

First Derivatives plc

Full year results

Year to 28 February 2019

Brian Conlon, CEO
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www.firstderivatives.com

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Highlights

Highlights – business on track



Revenue
£217.4m

+17%



Adjusted EBITDA
£38.9m

+14%

- 28% growth in software license revenue
- Adjusted PAT up 17% to £22.9m
- Final dividend up 14% at 19.3p per share

Strategy remains on track



Continued investment to capitalise on growth opportunities

Reinvesting in our Business



Expansion in MSC as we scale our global capabilities

Accelerating growth



Kx delivering increased traction in FinTech

Winning market share



Building revenue streams and partnerships across industries

Delivering in other markets

Recognising our success

SELECTED AS

Global Technology Partner - Financial Services

2018



Partner of the Year

Google Cloud

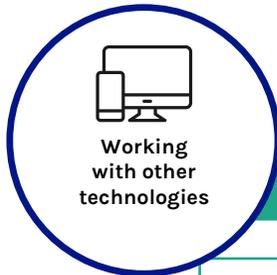
Financial Review



Revenue and gross profit sources



Group Performance			
	2019	2018	Growth
Revenue	£217,351	£186,042	↑ 17%
Cost of Revenue	(£126,059)	(£107,581)	↑ 17%
Gross Profit	£91,292	£78,461	↑ 16%
Gross Margin	42%	42%	



Managed Services & Consulting

	2019	2018	Growth
Revenue	£86,463	£74,130	↑ 17%
Cost of Revenue	(£66,594)	(£54,457)	↑ 22%
Gross Profit	£19,869	£19,673	↑ 1%
Gross Margin	23%	27%	



Kx

	2019	2018	Growth
Revenue	£130,888	£111,912	↑ 17%
Cost of Revenue	(£59,465)	(£53,124)	↑ 12%
Gross Profit	£71,423	£58,788	↑ 21%
Gross Margin	55%	53%	

Income statement – revenue and gross profit



£'000	28 Feb 2019	28 Feb 2018	Movement
► Software Licenses			
Software perpetual licenses	13,348	7,286	↑83%
Software recurring licenses	48,615	41,202	↑18%
Total Software license revenue	61,963	48,488	↑28%
Cost of Software license revenue	(10,608)	(9,976)	↑ 6%
Software license gross profit	51,355	38,512	↑ 33%
Software license gross margin	83%	79%	
► Software Services			
Implementation and support revenue	68,925	63,424	↑9%
Cost of software services revenue	(48,858)	(43,148)	↑13%
Services gross profit	20,067	20,276	↓1%
Services gross margin	29%	32%	
► Total Software			
Software revenue	130,888	111,912	↑17%
Cost of software revenue	(59,466)	(53,124)	↑12%
Software gross profit	71,422	58,788	↑ 21%
Software gross margin	55%	53%	
► Managed Services & Consulting (MS&C)			
MS&C revenue	86,463	74,130	↑17%
Cost of MS&C revenue	(66,595)	(54,457)	↑22%
MS&C gross profit	19,869	19,673	↑ 1%
MS&C gross margin	23%	27%	

Software licenses

- Continued penetration as clients make Kx a key part of their IT architecture
- Revenue growth of 28% delivering software margin progression of 350 basis points

Software services

- Further Investment in expanded delivery capabilities to meet expected client needs
- FinTech services growth of 16% held by impact of GDPR on MarTech during H1
- H2 margin improvement
- Recent wins provides confidence in growth outlook for FY 2020

Managed Services & Consulting

- Further penetration of client base and geographic expansion
- H2 margin improvement of 270 basis points following H1 investment

£'000	28 Feb 2019	28 Feb 2018	Movement
▶ Total Group			
Revenue	217,351	186,042	↑ 17%
Cost of revenue	(126,059)	(107,581)	
Gross Profit	91,292	78,461	↑ 16%
Gross margin	42%	42%	
▶ Adjusted operating costs			
Total R&D	(10,662)	(9,293)	↑ 15%
(of which capitalised)	8,573	7,486	↑ 15%
Sales and marketing costs	(32,273)	(26,635)	↑ 21%
General and admin costs	(18,269)	(17,275)	↑ 6%
Other Income	277	1,382	↓ 80%
▶ Adjusted EBITDA	38,938	34,126	↑ 14%
Adjusted EBITDA margin	18%	18%	

Summary

- Gross margin steady at 42%
- Corresponding increase in gross profit invested in:
 - Additional R&D (up 15%)
 - Additional sales and marketing (up 21%)
 - Additional admin costs (up 6%)
- Above achieved while delivering adjusted EBITDA increase of £4.8m (up 14%)
- 80% reduction in other income reducing adjusted EBITDA growth by 4%
- Fiscal discipline of investing while delivering growth in profits



Income statement – profit and earnings



£'000	28 Feb 2019	28 Feb 2018	Movement
▶ Adjusted EBITDA	38,938	34,126	↑ 14%
Adjusted EBITDA margin	18%	18%	
Additional administration costs			
Acquisition related costs	(3,975)	(3,570)	
Share-based payment costs	(2,473)	(2,710)	
Depreciation and amortisation	(9,958)	(8,460)	
Amortisation of acquired intangibles	(3,799)	(4,684)	
▶ Operating profit	18,733	14,702	↑ 27%
Net finance and associate costs	(2,056)	(2,605)	
Profit before tax	16,677	12,097	↑ 38%
Income tax	(3,502)	(1,889)	
Profit for the period	13,175	10,208	↑ 29%
Earnings per share (diluted)	47.9p	37.8p	↑ 27%
Adjustments			
Acquisition related costs	3,975	3,570	
Share-based payment costs	2,473	2,710	
Amortisation of acquired intangibles	3,799	4,684	
Finance translation and assoc. costs	615	1,456	
Tax effect of above	(1,125)	(3,123)	
▶ Adjusted profit for the period	22,912	19,505	↑ 17%
Diluted average shares in issue (m)	27.5	27.0	
▶ Adjusted EPS (fully diluted)	83.2p	72.2p	↑ 15%

Operating Profit

- Reported operating profit up 27% to £18.7m
- Increased software amortisation (£7.2m) and depreciation (£2.7m)

Taxation

- Adjusted tax rate fell to 17% (2018: 20%)
- Adjusted tax rate should be c. 18% going forward

Adjusted Earnings

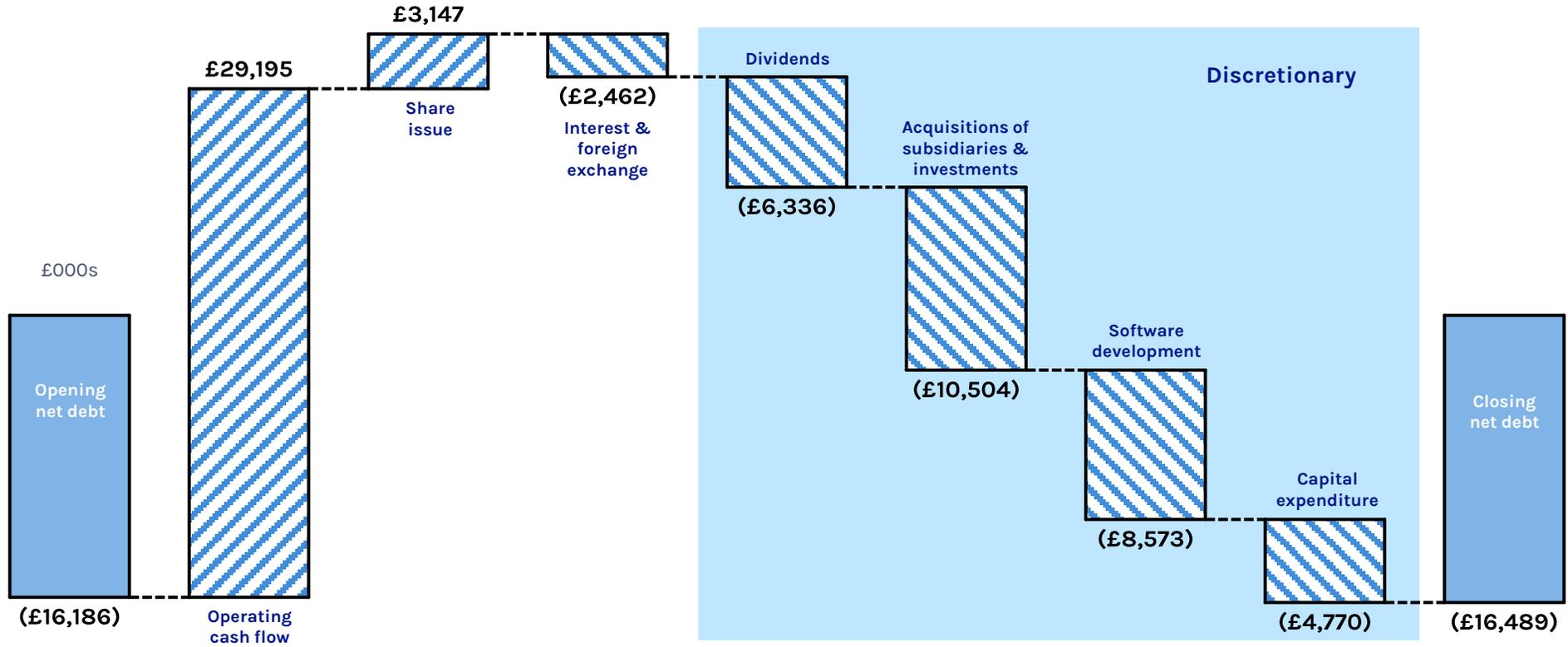
- Adjusted diluted EPS increased by 15% to 83.2p (2018: 72.2p)
- Shares in issue increased due to deferred consideration and employee option exercises

Reported Earnings

- Reported profit after tax up 29% at £13.2m (2018: £10.2m)
- Reported diluted EPS up 27% at 47.9p (2018: 37.8p)



