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Kainos Group plc
11 November 2024

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Interim results for the six months ended 30 September 2024

Kainos Group plc ('Kainos' or the 'Group')

Excellent Workday Products growth offset by a subdued services market with profitability maintained

Kainos Group plc (KNOS), a UK-headquartered IT provider with expertise across three divisions - Digital Services, Workday Services and Workday Products - is pleased to announce its results for the six months ended 30 September 2024.

Financial highlights

	H1 25		
Revenue	£183.1m	£193.2m	-5%
Statutory profit before tax	£34.2m	£30.9m	+11%
Adjusted pre-tax profit([1])	£38.2m	£37.9m	+1%
Diluted earnings per share	20.1p	17.5p	+15%
Adjusted diluted earnings per share	22.5p	22.1p	+2%
Interim dividend per share	9.3p	8.2p	+13%
Bookings	£179.5m	£201.9m	-11%
Product annual recurring revenue (ARR)	£65.1m	£55.4m	+18%
Contracted backlog	£354.1m	£326.9m	+8%
Cash([2])	£151.6m	£113.0m	+34%

Revenue reflects the tougher trading environment in services, as referenced in our recent trading updates, but our disciplined execution and strong growth in higher-margin products have supported profitability

- Revenue decreased 5% (-5% organic, -5% ccy) to £183.1 million (H1 24: £193.2 million).
- Adjusted pre-tax profit grew by 1% (2% ccy) to £38.2 million, which included a £1.2 million investment to support our extended strategic partnership with Workday (see below). Adjusted profit margin has increased to 21% (H1 24: 20%).
- Overall bookings were 11% lower at £179.5 million (H1 24: £201.9 million).
- The contracted backlog at the period end increased 8% to £354.1 million (H1 24: £326.9 million).
- Strong period-end cash(2) of £151.6 million (H1 24: £113.0 million), with cash conversion at 75% (H1 24: 82%).
- Board announces intention to launch a share buyback programme of £30.0 million to be executed over the next six months.

Operational highlights

Workday-related products continued to grow strongly and now account for 19% of Group revenue (H1 24: 14%). Our enhanced partnership with Workday underpins our £100 million 2026 ARR target and our new 2030 target of £200 million

- Workday Products revenue was up 28% (28% organic, 31% ccy) to £34.3 million (H1 24: £26.7 million), with ARR increasing by 18% (24% ccy) to £65.1 million (H1 24: £55.4

million).
- Growth was driven by the continued success of our Employee Document Management (EDM) product, launched in October 2023, and strong sales execution across the Smart product suite.
- Our new strategic partnership with Workday incentivises Workday's worldwide sales teams to introduce and co-sell both current and future Kainos developed Workday products.
- We continued to invest in our products, increasing research & development expenditure by 31% to £7.7 million (H1 24: £5.9 million), which was all expensed in the period. Sales & marketing spend increased by 5% to £6.2 million (H1 24: £5.9 million), including £1.2 million of additional costs associated with the Workday partnership incurred since July 2024. The total additional costs in FY25 to support the partnership are estimated at £7.0 million, including investment in our sales capabilities and on-going development of our products to utilise the full power of Workday's new Built on Workday program.

As described in our recent trading update, Digital Services had a subdued first half with delayed customer decision making and project mobilisations

- Digital Services revenue decreased by 11% to £97.3 million (H1 24: £109.2 million).
- Despite sustained public sector demand, the hiatus following the UK General Election has delayed project mobilisations, with public sector revenue falling by 15% to £62.0 million (H1 24: £73.0 million).
- Within the healthcare sector, strong revenue growth of 16% resulted in revenue of £23.6 million (H1 24: £20.4 million).
- Commercial sector revenue continued to be affected by the lacklustre economy resulting in delays to customer investment decisions and was 27% lower at £11.6 million (H1 24: £15.8 million).
- Softer market conditions affected Workday Services revenue in the first half, with opportunity for further international **expansion into Asia Pacific**
- We are the leading pan-European Workday consulting specialist and the eighth largest by certified consultant numbers globally. We have extended our Workday Services activities to Asia Pacific, creating a team and building a pipeline in H1.
- Despite a continued strong win rate and customer success, revenue in the period was 10% lower (-9% ccy) at £51.5 million (H1 24: £57.3 million), with bookings of £39.9 million (H1 24: £53.1 million).
- As previously flagged, this weakness was due to lower volumes and values, as well as aggressive pricing in some parts of the market due to increased competition.
- Revenue was 5% lower on a like-for-like basis, after adjusting the prior-period revenue for discontinued procurement consulting services associated with Blackline Group, which we acquired in 2022. We ceased providing these services in FY24.

We continue to expand internationally, with international markets generating 41% of Group revenue
- International revenue was £75.4 million, up 1% (H1 24: £74.7 million).
- Workday Services has a particularly strong international position, with 77% of revenue from these customers (H1 24: 77%).

Excellent customer service drives customer satisfaction and retention
- Our customers continued to rate our services as 'excellent', with a Net Promoter Score of 58([3]) (H1 24: 62).
- Existing customers generated revenue of £148.9 million (H1 24: £182.3 million).
- Customer numbers increased to 1,022 (H1 24: 892)([4]).

The commitment and engagement of our colleagues underpins our business performance
- We have 3,029 people (H1 24: 3,139) across 20 countries, with our employee retention remaining strong at 93% (H1 24: 92%).
- Engagement levels remain high, measuring 76% (H1 24: 79%) in our internal surveys,

and we were again ranked one of the '50 Best Places To Work in the UK' by Glassdoor.

We continue to leverage artificial intelligence (AI) to benefit our customers and our business

- To date, we have delivered more than 140 AI & Data projects across the public, healthcare and commercial sectors, and have won nearly 40 AI & Data contracts in the period.
- Our recently established AI Catalyst Team enables us to rapidly deliver proofs of concept for clients and demonstrate the value opportunity from adoption.
- Our leading position in AI is reflected in the receipt of awards such as the National AI Award for Government & Public Sector.
- We are one of only 15 global early AI adopters for Workday, with three products already available which have Workday's 'Responsible AI' designation.

Current Trading and Outlook

- On 31 October, we moderately reduced revenue expectations for the full year reflecting the poor macro-economic conditions and delayed UK Government decision-making. We expect the majority of the revenue reduction (along with the impact of the additional investment to support our products partnership with Workday) to flow through to lower adjusted profit before tax.
- We continue to have a healthy pipeline, ongoing cost discipline, a strong balance sheet and a significant contracted backlog.
    - Workday Products will continue to grow strongly in the second half, with the revenue benefits of our partnership with Workday starting to ramp up in FY26.
    - In Digital Services, we expect a slight revenue decrease in the remainder of the year and a flat outlook into FY26, as slow UK Government decision making persists, before the new Government determines and executes its investment priorities in both central Government and the NHS.
    - We expect flat Workday Services revenue in the second half and into FY26 in a soft market, although we continue to benefit from our reputation for excellent customer service and our growing profile within Workday.
- More generally, we continue to see good opportunities in smaller but faster-growing areas, including AI, data and low code, and building custom Workday applications using our Workday Extend capabilities.

Commenting on the results, CEO Russell Sloan said:

"Our services businesses faced a tougher environment in the first half of the year in a generally soft market, and we remain cautious about our prospects for the remainder of the year. However, we continue to generate robust levels of profitability and looking to the medium term and beyond, we continue to see substantial growth opportunities across all our core markets.

"Our Workday Products division is going from strength to strength and our strategic partnership with Workday will help us to more than triple our annual recurring revenue from this business over the next six years. This unique partnership is Workday's first transformative innovation agreement as part of its Built on Workday program and has further raised our overall profile within Workday Inc., as well as within its customer and partner ecosystem.

"In Digital Services, the new UK Government is determined to improve public services and healthcare provision, while delivering efficiencies and leveraging the potential of AI. Digital transformation will have a key part to play in achieving these goals. While we are confident of the opportunities ahead, we are cautious about the timing of future growth as we await the Government moving out of the delayed decision-making phase. More broadly, we also see prospects for further international growth.

"We have an excellent position in Workday Services, as leaders in the European market and eighth worldwide by the number of certified consultants. While we are currently in a generally softer market, we continue to look for ways to add value beyond our consulting assignments, such as our new partnership with Pulsara to help customers consulting assignments, such as our new partnership with Pulsora to help customers with their ESG reporting, in order to return to growth.

