

First Derivatives plc



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Six months to 31 August 2020



# Interim Results

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**Each part of our business  
has proven resilient and  
important to its customers**



**Each has significant  
opportunity for growth**

COVID-19  
RESPONSE



**We are positioning ourselves to  
capitalise on the opportunity and  
accelerate growth**

- Rapidly transitioned our business to remote working, ensuring the health and wellbeing of our staff while supporting the critical business functions of our clients
- Sales cycles for new customers have lengthened but we are also seeing increased demand driven by tactical requirements resulting from increased trading volumes
- Mitigating actions on cost and liquidity have worked well and supported the Group's performance during the period
- In the medium term we expect demand for digital transformation to increase and we are well placed to capitalise on this trend

# Key drivers - financial and business highlights

## Financial Highlights



## Business Highlights

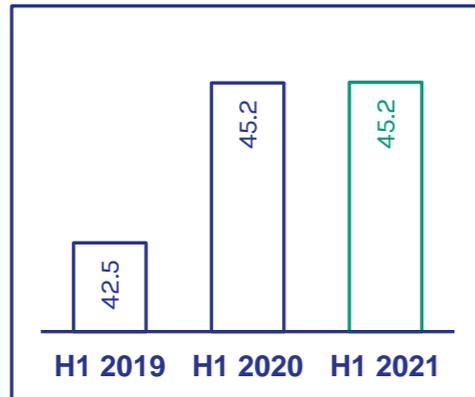
- Investing across the business including our go-to-market capabilities, R&D and infrastructure
- Strengthened leadership teams in place to drive growth
- Kx ideally placed to drive continuous intelligence within organisations
- Building a sustainable growth business

# Financial Performance

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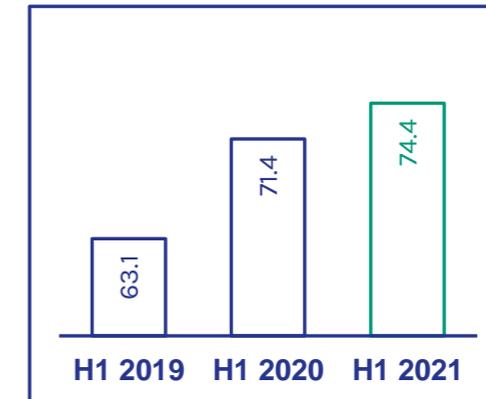
# Revenue and gross profit

## MANAGED SERVICES AND CONSULTING REVENUE (£M)



	H1 2021	H1 2020	Change
<b>Group performance</b>			
Revenue	119.6	116.7	3%
Cost of revenue	(71.4)	(68.7)	4%
Gross profit	48.2	48.0	-
<b>Gross margin</b>	<b>40%</b>	<b>41%</b>	<b>(1%)</b>

## Kx REVENUE (£M)

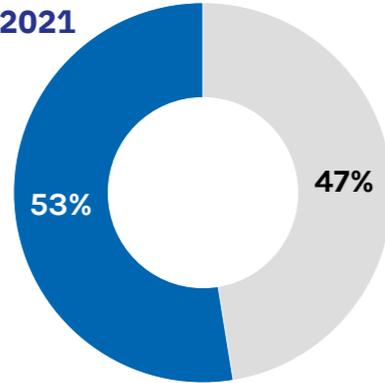


	H1 2021	H1 2020	Change
<b>Managed services &amp; consulting</b>			
Revenue	45.2	45.2	-
Cost of revenue	(35.6)	(34.4)	3%
Gross profit	9.6	10.8	(11%)
<b>Gross margin</b>	<b>21%</b>	<b>24%</b>	<b>(3%)</b>

	H1 2021	H1 2020	Change
<b>Kx</b>			
Revenue	74.4	71.4	4%
Cost of revenue	(35.8)	(34.3)	4%
Gross profit	38.6	37.2	4%
<b>Gross margin</b>	<b>52%</b>	<b>52%</b>	<b>-</b>

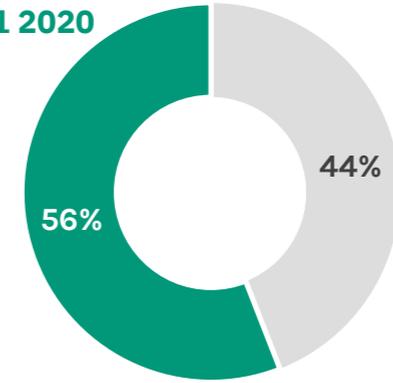
# Software performance

H1 2021



■ Licenses & subscription ■ Services

H1 2020



■ Licenses & subscription ■ Services

	H1 2021	H1 2020	Change
<b>Kx revenue</b>			
Recurring/subscription	30.4	28.3	7%
Upfront	4.9	3.2	56%
<b>Licenses</b>	<b>35.3</b>	<b>31.5</b>	<b>12%</b>
Services	39.1	40.0	(2%)
<b>TOTAL</b>	<b>74.4</b>	<b>71.4</b>	<b>4%</b>

	H1 2021	H1 2020	Change
<b>FinTech</b>			
Recurring	17.3	15.8	10%
Upfront	4.6	1.9	136%
<b>Licenses</b>	<b>21.8</b>	<b>17.7</b>	<b>23%</b>
Services	26.9	26.9	-
<b>TOTAL</b>	<b>48.7</b>	<b>44.6</b>	<b>9%</b>