Cash flow bridge



Operating cash flow (exc. tax & deferred consideration) £32.7m

- Conversion of adjusted EBITDA to cash: 84%

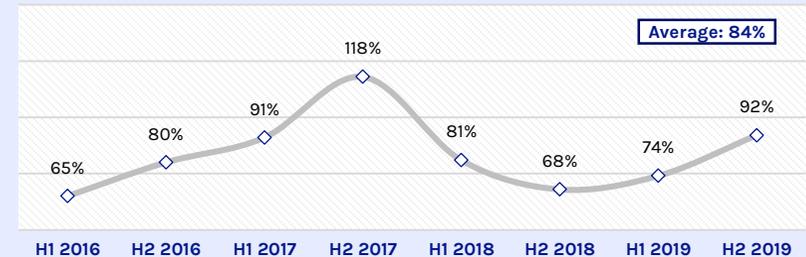
Net debt

- Net debt £16.5m (H1 2019: £24.2m)
- 0.4x adjusted EBITDA
- 26x interest cover

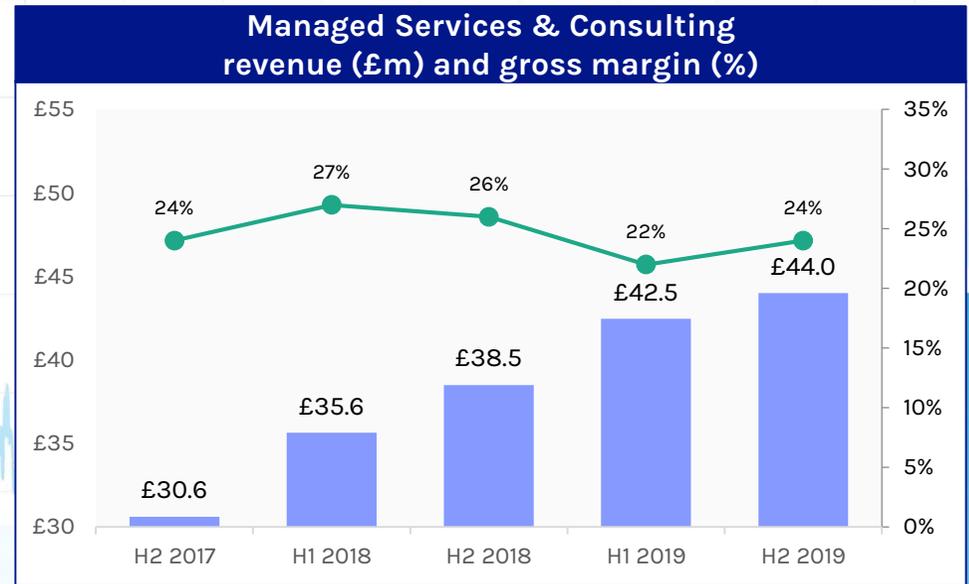
Discretionary expenditure

- £5.9m deferred consideration (2018: £1.0m)
- £4.6m ventures funding (2018: £7.7m)
- New office premises: Belfast, Newry, Philadelphia

Cash conversion %



Managed Services & Consulting			
	2019	2018	Growth
Revenue	£86,463	£74,130	↑ 17%
Cost of Revenue	(£66,595)	(£54,457)	↑ 22%
Gross Profit	£19,869	£19,673	↑ 1%
Gross Margin	23%	27%	



Commentary

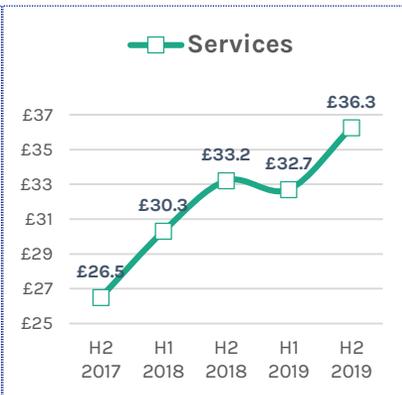
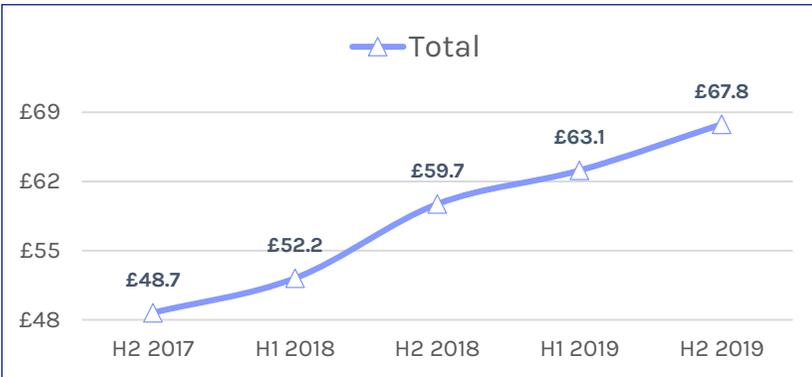
- Revenue growth 17% (40% of Group revenue) driven by increasing scale and breadth of services provided
- Growth drivers include regulatory compliance and market structural reform, driving operational efficiency, and providing competitive advantage
- Key account management approach driving more strategic conversations and enabling cross selling
- Growing pool of data scientists, plus continued investment in sales and operations
- Competitive advantage achieved through award-winning training programme, combination of domain and technology expertise and client-centric approach
- Penetration is 0.04% of a \$221bn addressable market (Gartner estimate)



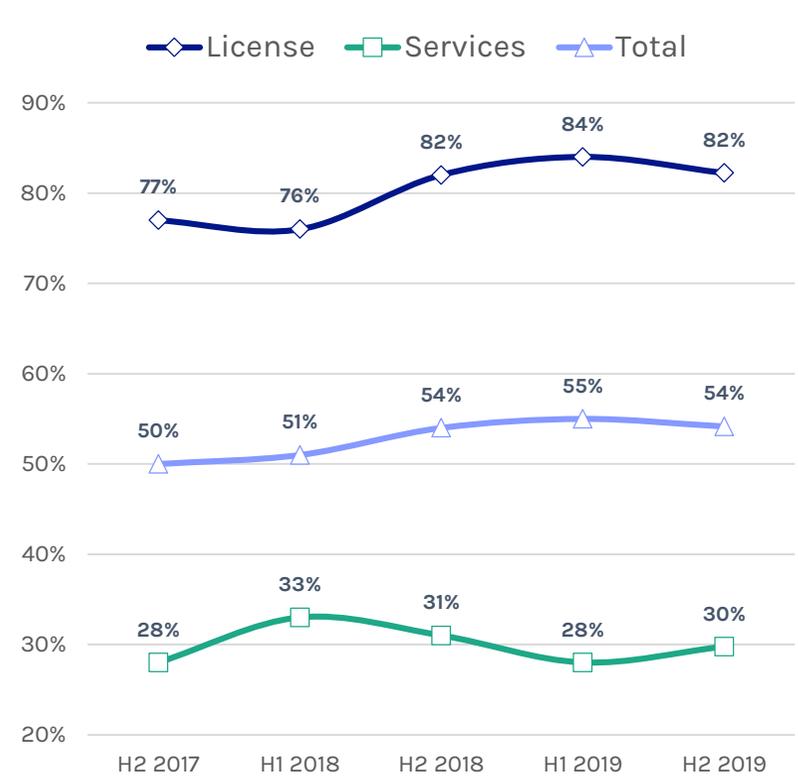
Software key metrics



Software Revenue (£m)

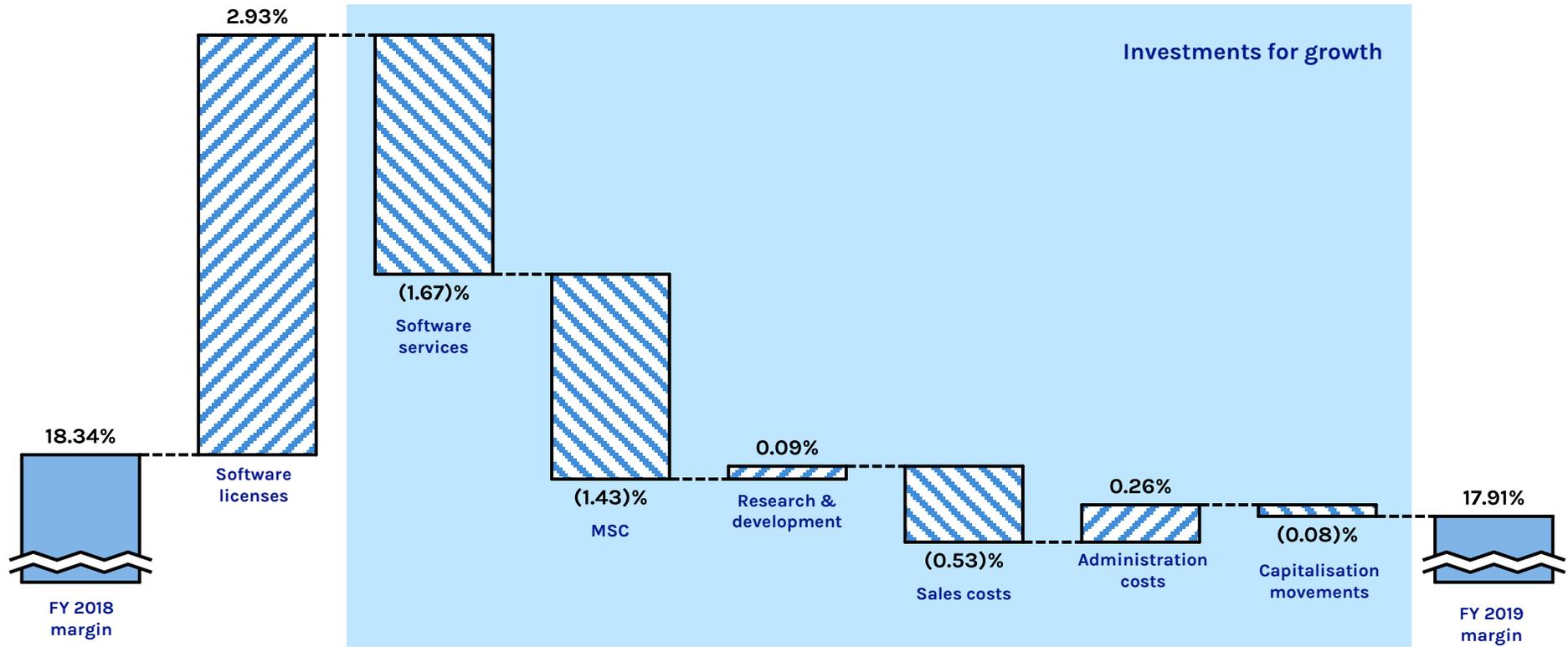


Software Margins





Margin bridge



Revenue

- High margin software licenses growth maintaining margin allowing investment in business

Delivery capability

- Investment made in software services and MS&C to meet need and scale geographic presence