"Our business is built on addressing markets with long-term structural growth drivers, and a self-reinforcing cycle of attracting and developing great people, who provide excellent customer service. This in turn creates the long-term customer relationships that generate the majority of our revenue each year. We can then invest for further growth and to expand internationally, while balancing this investment with near-term profitability. As always, we are grateful for our customers' continued trust in us and the efforts of our colleagues across the world in continuing to deliver for them."

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About Kainos Group plc

Kainos Group plc is a UK-headquartered provider of sophisticated IT services to major public sector, commercial and healthcare customers. Our expertise spans three divisions: Digital Services, Workday Services, and Workday Products.

- **Digital Services**: We develop and support custom digital service platforms that transform service delivery in public, commercial, and healthcare sectors. Our solutions ensure security, accessibility, cost-effectiveness, and improved user outcomes.
- **Workday Services:** Specialising in deploying Workday, Inc.'s Finance, HR, and Planning products, we are a respected partner in Europe and North America. Experienced in complex deployments, we are trusted to launch, test, expand, and support Workday systems.
- **Workday Products:** Our established product suite, incorporating Smart Test, Smart Audit, and Smart Shield, complements Workday by enhancing system security and compliance. Our Employee Document Management product, launched in October 2023, improves document generation and storage within Workday while supporting an organisation's global compliance requirements. Over 500 global customers use one or more of our products.

Our people are central to our success. We employ more than 3,000 people in 20 countries across Europe, Asia and the Americas.

We are listed on the London Stock Exchange (LSE: KNOS) and you can discover more about us at **www.kainos.com**.

Definition of terms

We use the following definitions for our key metrics:

Active customer: a customer who has signed a contract with us within the last three months or has generated revenue in the last six months.

Adjusted EBITDA: adjusted pre-tax profit excluding interest, tax, depreciation of property, plant and equipment and right-of-use assets, and amortisation of intangible assets.

Adjusted pre-tax profit: profit before tax excluding the effect of share-based payment expense, acquisition-related expenses including amortisation of acquired intangible assets and post-combination remuneration expense (relating to contingent deferred consideration subject to future service conditions). Our adjusted results in the prior period also exclude one-off gains recognised on sale of property, plant and equipment and changes in fair value of our investment property.

Adjusted profit margin: adjusted profit as a percentage of revenue for the period.

Annual recurring revenue (ARR): the total of the annualised committed subscription value contracted at the end of the reporting period.

Bookings: the total value of sales contracted during the period.

Cash conversion: cash generated from operating activities as a percentage of adjusted EBITDA.

Constant currency (ccy): excludes the effect of foreign currency exchange rate fluctuations on period-on-period performance by translating the relevant prior period figure at current period average exchange rates.

Contracted backlog: the value of contracted revenue that has yet to be recognised.

Existing customer revenue: total revenue recognised from customers in the current period who were also customers in the preceding year.

International revenue: total revenue derived from locations outside of UK and Ireland.

Net Promoter Score (NPS): a metric that organisations use to measure customer loyalty toward their brand, product or service, which can range from -100 to +100. Bain & Co, the creators of the metric, held that a score above 0 is good; 20+ is favourable; 50+ is excellent and 80+ is world class.

Organic revenue: our revenue excluding revenue from acquisitions completed in the current and comparative reporting periods.

Software as a service (SaaS): a software distribution model that delivers application programmes over the internet, with users typically accessing the programme through a web browser. Users pay an ongoing subscription to use the software rather than purchasing it once and installing it.

Cautionary statement

This report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. It should not be relied on by any other party or for any other purpose.

This report includes statements that are, or may be deemed to be, "forward-looking statements". These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report, but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Group business review

Our overall performance

We experienced mixed revenue performance across the Group during the period. Workday Products and the Digital Services Healthcare Sector recorded strong growth, offset by the impact of difficult market conditions in Digital Services Public Sector and Workday Services, and a significant reduction in Digital Services Commercial Sector revenue. The overall impact was a revenue decline of 5%. This reflects a wider softness in the services sector, where the economic environment has encouraged customers where possible to defer project-based expenditure.

Despite this, adjusted pre-tax profit was resilient and increased by 1% (2% ccy) to £38.2 million (H1 24: £37.9 million) generating a 21% margin. This reflected several factors, including our continued disciplined management of our costs, the growth in the higher-margin Workday Products business, the reduction in contractor numbers compared with the first half of last year and lower salary increases compared with our historical average.

Bookings in the period were 11% lower at £179.5 million (H1 24: £201.9 million). Our contracted backlog increased 8% to £354.1 million (H1 24: £326.9 million).

As previously guided, we have continued to invest to support the growth in our software products. Research & development investment rose by 31% to £7.7 million (H1 24: £5.9 million) and our product-related sales & marketing investment (including £1.2 million of Built on Workday partnership costs), was £6.2 million, up 5% (H1 24: £5.9 million). The total investment in our software products was £13.9 million (H1 24: £11.8 million), an increase of 18%.

We remain highly cash generative and delivered another robust cash performance, with cash conversion in the period of 75% (H1 24: 82%). As a result, at 30 September 2024 we had a cash balance (including treasury deposits) of £151.6 million (H1 24: £113.0 million).

Workday Products performance

Workday Products revenue continued to grow very strongly, with an increase of 28% (28% organic, 31% ccy) to £34.3 million (H1 24: £26.7 million). Revenue benefited from growth across all our products, including continued uptake of our Employee Document Management (EDM) product (see below), which we released in October 2023 and has been our most-successful launch to date.

In total, more than 500 customers now use our products, with about a third taking multiple products. We also continue to improve our sales execution and to refine our customer value proposition for our Smart Suite products, emphasising the cost savings they can deliver as well as their control and compliance benefits.

Annual recurring revenue at the period end was £65.1 million (H1 24: £55.4 million), up 18% (24% ccy), and backlog increased 11% to £126.6 million (H1 24: £113.8 million).

During the period, we announced an enhanced strategic partnership with Workday, which will accelerate our growth in Workday Products. Combined with the underlying momentum in the division, this underpins our confidence in achieving our ARR target of £100 million by 2026 and has allowed us to set a new target for 2030 of £200 million. More information on the strategic partnership can be found below.

Our software products

We currently have four products, of which three sit within the Smart Suite:

- Smart Test (launched in 2014) is the leading platform for Workday customers to automatically test and verify that their unique Workday configuration is operating effectively.
- Smart Audit (2021) is a compliance-monitoring tool that allows Workday customers to maintain operational security controls across their Workday environments.
- Smart Shield (2022) is a data-masking tool that ensures sensitive data remains controlled when Workday environments are made available to broader internal or external teams.

Our latest product, EDM (2023), improves the experience of generating and storing documents inside Workday, while supporting an organisation's global compliance requirements.

Accelerating our growth through strategic partnership

In July 2024, we announced an enhanced partnership with Workday, which incentivises Workday's sales teams across North America, Europe and Asia Pacific to introduce and co-sell our products. This unique partnership gives us an increased profile within Workday and supports its recent launch of the Built on Workday program. Built on Workday uses the Workday Extend technology (see Workday Services below) to enable partners to create apps and distribute them to Workday's 10,500+ enterprise customers via the Workday Marketplace.

The multi-year agreement covers our Smart Audit, Smart Test and EDM products, as well as future products that we will develop utilising Built on Workday. To support the partnership, we will incur the following additional costs:

- Payments to Workday of approximately £7.8 million per year (details of the commitment are disclosed in note 15 to the condensed consolidated financial statements);
- Investment to expand our own sales capability, to support Workday's sales organisation; and
- Investment to continue to develop Smart Test, Smart Audit and EDM, to utilise the full power of Built on Workday.

The full power of Built on Workday.

These additional costs are expected to total approximately £7.0 million in FY25, of which we incurred £1.2 million in the period since July 2024.

Since announcing the partnership, which is the first of its kind signed by Workday, we have made significant progress with sales enablement and the Workday Rising customer event has been an excellent catalyst for increased customer meetings. The mobilisation phase for the partnership will result in revenue building from FY26 and starting to offset the annual investment. As a result, revenue uplift in the current financial year will be negligible.

Digital Services performance

Our Digital Services division builds highly cost-effective solutions that make public-facing services more accessible and easier to use for citizens, patients and customers.

Overall, Digital Services had a subdued start to FY25, reflecting the market conditions described below. Digital Services revenue was 11% lower at £97.3 million (H1 24: £109.2 million). Bookings declined by 13% to £102.8 million (H1 24: £118.8 million), while the contracted backlog rose 12% to £166.3 million (H1 24: £149.0 million).