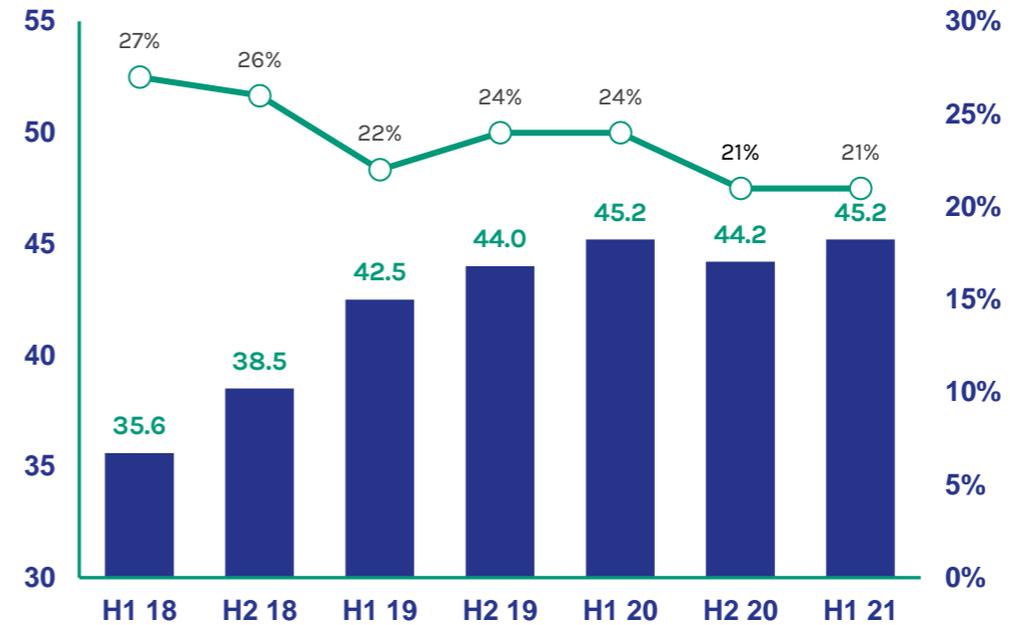
	H1 2021	H1 2020	Change
<b>Industry</b>			
Recurring	1.2	0.8	46%
Upfront	0.4	1.2	(70%)
<b>Licenses</b>	<b>1.5</b>	<b>2.0</b>	<b>(24%)</b>
Services	2.0	2.4	(19%)
<b>TOTAL</b>	<b>3.5</b>	<b>4.4</b>	<b>(22%)</b>

	H1 2021	H1 2020	Change
<b>MRP (MarTech)</b>			
Subscription	11.9	11.7	2%
Upfront	-	-	-
<b>Subscription</b>	<b>11.9</b>	<b>11.7</b>	<b>2%</b>
Services	10.2	10.7	(4%)
<b>TOTAL</b>	<b>22.2</b>	<b>22.4</b>	<b>(1%)</b>

# Managed services & consulting performance

	H1 2021	H1 2020	Change
<b>Managed services &amp; consulting</b>			
Revenue	45.2	45.2	-
Cost of revenue	(35.6)	(34.4)	3%
Gross profit	9.6	10.8	(11%)
Gross margin	21%	24%	(3%)

MS&C REVENUE (£M) AND GROSS MARGIN (%)



## COMMENTARY

- Revenues were resilient during a period entirely impacted by COVID-19 in which we transitioned to working remotely
- Margin maintained from H2 2020 despite additional investment in delivery capability
- Strength of customer relationships and high level of repeat and recurring revenue drove performance
- Some signs that customers are resuming their change programmes

# Income statement – revenue and gross profit

£m	H1 2021	H1 2020	Change
<b>Software licenses and subscription</b>			
Software perpetual licenses	4.9	3.2	56%
Software recurring licenses and subscription	30.4	28.3	7%
<b>Total software license revenue</b>	<b>35.3</b>	<b>31.5</b>	<b>12%</b>
Cost of software license revenue	(6.7)	(6.0)	12%
<b>Software license gross profit</b>	<b>28.5</b>	<b>25.4</b>	<b>12%</b>
Software license gross margin	81%	81%	-
<b>Software services</b>			
Implementation and support revenue	39.1	40.0	(2%)
Cost of software services revenue	(29.1)	(28.3)	3%
<b>Software services gross profit</b>	<b>10.0</b>	<b>11.7</b>	<b>(15%)</b>
Software services gross margin	26%	29%	(3%)
<b>Total software</b>			
Software revenue	74.4	71.4	4%
Cost of software revenue	(35.8)	(34.3)	4%
<b>Software gross profit</b>	<b>38.6</b>	<b>37.2</b>	<b>4%</b>
Software gross margin	52%	52%	-
<b>Managed services &amp; consulting</b>			
Managed services & consulting revenue	45.2	45.2	-
Cost of managed services & consulting revenue	(35.6)	(34.4)	3%
<b>Managed services &amp; consulting gross profit</b>	<b>9.6</b>	<b>10.8</b>	<b>(11%)</b>
Managed services & consulting gross margin	21%	24%	(3%)

## SOFTWARE LICENSES AND SUBSCRIPTION

- Recurring software license and subscription revenue up 7%, with perpetual up 56% year on year but down 43% on H2 2020
- Software license gross margin maintained at 81%

## SOFTWARE SERVICES

- Software services revenue decreased by 2% due to investment in customer success team
- Continued high demand for Kx implementation, development and managed services

## MANAGED SERVICES & CONSULTING

- Revenue maintained despite the impact of COVID-19 on discretionary project sales cycles
- One of the delayed projects referenced in full year results resumed towards the period end