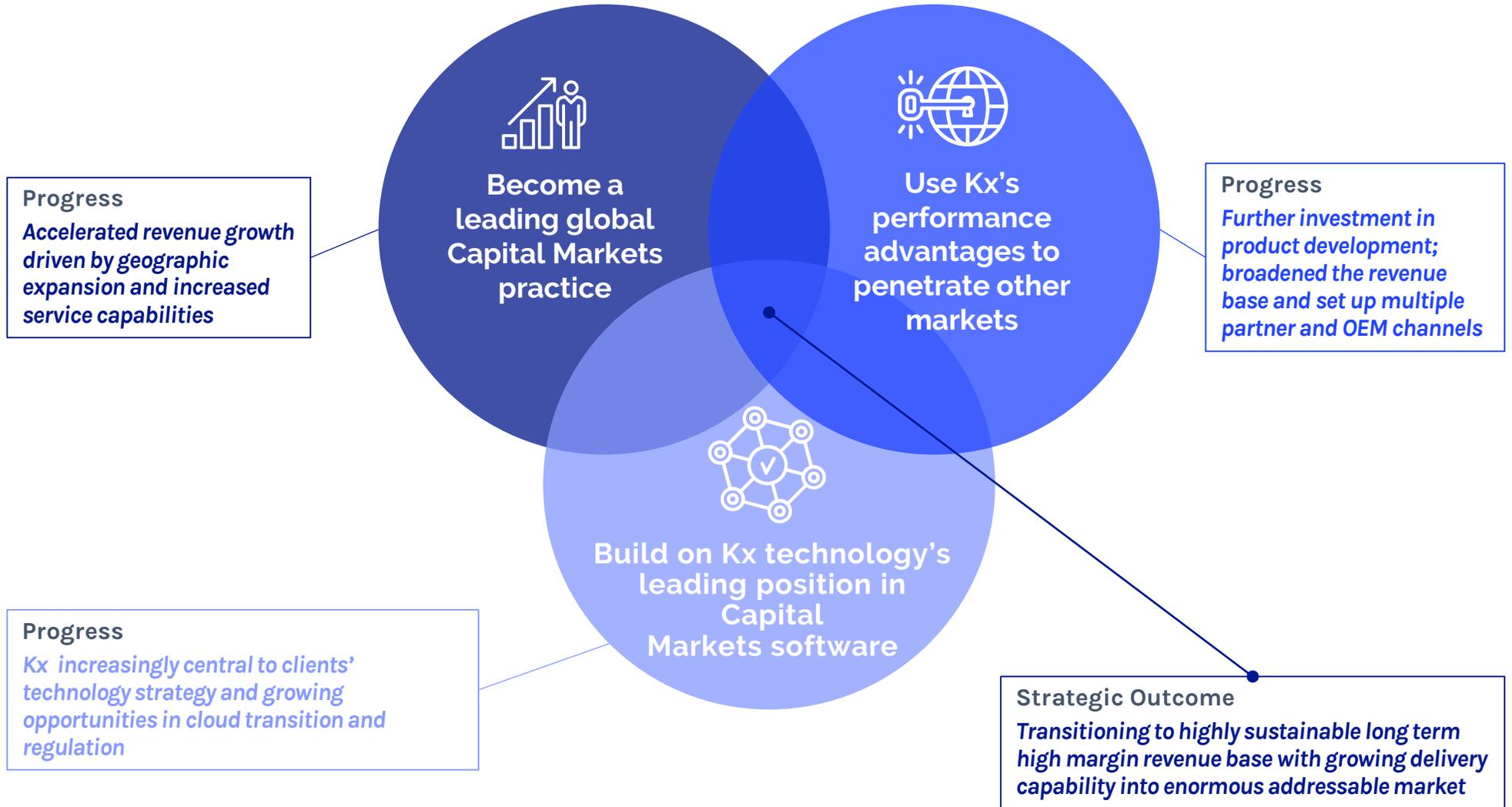
Expenditure for expansion

- Expanding go to market presence
- Developing infrastructure for growth
- Enhancing software for new technological advancements

Strategy and performance



The path we are on



Managed Services & Consulting

Findings and developing talent – how we do it



Expanding offices to support growth



Belfast



Newry



Toronto



Philadelphia

Continuing recruitment to seed future growth





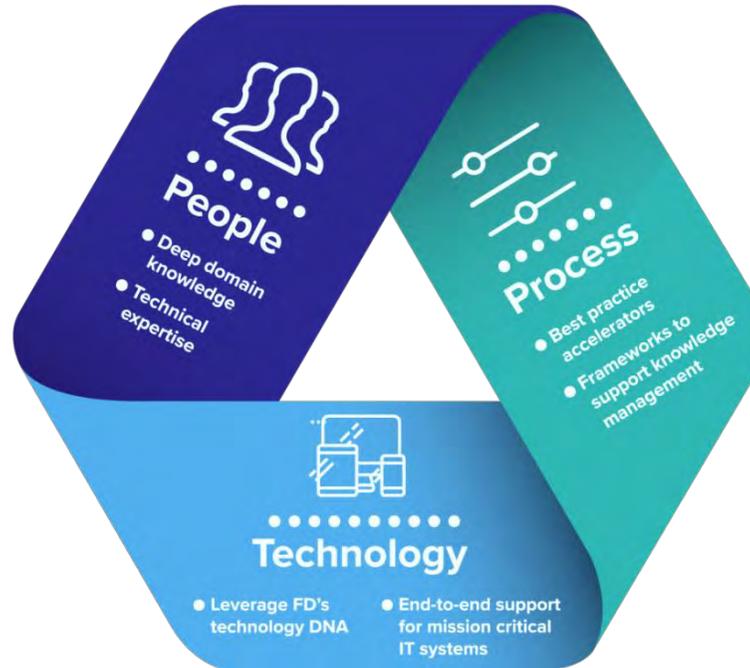
Client-focused and comprehensive services



Core Focus

- IT Services & Solutions
- Vendor Technologies
- Regulatory & Compliance
- Managed Services

We are a performance-focused firm who clients go to “to get it done”



Core Strengths

- Industry leading training program
- Content and domain knowledge rich
- Onsite and Nearshore model
- Experienced & expanded sales team – augmented with SME's
- Global Capability and Scale



Perfect storm in the cloud



Move to the Cloud

- Once-in-a-generation paradigm shift
- Resource constrained
- Massive budgets

Cloud Providers

- Lack of domain expertise
- Lack of application expertise

Goal:

- Sale of compute power
- Sale of storage



- Cloud expertise
- Domain Expertise
- Trusted Partner
- Multiyear delivery capability

Vendors

- Limited cloud expertise
- Limited resources
- Single product focus

Banks

- Lack of Cloud expertise
- CAPEX style budget; no investment in permanent resource

Goal:

- New software sales
- SaaS model migration

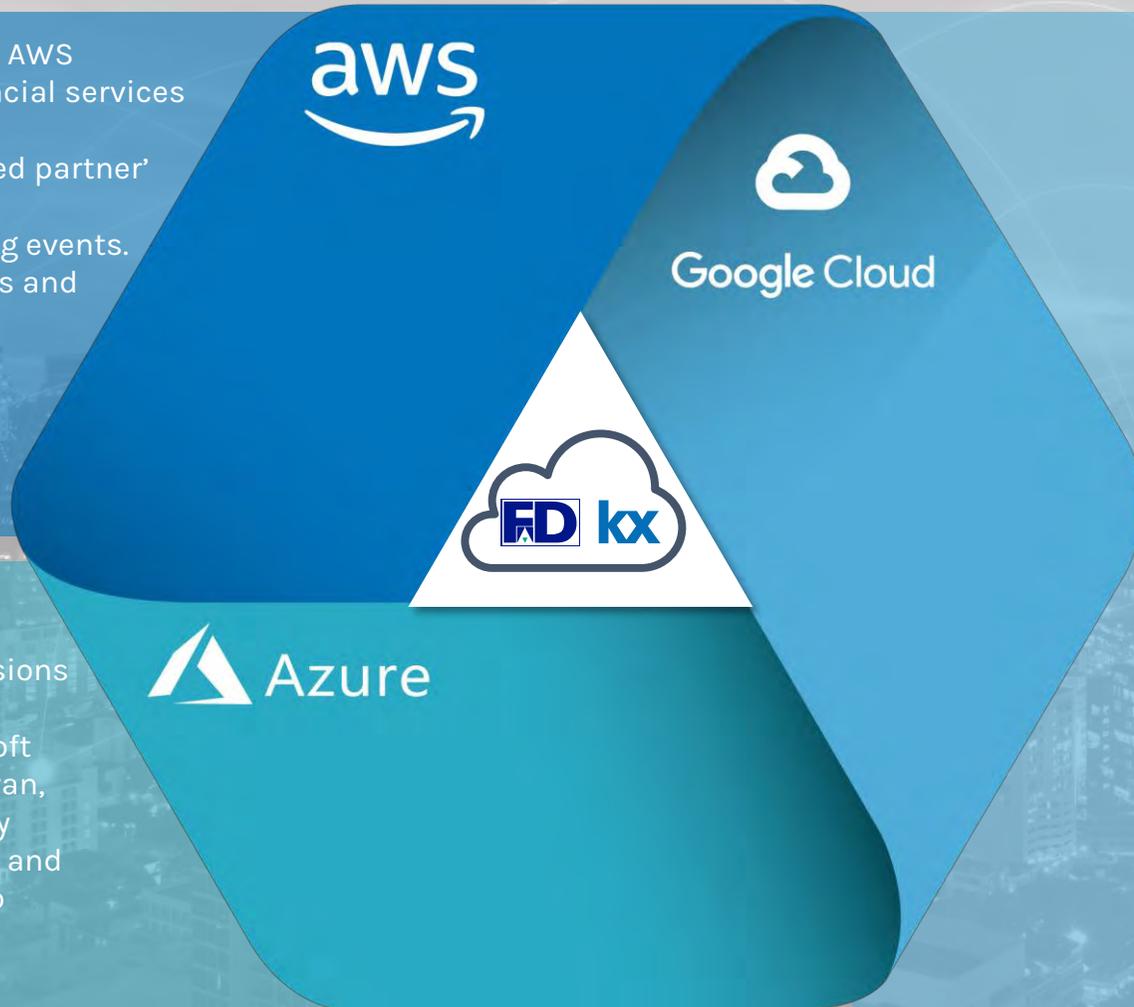
Goal:

- Transform operating model

Building strategic relationships with cloud providers

- Kdb+ on demand on AWS
- Amazon's first financial services app
- Developing 'advanced partner' status
- Co-hosted marketing events.
- Successful kdb+ lifts and shifts underway