Public sector

Revenue from public sector customers fell by 15% to £62.0 million (H1 24: £73.0 million) and accounted for 64% of divisional revenue (H1 24: 67%). This was primarily due to the impact of the UK General Election, which took place several months earlier than originally expected. The resulting hiatus has caused delays in mobilising some projects as customer teams sought fresh or additional approvals, alongside generally slower decision making.

Prospects in the public sector remain positive, with the new Government clear on its intent to use digital technology, including AI, to improve public services and generate efficiencies. With the Government having outlined the direction of travel for investment in the Budget on 30 October 2024, we expect longer-term plans to come out of the multi-year spending review in Spring 2025.

During the period, we continued to support our long-standing customers including the Ministry of Justice, the Department for Environment, Food & Rural Affairs, the Driver and Vehicle Standards Agency, HM Passport Office, the Department for Transport and the Ministry of Defence. We also began working with new customers, including the Crown Prosecution Service, Ofwat, University of Cambridge and a new framework win with Queen's University Belfast.

Healthcare sector

Our customers in this sector are mainly UK public health bodies. In previous reports, we noted the disruption caused by the merger of NHS Digital into NHS England, which also delayed decision-making on some programmes. With the merger largely completed, NHS England has been releasing larger programmes of work to tender. Revenue from the sector was £23.6 million (H1 24: £20.4 million), representing growth of 16% and accounting for 24% of Digital Services' revenue in the period (H1 24: 19%).

During the period, our customers have included NHS England, where we are leading the transformation of Digital Urgent and Emergency Care Services, the Department for Health and Social Care, where we are working in preventative healthcare to deliver the new digital NHS Health Check, the UK Health Security Agency, for whom we are delivering an enterprise data and analytics platform to help it detect and analyse emerging health threats, and the NHS Business Services Authority, where we are supporting its digital projects portfolio.

Commercial sector

There is significant long-term potential for us in the UK commercial sector, where IT expenditure is more than three times higher than the public sector. To increase our likelihood of success in this market, we have initially focused on financial services customers.

As anticipated, demand from the commercial sector remained low in the period, as customers delayed decisions on project-related expenditure in the uncertain economic environment. Our commercial sector revenue was therefore 27% lower at £11.6 million (H1 24: £15.8 million), representing 12% of divisional revenue (H1 24: 14%).

We continue to deliver digital services for our established customers, including Irish Life Assurance plc, Bank of Ireland, EasyJet and WPP, and we are helping new customers including Hiscox, Just Group and Hodge Bank.

International

The UK was an early adopter of digital transformation, which provides us with the opportunity to replicate our home market success in other regions. Our strategy is to target countries where we already have a presence and customer contacts through our Workday Services division. International revenue was £5.3 million (H1 24: £5.9 million), representing 5% of total Digital Services revenue (H1 24: 5%). We continued to gain momentum in Canada and have built a local team to support our growth, reflecting our strategy to scale our in-region delivery capability in line with our success.

In North America, we continue to make progress and diversify our client base across the public, commercial and healthcare sectors, with organisations including the Province of Nova Scotia, the Government of Ontario and WPP.

Workday Services performance

We are one of Workday Inc.'s most-experienced partners and the eighth largest partner globally accredited to implement Workday's innovative SaaS platform. We are the leading Workday partner in Europe and a Phase 1 Prime partner in the US, which remains the biggest market for Workday Inc. At the end of H1, we had 788 accredited Workday consultants (H1 24: 814), ranking us eighth globally by number of consultants.

Workday Services revenue in the period was 10% lower (-9% ccy) at £51.5 million (H1 24: £57.3 million). In the prior financial year, we stopped providing procurement consulting services previously offered by Blackline Group, which we acquired in 2022. Adjusting H1 24 revenue to exclude these services, revenue in the current period was 5% lower on a like-for-like basis.

Our win rate has remained strong, and our strong customer service has enabled us to continue to secure business from customers where earlier phases of the project were undertaken by a different partner. Overall, however, the number and value of contracts in the market have been lower than in previous periods and we have also experienced more aggressive pricing by some competitors in the market.

Sales bookings decreased by 25% to £39.9 million (H1 24: £53.1 million) while our contracted backlog was £61.1 million (H1 24: £64.1 million).

Regionally, North American customers generated 50% of divisional revenue (H1 24: 51%), with our European customers responsible for 50% of revenue (H1 24: 49%). We have started to build a team in Australia to support growth in Asia Pacific, with our first Australian contract secured since the end of H1.

We continue to add non-Workday services that create value for our Workday customers and broaden our revenue streams. For example, during the summer we announced a strategic partnership with Pulsora, the leading sustainability management platform. The partnership will enable customers to extract data from their Workday systems and use it to fulfil ESG reporting requirements through Pulsora, helping them overcome challenges with ESG transparency and accountability.

Workday Extend

Workday Extend is Workday's Platform-as-a-Service offering. It allows organisations to build specialised functionality on the Workday platform, to further enhance customers' Workday deployment. Engaging with clients on Workday Extend projects gives us insight into common challenges that they experience and creates the potential to build further products that can be part of the Built on Workday program. To date, we have helped more than 80 organisations to build Workday Extend applications.

We believe that we have the largest independent group of Extend skills globally. We continue to upskill colleagues through our Extend Academy, enabling them to carry out consulting projects for customers and to work on product development for our Workday Products division.

Our people

Our success is driven by our people's ability, energy and expertise. We are therefore pleased that our employee retention remains high, with 93% of our people choosing to continue to develop their careers with us over the past 12 months (H1 2024: 92%).

Employee engagement remains strong with their overall satisfaction and enthusiasm with work being rated at 76% (H1 24: 79%). We capture feedback each month through Workday Peakon, which gives us a holistic view of employee sentiment and allows us to compare our performance against c. 1,600 global employers. We also retained our top 50 ranking in Glassdoor's Best Places to Work in the UK 2024. In September 2024, we had an overall approval rating on Glassdoor of 84% and 87% of respondents would recommend working at Kainos to a friend.

Overall, our headcount has remained stable at 3,029 people (H1 24: 3,139). During the period, we moved over 80 colleagues from our services divisions to Workday Products to support its growth, and expanded our teams in both Canada and Australia. At the period end, colleague numbers by region were: UK & Ireland, 2,070 people (H1 24: 2,153); Central Europe, 472 people (H1 24: 477); the Americas, 403 people (H1 24: 413); and Asia, 84 people (H1 24: 96).

We have continued to focus our recruitment on entry level talent, which aligns with our preference to develop and promote internally to fill more senior vacancies. Our focus on cost control and investing in permanent employees means contractor numbers remain low, at 2% of our colleagues (H1 24: 4%).

To develop our colleagues' skills, we invest heavily in training and certifications, with our people completing more than 6,500 training days in the past six months (H1 24: more than 6,200 days).

Part of our people strategy is to encourage young people and those from under-represented groups to pursue careers in our industry. During the period we ran a weeklong Quantum Camp in Gdansk, Poland, bringing in experts from around Europe to inspire and educate young people on this emerging technology.

Our customers

Consistently delivering for our customers is at the heart of our business. It creates strong relationships, which in turn generate high levels of repeat business, while our reputation for delivery also helps us to win new work.

We continued to perform strongly during the period, as reflected by:

- Our Net Promoter Score (NPS) of 58 (H1 24: 62), maintaining our record of consistently high customer satisfaction. A score above 50 is viewed as 'excellent';
- Existing customers generating 81% of our revenue (H1 24: 94%), as they continue to trust us to deliver for them; and
- Further new customer wins, giving us 1,022 active customers at the period end (H1 24: 892).

Our business is well diversified across our sectors, with revenue coming from:

- Commercial customers: 53% (H1 24: 51%);
- Public sector customers: 34% (H1 24: 38%); and
- Healthcare customers: 13% (H1 24: 11%).

Regionally, UK & Ireland accounts for 59% of our business (H1 24: 61%), North America for 30% (H1 24: 28%), Central Europe for 10% (H1 24: 11%), and the rest of the world representing 1% (H1 24: <1%). Total international revenue was £75.4 million, up 1% (H1 24: £74.7 million).

Artificial intelligence

Our vision for AI is to guide and deliver responsible AI adoption and to solve real-world problems. To date we have delivered more than 140 AI & Data projects for public sector, healthcare and commercial customers, providing end-to-end services ranging from strategy development to full-scale AI deployment and data optimisation.

During H1, we won nearly 40 AI & Data contracts across all markets, with clients including NHS England, the UK Health Security Agency, Homes England, the Ministry of Defence, WPP, the National Highways Agency, Hodge Bank, Mizuho Bank, Danske Bank, Irish Life and Control Risks. We also secured a major AI consultancy engagement with the Crown Prosecution Service. Example projects include providing AI solutions for the United Nations International Organization for Migration, to support migration as a result of climate change and to combat fraudulent passports being used to cross borders.