# Revenue and adjusted EBITDA

£m	H1 2021	H1 2020	Change
<b>Total Group</b>			
Revenue	119.6	116.7	3%
Cost of revenue	(71.4)	(68.7)	4%
<b>Gross profit</b>	<b>48.2</b>	<b>48.0</b>	-
Gross margin	40%	41%	(1%)
<b>Adjusted operating costs</b>			
Total R&D	(7.7)	(5.6)	37%
(of which capitalised)	6.1	4.4	38%
Sales and marketing costs	(17.5)	(17.2)	2%
Administrative costs	(7.6)	(7.6)	-
<b>Adjusted EBITDA</b>	<b>21.5</b>	<b>22.0</b>	<b>(2%)</b>
Adjusted EBITDA margin	18%	19%	(1%)

## GROSS MARGIN

- Gross margin fell to 40% (H1 2020: 41%) due to the lower margin in software services resulting from investment to accelerate our growth

## OPERATING COSTS

- Continued investment in R&D (up 37%) and sales and marketing (up 2%) despite lower event costs
- Underlying admin costs were flat, despite increased investment in leadership teams, as we managed our cost base

# Profit and earnings

£m	H1 2021	H1 2020	Change
<b>Adjusted EBITDA reconciliation</b>			
<b>Adjusted EBITDA</b>	<b>21.5</b>	<b>22.0</b>	<b>(2%)</b>
Acquisition and related costs	(0.5)	(0.9)	(45%)
Share based payment costs	(0.8)	(1.6)	(49%)
Depreciation and software amortisation	(8.3)	(7.1)	17%
Amortisation of acquired intangibles	(1.8)	(1.9)	(3%)
<b>Operating profit</b>	<b>10.1</b>	<b>10.6</b>	<b>(5%)</b>
Net finance costs and share of associate	(2.7)	(2.2)	25%
<b>Profit before tax</b>	<b>7.4</b>	<b>8.4</b>	<b>(12%)</b>
Taxation	(1.4)	(1.8)	(25%)
<b>Profit for the period</b>	<b>6.1</b>	<b>6.6</b>	<b>(8%)</b>
<b>Profit after tax reconciliation</b>			
<b>Profit after tax</b>	<b>6.1</b>	<b>6.6</b>	<b>(8%)</b>
Acquisition and related costs	0.5	0.9	(45%)
Share based payment costs	0.8	1.6	(49%)
Amortisation of acquired intangibles	1.8	1.9	(3%)
Finance translation and share of associate	0.2	0.6	(67%)
Tax effect of adjustments	(0.5)	(0.6)	(16%)
<b>Adjusted profit after tax</b>	<b>8.8</b>	<b>10.9</b>	<b>(19%)</b>
Diluted shares in issue (m)	27.9	27.5	1%
Reported diluted earnings per share	21.8p	24.2p	(10%)
<b>Adjusted diluted earnings per share</b>	<b>31.7p</b>	<b>39.6p</b>	<b>(20%)</b>

## ADJUSTED OPERATING COSTS

- Acquisition and related costs fell and will continue to do so in the absence of further acquisitions
- Depreciation and amortisation increase reflect higher investment in operations and R&D in recent periods

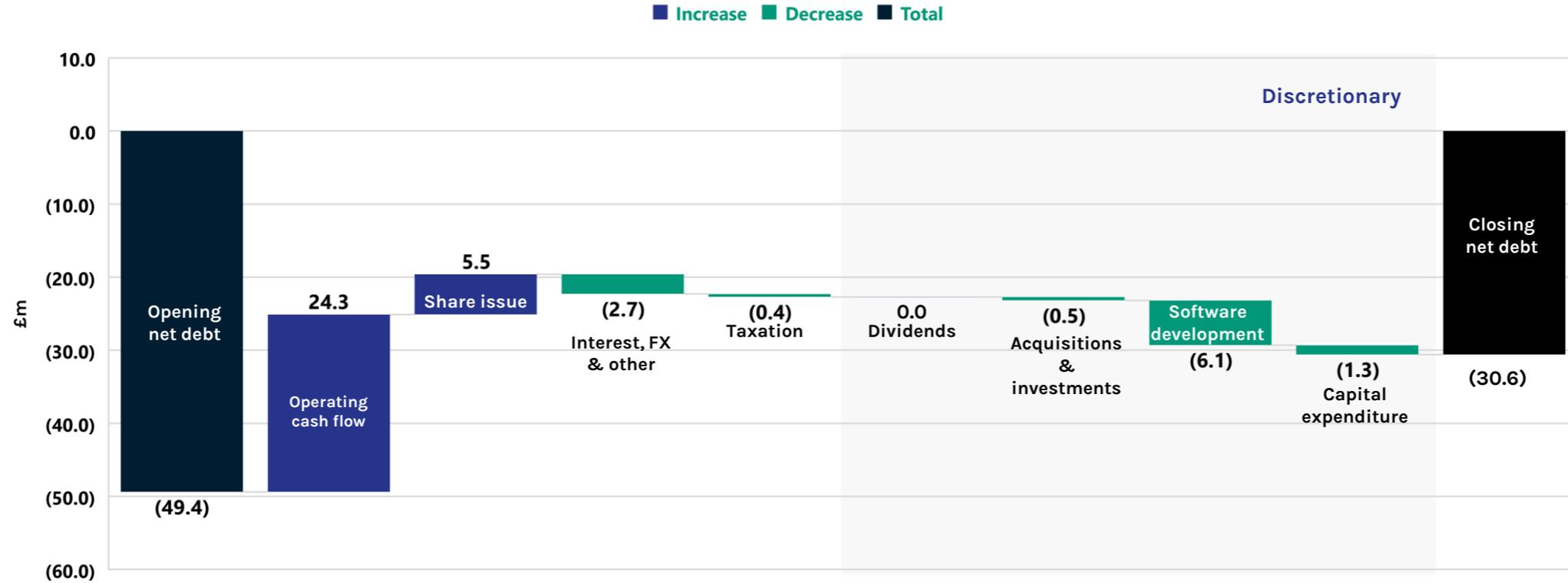
## FINANCE AND TAX CHARGES

- £0.5m net increase in finance charge includes £0.9m rise in interest costs following completion of Kx Systems acquisition in June 2020 and £34.2m drawdown from financing facility
- Effective adjusted tax rate fell to 17.4% (H1 2020: 18.0%)