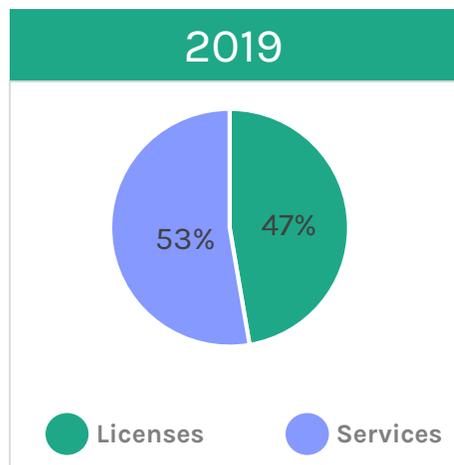
- Partnership discussions progressing
- Karen Cone, Microsoft cloud strategy veteran, advising on strategy
- First STAC tests run and results published to vault



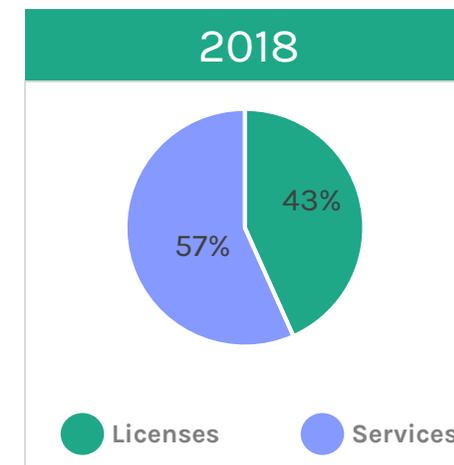
- Cloud Partner of the Year for Financial Services
- First vendor cloud STAC results
- kdb+ on demand on Google
- Co-hosted marketing events
- Integrated with kubernetes
- Successful kdb+ lifts and shifts underway



Software



kx	2019	2018	Growth
Recurring	£48,615	£41,202	↑ 18%
Upfront	£13,348	£7,286	↑ 83%
Licenses	£61,963	£48,488	↑ 28%
Services	£68,925	£63,424	↑ 9%
TOTAL	£130,888	£111,912	↑ 17%



FinTech

	2019	2018	Growth
Recurring	£27,723	£24,660	↑ 12%
Upfront	£9,691	£7,016	↑ 38%
Licenses	£37,414	£31,676	↑ 18%
Services	£42,825	£37,051	↑ 16%
TOTAL	£80,239	£68,727	↑ 17%

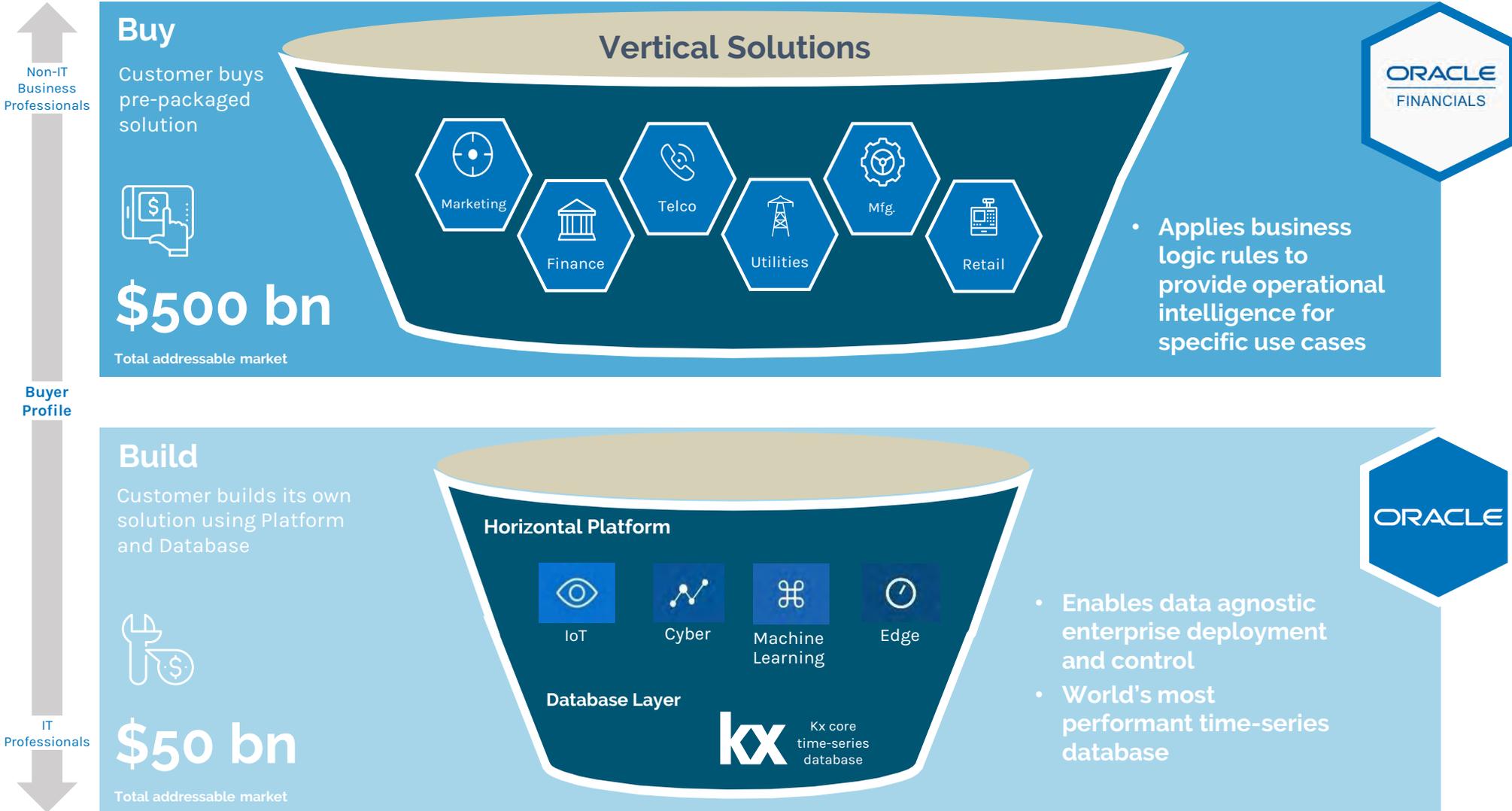
MarTech

	2019	2018	Growth
Recurring	£19,317	£15,454	↑ 25%
Upfront	–	–	
Licenses	£19,317	£15,454	↑ 25%
Services	£22,038	£22,700	↓ 3%
TOTAL	£41,355	£38,154	↑ 8%

Industry

	2019	2018	Growth
Recurring	£1,575	£1,088	↑ 45%
Upfront	£3,657	£270	↑ 1,254%
Licenses	£5,232	£1,358	↑ 285%
Services	£4,062	£3,673	↑ 11%
TOTAL	£9,294	£5,031	↑ 85%

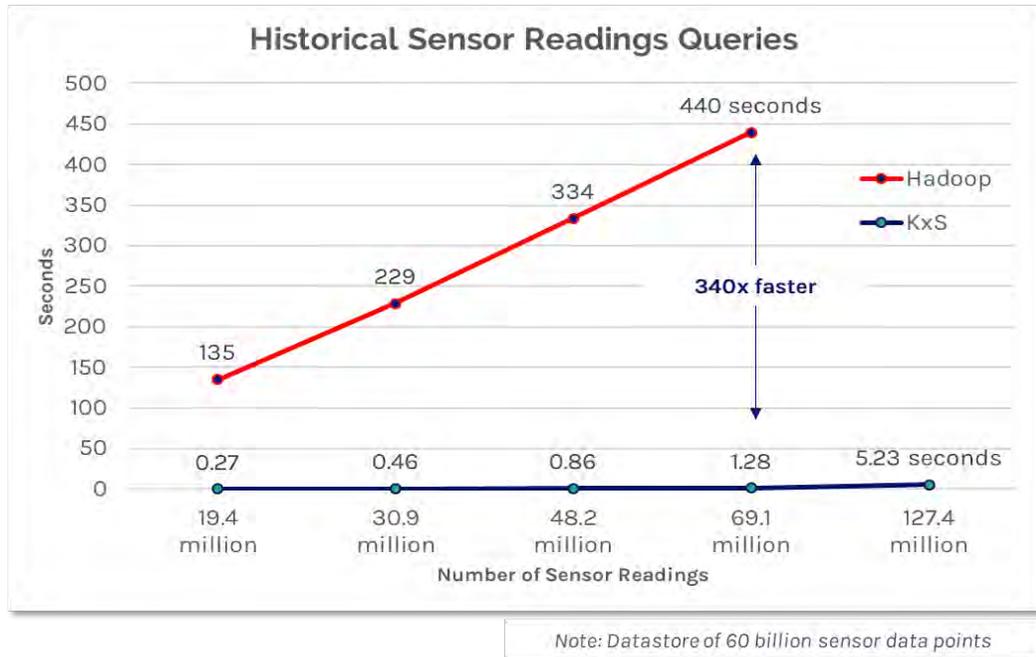
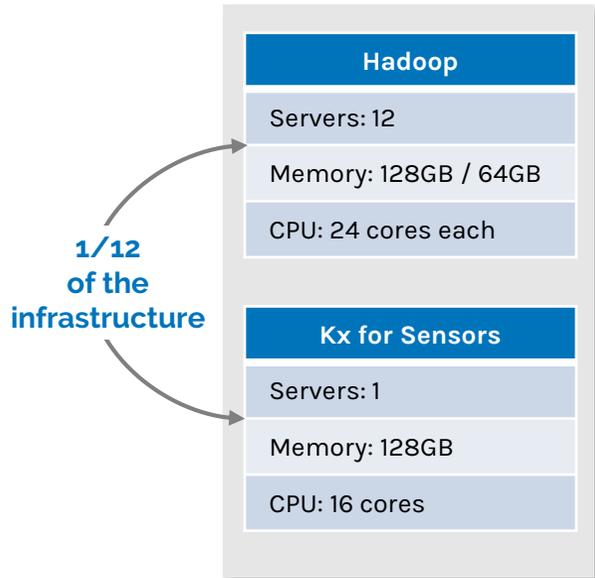
Kx – a complete high-performance technology stack



High-performance, low footprint



Kx: Unparalleled performance from chip to edge to cloud



World's fastest green database reduces environmental impact

150,000,000

events per second under test at the moment.

Published transitive comparisons from a popular test indicated kdb+ was

Up to 400x faster

than an equivalent sized Influx or Cassandra cluster

Current POC installation is projecting a

95% reduction

in electricity costs

(from \$3,000,000 per year to \$150,000)

As a result of less hardware needed than competitor we are replacing.

60,000,000

events per second at live installation.

Closest competitor claims 500,000 per second.

