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Sector note

The gap between growth and growth quality

What three UK-listed software peers disclosed about their own growth, and what a private target will not.

Coverage

Sage Group plc (SGE.L), H1 FY26, six months to 31 March 2026
Kainos Group plc (KNOS.L), FY26, year to 31 March 2026
Softcat plc (SCT.L), H1 FY26, six months to 31 January 2026

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The observation

Kainos grew revenue 17% last year. It grew adjusted pre-tax profit 2%. That gap, together with the fact that two of its listed peers reported in the same window with very different answers to the same question, is the most useful thing a private equity partner can read this year.

Three UK-listed software and IT businesses reported inside a nine-week window this spring. Softcat reported half-year results on 18 March. Kainos reported full-year results on 18 May. Sage reported half-year results on 21 May.

All three reported strong top-line growth and all three named AI as a driver. Two of them then disclosed, in the numbers or on the call, that a meaningful part of that growth had arrived on worse economics than the growth it sat on top of, while the third expanded its margin. That spread, between three companies describing the same market in much the same terms, is what makes the quarter worth reading.

What matters is that you can tell which is which. These are listed companies with a disclosure obligation and an analyst base that asks. A private UK software target in a sale process this autumn is under no such pressure, and its management pack will give you the growth rate without the composition behind it.

Company	Headline growth	Margin	Mechanism
Kainos, FY26	Revenue +17%	18% to 16%	Capacity was bought in
Softcat, H1 FY26	GII +33.3%	14.6% to 13.4%	Orders were pulled forward
Sage, H1 FY26	Revenue +11%	+80bps to 23.9%	Balanced new and existing

Margin measures differ by company and are the ones each reports: Kainos adjusted profit margin, Softcat gross profit margin on gross invoiced income, Sage underlying operating margin. Sage does not state the prior-period figure, only the 80 basis point increase.

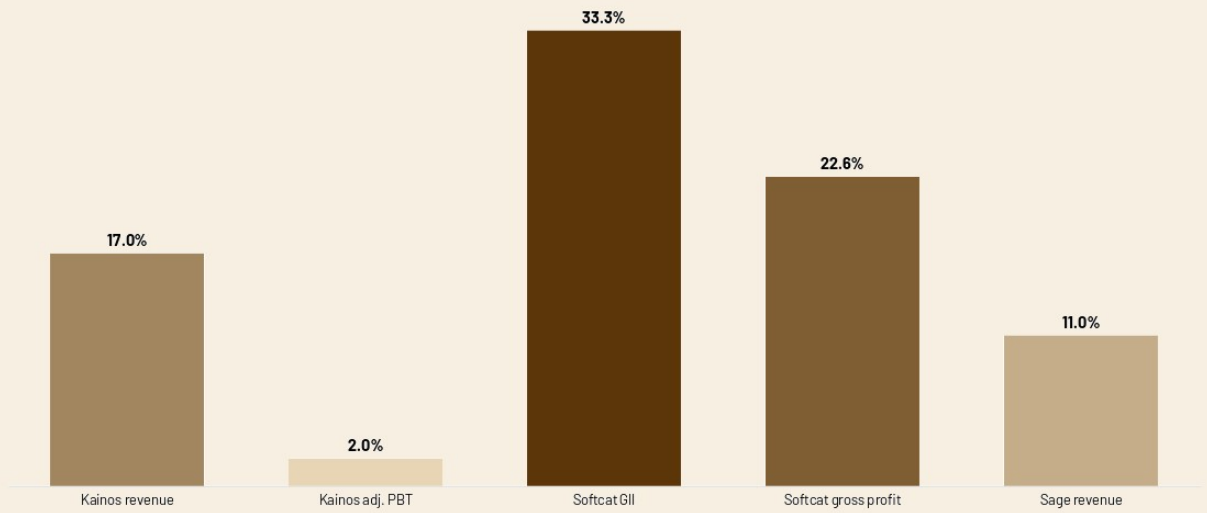


Figure 1. Headline growth against the paired quality measure. Kainos revenue against adjusted pre-tax profit; Softcat gross invoiced income against gross profit. Sage revenue is shown for comparison and has no paired bar, because Sage's margin rose rather than fell. All as reported.

1 Kainos: growth delivered by other people

Kainos had an exceptional sales year. Bookings rose 32% to £505.3m, described by the CEO as a record sales period for the group. Revenue rose 17% to £431.1m. Contracted backlog rose 18% to £433.9m.

Adjusted pre-tax profit rose 2%, to £67.1m. Adjusted profit margin fell from 18% to 16%.

The largest movement was in the cost of delivery. Contractor costs went from £4.5m to £18.5m. The group's own margin bridge attributes an incremental £14.0m to contractors and a further £15.4m to third-party suppliers. Kainos won the work and then bought in the capacity to deliver it, because on the CEO's own account a contractor onboards in about four weeks and a permanent hire takes about five months.