## DILUTED EARNINGS GROWTH

- Reported EPS down 10% to 21.8p
- Adjusted EPS down 20% to 31.7p and compares to full year analyst consensus of 62p per share

# Net debt bridge



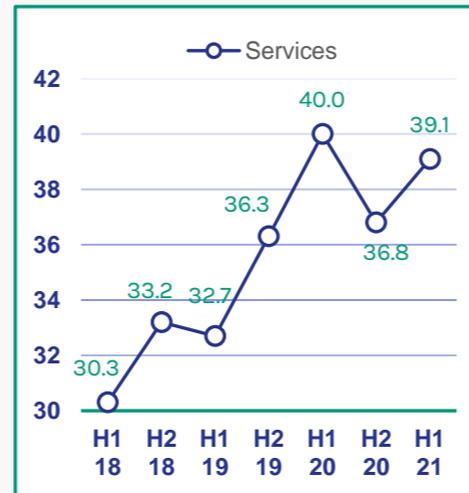
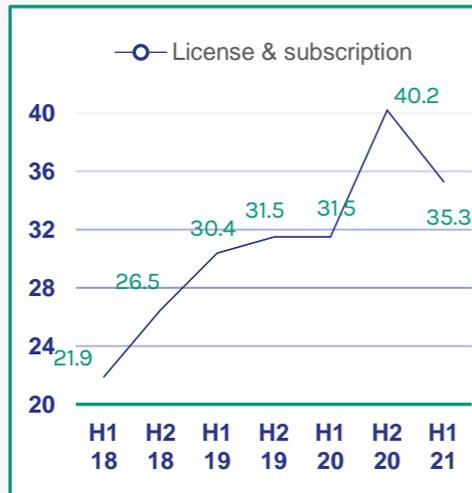
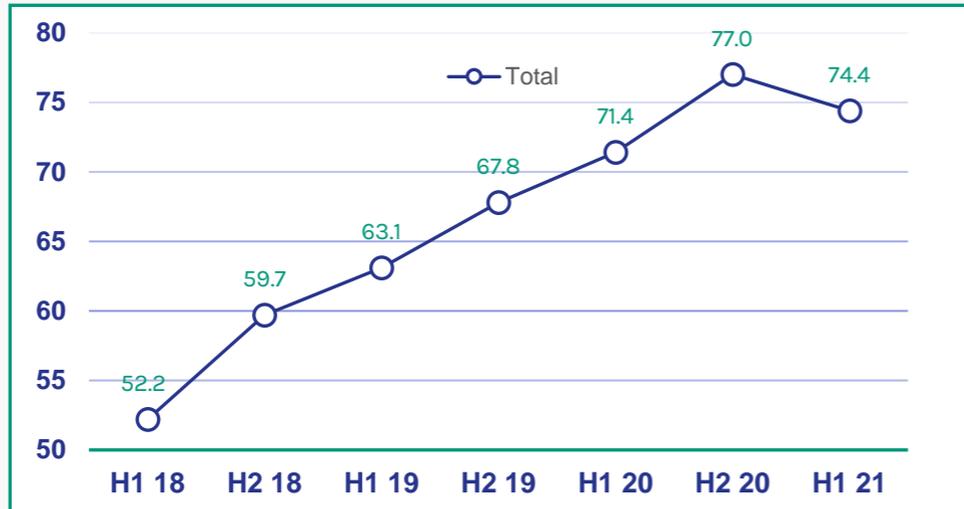
## CASH FLOW AND NET DEBT

- Conversion of adjusted EBITDA to cash flow from operations: 113%
- Net debt at period end £30.6m, down from £49.4m at end February 2020 and £60.2m a year ago
- Net debt 0.7x adjusted EBITDA consensus for current year
- Continue to expect 80-85% conversion each year

