

# Chief Financial Officer's review



**Sanjay Jawa**

Chief Financial Officer

**“Kooth delivered a strong performance in the year supported by record increases across revenue and adjusted EBITDA”**

## A record year

Kooth delivered a strong performance in the year supported by record increases across revenue and adjusted EBITDA, a continuing strong gross margin as well as significant investment in our platform and the business essential for ensuring the continued safety and effectiveness of our services and the wellbeing of our team.

## Revenue

I am pleased to report that Group revenue has grown significantly over the past year, doubling to £66.7 million (2023: £33.3 million), compared to a 66% increase from 2022. As previously reported, this exceptional growth has primarily been driven by our contract with the State of California and has been supplemented by our contract win with Aetna Illinois.

US revenue increased to £48.7 million (2023: £14.2 million) all of which was recurring revenue (comprising income invoiced for services that are repeatable, consumed and delivered on a monthly basis over the term of a customer contract).

UK revenue decreased by 6% to £18.0 million (2023: £19.1 million). While contract expansion upon renewal rose to 45% (2023: 41%) these gains were offset by £2.0 million of churn primarily due to:

- Lack of funding to continue pilot contracts, mainly in Adult early intervention
- Contract reductions following consolidations
- One competitive contract loss.

## Chief Financial Officer's review Continued

Annual Recurring Revenue (ARR) of £66.4 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 key metric is used by management to monitor the long-term revenue growth of the business, and in 2024 increased to 100% of total revenues (2023: 98%).

Group net revenue retention, which is a measure of the depth and longevity of our client relationships, increased to 100% (2023: 85%), within the UK, there was a decrease to 92% (2023: 98%) reflecting churn in both our adult and CYP contracts. 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 increased by 101% to £52.0 million (2023: £25.9 million) with the gross margin rising to 77.9% (2023: 77.6%). This reflects the transformational nature of 2024, in which usage of Soluna has gradually ramped up, giving lower practitioner costs offset by direct marketing to drive engagement with service users. As usage continues to grow we have invested significantly in marketing and engagement, whilst practitioner costs are expected to increase accordingly.

Gross margin saw a benefit from California revenues that included a contribution to platform development. These platform costs are capitalised in the Statement of financial position and amortised within the Statement of profit and loss and other comprehensive income.

Direct costs are both the costs of the practitioners directly involved in the delivery of our services, a total of 268 at the year-end (2023: 304 heads)

with reductions reflecting UK churn and the commencement of promotion and marketing costs in California in support of raising user awareness and engagement, including hard to reach communities which were £3.9m.

The UK gross margin saw a slight increase, driven by a shift toward greater usage of self-help tools in place of direct practitioner support.

### Foreign currency impact

The US Dollar/GBP exchange rate was relatively stable during the year under review during which the Group had approximately 73% of revenues and 47% of expenses denominated in US Dollars. The Group's focus on management of foreign currency risk resulted in a small foreign currency gain of £0.2 million (2023: loss £0.2 million).

### Operating profit

The Group's operating profit for the year was £9.2 million (2023: loss of £2.3 million). This was driven by growth in the US business, predominantly the full launch of our California service from 1 January 2024.

### Administrative expenses

Excluding depreciation, amortisation and share based payments administrative expenses grew by £12.6 million in the year, a 53.5% increase year on year, which is below the growth in revenue across the same period. Whilst costs of the UK business increased broadly in line with inflation, Group costs grew closer in line with revenue and the majority of the increase related to the first full year of costs following the build out of the US teams supporting our California contract. Finally, we saw increased costs as we strengthened our business development efforts in the US, as indicated at the time of our equity fundraise in July 2023.



## Chief Financial Officer's review Continued

### Adjusted EBITDA

Adjusted EBITDA grew by 598% to £15.8 million (2023: £2.3 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. 2024 was a unique year for Kooth, with the onboarding of the California contract, and as we progress through 2025 we expect that EBITDA growth will return to more typical levels.

Adjusted results are prepared to provide a more comparable indication of the Group's core business performance by removing the impact of non-trading items that are reported separately.

Adjusted results exclude items as set out in the consolidated statement of profit and loss and below. 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.

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	2024	2023
<b>Operating Profit /(Loss)</b>	<b>9.2</b>	<b>(2.3)</b>
Add Back:		
Depreciation and Amortisation	5.4	3.8
Share based payment expense	1.2	0.7
<b>Adjusted EBITDA</b>	<b>15.8</b>	<b>2.3</b>

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 £1.2 million (2023: £0.7 million). The additional cost reflects the increase in staff awards across the business in 2023 and 2024 and a credit in 2023 following a reassessment of those grants subject to performance criteria.

### Taxation

There has been a corporation tax charge of £1.8 million (2023: £1.8 million credit) recognised in the year mainly arising from taxable profits generated in the US. For the first time this year there is a small corporation tax charge in the UK due to a cap on accumulated losses available to be utilised against taxable profits.

The tax credit for the year ended 31 December 2023 related to Research and Development expenditure credits which had been further enhanced due to the carrying forward of prior Research and Development claims at a higher effective tax rate rather than taking this as a cash credit resulting in a prior year adjustment. The Research and Development expenditure credits in 2024 were more than offset by the taxable profits generated within the year.



## Chief Financial Officer's review Continued

### Cash

The Group has had good cash management in the year with net cash generated from operating activities of £17.1 million (2023: £1.9 million). Free cash flow, after taking account of capital expenditure was a net inflow of £10.2 million in 2024 (2023: £6.8 million outflow).

Overall, the Group had net cash inflow of £10.8 million driven by increased EBITDA and efficient cash management. The net cash at year end was £21.8 million (2023: £11.0 million). Post period end approximately £1.5 million of this was utilised for a share buyback.

In early 2024 we entered into a working capital credit facility with Citibank of \$9.5 million that remains undrawn at this time. The Group remains debt free.

### Capitalised development costs

The Group continued its investment in product and platform development in 2024 to support the full launch of our service in California, further expansion in the US as well as development of the platform in the UK. 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 IAS 38, Intangible Assets, are capitalised in the statement of financial position and amortised over three years. During the year the Group capitalised £6.9 million in respect of software development (2023: £8.7 million) with an amortisation charge of £5.2 million (2023: £3.6 million), in addition there was an impairment charge of £0.3 million in relation to the previous US Klassic platform, generated upon the end of the Pennsylvania contract.

### Capital expenditure

Software and product development costs aside, the Group's ongoing capital expenditure requirements remain modest at £0.1 million (2023: £0.3 million).

### Capital and reserves

The strength of the Group's balance sheet with net assets of £29.8 million (2023: £20.8 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 essential for ensuring the continued safety and effectiveness of our services, and the wellbeing of our teams.

### Dividend policy

As outlined in 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 2024 (2023: Nil) but may do so in future years.

## Sanjay Jawa

Chief Financial Officer

14 April 2025

