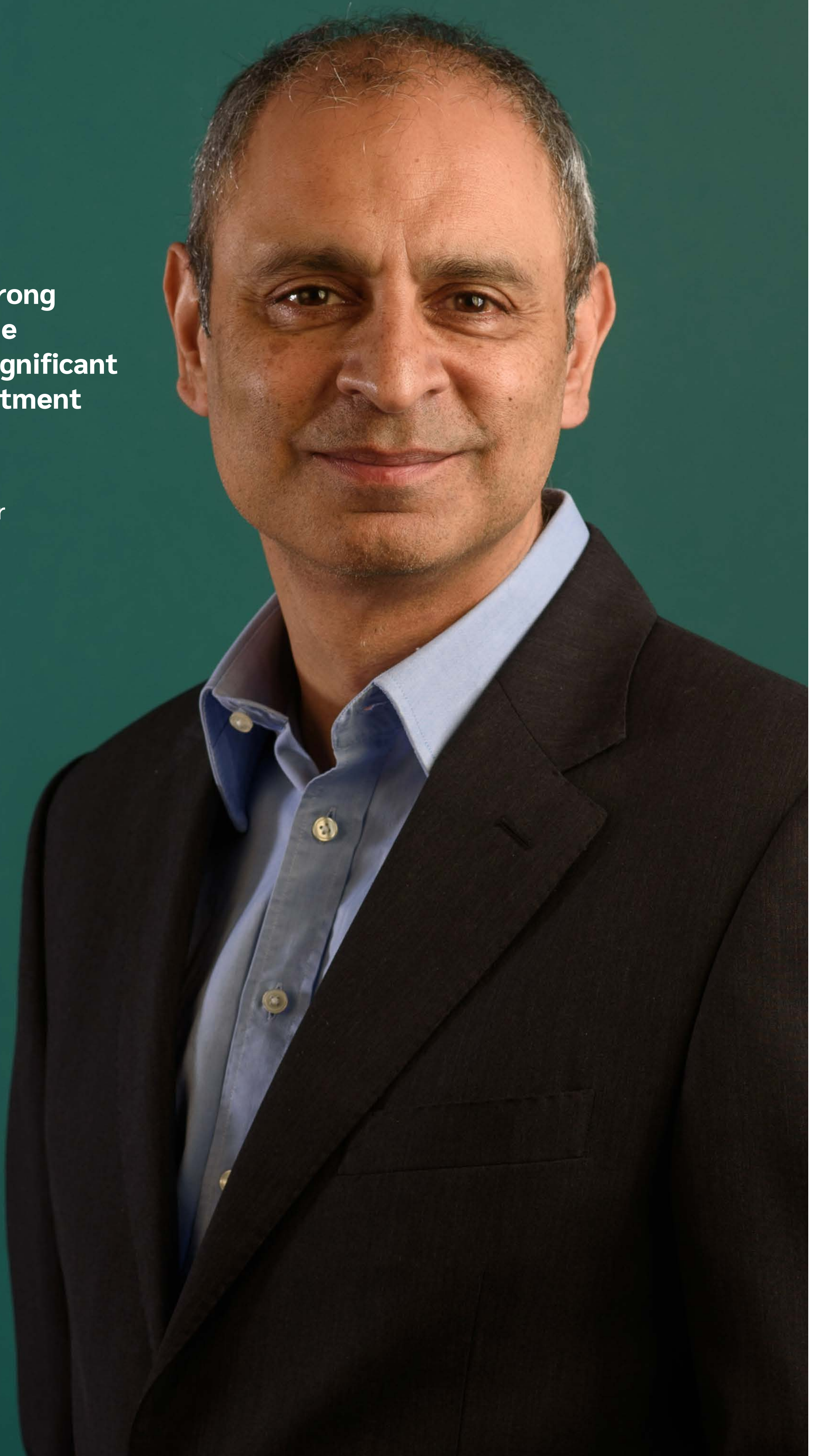
Chief Financial Officer's statement



"We have laid a strong foundation for the future through significant growth and investment in 2020.