Solutions

Total addressable market

\$20 bn

Current IP assets

\$480 bn

Future IP assets

\$500 bn

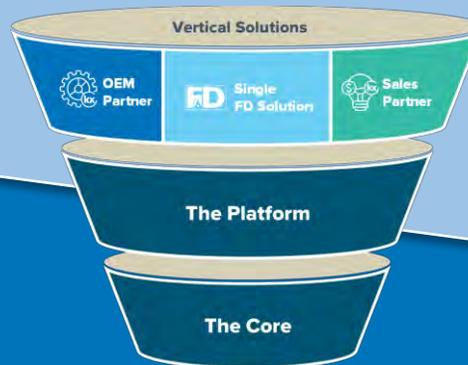
Total Solutions TAM

FD current market penetration

\$40 m (0.2%)

\$0 m (0%)

\$40 m (0.008%)



1000s of competitors

Platform

Total addressable market

\$50 bn

Total addressable in-memory database market

FD current market penetration

\$40 m (0.08%)



R&D strategy: growing TAM by building new IP assets



\$500 bn

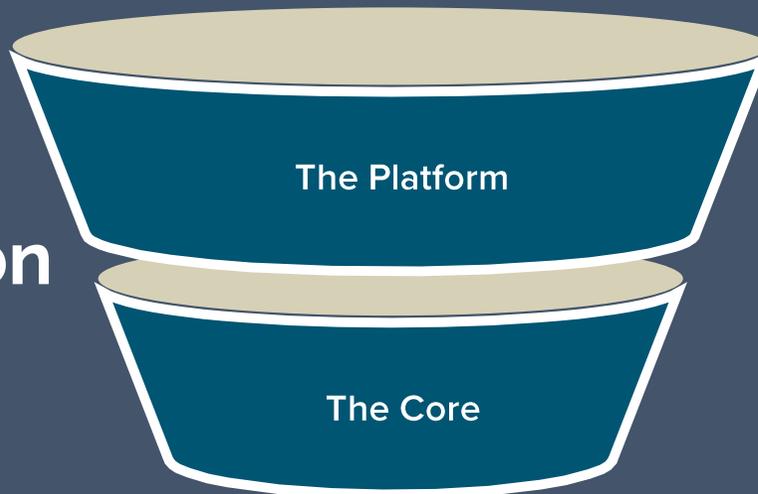


- Enhance functionality of existing solutions
- Develop new OEM and partner solutions
- Develop new FD solutions



World's fastest green database reduces environmental impact.

\$50 bn



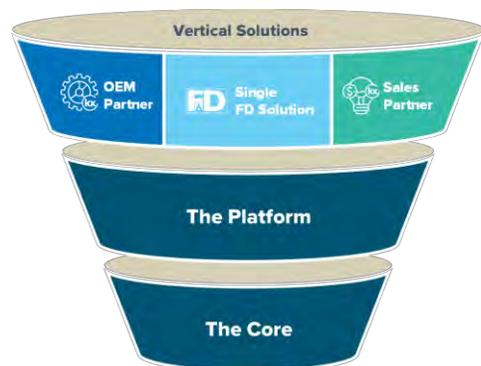
- Improved performance
- Enhanced interoperability
- Improve grassroots developer appeal



One Platform

Three Prongs of Attack: Benefits and Rationale





FinTech

Direct sales wins



CSA / ACVM

Canadian Securities Administrators
Autorités canadiennes en valeurs mobilières
To build and manage a next generation market analytics platform



SMBC SUMITOMO MITSUI
BANKING CORPORATION

To build and manage its next generation e-FX platform



BitMEX

Kx to underpin growth in trading volumes and enable the development of new products

OEM Partnerships



THOMSON REUTERS

Kx technology underpinning Velocity Analytics 8 platform

Sales Partnerships



 **Cobalt**

Harnessing the potential of distributed ledger technology, Cobalt delivers a private peer-to-peer network that significantly reduces post-trade cost and risk for financial market participant

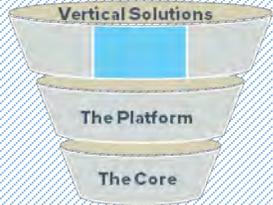


QUANTILE

Quantile analyses clients' trade data, harnessing advanced technology to create multilateral transaction solutions that reduce counterparty risk.

Single FD solution – Kx for Surveillance

FD Single FD Solution



FD Single FD Solution



- Surveillance market conventions
- Market protocols
- Investigation and remediation rules



- Market abuse algorithms
- Machine learning techniques
- Windsorisation & statistical techniques



- Order book replay
- Workflow rules
- Investigation screens

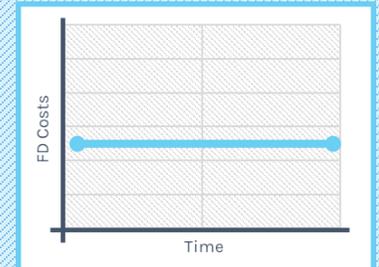


Software Margin

c80%

IP OWNERSHIP

100%

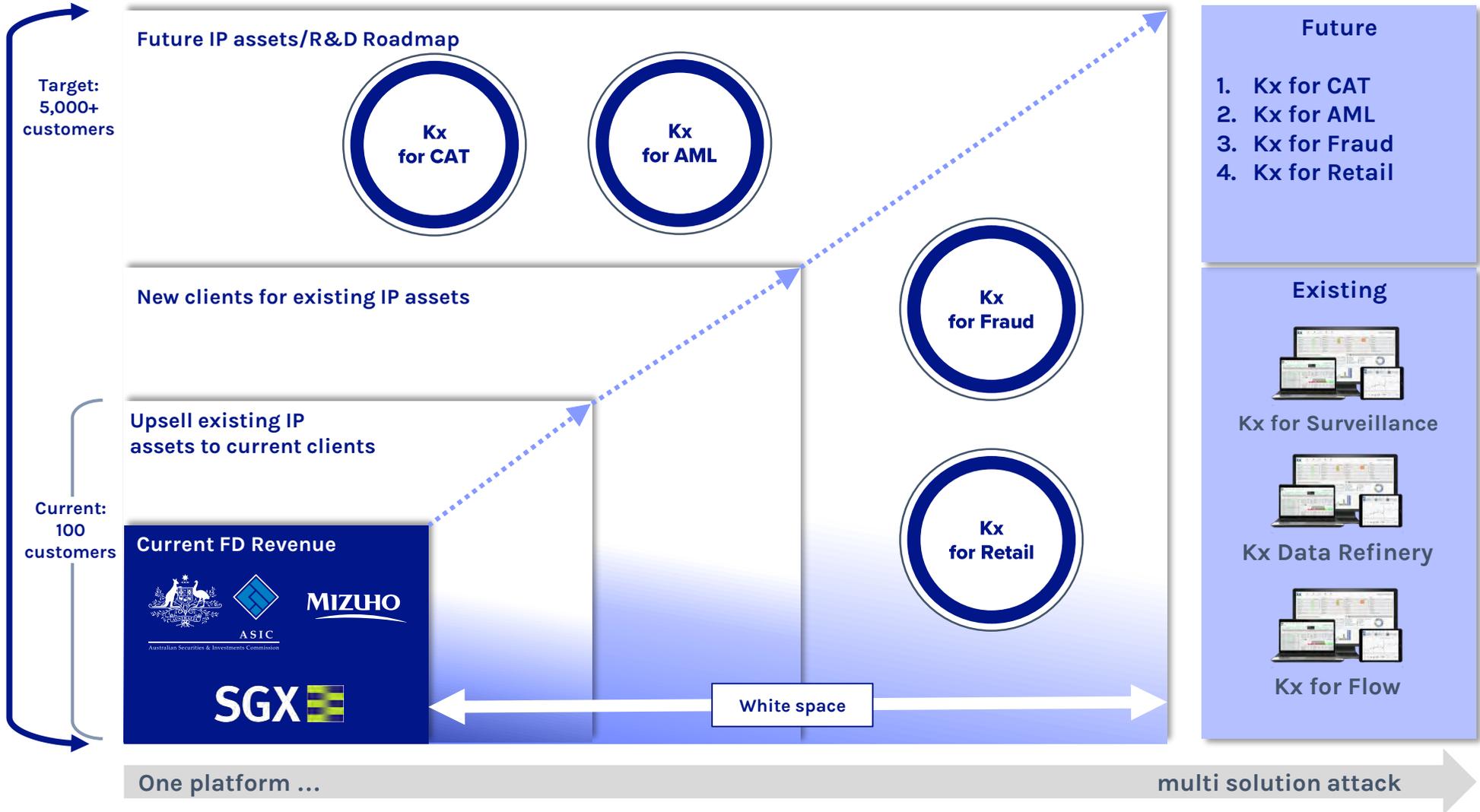


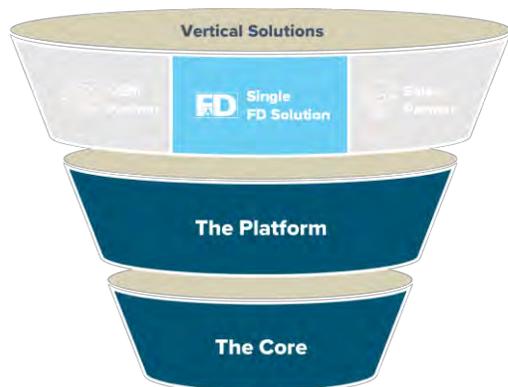
FD Costs

- Research & development
- Direct sales
- Technical support
- Hosting



FinTech – massive white space remaining





 **MarTech**



Evolving B2B Buyer Journey

- Evolving buyer pattern changing the way enterprises sell
- 98% of B2B buyers research online before buying
- 50% of sales go to the first sales contact

\$3.5bn*
in 2018



End-to-End ABM Delivers Return on Predictive Output

- Aligns marketing and sales team to target high potential clients
- Market need for proven solutions - today, only 9% of marketers have the proper tools for successful ABM strategies
- Sellers are challenged to meet the complex demands of B2B buyers



Predicting Buyer Intent

- The adoption of B2B predictive analytics in marketing is growing quickly
- Predictive expected to grow 27.4% CAGR from \$3.5bn to \$12.4bn in 2022
- Pulling through predictive output is the challenge