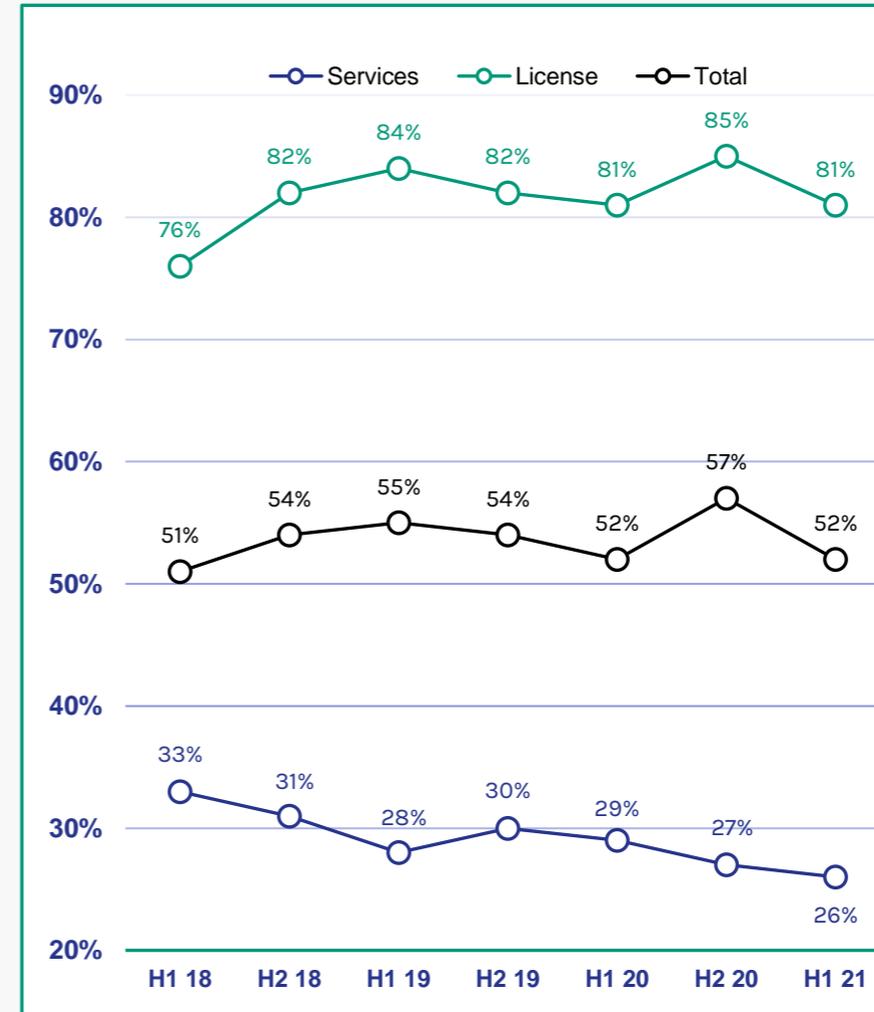


# Software key metrics

## SOFTWARE REVENUE (£M)



## SOFTWARE MARGINS



# The opportunity ahead

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# Large global markets



FD GROUP	Kx	MRP (MarTech)	MS&C
<b>Vision</b>	Drive your most demanding business decisions with <b>real-time</b> continuous intelligence	Deliver the highest impact sales engagement strategies for our customers, driving increased revenue and market share	Drive data insights to the heart of our customers business and bring operational efficiency to our capital markets customers' complex environments
	<b>Market opportunity \$36bn</b>	<b>Market opportunity \$12bn</b>	<b>Market opportunity \$4bn</b>

# Macro-trends creating opportunity

	Kx	MRP (MarTech)	MS&C
<p>Digital transformation</p> <p>IoT, Big Data, Edge</p> <p>Cloud</p> <p>Personalised customer experience</p> <p>Regulation</p> <p>Analytics</p> <p>Cost efficiency</p>	<p>Unlocking value of huge, variable, high-velocity data sets</p> <p>Expanding data volumes and variability increases demand for event processing</p> <p>Further enables data scale</p> <p>Creates demand for insight across enterprises and consumers in real time</p> <p>Driving demand for regulatory and reporting applications</p> <p>Demand for technology that enables continuous intelligence</p> <p>Small infrastructure footprint reduces hardware and power costs</p>	<p>Transition to digital marketing</p> <p>Enriches data sets for targeting</p> <p>Managed service offering/ multi-tenant platform</p> <p>Creating demand for “intent, prediction, action, campaign”</p> <p>Increases demand for applications with strong data management capabilities</p> <p>Enables continuous intelligence on buying intent</p> <p>Provides demonstrably higher ROI than competing solutions</p>	<p>Increases need for transformation support</p> <p>Increases need for transformation support</p> <p>Clients need support to migrate to cloud</p> <p>Demand for insights to improve targeting and more agile systems</p> <p>Driving demand for Know Your Customer &amp; Reporting services</p> <p>External expertise support for insight provision</p> <p>Focused on cost optimisation for client operations</p>