It is worth being precise about how much of the margin fall that explains, because the answer is about half of it. The CFO puts contractors at an almost 1% fall in margin overall. Kainos names three other factors behind the rest: a full year of Workday partnership investment at £2.3m, higher employer National Insurance at £3.0m, and higher bonuses at £11.5m, earned on the strength of the year. That last one is a cost of success rather than a symptom of poor growth, and it should be read as such.

CFO Richard McCann, on the results call:

> "Clearly, we've had a very successful sales year, and a fair part of that has translated into revenue, but very little of that has translated to profit."

There is a second, quieter drag. On larger contracts, clients are increasingly asking Kainos to act as prime contractor and manage third-party suppliers alongside its own delivery. Management was direct that this work carries a lower margin, and equally direct that it is worth taking, which is a defensible position. It still means the revenue mix shifted towards pass-through in a year when the revenue number looked outstanding.

Kainos expects to displace much of the contractor cost in FY27 by converting to permanent headcount, which is a credible plan and one the company has the record to deliver, though it has not happened yet.

In a private target this looks like a services or implementation business that has won a step-change in bookings and staffed it with associates, subcontractors or an offshore partner, producing revenue growth of 20% or 30% on flat gross margin. The bookings are genuine, and the question is what delivery gross margin looks like once the work is staffed the way the buyer intends to staff it.

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2 Softcat: growth borrowed from the second half

Softcat's first half to 31 January was, on the headline, exceptional. Gross invoiced income rose 33.3% to £2,008.6m. Gross profit rose 22.6% to £269.9m. Underlying operating profit rose 27.3% to £93.8m. The board raised full-year guidance from low single-digit underlying operating profit growth to high single-digit, then again to mid-teens at the Q3 update on 22 May.

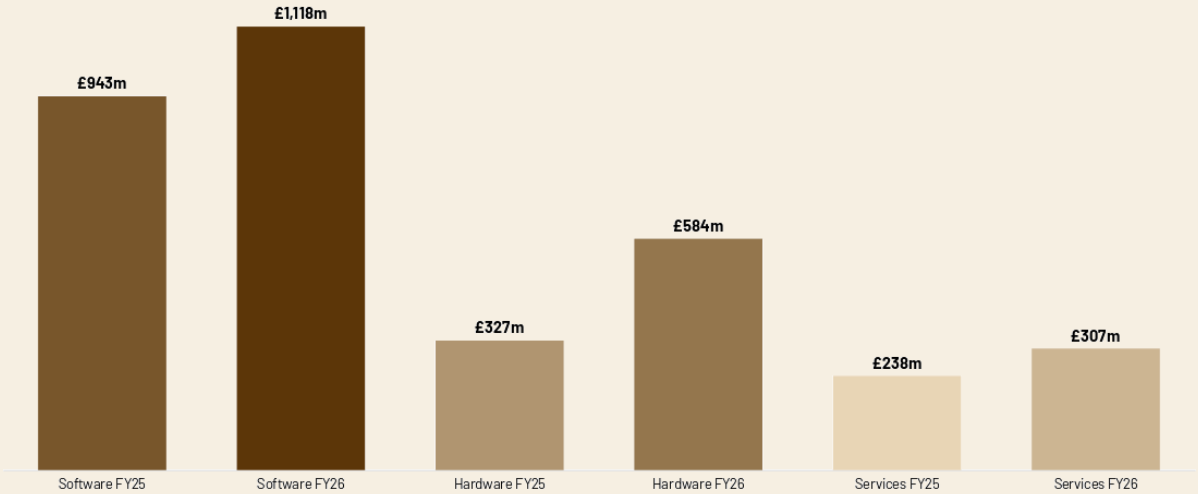


Figure 2. Softcat gross invoiced income by line, H1 FY25 against H1 FY26. Hardware grew 78.7%, software 18.6%, services 29.0%.

Gross profit margin on gross invoiced income fell from 14.6% to 13.4%, and underlying operating margin from 4.9% to 4.7%. Softcat does not attribute the margin movement to mix, and we should not do so on its behalf. What Softcat does disclose is what sat inside the growth, in the results statement itself:

> "Gross invoiced income growth of 33.3% reflects strong, broad-based performance and the contribution from larger solutions projects, together with a pull forward of some customer orders due to memory shortages."

And in the outlook:

> "While we enter the next half of our financial year with good momentum, we face a tougher comparative due to the contribution from larger solutions projects in the second half of FY2025. In addition, the net impact of ongoing memory shortages in this next period remains uncertain."

So customers bought hardware early, ahead of expected price rises and longer lead times. That is real demand, and Softcat is right that AI is stimulating it. It is also, in part, demand moved forward in time. Underlying cash conversion of 147.6%, against 110.9% a year earlier, is the working capital signature of exactly that.

One further item is worth noting, because it is the kind of thing that does not repeat. Softcat attributes its gross profit growth partly to positive vendor rebate mix, alongside the larger solutions projects and the pull-forward. Rebate mix is a supplier-driven benefit, not a customer-driven one.