Our AI & Data team comprises more than 200 consultants, including data scientists, AI engineers and machine learning specialists. We have strengthened our AI Ethics and Governance capabilities and established an AI Catalyst Team, which delivers rapid client-led proofs of concept. Examples include AI-assisted underwriting for insurance, transaction verification for credit cards, and AI-driven notetaking for local authorities.

Our position as an AI leader is reinforced by key milestones. We hosted and curated the leading conference, AI Con, for the sixth year, featuring over 400 attendees and the first live AI-powered panellist. Our thought leadership on AI regulation was included in the UK Department for Science, Industry and Technology's Portfolio of AI Assurance Techniques. We were also awarded the National AI Award for Government & Public Sector for our AI work with HM Land Registry creating a solution that uses machine learning and AI to automatically compare documents in different formats and identify discrepancies.

Our alliance strategy continues to strengthen. As a Microsoft Data & AI Solution Partner, we have achieved three AI Advanced Specialisations and are an established member of the Global Partner Advisory Council. We are a Premier Tier AWS Partner (top 1% globally), hold the AWS Machine Learning specialist competency and have developed AWS-approved Generative AI solutions, which are available on the AWS Marketplace. Additionally, we are one of only 15 global early AI adopters for Workday, with three products already available on the Workday AI Marketplace, all of which have attained the 'Responsible AI' designation from Workday.

Finally, we are driving our own efficiency through AI. In addition to our internal projects, including a Gen AI employee assistant, a pre-sales content assistant and "Juno" - our AI workshop facilitator - over half of our development projects are using AI to accelerate delivery as we help more customers adopt these emerging technologies.

Innovation, research and development

Successful businesses continue to challenge themselves. We are keen to improve our existing offerings, develop new business ideas and assess business and technology concepts that are likely to impact us or our clients in the future.

Including our product investment, our research and development expenditure for the

Including our product investment, our research and development expenditure for the period amounted to £7.7 million (H1 24: £5.9 million), an increase of 31%, all of which was fully expensed.

Assessing the technologies of the future

Our R&D team's horizon scanning and strategic foresight help us to uncover the upcoming trends and technologies to explore and exploit, both within the business and with our customers. Examples include next-generation AI, which explores topics such as Small Language Models, Agentic AI, and Federated Learning; sustainable computing, which investigates topics such as green software, responsible computing and sustainable AI; and emerging technology, which includes research into quantum computing, distributed trust and spatial computing.

Smart Product Suite

We are making sustained investment in our Smart Suite, where we are leveraging cutting-edge AI alongside Workday's Extend technology to drive operational efficiencies for our customers. Our Smart Test platform now incorporates AI to automate test scoping and creation, which allows for broader, deeper and more-efficient test coverage within Workday environments.

AI is also embedded in Smart Audit, where it increases the ability to swiftly detect anomalous Workday configurations. This helps customers identify potential vulnerabilities, allowing for more thorough and accelerated automation of IT security and audit controls.

Employee Document Management for Workday

We are continuously enhancing EDM's capabilities to increase its value for Workday customers across an expanding number of specific regional compliance standards. We are utilising AI across multiple aspects of document management, including automated document generation, intelligent document filing, and regulatory compliance tracking.

Launching new products for Workday

Alongside improvements to our current product portfolio, a key focus of our R&D efforts is to identify and develop new products that streamline manual processes within HR and Finance. As part of our Built on Workday partnership, we are collaborating closely with Workday to align these developments with its product roadmap. Our target is to introduce at least one new product every year, each catering to distinct market needs. We are currently evaluating additional product ideas where regulation and compliance are key considerations.

Our innovation services team

Our innovation team utilises our innovation framework to support customers and colleagues in the effective evaluation of solution feasibility, when assessing an idea that solves an internal or customer-centric idea.

One of the framework's key elements is Spark & Scale, our programme to incubate great ideas brought forward by our people. We are currently investing in 14 ideas, ranging from using generative AI in the Policing and Justice sector, to Low Code tools to drive business efficiencies.

Financial review

H1 25 was a period of tough trading environments for our services businesses - Digital Services and Workday Services.

In aggregate, revenue for the period decreased by 5% (-5% ccy) to £183.1 million (H1 24: £193.2 million). Within this, Digital Services revenue reduced by 11% to £97.3 million (H1 24: £109.2 million), due to lower demand across the public and commercial sectors. Workday Services revenue reduced by 10% (-9% ccy) to £51.5 million (H1 24: £57.3 million), in part due to more competitive market conditions. In the prior financial year, we stopped providing procurement consulting services previously offered by Blackline Group, which we acquired in 2022. Adjusting H1 24 revenue to exclude these services, Workday Services revenue in the current period was 5% lower on a like-for-like basis. The reduction in revenue within our services business is offset to some extent by continued strong growth in Workday Products. Revenue in the period for Workday Products increased to £34.3 million (H1 24: £26.7 million), representing growth of 28% (31% ccy) (H1 24: 28%). The Group business review provides more information on our revenue performance.

Our overall gross margin increased to 50.3% (H1 24: 48.0%). Digital Services' gross margin

Our overall gross margin increased to [illegible] (H1 24: [illegible]). Digital Services gross margin increased slightly to 38.4% (H1 24: 37.7%) driven by lower use of contractors. Workday Services margin remained consistent at 54.0% (H1 24: 54.8%) while Workday Products margin increased to 78.4% (H1 24: 75.7%) due to only moderate increases in direct costs required to deliver the strong revenue growth.

Operating expenses

Operating expenses decreased by 3% to £61.9 million (H1 24: £63.9 million) reflecting disciplined cost management.

As noted in our Workday Products review, we entered into an enhanced strategic partnership agreement with Workday Inc. in the period. Under the terms of this agreement, annual fees of approximately £7.8 million are payable. A total charge of £1.2 million (H1 24: nil) for two months was recognised in the period.

We continue to invest in product development, with expenditure increasing to £7.7 million (H1 24: £5.9 million), all of which was expensed during the period. We recognised £1.6 million of Research & Development Expenditure Credit (RDEC) income during the period (H1 24: £1.8 million).

Alternative performance measures

We use several alternative performance measures to monitor day-to-day performance and to assist management's financial, strategic and operating decisions.

Specifically, we exclude costs directly attributable to acquisitions. This includes amortisation of acquired intangible assets, compensation for post-combination services and acquisition-related expenses such as legal and professional costs incurred mainly in the period of acquisition. These costs can vary between periods depending on the timing and size of acquisitions, the nature of intangible assets acquired and the structure of consideration.

We also adjust for the cost of our share-based payment arrangements in our adjusted measures. Our arrangements consist of both equity-settled and cash-settled schemes and the cost of each award will be influenced by the share price at the date of grant. The cost of our cash-settled arrangements will also be impacted by share price movements between reporting dates. Due to these variables, we believe adjusting for such costs better represents our underlying trading performance, providing a more meaningful comparison between periods.

Furthermore, we also adjust for items which we consider significant and non-recurring in nature. In the prior period we excluded gains relating to the sale of property, plant and equipment and fair value movements in investment property.

We adjust for the above items consistently across all our adjusted measures, namely 'adjusted profit before tax', 'adjusted EBITDA', 'cash conversion' and 'adjusted diluted and basic earnings per share'. We believe our adjusted measures are better indicators of trading performance, assist comparison between periods and are useful measures for users of the financial statements. The nature and type of items adjusted are also similar to comparable companies.

The adjusted profit measures we use are not defined in UK-adopted International Accounting Standards and our definitions may not be comparable with similarly titled performance measures and disclosures by other entities. As such, these measures should not be considered in isolation but as supplementary information to the financial statements.