# Expanding our leadership team

## Executive



**Alan Coad**

Kx Chief Revenue Officer



**David Collins**

MD, Managed services and consulting



**David Humphries**

Chief Operating Officer



**Kathy Schneider**

Chief Marketing Officer

## Non-Executive



**Ayman Sayed**

CEO BMC Software &  
former Chief Product  
Officer, CA Technologies



**Thomas Seifert**

CFO Cloudflare & former  
CFO Symantec and AMD



**Steve Fisher**

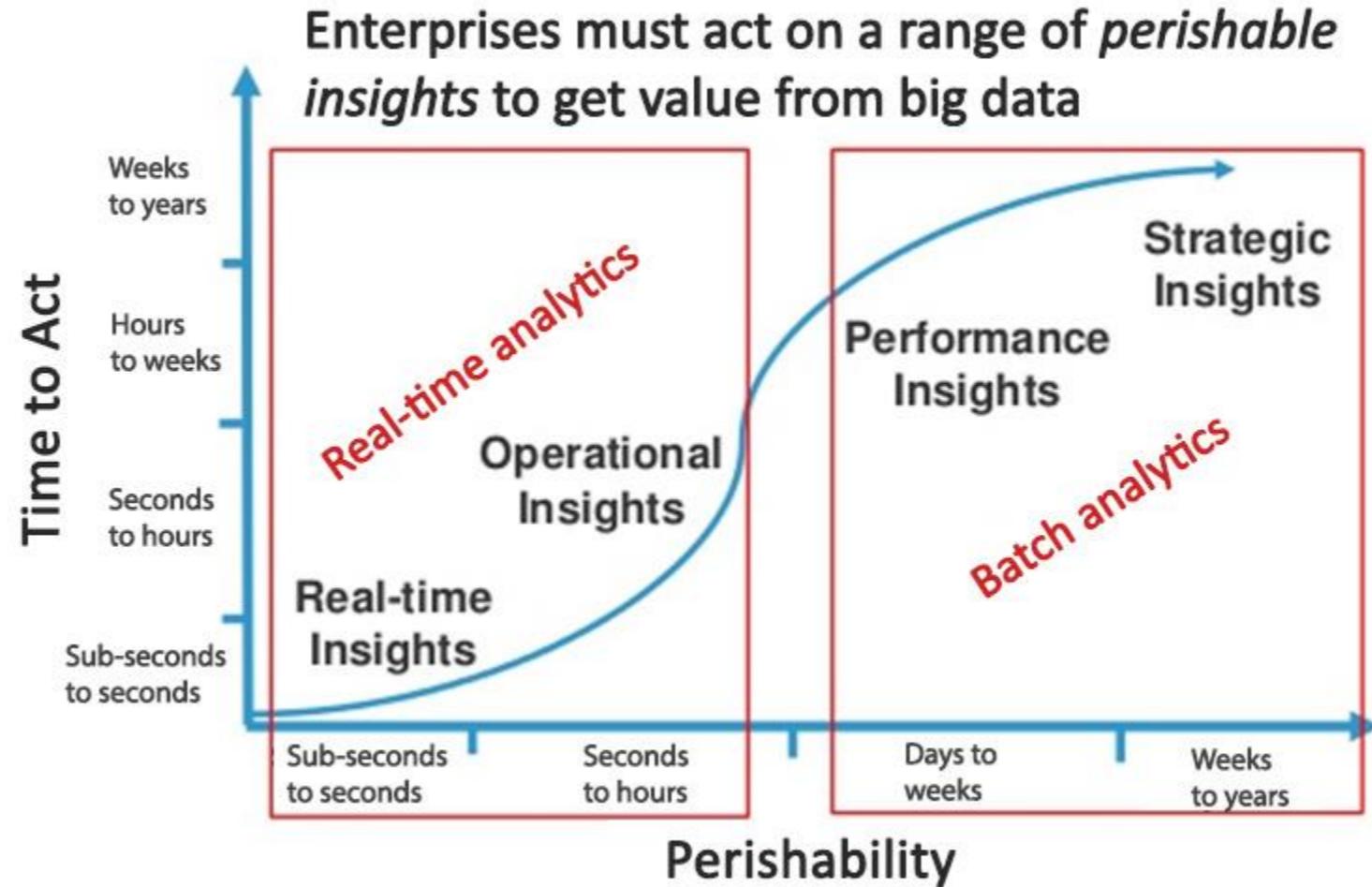
Former CTO, eBay &  
senior tech roles at  
salesforce.com

**Kx**

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# Real-time data enables high value decision making

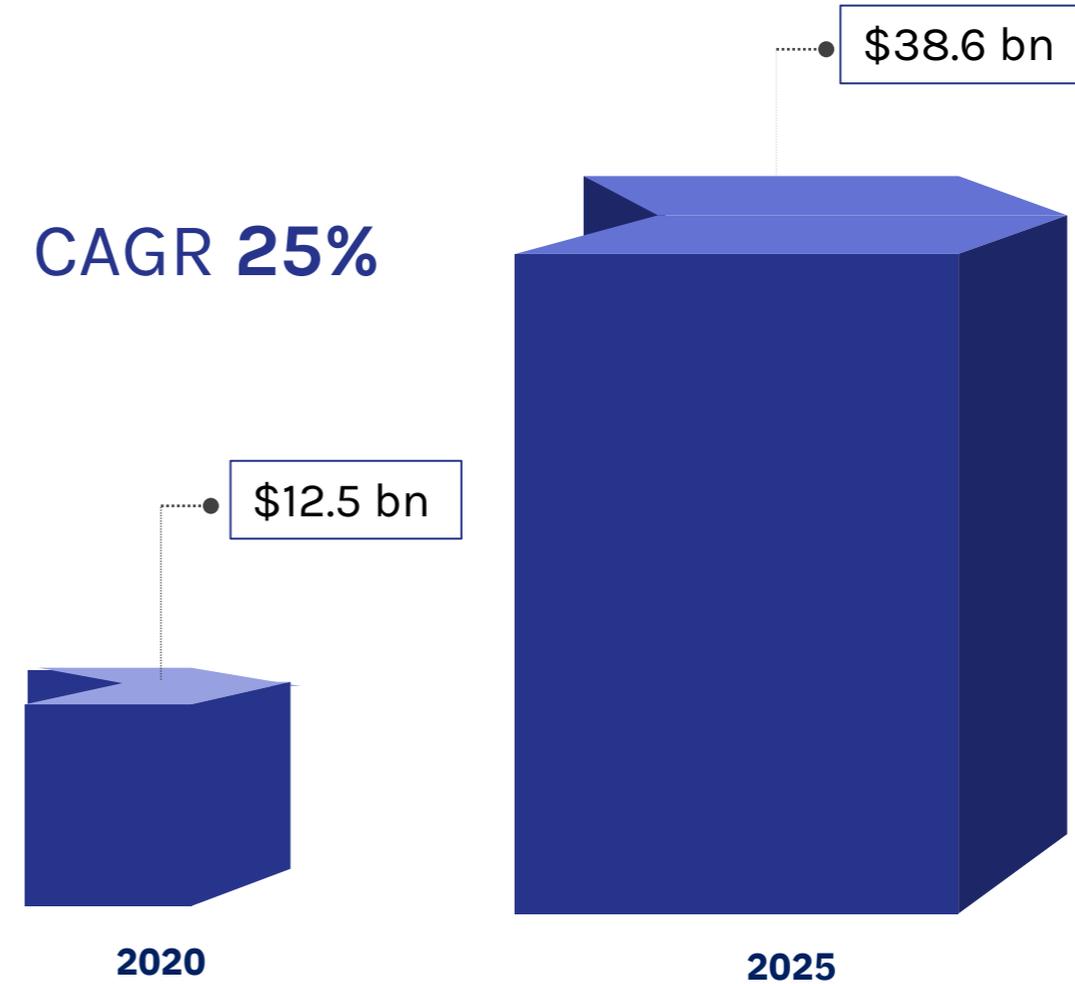
All data is created in real time and analysing data as it arrives enables **continuous intelligence**



