Chief Financial Officer's review

Sanjay Jawa
Chief Financial Officer

"A record year for growth."

Significant growth

The results reflect a transformational year for the business as we executed on our strategic plans, delivering significant growth in the US, and built solid foundations to support future growth in the UK and internationally.

Revenue

I am pleased to report Group revenue grew strongly during the year by a record 66% (2022: 21%) to £33.3 million (2022: £20.1 million). As previously reported, this has been driven primarily by our US growth, predominantly our contracts during the year in California and Pennsylvania, which delivered £14.2 million (2022: £1.5 million) with UK revenue up 3% despite headwinds (2022: 12%)

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) of £64.6 million 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 has increased to 98% of total revenues (2022: 95%).

While we have seen an increase in contracts that expand upon renewal to 41% (2022: 38%), gains were offset by £2.3 million of churn, a combination of funding unavailable to continue pilot contracts, reductions as contracts consolidated and a small number of competitive losses. In addition we have excluded £2.6 million from ARR as we continue to negotiate an extension to our contract in Pennsylvania.

Chief Financial Officer's review Continued

Net revenue retention, which is a measure of the depth and longevity of our client relationships, although still strong, fell to 98% in the UK (2022: 107%). 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.

Gross profit

Gross profit grew by 86.6% to £25.9 million (2022: £13.9 million) with gross margin up to 77.6% (2022: 68.9%). Direct costs are the costs of the practitioners directly involved in the delivery of our services, a total of 304 at the year-end (2022: 267 heads). Gross margin benefitted from the contribution within US revenues to product development where costs are either capitalised or included in overheads. This was offset by a small fall in UK gross margin as direct costs continued to see the impact of salary and cost inflation.

Foreign currency impact

Whilst foreign currency markets were not as volatile as the previous year our increasing presence in the US impacted the Group which had around 43% of revenues in US Dollars, and 26% of Group expenses. The Group's focus on management of foreign currency risk resulted in a small foreign currency loss of £0.2 million (2022: loss £0.1 million).

Operating loss

The Group's operating loss for the year was £2.3 million (2022: loss of £0.9 million). This was driven by the scaling up of activities in the US as mentioned in the section below.

Administrative expenses

Excluding depreciation, amortisation, share based payments and exceptional costs, administrative expenses grew by £11.4 million in the year, an 92.8% increase year on year, which whilst well ahead of revenue growth, remains in line with our strategic investment plans. The real (i.e. non inflationary) increase in costs was almost entirely focused on the US where, in addition to increased commissions and bonuses, we strengthened the business development, clinical and customer engagement teams as well as seeing increases in non-staff costs, including legal and consulting expenses.

Adjusted EBITDA

Adjusted EBITDA grew by 40% to £2.3 million (2022: £1.6 million) in the year, with increases in revenue and gross profit offset by our investment in the US and higher administrative expenses as outlined above.

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 annual recurring revenue and revenue growth.

Chief Financial Officer's review Continued

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.

£'m	2023	2022
Operating Loss	**(2.3)**	**(0.9)**
Add Back:		
Depreciation and Amortisation	3.8	2.2
Share based payment expense	0.7	0.3
Adjusted EBITDA	**2.3**	**1.6**

Share-based payments are adjusted to reflect the underlying performance of the group as the fair value is impacted by market volatility that does not correlate directly to trading performance. The total charge for share based payments in the year was £0.7 million (2022: £0.3 million). The increase reflects the annual issue of three year grants to staff and a credit in 2022 following a reassessment of those grants subject to performance criteria.

Taxation

There has been a corporation tax charge of £0.3 million (2022: £nil) recognised in the year due to taxable profits accumulated in the US. There continues to be no corporation tax charge in the UK due to accumulated losses combined with the overall current year position (2022: £nil).

The tax credit for the year ended 31 December 2023 and 2022 relates to Research and Development expenditure credits. This has been enhanced in 2023 as the Research and Development claim for 2022 was subsequently carried forward at a higher effective tax rate rather than taking this as a cash credit resulting in a prior year adjustment.

Cash

The Group has had good cash management in the year with net cash generated from operating activities of £1.9 million (2022: £4.4 million). Free cash flow, after taking account of capital expenditure was a net outflow of £6.8 million in 2023 compared to an inflow of £1.3 million in 2022 as we invested significantly in the Soluna platform.

Overall the Group has net cash inflow due to the net proceeds from financing activities following a successful placing, which resulted in the raise of a net £9.4m. The net cash at year end was £11.0 million (2022: £8.5 million). In addition we recently entered into a working capital credit facility with Citibank of $9.5 million that remains undrawn at this time. The Group continues to be debt free.

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Capitalised development costs

The Group significantly increased investment in product and platform development in 2023 to support the launch of our service in California and this is expected to be ongoing in 2024. 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 £8.7 million in respect of software development (2022: £3.0 million) with an amortisation charge of £3.6 million (2022: £2.1 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 year as we continue to invest in the Soluna platform.

Capital expenditure

Software and product development costs aside, the Group's ongoing capital expenditure requirements remain modest at £0.3 million (2022: £0.1 million).

Capital and reserves

The strength of the Group's balance sheet with net assets of £20.8 million (2022: £10.5 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 and previous reports, 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 2023 (2022: Nil) but may do so in future years..

Sanjay Jawa
Chief Financial Officer
25 March 2024