The adjusted profit measures reconcile to the reported numbers as follows:

Adjusted profit measures

Profit before tax		**34,202**	30,861	64,772

Profit before tax	**34,202**	30,881	64,772
Share-based payment expense and related costs	**3,104**	2,896	5,952
Amortisation of acquired intangible assets	**414**	3,222	4,190
Increase in fair value of investment property and gain on sale of property	**-**	(2,154)	(2,154)
Compensation for post-combination services	**414**	2,664	3,800
Acquisition-related expenses	**16**	363	626
Adjusted profit before tax	**38,150**	37,852	77,186

Profit after tax	**25,425**	22,126	48,715
After tax impact of:			
Share-based payment expense and related costs	**2,306**	2,085	4,464
Amortisation of acquired intangible assets	**324**	2,372	3,147
Increase in fair value of investment property and gain on sale of property	**-**	(1,616)	(1,894)
Compensation for post-combination services	**414**	2,528	3,746
Acquisition-related expenses	**16**	363	582
Adjusted profit after tax	**28,485**	27,858	58,760

Adjusted EBITDA

Adjusted profit before tax	**38,150**	37,852	77,186
Depreciation of property, plant and equipment	**1,660**	1,276	2,886
Depreciation of right-of-use assets	**615**	433	1,152
Finance expense	**164**	76	334
Finance income	**(3,509)**	(1,764)	(4,336)
Adjusted EBITDA	**37,080**	37,873	77,222

Adjusted profit before tax increased by 1% to £38.2 million (H1 24: £37.9 million). Profit before tax increased by 11% to £34.2 million (H1 24: £30.9 million).

Corporation tax charge

The total tax charge for the six months ended 30 September 2024 is £8.8 million (H1 24: £8.7 million). This tax charge equates to an effective tax rate of 26% (H1 24: 28%).

The expected annual tax rate for the year to 31 March 2025 is 26% (31 March 2024: 27%).

Financial position

We continue to have a strong financial position with £151.6 million of cash and treasury deposits (31 March 2024: £126.0 million), no debt and net assets of £159.3 million (31 March 2024: £156.8 million).

The combined underlying net trade receivables and accrued income balance decreased by 13% to £60.0 million (31 March 2024: £68.6 million) reflecting the decrease in revenue in Digital Services and Workday Services. Trade payables and accruals have reduced to £38.4 million (31 March 2024: £50.1 million) due mainly to the timing of the FY24 bonus payout post 31 March 2024.

As previously disclosed, we agreed to sell part of the site which was purchased in FY20 for the development of the Group's future headquarters in Belfast. We concluded the sale during the period, receiving proceeds of £6.2 million. The fair value of this investment property prior to disposal was £6.2 million. As a result, no gain or loss relating to the disposal of this property has been recognised in the period.

The final dividend for FY24 of £24.0 million has been included as a current liability in these financial statements. This dividend was approved by shareholders at the Annual General Meeting on 24 September 2024 and paid to shareholders on 25 October 2024.

Cash flow and cash conversion

Cash conversion, which is cash generated by operating activities as a percentage of adjusted EBITDA, remained strong at 75% (H1 24: 82%).

Interim dividend

The Board has declared an interim dividend of 9.3 pence per share for H1 25 (H1 24: 8.2 pence). This will be paid on 13 December 2024 to shareholders on the register at the close of business on 22 November 2024, with an ex-dividend date of 21 November 2024.

Capital allocation policy

Kainos has a strong unlevered balance sheet and continues to generate significant operating cash flow. The Board's main priorities when it comes to our cash are to enhance the growth of the business, both organically and through acquisition, and to reward shareholders through growth in earnings alongside our progressive dividend policy, while retaining a robust capital base.

Where there is surplus cash over and above that needed to fund organic and inorganic growth, the Board will consider additional one-off returns of capital to shareholders. After applying the Board's capital allocation framework, we are announcing our intention to launch a share buyback programme of £30.0 million, to be executed over the next six months (see separate announcement).

The Board will continue to keep its capital allocation policy and further distributions to shareholders under review, with consideration of other potential uses of capital that may drive value for shareholders over the medium-term.

Related party transactions

There have been no material changes in related party transactions from those described in the last annual report.

Risks & Uncertainties

There are several potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from forecast and historic results.

The Directors do not consider that the principal risks and uncertainties described in the Annual Report for the year ended 31 March 2024 have changed, although substantial work has been completed to ensure that these risks are effectively managed. A detailed explanation of the risks summarised below, and how the Group seeks to mitigate the risks, can be found on pages 54 - 58 of the Annual Report for the year ended 31 March 2024 (available on the Group's website www.kainos.com).

Risk	Description
1.Long-term climate change and sustainability	With increased focus on sustainability and climate, there is reputational risk for Kainos if we decide not to act, or act too slowly.
2. Cyber and information security	As cyber threats grow in number, frequency and complexity, we must continually strengthen controls to protect the confidentiality, integrity, and availability of our IT systems, both internally and in our customer services.
3. Increasing complexity of global	We must comply with legal, regulatory and contractual data privacy requirements, considering regional

data protection laws	variations as we expand into new geographic locations.
4. Increasing customer demands in a competitive skills market	High demand for specialised skills may introduce challenges when recruiting new people and retaining existing skilled employees.
5. Partner relationships	A deterioration in our strategic partner relationships could result in us losing access to essential intellectual property or services, which could impact partner-influenced sales.
6. Global macro-economic events	Ongoing global macroeconomic events may impact us due to: • Instability of financial systems, market disruptions or suspensions. • Material downturn in the financial markets or an economic recession. • The insolvency, closure, consolidation or rationalisation of parts of our customer base. • Increased geopolitical instability.
7. Exchange rate fluctuations	There is a risk of material detrimental movement in foreign exchange rates.
8. Non-compliance with laws and regulations	We must comply with laws and regulations applicable to us and design our products and services to comply with laws and regulations applicable to our customers.
9. Unsafe use of Generative AI	The use of AI without proper safeguards or ethical considerations could result in data mishandling, privacy violations or reputational damage.

Going concern

As further outlined in note 2 to the condensed consolidated financial statements, the Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, which is a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

Condensed consolidated income statement for the six months ended 30 September 2024

Continuing operations	**Note**	**6 months to 30 Sep 2024 (unaudited) (£000s)**	6 months to 30 Sep 2023 (unaudited) (£000s)	12 months to 31 Mar 2024 (audited) (£000s)
Revenue	5	**183,113**	193,249	382,393
Cost of sales	5	**(91,065)**	(100,457)	(195,079)
Gross profit		**92,048**	92,792	187,314
Operating expenses		**(61,929)**	(63,941)	(128,411)
Impairment gain/(loss) (including amounts recovered) on trade receivables and accrued income		**738**	(718)	(287)
Gain on disposal of property, plant and equipment		**-**	-	1,114
Increase in fair value of investment property		**-**	1,040	1,040
Operating profit		**30,857**	29,173	60,770
Finance income		**3,509**	1,764	4,336
Finance expense		**(164)**	(76)	(334)
Profit before tax		**34,202**	30,861	64,772
Income tax expense	6	**(8,777)**	(8,735)	(16,057)
Profit for the period		**25,425**	22,126	48,715

Profit attributable to equity holders of the parent Company

Condensed consolidated statement of comprehensive income for the six months ended 30 September 2024

	Note	6 months to 30 Sep 2024 (unaudited) (£000s)	6 months to 30 Sep 2023 (unaudited) (£000s)	12 months to 31 Mar 2024 (audited) (£000s)
Profit for the period		**25,425**	22,126	48,715
Items that may be reclassified subsequently to profit or loss:				
Foreign operations - foreign currency translation differences		**(2,110)**	(540)	(1,065)
Total comprehensive income for the period		**23,315**	21,586	47,650

Total comprehensive income attributable to equity holders of the parent Company

	Note			
Earnings per share				
Basic	8	**20.3p**	17.8p	39.0p
Diluted	8	**20.1p**	17.5p	38.6p

Condensed consolidated statement of financial position as at 30 September 2024

	Note	30 Sep 2024 (unaudited) (£000s)	30 Sep 2023 (unaudited) (£000s)	31 Mar 2024 (audited) (£000s)
Non-current assets				
Goodwill		**36,415**	38,197	38,203
Other intangible assets		**4,507**	6,500	5,208
Property, plant and equipment		**12,156**	11,520	12,285
Investment property	10	**-**	6,200	6,200
Right-of-use assets		**5,356**	3,923	5,216
Investments in equity instruments		**1,299**	1,299	1,299
Deferred tax asset		**5,406**	4,444	5,147
		65,139	72,083	73,558
Current assets				
Trade and other receivables	9	**36,588**	40,623	41,832
Prepayments		**5,419**	4,190	4,268
Accrued income		**31,422**	38,358	33,225
Cash and cash equivalents		**137,141**	113,045	121,558
Treasury deposits	14	**14,435**	-	4,403
		225,005	196,216	205,286
Total assets		**290,144**	268,299	278,844
Current liabilities				
Trade payables and accruals		**(38,407)**	(44,529)	(50,062)
Dividend payable	7	**(24,027)**	(20,135)	-
Deferred income		**(40,980)**	(40,860)	(44,954)
Current tax liabilities		**(8,094)**	(5,145)	(7,069)
Lease liabilities		**(1,201)**	(1,042)	(1,015)
Provisions		**-**	(101)	-
Other tax and social security		**(10,041)**	(14,746)	(10,135)
		(122,750)	(126,558)	(113,235)
Non-current liabilities				
Provisions		**(1,524)**	(1,359)	(1,542)
Deferred tax liability		**(1,738)**	-	(2,371)
Lease liabilities		**(4,838)**	(3,015)	(4,883)
		(8,100)	(4,374)	(8,796)
Total liabilities		**(130,850)**	(130,932)	(122,031)
Net assets		**159,294**	137,367	156,813
Equity				
Share capital		**629**	625	629
Share premium account		**9,503**	8,658	9,419
Capital reserve		**3,548**	3,548	3,548
Share-based payment reserve		**34,323**	27,980	31,228
Translation reserve		**(2,145)**	490	(35)
Retained earnings		**113,436**	96,066	112,024
Total equity		**159,294**	137,367	156,813

