings per share	9.7p	10.6p
Adjusted diluted earnings per share	9.5p	10.5p

9. Trade and other receivables

	2017	2016
	(£000s)	(£000s)
Trade receivables	16,168	14,541
Allowance for doubtful debts	(15)	(66)
	16,153	14,475
Other debtors	882	573
RDEC grant	1,715	-
	18,750	15,048

10. Trade and other payables

	2017	2016
	(£000s)	(£000s)
Trade creditors and accruals	8,683	7,901
Deferred income	6,320	4,218
Corporation tax	2,075	-
Other tax and social security	3,573	3,637
	20,651	15,756

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.

11. Impact of change in segmental reporting on financial years

Previous Segmental	Digital		Workday		Work-		Consolidated
	Services	Evolve	Smart	Services	Smart	Smart	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2017							
Revenue	54,553	14,254	4,724	9,973	14,697		83,504
Cost of sales	(29,150)	(5,516)	(1,078)	(4,224)	(5,302)		(39,968)
Gross profit	25,404	8,738	3,646	5,748	9,394		43,536
Operating expenses excluding share-based payments							
							(29,267)
Share-based payments							(949)
Operating expenses							(30,216)
Operating profit							13,320

	Digital		Workday		Work-		Consolidated
	Services	Evolve	Smart	Services	Smart	Smart	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2016							
Revenue	48,504	19,070	2,444	6,576	9,020		76,594
Cost of sales	(26,631)	(8,950)	(830)	(3,074)	(3,904)		(39,485)
Gross profit	21,873	10,120	1,614	3,502	5,116		37,109
Operating expenses excluding share-based payments							
							(23,050)
Share-based payments							(524)
Operating expenses							(23,574)
Operating profit before exceptional items							13,535

New Segmental	Digital		Workday		Workday		Consolidated
	Services	Services	Services	Evolve	Smart	Platform	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2017							
Revenue	54,553	9,973	64,526	14,254	4,724	18,978	83,504
Cost of sales	(29,150)	(4,224)	(33,374)	(5,516)	(1,078)	(6,594)	(39,968)
Gross profit	25,404	5,748	31,152	8,738	3,646	12,384	43,536
Direct expenses			(6,186)			(10,433)	(16,619)
Central expenses							(12,648)
Operating expenses excluding share-based payments							
							(29,267)
Share-based payments							(949)
Operating expenses							(30,216)
Operating profit							13,320

	Digital		Workday		Workday		Consolidated
	Services	Services	Services	Evolve	Smart	Platform	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2016							
Revenue	48,504	6,576	55,081	19,070	2,444	21,514	76,594
Cost of sales	(26,631)	(3,074)	(29,705)	(8,950)	(830)	(9,780)	(39,485)
Gross profit	21,873	3,502	25,376	10,120	1,614	11,734	37,109
Direct expenses			(5,450)			(6,839)	(12,289)
Central expenses							(10,762)
Operating expenses excluding share-based payments							
							(23,050)
Share-based payments							(524)
Operating expenses							(23,574)
Operating profit before exceptional items							13,535

	Digital		Workday	Workday	Work-	Consolidated
	Services	Evolve	Smart	Services	Smart	
2015	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	43,580	9,018	973	7,207	8,180	60,778
Cost of sales	(20,510)	(4,314)	(347)	(3,158)	(3,505)	(28,329)
Gross profit	23,070	4,704	626	4,049	4,675	32,449
Operating expenses						(20,646)
Operating profit						11,803

	Digital	Workday		Workday		Consolidated	
	Services	Services	Services	Evolve	Smart		Platform
2015	£'000	£'000	£'000	£'000	£'000	£'000	
Revenue	43,580	7,207	50,787	9,018	973	9,991	60,778
Cost of sales	(20,510)	(3,158)	(23,668)	(4,314)	(347)	(4,661)	(28,329)
Gross profit	23,070	4,049	27,119	4,704	626	5,330	32,449
Direct expenses			(4,529)			(4,124)	(8,653)
Central expenses							(11,993)
Operating expenses							(20,646)
Operating profit							11,803

	Digital		Workday	Workday	Work-	Consolidated
	Services	Evolve	Smart	Services	Smart	
2014	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	31,796	5,948	17	4,154	4,171	41,915
Cost of sales	(15,507)	(2,486)	-	(2,453)	(2,453)	(20,446)
Gross profit	16,289	3,462	17	1,701	1,718	21,469
Operating expenses						(14,440)
Operating profit						7,029

	Digital	Workday		Workday		Consolidated	
	Services	Services	Services	Evolve	Smart		Platform
2014	£'000	£'000	£'000	£'000	£'000	£'000	
Revenue	31,796	4,154	35,950	5,948	17	5,965	41,915
Cost of sales	(15,507)	(2,453)	(17,960)	(2,486)	-	(2,486)	(20,446)
Gross profit	16,289	1,701	17,990	3,462	17	3,479	21,469
Direct expenses			(3,811)			(1,722)	(5,534)
Central expenses							(8,906)
Operating expenses							(14,440)
Operating profit							7,029