Source: Forrester

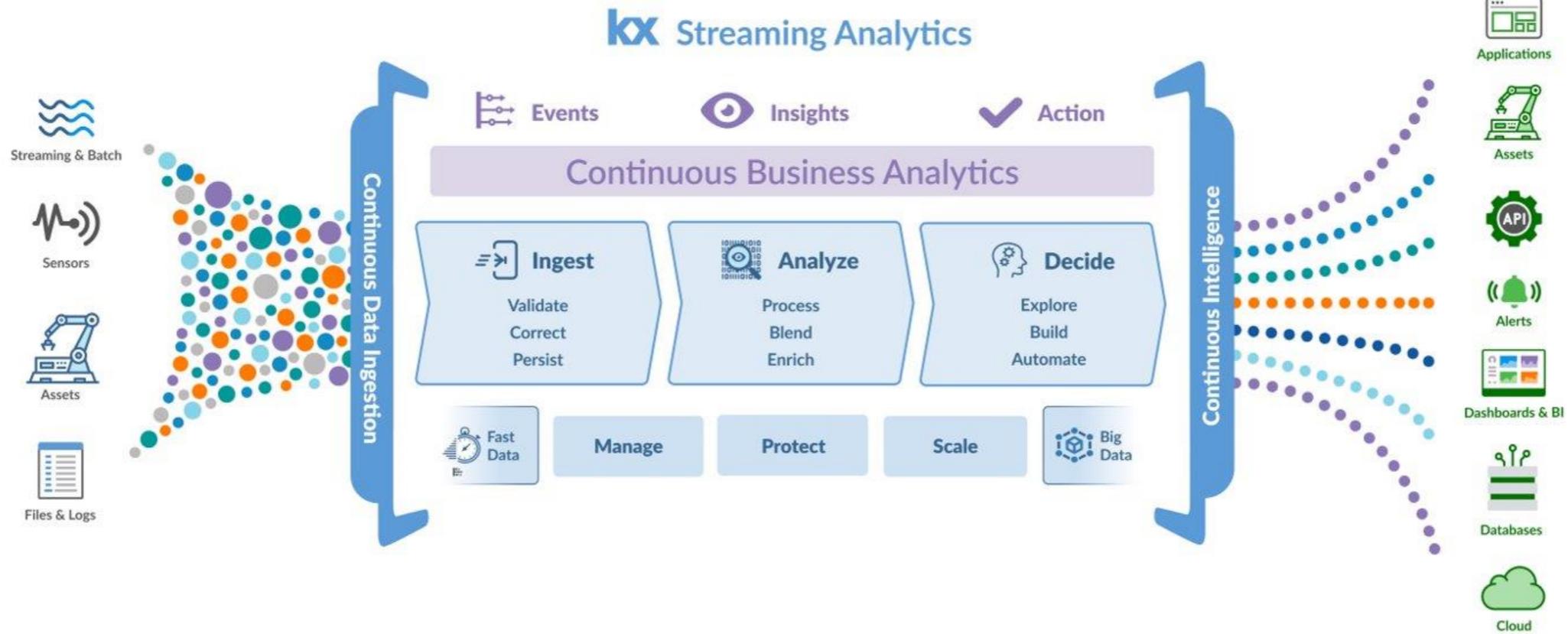
# Continuous intelligence market opportunity

Exploding data volumes are driving **massive growth** in the streaming analytics market