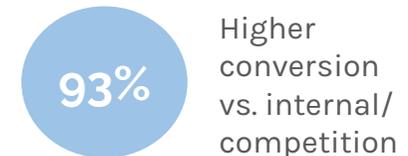
\$12.4bn*
by 2022



Marquee client base

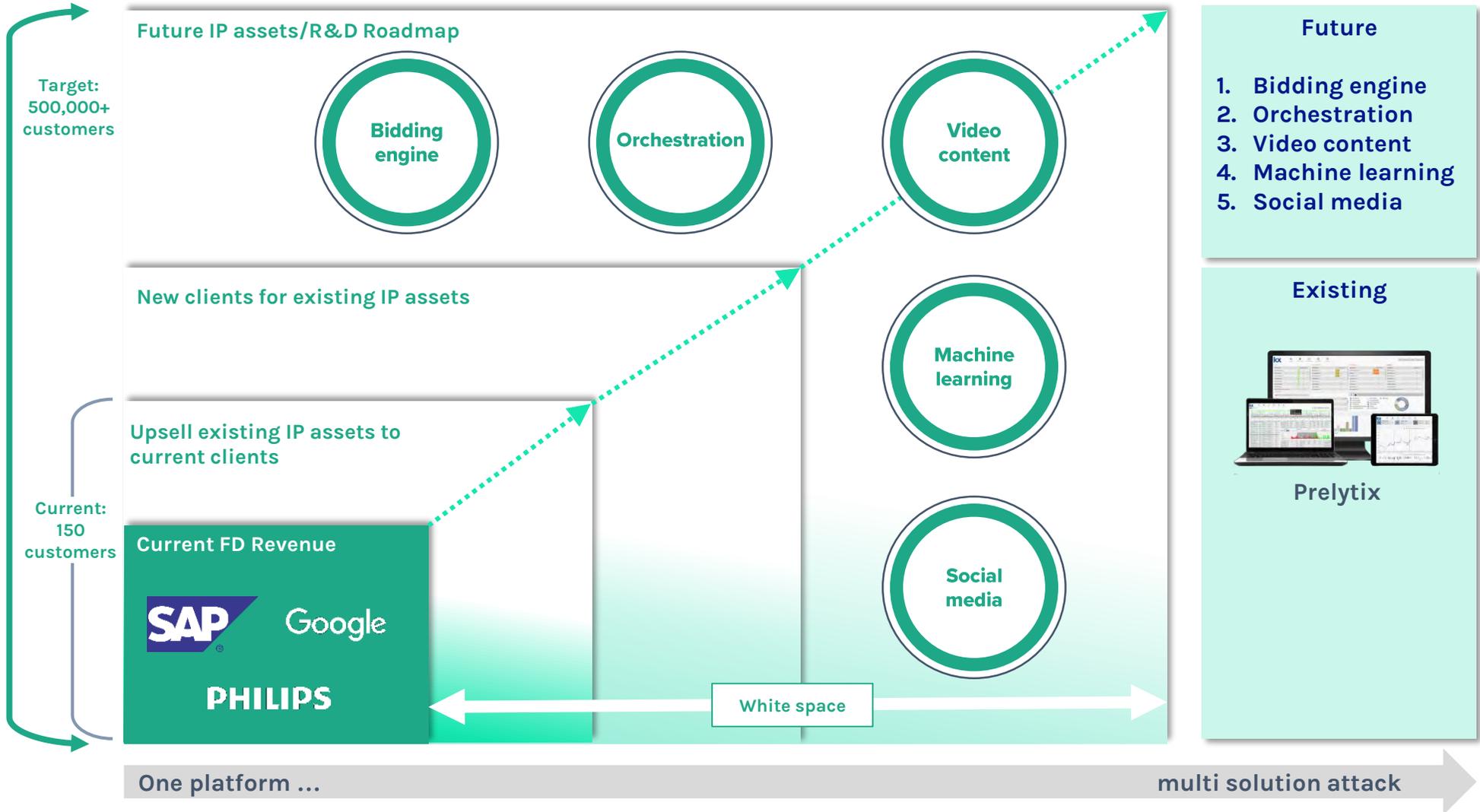


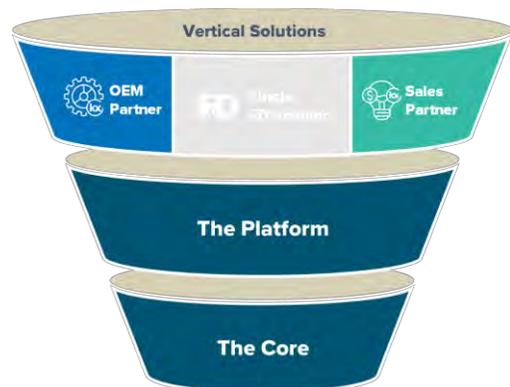
Key Metrics:





MarTech – massive white space remaining





>> Industry

Major wins – adding to IP and market reach



FORBES
500
Company

Division of a public equipment manufacturer – 250+ installations

- OEM agreement for rollout over the next 3 years to both their service organization and direct customers
- Kx for Sensors replaces well-known DBMS
- Most direct customers will require 9 months of testing before promoting to production systems. This is normal



Update

- Building revenues from initial deployments through the year
- Expansion of use cases under discussion

BISTel

South Korean smart manufacturing solution provider

- OEM agreement to embed Kx in their range of solutions for their global customer base
- Kx for Sensors replaces well-known DBMS
- First deployments expected during Q1 2019



Update

- Significant interest in early adoption of Kx
- Discussions with BISTel customers about wider use of Kx

Survalent.

Utility system management Solution provider

- OEM agreement to augment the functionality in Survalent's solutions
- Generates royalty-like revenue as take up begins across customer base of 600+



Update

- Integration of Kx for Sensors complete and ready for launch
- Pilot customers identified and adding scope to solution to increase value

QO approachid
Enterprise AI

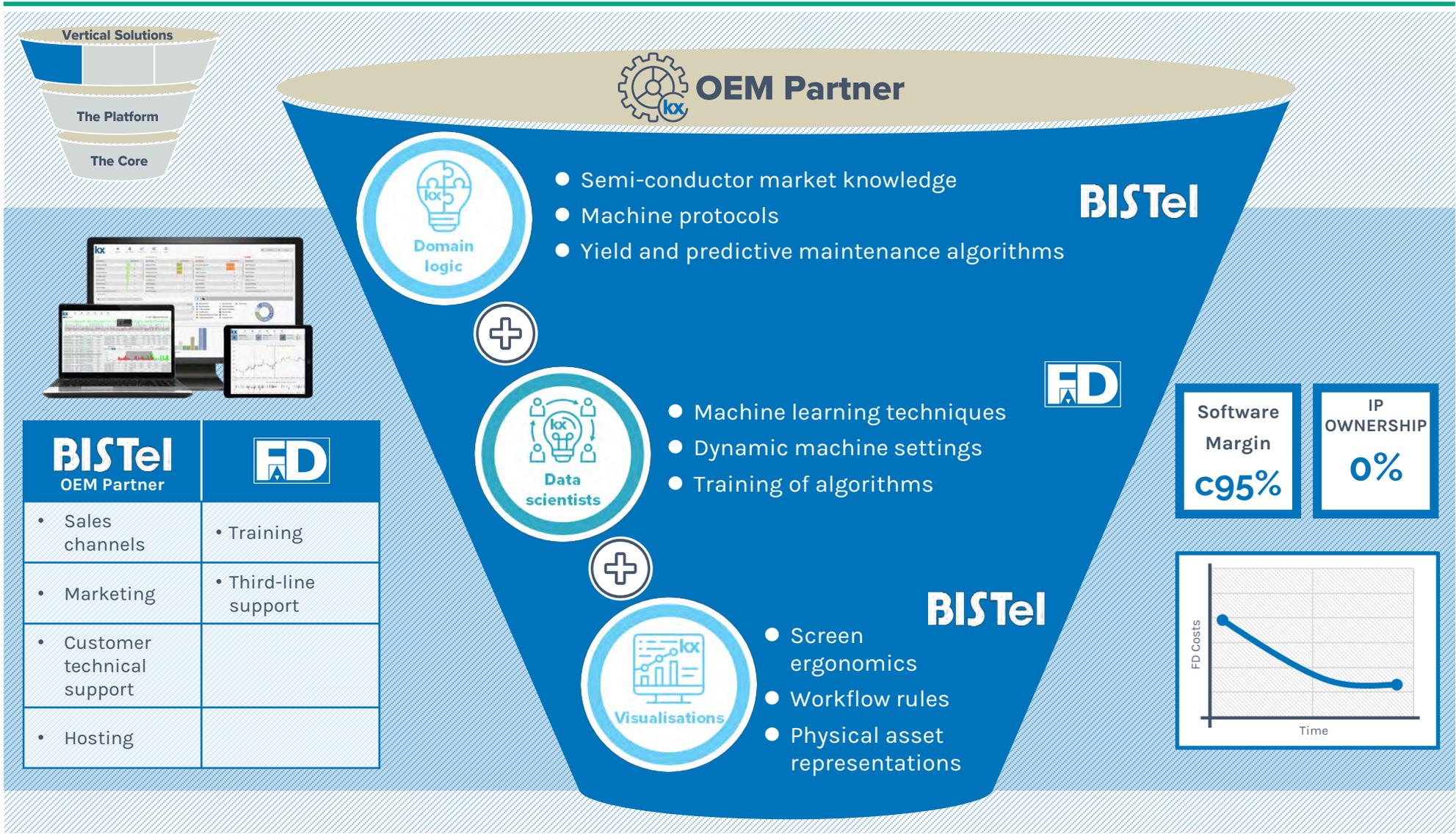
H₂O.ai

URBAN
INSTITUTE

CGI



OEM partnerships - BISTel



OEM Partner

BISTel

Domain logic

- Semi-conductor market knowledge
- Machine protocols
- Yield and predictive maintenance algorithms



Data scientists

- Machine learning techniques
- Dynamic machine settings
- Training of algorithms



Visualisations

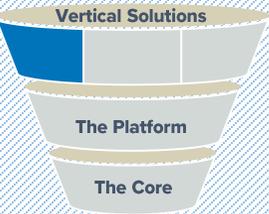
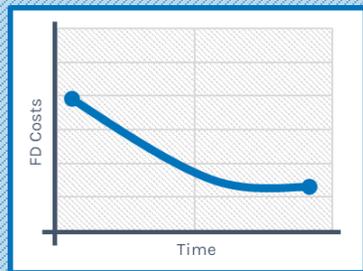
- Screen ergonomics
- Workflow rules
- Physical asset representations