Condensed consolidated statement of changes in equity for the six months ended 30

Condensed consolidated statement of changes in equity for the six months ended 30 September 2024

	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 2023 (audited)	**623**	**6,567**	**3,548**	**23,394**	**1,030**	**94,185**	**129,347**
Profit for the period	-	-	-	-	-	22,126	22,126
Other comprehensive income	-	-	-	-	(540)	-	(540)
Total comprehensive income for the period	-	-	-	-	(540)	22,126	21,586
Equity settled share-based payments	-	-	-	4,586	-	-	4,586
Current tax for equity-settled share-based payments	-	-	-	-	-	326	326
Deferred tax for equity-settled share-based payments	-	-	-	-	-	(436)	(436)
Issue of share capital - share options exercised	2	2,091	-	-	-	-	2,093
Dividends	-	-	-	-	-	(20,135)	(20,135)
Balance at 30 September 2023 (unaudited)	**625**	**8,658**	**3,548**	**27,980**	**490**	**96,066**	**137,367**
Profit for the period	-	-	-	-	-	26,589	26,589
Other comprehensive income	-	-	-	-	(525)	-	(525)
Total comprehensive income for the period	-	-	-	-	(525)	26,589	26,064
Equity settled share-based payments	-	-	-	3,248	-	-	3,248
Current tax for equity-settled share-based payments	-	-	-	-	-	188	188
Deferred tax for equity-settled share-based payments	-	-	-	-	-	(532)	(532)
Issue of share capital - share options exercised	4	761	-	-	-	-	765
Dividends	-	-	-	-	-	(10,287)	(10,287)
Balance at 31 March 2024 (audited)	**629**	**9,419**	**3,548**	**31,228**	**(35)**	**112,024**	**156,813**
Profit for the period	-	-	-	-	-	25,425	25,425
Other comprehensive income	-	-	-	-	(2,110)	-	(2,110)
Total comprehensive income for the period	-	-	-	-	(2,110)	25,425	23,315
Equity settled share-based payments	-	-	-	3,095	-	-	3,095
Current tax for equity-settled share-based payments	-	-	-	-	-	14	14
Issue of share capital - share options exercised	-	84	-	-	-	-	84
Dividends	-	-	-	-	-	(24,027)	(24,027)
Balance at 30 September 2024 (unaudited)	**629**	**9,503**	**3,548**	**34,323**	**(2,145)**	**113,436**	**159,294**

Condensed consolidated statement of cash flows for the six months ended 30 September 2024

	6 months to 30 Sep 2024 (unaudited) (£000s)	6 months to 30 Sep 2023 (unaudited) (£000s)	12 months to 31 Mar 2024 (audited) (£000s)
Cash flows from operating activities			
Profit for the period	**25,425**	22,126	48,715
Adjustments for:			
Finance income	**(3,509)**	(1,764)	(4,336)
Finance expense	**164**	76	334
Tax expense	**8,777**	8,735	16,057
Share-based payment expense	**3,104**	2,896	5,952
Depreciation of property, plant and equipment	**1,660**	1,276	2,886
Depreciation of right-of-use assets	**615**	433	1,152

Amortisation of intangible assets	**414**	3,222	4,190
Gain on disposal of property, plant and equipment	**-**	(1,114)	(1,114)
Increase in fair value of investment property	**-**	(1,040)	(1,040)
Post-acquisition remuneration settled by shares	**-**	1,365	1,501
(Decrease)/increase in provisions	**(18)**	88	170
Operating cash flows before movements in working capital	**36,632**	36,299	74,467
Decrease/(increase) in trade and other receivables (including accrued income)	**6,654**	(2,127)	2,337
Decrease in trade and other payables (including deferred income)	**(15,392)**	(3,156)	(1,336)
Cash generated from operating activities	**27,894**	31,016	75,468
Income taxes paid	**(8,753)**	(4,480)	(6,454)
Net cash from operating activities	**19,141**	26,536	69,014
Cash flows from investing activities			
Interest received	**3,202**	1,764	4,336
Purchases of property, plant and equipment	**(1,531)**	(3,287)	(5,662)
Proceeds from sale of property	**6,200**	1,424	1,484
Acquisition of subsidiaries net of cash acquired	**-**	(23,338)	(22,908)
Amounts placed on treasury deposit	**(10,032)**	-	(4,403)
Net cash used in investing activities	**(2,161)**	(23,437)	(27,153)
Cash flows from financing activities			
Dividends paid	**-**	-	(30,422)
Interest paid	**(164)**	(76)	(334)
Repayment of lease liabilities	**(739)**	(424)	(466)
Proceeds on issue of shares	**84**	2,093	2,858
Net cash (used in)/from financing activities	**(819)**	1,593	(28,364)
Net increase in cash and cash equivalents	**16,161**	4,692	13,497
Cash and cash equivalents at start of period	**121,558**	108,302	108,302
Effect of exchange rate fluctuations on cash held	**(578)**	51	(241)
Cash and cash equivalents at end of period	**137,141**	113,045	121,558

Notes to the condensed consolidated financial statements

1. Corporate information

Kainos Group plc ("Company") is a public company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales (Company registration number 09579188), having its registered office at 21 Farringdon Road, 2nd Floor, London, EC1M 3HA. The Company is listed on the London Stock Exchange.

These condensed consolidated financial statements for the six months ended 30 September 2024 comprise the Company and its subsidiaries (together the "Group"). The nature of the Group's operations and its principal activities are set out in the Group business review.

These statements have not been audited but have been reviewed by the Group's auditor pursuant to International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council.

These condensed consolidated financial statements were approved for issue on 8 November 2024.

2. Basis of preparation

The condensed consolidated financial statements for the six months ended 30 September 2024 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 "Interim Financial Reporting" under UK-adopted International Accounting Standards and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 March 2024 ('last annual financial statements'). They do not include all of the information required for a complete set of financial statements prepared in accordance with UK-adopted International financial statements prepared in accordance with UK-adopted International Accounting Standards and in conformity with the requirements of the Companies Act 2006. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

These condensed consolidated financial statements do not constitute statutory accounts of the Group within the meaning of Section 434 of the Companies Act 2006. The statutory accounts for the year ended 31 March 2024 have been filed with the registrar of companies and can be found on the Group's website. The auditor's report on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498(2) or (3) of the Companies Act 2006.

The annual statements of Kainos Group plc are prepared in accordance with UK-adopted International Accounting Standards.

Going concern

Having reviewed the future plans and projections for our business and our current financial position, the Directors believe that we are well placed to manage our business risks successfully. We have adequate financial resources, no borrowings, a good level of recurring revenue, and a broad spread of customers.

At 31 March 2024, the Directors assessed the Group's viability over a longer period to March 2027. The review included sensitivity analysis on the future performance and solvency over three years and for the principal and emerging risks facing the business in severe but reasonable scenarios.

In performing this assessment, our long-term strategy and focus, the demand for our products and services, the level of recurring revenue and strong customer retention, the track record of strong cash generation and a healthy cash balance with no debt from financial institutions were all taken into consideration. Consideration was also given to the risks of regional and political changes in our main markets.

Based on the results of this assessment, the Directors had a reasonable expectation that should these risks, either all or in part manifest themselves, the resulting adverse outcomes can be managed and mitigated such that, the Group and Company will be able to continue in operation and meet their liabilities as they fall due over the period of their assessment. In doing so, we note that such future assessments are subject to a level of uncertainty that increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty.

