Kooth delivered strong growth in 2022 underpinned by our first major contract in the US

Sanjay Jawa
Chief Financial Officer

Chief Financial Officer's Review

Significant growth

The results reflect a successful year for the business as we continued to execute on our strategic plans and build solid foundations to support future growth in the UK and internationally.

Revenue

I am pleased to report Group total revenue grew during the year, in line with market expectations, by 21% (2021: 28%) to £20.1 million (2021: £16.7 million). This has been driven by US expansion, fee uplifts from existing clients and new business in Adult and Children and Young People. Adult increased to just under 15% of annual recurring revenue at the year end.

Recurring revenue comprises income invoiced for services that are repeatable, 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) and is an indication of the upcoming annual value of the recurring revenue. This is used by management to monitor the long term revenue growth of the business and remains strong at 95% of total revenues (2021: 94%).

Highlighting the depth and longevity of our customer relationships, net revenue retention was 107% (2021: 109%). This is measured by the total value of ongoing ARR at the year end from customers in place at the start of the year as a percentage of the opening ARR from those clients. The small decrease from 2021 was the result of churn with the ending of some COVID-19 related contracts and partly a slowdown in uplifts as NHS England consolidates from a Clinical Commissioning Group (CCG) to an Integrated Care System (ICS) structure.

Gross profit

Gross profit grew by 19.6% to £13.9 million (2021: £11.6 million) with gross margin slightly down at 68.9% (2021: 69.5%). Direct costs are the costs of the practitioners directly involved in the delivery of our services, a total of 267 at the year-end (2021: 233 heads).

Gross margin was marginally lower as a result of increased staff costs with the temporary increase during the year of the 1.25% Health and Social Care levy tax and the end of some COVID-19 related projects at the end of 2021. This was slightly offset by a positive mix impact as our new US contracts ramped up.

Statutory loss after tax

The Group net loss after tax for the year was £0.7 million (2021: loss of £0.3 million).

Administrative expenses

Excluding depreciation, amortisation and share based payments, administrative expenses grew by £2.7 million in the year, a 28.8% increase year on year, which whilst ahead of revenue growth remains in line with our strategic investment plan.

This was driven by staff and commission costs in the US as we strengthened the business development, clinical, HR and customer success teams. In addition, we started to incur the non-staff costs of doing business in the US including, legal, insurance and consulting expenses. Excluding the US investment, administrative expenses in the UK grew by 13.3%. This was primarily new headcount in our engagement and marketing team, pay increases to existing staff and inflationary increases across certain suppliers.

Adjusted EBITDA

Adjusted EBITDA fell by 23% to £1.6 million (2021: £2.1 million) in the year, with increases in revenue and gross profit more than offset by our investment in the US and higher administrative expenses as outlined above.

£'m	2022	2021
Operating Loss	**(0.9)**	**(0.7)**
Add Back:		
Depreciation and Amortisation	2.2	2.4
Share based payment expense	0.3	0.4
Adjusted EBITDA	**1.6**	**2.1**

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 2, 3, 4, 5, 6, 11, 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.

Taxation

There has been no corporation tax charge recognised in the year due to accumulated losses combined with the overall current year position (2021: £nil). The tax credit for the year ended 31 December 2022 and 2021 relate to Research and Development expenditure credits which in 2022 was partly offset by a deferred tax charge of £0.6million (2021: £0.2million credit) as the Research and Development claim for 2021 was received in cash at a lower effective tax rate rather than carrying forward as a loss to be used against future profits.

Cash

The Group has had impressive cash management in the year with net cash generated from operating activities of £4.4 million (2021: £1.9 million). Free cashflow, after taking account of capital expenditure was £1.3 million in 2022 compared to an outflow of £0.7 million in 2021. The net cash at year end was £8.5 million (2021: £7.1 million). Post year end in January 2023, an R&D tax receipt relating to the 2021 year of £0.6m was received.

The overall improvement is due to advance payments from clients (particularly in the US) and good working capital management as debtor days at 31 December 2022 fell to 20 days (2021: 33 days) and trade receivables were reduced by 34% in the year to £1.1 million (2021: £1.6 million). The Group continues to be debt free and maintains a robust financial position.

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 £3.0 million in respect of software development (2021: £2.5 million) with an amortisation charge of £2.1 million (2021: £2.3 million).

Investment in product and development continues to be significant to the Group and we anticipate capitalising software costs at a higher rate over the next few years during a period of accelerated international product investment.

Capital expenditure

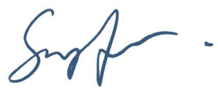
Software and product development costs aside, the Group's ongoing capital expenditure requirements remain modest at £0.1 million (2021: £0.1 million).

Capital and Reserves

The strength of the Group's balance sheet with net assets of £10.5 million (2021: £11.0 million), high levels of recurring revenue and strong cash generation from operating activities provide the Group with financial strength with which to execute on its investment strategy which continues to focus on US expansion and platform investment.

Dividend policy

As outlined at the time of the IPO 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 2022 (2021: Nil) and does not anticipate recommending a dividend within the next year but may do so in future years.



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Chief Financial Officer

3 April 2023