BISTel



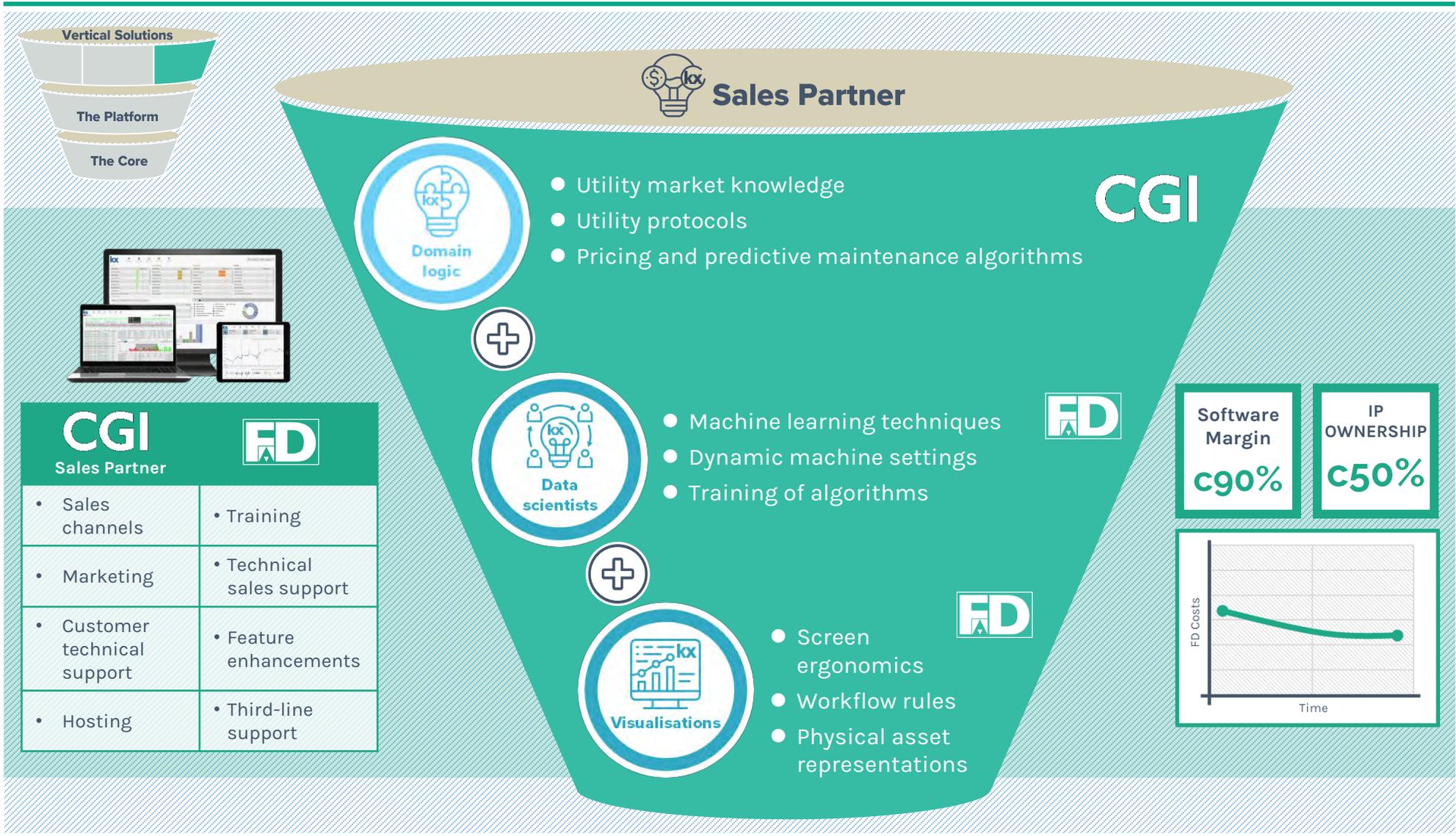
Software Margin
c95%

IP OWNERSHIP
0%



BISTel OEM Partner	FD
• Sales channels	• Training
• Marketing	• Third-line support
• Customer technical support	
• Hosting	

Sales partnerships - CGI



Prototypes for new IP Assets



Automotive

- ▶ Solution - Client seeking to monetise data captured and processed from connected cars but having issues using cloud native database
- ▶ Result - Kx was able to demonstrate a 300% improvement on performance and 30% reduction in server and hosting costs



Cyber-security

- ▶ Solution - Client needed a system to monitor passenger Wi-Fi systems for potential threats and upload this data to a central system
- ▶ Result - Kx was able to demonstrate it could identify viruses on a low-power edge device, generate real-time alerts and upload details to central system



Manufacturing

- ▶ Solution - Client wanted to centralise disparate manufacturing data sources into a single system and automate alerts
- ▶ Result - Kx was able to automatically compile data from multiple sources and formats, making real-time and historical analysis faster, cheaper and more accurate



Pharma industry

- ▶ Solution - Client seeking to develop a repeatable, robust, high-performance solution for analysing microbiomes at scale for cancer treatment and drug discovery
- ▶ Result - Kx was able to convert DNA sequences into data that could be analysed at unprecedented rates. Kx showed it was able to replace multiple other software tools

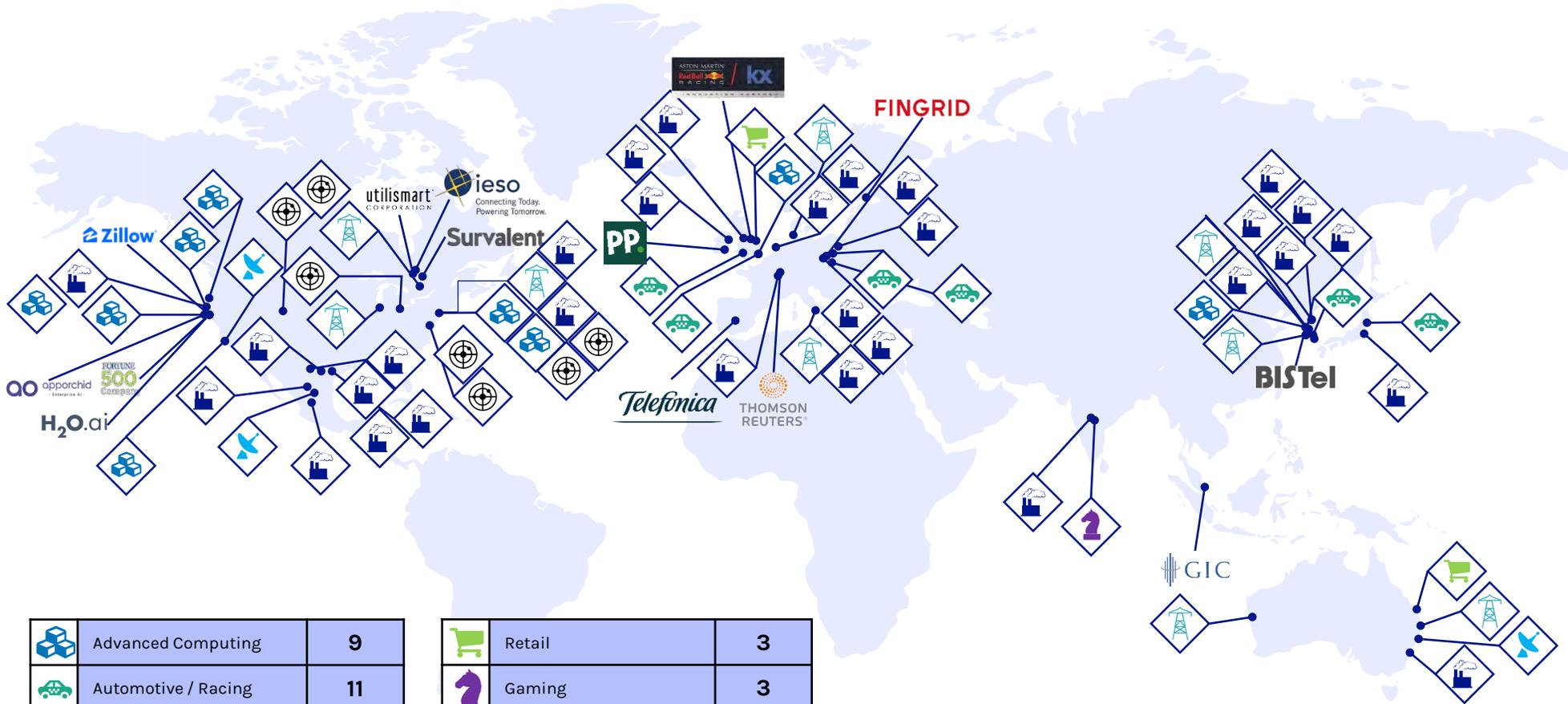


eCommerce

- ▶ Solution - Client wanted a solution that could identify fraudulent download activity designed to increase charges to advertisers
- ▶ Result - Kx enabled real-time discovery of fraudulent behavior by analysing vast quantities of data more efficiently than alternative approaches



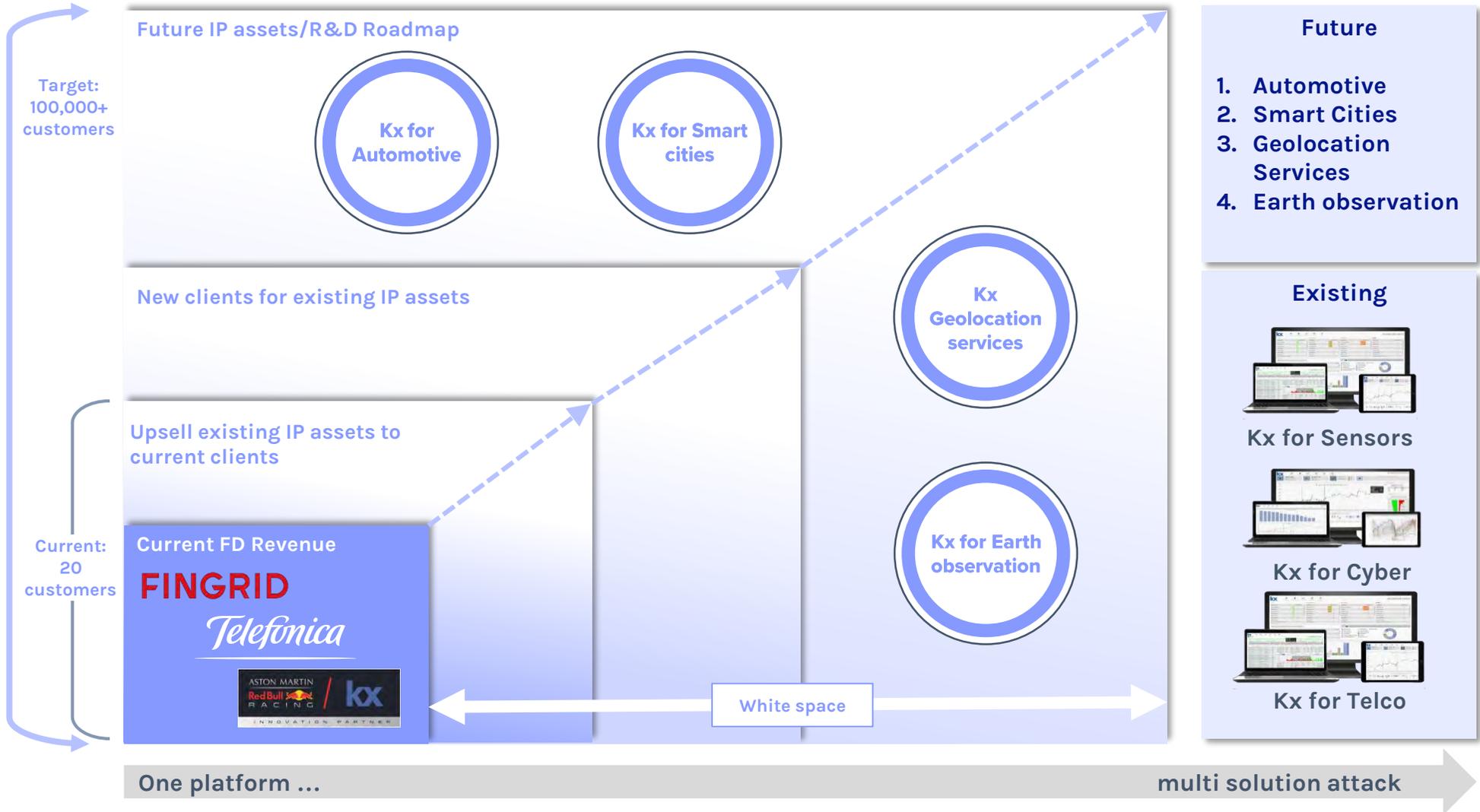
Strong, multi-region contracts and pipeline