As a consequence of these factors and having reviewed the forecasts for the coming year, the Directors have a reasonable expectation that we have adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this Interim Report. For this reason, we continue to adopt the going concern basis of accounting in preparing our financial statements.

3. Significant accounting policies

Except for as detailed below, the accounting policies, presentation and methods of computation applied by the Group in these condensed consolidated financial statements are the same as those applied in the Group's latest audited annual consolidated financial statements for the year ended 31 March 2024. No newly introduced standard or amendments to standards had a material impact on the condensed financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Income tax

The policy for recognising and reassessing income taxes in the interim period is consistent with that applied in the previous period as described in note 6.

4. Critical accounting judgements and key sources of estimation uncertainty

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those applied to the statutory accounts for the year ended 31 March 2024.

5. Segment reporting

All our revenue for the six-month period to 30 September 2024 was derived from continuing operations.

The Group's Executive Directors are considered to be the Chief Operating Decision Maker ('CODM') of the Group. They use internal management reports to assess both performance and strategy of the Group and the three specialist business areas: Digital Services, Workday Services and Workday Products.

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

2024 6 months to 30 September (unaudited)	**Digital Services (£000s)**	**Workday Services (£000s)**	**Workday Products (£000s)**	**Total (£000s)**
Revenue	97,271	51,542	34,300	183,113
Cost of sales	(59,967)	(23,693)	(7,405)	(91,065)
Gross profit	**37,304**	**27,849**	**26,895**	**92,048**
Direct expenses([5])	(11,208)	(17,401)	(15,761)	(44,370)
Contribution	**26,096**	**10,448**	**11,134**	**47,678**
Central overheads(5)				(12,873)
Net finance income				3,345
Adjusted profit before tax				**38,150**
Share-based payment expense and related costs				(3,104)
Amortisation of acquired intangible assets				(414)
Compensation for post-combination services				(414)
Acquisition-related expenses				(16)
Profit before tax				**34,202**

2023 6 months to 30 September (unaudited)	**Digital Services (£000s)**	**Workday Services (£000s)**	**Workday Products (£000s)**	**Total (£000s)**
Revenue	109,209	57,294	26,746	193,249

Cost of sales	(68,068)	(25,886)	(6,503)	(100,457)
Gross profit	**41,141**	**31,408**	**20,243**	**92,792**
Direct expenses(5)	(12,359)	(18,061)	(13,657)	(44,077)
Contribution	**28,782**	**13,347**	**6,586**	**48,715**
Central overheads(5)				(12,551)
Net finance income				1,688
Adjusted profit before tax				**37,852**
Share-based payment expense and related costs				(2,896)
Amortisation of acquired intangible assets				(3,222)
Compensation for post-combination services				(2,664)
Acquisition-related expenses				(363)
Increase in fair value of investment property and gain on sale of property				2,154
Profit before tax				**30,861**

2024 12 months to 31 March (audited)				
Revenue	213,097	112,044	57,252	382,393
Cost of sales	(131,280)	(50,717)	(13,082)	(195,079)
Gross profit	**81,817**	**61,327**	**44,170**	**187,314**
Direct expenses(5)	(20,778)	(35,889)	(28,280)	(84,947)
Contribution	**61,039**	**25,438**	**15,890**	**102,367**
Central overheads(5)				(29,183)
Net finance income				4,002
Adjusted profit before tax				**77,186**
Share-based payments expense and related costs				(5,952)
Amortisation of acquired intangible assets				(4,190)
Compensation for post-combination services				(3,800)
Acquisition-related expenses				(626)
Increase in fair value of investment property and gain on sale of property				2,154
Profit before tax				**64,772**

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

	6 months to 30 Sep 2024 (unaudited) (£000s)	6 months to 30 Sep 2023 (unaudited) (£000s)	12 months to 31 Mar 2024 (audited) (£000s)
United Kingdom & Ireland	**107,679**	118,528	232,557
North America	**55,752**	53,076	106,990
Central Europe	**19,072**	20,969	41,433
Rest of world	**610**	676	1,413
	183,113	193,249	382,393

Disaggregation of the Group's revenue is presented in the following tables:

Type of revenue				
Services	93,004	50,139	1,990	145,133
Subscriptions	-	-	32,310	32,310
Third party & other	4,267	1,403	-	5,670
	97,271	**51,542**	**34,300**	**183,113**

Type of revenue				
Services	105,727	54,320	1,196	161,243
Subscriptions	-	-	25,550	25,550
Third party & other	3,482	2,974	-	6,456
	109,209	**57,294**	**26,746**	**193,249**

Type of revenue				
Services	204,950	105,428	2,430	312,808
Subscriptions	-	-	54,822	54,822
Third party & other	8,147	6,616	-	14,763
	213,097	**112,044**	**57,252**	**382,393**

	6 months to 30 Sep 2024 (unaudited) (£000s)	6 months to 30 Sep 2023 (unaudited) (£000s)	12 months to 31 Mar 2024 (audited) (£000s)
Digital Services			
Public	**62,046**	72,979	138,168
Commercial	**11,643**	15,801	30,749
Healthcare	**23,582**	20,429	44,180
	97,271	109,209	213,097
Workday Services			
Public	**53**	15	89
Commercial	**51,480**	57,273	111,949
Healthcare	**9**	6	6
	51,542	57,294	112,044
Workday Products			
Public	**-**	-	-
Commercial	**34,260**	26,705	57,170
Healthcare	**40**	41	82
	34,300	26,746	57,252
Group			
Public	**62,099**	72,994	138,257
Commercial	**97,383**	99,779	199,868
Healthcare	**23,631**	20,476	44,268
Total	**183,113**	193,249	382,393

6. Income tax expense

The estimate of the provision of income taxes which is determined in the interim financial statements uses the estimated average annual effective income tax rate applied to the profit before tax of the interim period, adjusted for the tax effect of certain items recognised in full in the interim period. As such, the effective tax rate in the interim financial statements may differ from management's estimate of the effective tax rate for the annual financial statements.

The total tax charge for the six months ended 30 September 2024 is £8.8 million (H1 24:

£8.7 million). This tax charge equates to an effective tax rate of 26% (H1 24: 28%).

The expected annual tax rate for the year to 31 March 2025 is 26% (31 March 2024: 27%).

7. Dividends

The dividends declared and paid in the periods covered by these condensed consolidated financial statements are detailed below:

	6 months to 30 Sep 2024 (unaudited) (£000s)	6 months to 30 Sep 2023 (unaudited) (£000s)	12 months to 31 Mar 2024 (audited) (£000s)
Amounts recognised as distributions to equity holders in the period:			
Final dividend for 2024 of 19.1p per share	**24,027**	-	-
Interim dividend for 2024 of 8.2p per share	**-**	-	10,287
Final dividend for 2023 of 16.1p per share	**-**	20,135	20,135
	24,027	20,135	30,422

A final dividend of 19.1 pence per share for the year ended 31 March 2024 was paid on 25 October 2024 to shareholders on the register at the close of business on 4 October 2024, with an ex-dividend date of 3 October 2024. This dividend was declared following approval by the shareholders of the Company by ordinary resolution at the Company's Annual General Meeting on 24 September 2024 and a liability for payment of the dividend of £24.0 million has therefore been recognised in these condensed consolidated financial statements.

An interim dividend of 9.3 pence per share has been declared for the six months to 30 September 2024 which amounts to £11.7 million. This will be paid on 13 December 2024 to shareholders on the register at the close of business on 22 November 2024, with an ex-dividend date of 21 November 2024. These condensed consolidated financial statements do not reflect the interim dividend payable.

8. Earnings per share

Basic

The calculation of basic earnings per share (EPS) has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

	6 months to 30 Sep 2024 (unaudited) (£000s)	6 months to 30 Sep 2023 (unaudited) (£000s)	12 months to 31 Mar 2024 (audited) (£000s)
Profit for the period	**25,425**	22,126	48,715
	Thousands	Thousands	Thousands
Issued ordinary shares at 1 April	**125,788**	124,628	124,628
Effect of shares held in trust	**(826)**	(757)	(790)
Effect of share options vested and exercised	**396**	497	711
Effect of shares issued related to a business combination	**32**	86	113
Effect of shares issued related to free share awards	**-**	-	109
Weighted average number of ordinary shares	**125,390**	124,454	124,771
Basic earnings per share	**20.3p**	17.8p	39.0p

Diluted

The calculation of diluted EPS has been based on the following profit attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding after adjustments for the effects of all dilutive potential ordinary shares.