Sanjay Jawa
Chief Financial Officer

Significant growth

This is the first annual report and accounts issued by Kooth plc following a corporate reorganisation implemented shortly prior to the Admission to trading on AIM on 2 September 2020 (the "IPO").

IPO outcome

The fundraising undertaken by Kooth plc as part of the IPO was highly successful, raising £16 million for the Company (prior to expenses of £1.8 million), reflecting the strength of institutional investor demand for Kooth. This allowed Kooth to repay in full all debt and leaves us with a healthy cash position.

Incorporation, Group reorganisation & scope of financial results

The Company was incorporated as Hamsard 3564 Limited on 19 March 2020 as a private limited company.

On 6 August 2020, the Company acquired all the issued share capital of Kooth Group Limited (formerly Xenzone Group Limited), by way of a share for share exchange with the shareholders of Kooth Group Limited at that time. On 24 August 2020, by a special resolution of the Company, the Company was re-registered as a public company limited by shares and the name of the Company was changed to Kooth plc. This was undertaken in anticipation of the IPO.

The financial results included in this annual report cover the Group's combined activities for the 12 months ended 31 December 2020 with the comparatives for the previous 12 months being those of Kooth Group Limited and its subsidiaries (prepared in accordance with applicable International Financial Reporting Standards).

Revenue

Group total revenue grew by 50% to £13.0 million in the year, driven primarily by fee uplifts from existing NHS clients and new business in Adult and CYP as well as a small number of one-off COVID-19 related projects.

Recurring revenue comprises income invoiced for services that are repeatable and consumed and delivered on a monthly basis over the term of a customer contract. Annual Recurring Revenue (ARR) is the annualised revenue of customers engaged or closed at that date (31 December 2020) and is an indication of the upcoming annual value of the recurring revenue. This is used by management to monitor long term revenue growth of the business.

ARR grew by 33% driven by fee uplifts from existing clients and new business in Adult and CYP.

Gross margins

Gross margin grew from 51.5% to 60.9% in the year. Direct costs include the cost of our practitioners, clinical staff directly involved in the delivery of our services and our engagement team who have responsibility for promoting Kooth to potential users in a region.

With the start of the UK national lockdown in March 2020 there was a significant reduction in our physical engagement team activity with most engagement meetings conducted virtually. This led to a reduction in travel and subsistence costs as well as allowing the team to reach more users, driving an increase in gross margin.

This was partially offset by an increase in overall marketing and social media costs within administrative expenses. Gross margin also benefited from shorter go-live periods between closing a contract and commencement of services and revenue as clients looked to accelerate the implementation of Kooth particularly during the lockdown closure of schools.

Statutory loss after tax year

The costs we incurred in achieving the IPO and the share based payment expense incurred as a result of accounting for the fair value of shares acquired by employees pre IPO contributed to the Group loss after tax for the year of £1.5 million (2019: loss of £1.1 million).

Administrative expenses

Excluding depreciation, exceptional and other non-trading items, administrative expenses grew by £2.8 million in the year, a 61.2% increase year on year, in line with our strategic investment plan. This was primarily driven by increases in staff costs resulting from increases in overall headcount across the support teams, the strengthening of the senior management team that took place during 2020 and costs associated with being a listed company. In addition, the Group increased marketing expenditure significantly in 2020 over relatively modest expenditure in 2019 to offset the reduction in direct engagement by the Kooth Engagement teams.

Adjusted EBITDA

Adjusted results are prepared to provide a more comparable indication of the Group's core business performance by removing the impact of certain items including exceptional items (material and non-recurring), and other, non-trading, items that are reported separately. Adjusted results exclude items as set out in the consolidated statement of profit and loss and below, with further details given in Notes 6, 7, 8, 12, 13 to the financial statements. In addition, the Group also measures and presents performance in relation to various other non GAAP measures, such as gross margin, annual recurring revenue and revenue growth.