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	Telco	14
	Marketing	25

Industry – massive TAM



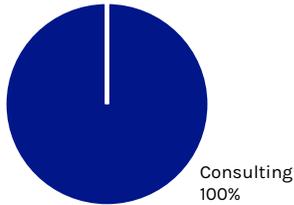
Summary and Outlook

- Massive addressable market for both Kx technology and our MS&C practice
- Strong revenue growth and high software margins enabling us to reinvest back into the business in line with our strategy
- We are building IP assets to address the most demanding analytics challenges and to increase our TAM
- Progress in commercialising the opportunities we are developing
- Increasing capabilities and geographic presence coupled with key account management approach enabling us to deepen relationships

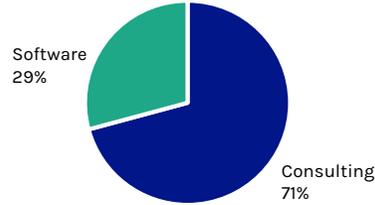
Positive momentum and FY 2020 shaping for another year of strong growth

Appendix

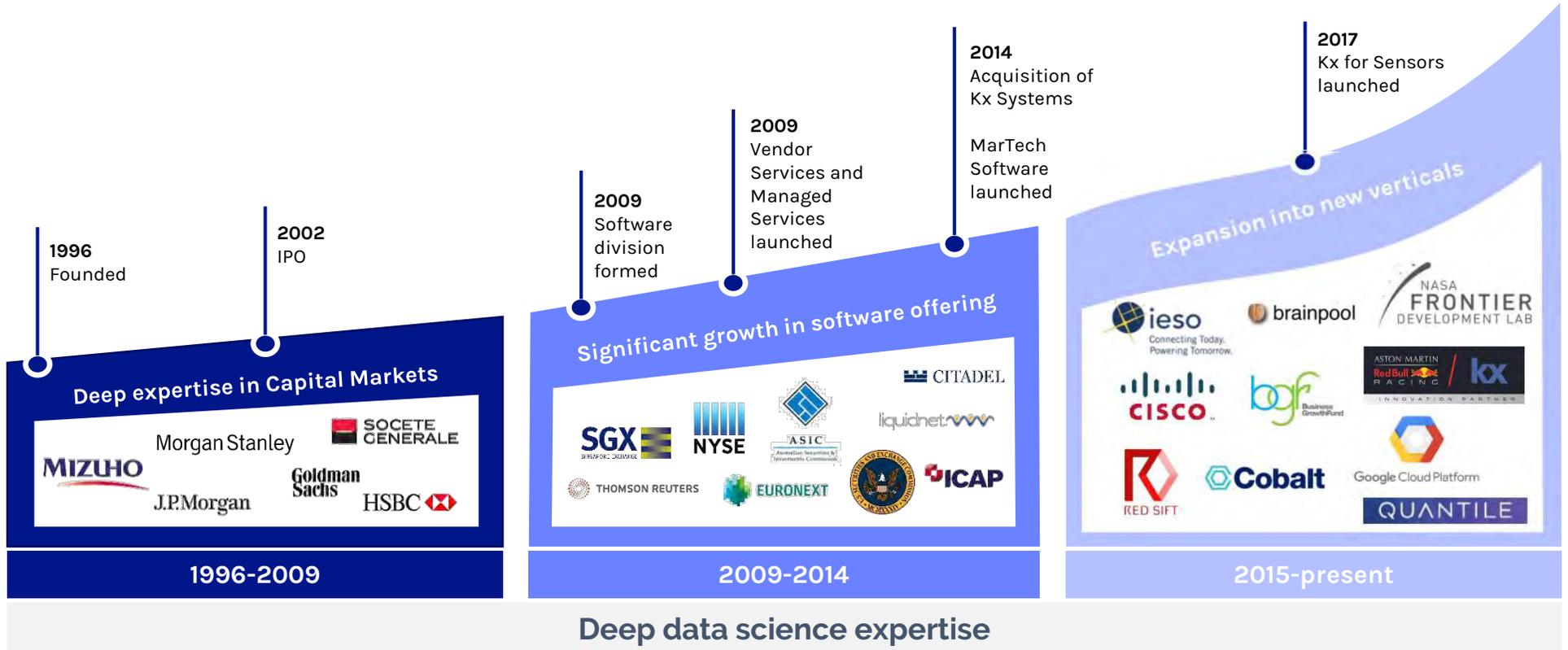
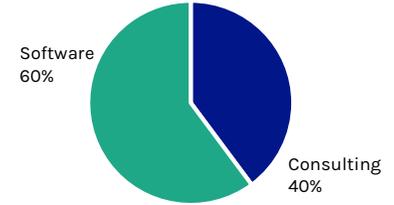
Revenue % - 2002



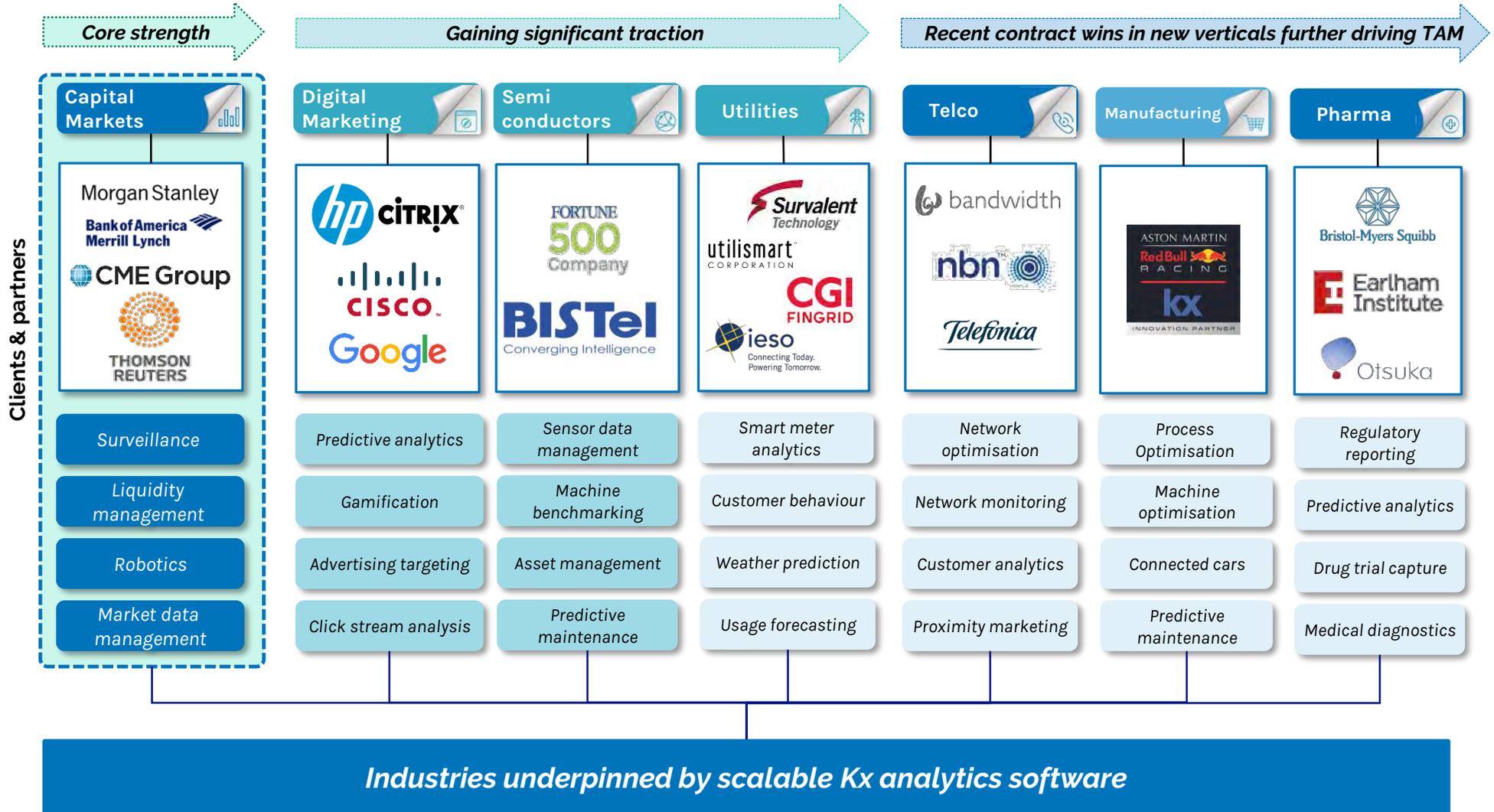
Revenue % - 2012



Revenue % - 2019



Expansion into new verticals increasing TAM



“ Understanding where you are and where you want to be; learning together; and remaining flexible and adaptable in implementation



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