	6 months to 30 Sep 2024 (unaudited) (£000s)	6 months to 30 Sep 2023 (unaudited) (£000s)	12 months to 31 Mar 2024 (audited) (£000s)
Profit for the period	**25,425**	22,126	48,715
	Thousands	Thousands	Thousands
Weighted average number of ordinary shares (basic)	**125,390**	124,454	124,771
Effect of share options in issue	**275**	667	626
Effect of shares held in trust	**826**	757	790
Effect of potential shares to be issued related to a business combination	**131**	223	138
Weighted average number of ordinary shares (diluted)	**126,622**	126,101	126,325
Diluted earnings per share	**20.1p**	17.5p	38.6p

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

At 30 September 2024, 1,464,231options (H1 24: 86,590) were excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been anti-dilutive.

Adjusted

Adjusted basic and adjusted diluted earnings per share is calculated using the adjusted profit after tax for the period measure. The calculation of adjusted profit after tax for the period is detailed in the Financial review section of this report.

	6 months to 30 Sep 2024 (unaudited) (£000s)	6 months to 30 Sep 2023 (unaudited) (£000s)	12 months to 31 Mar 2024 (unaudited) (£000s)
Adjusted profit after tax for the period	**28,485**	27,858	58,760
	Thousands	Thousands	Thousands
Weighted average number of ordinary shares for the purposes of basic earnings per share	**125,390**	124,454	124,771
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**126,622**	126,101	126,325
Adjusted basic earnings per share	**22.7p**	22.4p	47.1p
Adjusted diluted earnings per share	**22.5p**	22.1p	46.5p

9. Trade and other receivables

	30 Sep 2024 (unaudited) (£000s)	30 Sep 2023 (unaudited) (£000s)	31 Mar 2024 (audited) (£000s)
Trade receivables	**28,587**	32,277	35,368
Other receivables	**8,001**	8,346	6,464
	36,588	40,623	41,832

10. Investment property

The Group previously held an investment property, reflecting the Group's agreement to sell part of the site purchased for the development of the Group' future headquarters in Belfast. The fair value of the property as at 31 March 2024 was based on an agreed contract for sale, discounted at the market rate of interest. The sale was subject to planning permission.

During the six months ended 30 September 2024, the planning permission was approved and the sale was completed at a transaction price of £6.2 million.

11. Financial Instruments

The Directors consider that the carrying amount for all financial assets and liabilities is a reasonable approximation of their fair value.

12. Related party transactions

There have been no related party transactions during the six months to 30 September 2024 that have materially affected the financial position or performance of the Group.

No share options were exercised by Directors during the period (H1 24: 580 options).

All related party transactions are materially consistent with those disclosed by the Group in its financial statements for the year ended 31 March 2024.

13. Issue of ordinary shares

During the six months ended 30 September 2024, the Group issued 24,505 ordinary shares (H1 24: 386,596 shares) due to the exercise of vested options. The weighted average exercise price of options exercised in the period was £2.51 per share (H1 24: £5.36 per share).

The Group issued 32,382 ordinary shares in respect of post-acquisition remuneration (H1 24: 103,795).

All ordinary shares were issued with a nominal value of £0.005 each.

14. Treasury deposits

Treasury deposits represent bank deposits with an original maturity of over three months and are held with a fixed rate of interest.

During the period, £10.0 million was placed on a 95-day deposit, which is due to mature in October 2024.

£4.4 million within treasury deposits relates to cash held in a Protected Cell Captive (PCC). The Group established the PCC for certain self-insurance purposes. To satisfy regulatory requirements, a minimum of £2.5 million (H1 24: £2.5 million included within cash and cash equivalents) must be retained in cash within the cell. The Group can access the funds with 95 days notice and has control over the investing decisions made.

15. Contractual commitments

During the six months ended 30 September 2024, the Group has entered into capital commitments of £1.3 million in connection with the construction of the Group's new headquarters in Belfast. £0.8 million remains committed at 30 September 2024. Further, the Group has entered into a strategic partnership agreement with Workday Inc. under which the Group is committed to incurring a total minimum expenditure of £23.6 million over 3 years. £21.8 million remains committed as at 30 September 2024.

The Group had no commitments at 30 September 2023 and £0.1 million in connection with the property construction at 31 March 2024.

16. Compensation for post-combination services

In connection with the Group's prior acquisitions, additional compensation for post-combination services of up to £3.1 million (H1 24: £7.4 million) will be payable in future periods to March 2026, subject to future service conditions being met. Amounts relating to compensation for post-combination services are recognised as an expense over the service period. During the period, a charge of £0.4 million (H1 24: £2.7 million) has been recognised for compensation for post-combination services in operating expenses.

17. Subsequent events

Subsequent to 30 September 2024, the Company paid the final dividend of £24.0 million in respect of the year ended 31 March 2024. As detailed in note 7, this dividend was declared at the Annual General Meeting on 24 September 2024 and paid to shareholders on 25 October 2024.

Furthermore, on 8 November 2024, the Board of Directors approved the commencement of a £30.0 million share buyback programme to be executed over a period of six months. The sole purpose of the programme is to reduce the Company's share capital, and any shares purchased for this purpose will be cancelled.

Statement of Directors responsibilities

The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

In preparing the condensed set of consolidated financial statements included within the half-yearly financial report, the Directors are required to:

- prepare and present the condensed set of consolidated financial statements in accordance with IAS 34 *Interim Financial Reporting* as adopted in the UK and the DTR of the UK FCA;
- ensure the condensed set of consolidated financial statements has adequate disclosures;
- select and apply appropriate accounting policies;
- make accounting estimates that are reasonable in the circumstances; and
- assess the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for designing, implementing and maintaining such internal controls as they determine is necessary to enable the preparation of the condensed set of consolidated financial statements that is free from material misstatement whether due to fraud or error.

We confirm that to the best of our knowledge:

(1) the condensed set of consolidated financial statements included within the half-yearly financial report of Kainos Group plc for the six months ended 30 September 2024 ("the interim financial information") which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and the related explanatory notes, have been presented and prepared in accordance with IAS 34, *Interim Financial Reporting*, as adopted for use in the UK, and the DTR of the UK FCA.

(2) The interim financial information presented, as required by the DTR of the UK FCA, includes:

a. an indication of important events that have occurred during the first six months of the financial year, and their impact on the condensed set of consolidated financial statements;
b. a description of the principal risks and uncertainties for the remaining six months of the financial year;
c. related parties' transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the enterprise during that period; and
d. any changes in the related parties' transactions described in the last annual report that could have a material effect on the financial position or performance of the enterprise in the first six months of the current financial year.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Entity's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Richard McCann
Chief Financial Officer/Chief Operating Officer
8 November 2024

Independent Review Report to Kainos Group plc ("the Entity").

Conclusion

We have been engaged by the Entity to review the Entity's condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 September 2024 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows a summary of significant accounting policies and other explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 September 2024 is not prepared, in all material respects in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as contained in the UK adopted International Accounting Standards and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the* Entity ("ISRE (UK) 2410") issued for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

audit. Accordingly, we do not express an audit opinion.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention that causes us to believe that the directors have inappropriately adopted the going concern basis of accounting, or that the directors have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the Entity to cease to continue as a going concern, and the above conclusions are not a guarantee that the Entity will continue in operation.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

The directors are responsible for preparing the condensed set of consolidated financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted for use in the UK.

As disclosed in note 2, the annual financial statements of the Entity for the period ended 31 March 2024 are prepared in accordance with UK-adopted International Accounting Standards.

In preparing the condensed set of consolidated financial statements, the directors are responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Entity or to cease operations, or have no realistic alternative but to do so.

Our responsibility

Our responsibility is to express to the Entity a conclusion on the condensed set of consolidated financial statements in the half-yearly financial report based on our review.

Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Entity in accordance with the terms of our engagement to assist the Entity in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Entity those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Entity for our review work, for this report, or for the conclusions we have reached.

KPMG
Chartered Accountants
The Soloist Building
1 Lanyon Place
Belfast
BT1 3LP

8 November 2024

([1]) The Financial review section reconciles adjusted and statutory profit measures. See also the definition of terms section for more information on adjusted measures and other key terms and metrics used in this report.

([2]) Includes £14.4 million (H1 24: nil) of treasury deposits which do not meet the definition of cash and cash equivalents.

([3]) See the definition of terms for more information on how Net Promoter Score is calculated.

([4]) We refined the definition of an active customer during the period (see the definition of terms) and customer numbers at the period end are therefore not directly comparable to prior periods.

([5]) Direct expenses plus central overheads plus balances below adjusted profit equals the sum of operating expenses plus impairment losses and reversals on trade receivables and accrued income.

END

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