Adjusted results are not intended to replace statutory results. These have been presented to provide users with additional information and analysis of the Group's performance, consistent with how the Board monitors results.

Adjusted EBITDA (being EBITDA prior to exceptional costs) is calculated as follows:

£'m	2020	2019
Operating Loss	1.6	0.9
Add back:		
Depreciation & Amortisation	1.5	1.0
Share based Payment expense	0.5	-
IPO and other exceptional items	0.6	-
Adjusted EBITDA	0.9	0.1

Taxation

There was no current year corporation tax charge due to accumulated losses combined with the overall current year. The tax credit in 2020 and 2019 both related to Research and Development expenditure credits.

Cash

Net cash at year end was £7.8 million (2019: net debt of £5.2 million) following the receipt of the proceeds of the IPO and the repayment of all shareholder debt. The Group's current cash reserves provide sufficient capital to fund current planned product and software development, any international expansion and working capital as the business continues to grow.

Capital expenditure

Software and product development costs aside, the Group's ongoing capital expenditure requirements are expected to be modest and focused on headcount growth.

Capitalised development costs

The Group continues to invest in product and platform development resulting in ongoing improvements in its delivery platform. Costs are a combination of internal and external spend. Where such work is expected to result in future revenue, costs incurred that meet the definition of software development in accordance with IAS38, Intangible Assets, are capitalised in the statement of financial position. During the year the Group capitalised £1.5 million in respect of software development (2019: £0.9 million).

In implementing its product development strategy following the IPO the Group anticipates capitalising software costs at a higher rate over the next few years during a period of accelerated product investment.

Capital and Reserves

Total equity for the year increased by £13.7 million to £10.9 million (2019: £(2.8) million), reflecting the issue of shares in September 2020, partly offset by the loss for the year.

IFRS 16 adoption & right of use assets

As a result of the transition to IFRS, the Group has adopted IFRS 16 from 1 January 2019. This has altered the treatment of the following elements of the Group's operations, the future value of which are capitalised as Right of Use Assets and the annual costs of which are now treated as depreciation and interest:

Costs associated with the leases of the Group's offices in the UK which were previously included within administrative expenses under UK GAAP.

Dividend policy

The Group's intention in the short to medium term is to invest in order to deliver capital growth for shareholders. The Board has not recommended a dividend in respect of the year ended 31 December 2020 and does not anticipate recommending a dividend within the next year but may do so in future years.

Sanjay Jawa
Chief Financial Officer

13th April 2021

Principal risks and uncertainties

The Group is exposed to a variety of risks and actively manages them through risk management procedures. While risk cannot be eliminated altogether, actions are taken to mitigate risk wherever possible.

Details of the Group's financial risk management objectives and policies of the Group and exposure to foreign exchange risk, market risk, credit risk and liquidity risk are given in note 15 to the consolidated financial statements.

The material business and operational risks that the Directors consider the Group to be exposed to include, but are not limited to, the following:

Cyber security
As a business that holds Service User data maintaining controls over this risk is imperative. The Group ensures all data and communication are encrypted and personal data is stored securely, and has considerable data breach policies in place.

System outages
The Group requires stable and robust systems and hosting services to enable the service to function. Any disruption to this could result in compromised Service User experience and/or reputational damage. To prevent this the Group has regular testing on its systems in addition to active monitoring and a specific recovery plan.

Safeguarding incidents
The Group is not a crisis service; however, given the nature of the Group's activities, it is necessary to have significant procedures in place to mitigate potential reputational damage in the event of a serious safeguarding incident.

COVID-19:
The full scale of potential impact of the pandemic is still unknown and is dependent on the course of the disease. During 2020 and throughout the pandemic to date Kooth has provided vital support to UK citizens and our remote delivery model has enabled us to scale up to support the NHS.

As the Group provides essential mental health services across the UK, the Directors remain confident that the Group will continue to operate and be successful in the new environment.