Softcat is a reseller rather than a software company, so the direct read-across is limited, though the pattern behind it is not. Any target with a hardware, licence resale or perpetual component, and any target whose customers face a known price increase or a compliance deadline, can pull a quarter of demand forward and book it as growth.

In a private target, look for an unusually strong final two quarters before the process opened, cash conversion above 120%, and a deferred revenue or order book balance that has not grown in line with billings. Then ask what the customer was buying ahead of.

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3 Sage: AI is in the renewal line, not the revenue line

Sage is the control case, and the composition holds up throughout. Underlying total revenue rose 11% to £1,363m. Underlying operating profit rose 15% to £326m, with margin up 80 basis points to 23.9%, which unlike the other two is movement in the right direction. ARR rose 11% to £2,727m. On composition, Sage is explicit that growth was, in its own words, balanced between new and existing customers, and the organic arithmetic supports that: new customer acquisition added £200m of ARR over the last twelve months against a £260m organic ARR increase, from £2,461m to £2,721m. A 102% renewal rate on a base of that order accounts for most of the remaining £60m, which means new logos rather than price did the heavier lifting.

Sage is therefore not the cautionary tale but the benchmark against which the other two are worth reading.

Two things are still worth taking from it into a diligence process.

First, price is doing measurable work inside the renewal line. On the call, CFO Jacqui Cartin put the pricing contribution in the half at around 5.5%, in line with FY25. The press release corroborates it, attributing the renewal rate to increased sales to existing customers including the growing adoption of AI-powered features and targeted price rises. A 102% renewal rate containing 5.5 points of price is a very different asset from a 102% renewal rate containing none.

Second, new customer acquisition is growing more slowly than the group. It added £200m of ARR against £190m a year earlier, an increase of about 5%, while group revenue grew 11%. That is not a problem at Sage's scale, but it is a number worth asking a private target for, because very few will volunteer it.

On AI specifically, CEO Steve Hare was unusually candid when pushed on how much of the growth is AI revenue:

> "The level of direct monetisation is very modest."

AI features are live with over 500,000 Sage customers, and Hare said he is "reasonably patient" about the pace at which that monetises. What AI is doing at Sage today is supporting the renewal rate and justifying the price rise, rather than showing up as revenue in its own right.

In a private target this looks like an AI roadmap in the CIM with no AI-attributable revenue anywhere in the model, or net revenue retention of 105% or 110% presented as evidence of product-market fit without a split showing how many points of it are price.

The read-through

The three businesses arrived at very different places. Kainos bought in the capacity to deliver its record year, Softcat took orders its customers would otherwise have placed in the second half, and Sage grew on a balanced base while expanding margin. They reported within nine weeks of each other and pointed to the same driver, yet the spread in growth quality between them is wide enough to change what a business of that kind is worth.

In each case the disclosure was there to be found, because a listed company with an analyst base has little choice about making it.

A private target carries no such obligation, and in our experience will not volunteer it. The information memorandum will show a revenue CAGR and an adjusted EBITDA bridge, with the growth attributed to commercial execution and, this year, to AI. It will not disaggregate that growth into price, volume, mix and timing, because doing so is against the seller's interest and nobody has forced the question.

The listed peers show that two targets can report the same growth rate and still be worth materially different multiples, which makes working out where a particular target sits on that range the substance of commercial diligence rather than a refinement of it.

Three questions worth putting in the information request

1. Decompose ARR or revenue growth into price, volume and cross-sell, by cohort, for three years.

If the target cannot produce this, that is itself a finding. If it can, compare the price contribution to Sage's 5.5%. A target charging materially more is either delivering materially more, or is spending retention it has not yet had to pay for. Ask separately what new logos contributed, so that price and new business are not presented as one number.

2. Split delivered revenue by own-staff, contractor and third-party supplier, by month.

Then re-run gross margin on the staffing model the buyer actually intends to run. Contractors alone cost Kainos about a point of group margin, disclosed in plain sight. A private target doing the same will show a blended number.

3. Ask what was pulled forward.

Any price increase announced in the last eighteen months, any regulatory or compliance deadline in the customer base, any supply constraint, any change to contract length or billing frequency. Then look at cash conversion and deferred revenue for the signature.

None of this requires primary research or a data room the seller has not already built. It requires reading what the listed comparables said about themselves in the same reporting window, and then asking the target the same questions.

Sources and basis

Sage Group plc, results for the six months to 31 March 2026 (21 May 2026) and results presentation transcript. Kainos Group plc, full year results for the year ended 31 March 2026 (18 May 2026) and results presentation transcript. Softcat plc, interim report for the six months to 31 January 2026 (18 March 2026) and Q3 FY26 trading update (22 May 2026).

Figures attributed to a company are as it reports them. Sage's 5.5% pricing contribution, the Hare quote and the 500,000 customer figure come from the transcript rather than the press release, as do the Kainos CFO commentary and the hiring comparison. Softcat publishes no verbatim call transcript. The composition of Sage's ARR growth combines reported figures and is approximate, because the renewal rate applies to ARR up for renewal rather than to the full opening base. Nothing here is a Delphi estimate or forecast.

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