Streaming Analytics Market

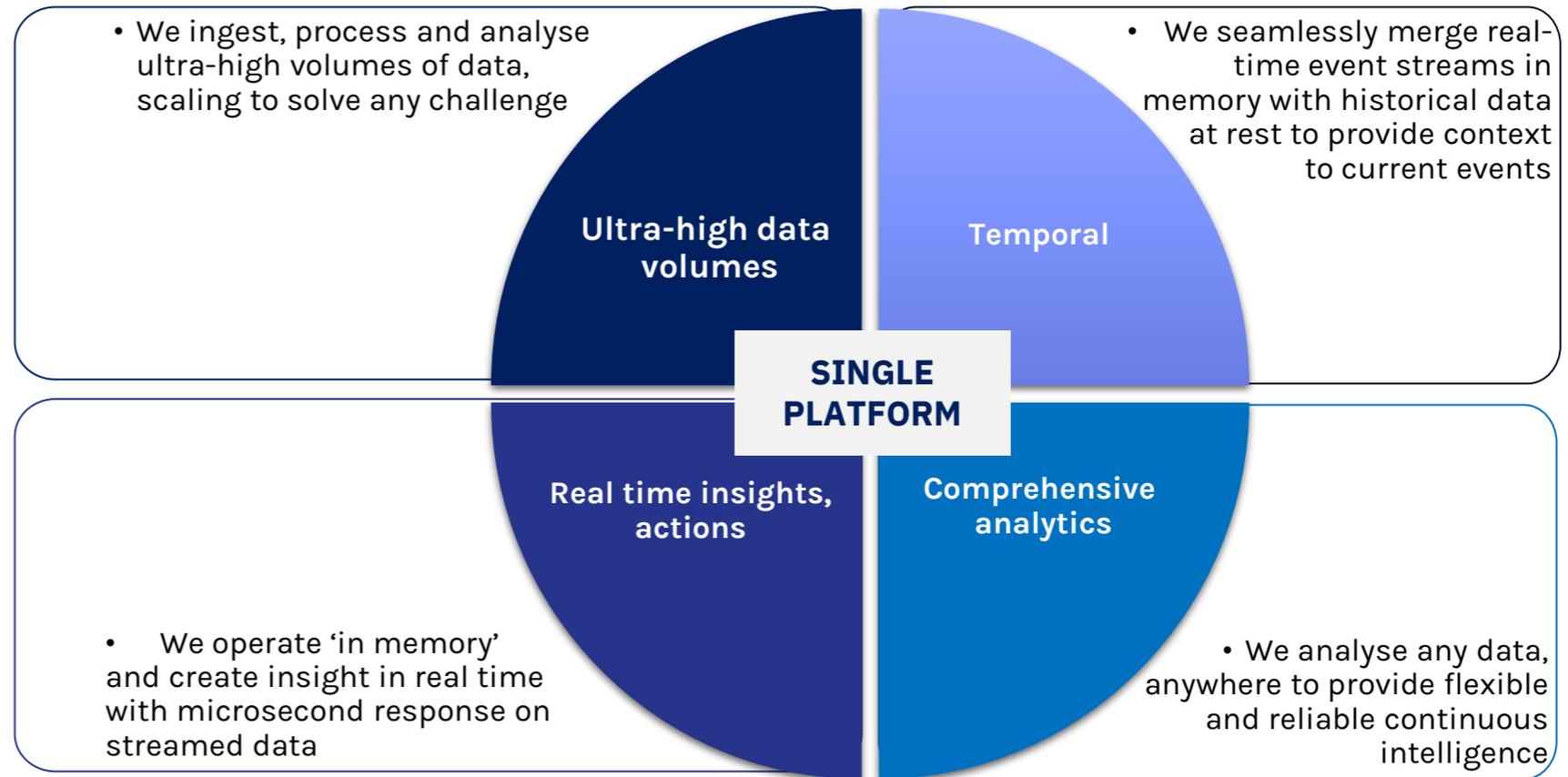
# Time to decide



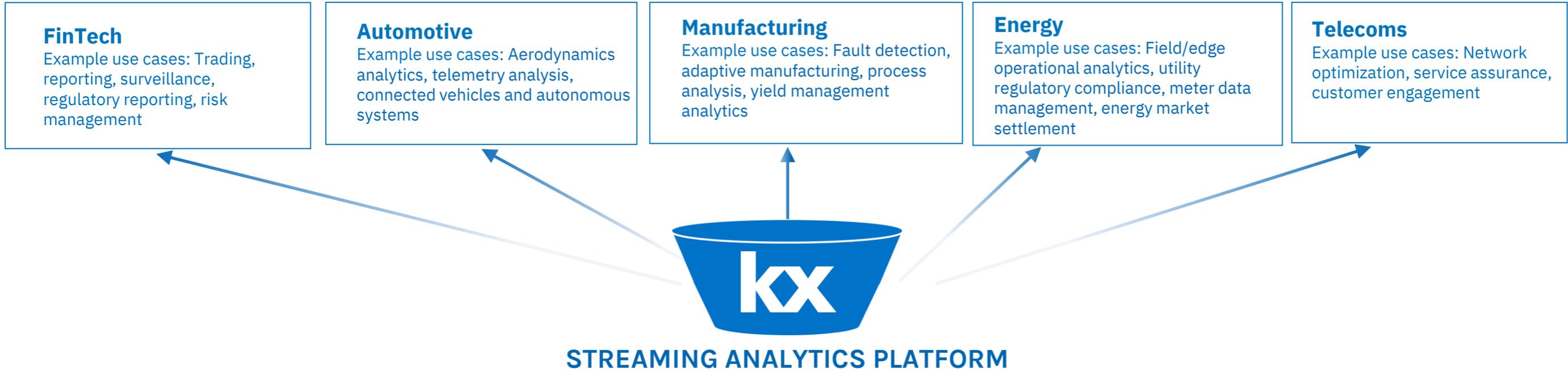
Solve your most demanding business decisions with **real-time** continuous intelligence

# Our differentiation

Ultra-high performance, in-stream processing and analytics, fully contextualised in a **single platform** and **infinitely scalable**



# Powering Streaming Analytics



**GLOBAL CLIENT BASE**



# Building a sustainable growth business

- **Broaden our market presence:**
  - Drive our brand awareness by actively promoting our capabilities in markets where continuous intelligence is key to success
  - Deliver meaningful revenue from partnerships
- **Increase interoperability and ease-of-use:**
  - Enable clients to deploy Kx in any environment and scale seamlessly to meet their needs
- **Expand and strengthen our go-to-market capability:**
  - Develop the capability to fully convert our technology leadership to market share
  - Transition to 100% recurring revenue model



# Case study – FinTech surveillance

## Customer Challenge:

Global financial institution was required to comply with Market Abuse and Dodd Frank regulations covering trade surveillance, control room and private banking. Failure to do so would lead to significant financial penalties from their regulators.

## Why did they select Kx?

Ability to ingest and process very large data volumes; proven track record; ability to implement rapidly to meet compliance deadlines; flexibility of system enabling scope to be increased over time to meet future regulations.

## What does Kx deliver?

Kx is ingesting and processing 130GB compressed data per day covering more than 500+ products across 40+ source systems in 5 different global hubs. Kx is now the central repository (data lake) for regulatory reporting, providing a solid platform from which surveillance can be performed.

## How do we charge?

- Annual recurring software license determined by the scope of the system deployed (asset classes and geographies covered)

## Estimated value of addressable market for similar solutions:

- >\$2.5 bn per annum

# Case study - Telco

## Customer Challenge:

Multi-national network provider was looking to increase customer satisfaction by improving network efficiency and call quality, through the analysis of issues as they arise on the network and modelling of scenarios as new services are proposed. To do this they needed machine learning models that join customer quality with the network's technical metrics.

## Why did they select Kx?

Kx provides a powerful streaming analytics platform to combine different data sources (Radio Access Network and customer quality) in real-time, analyze that data as it arrives, and make decisions when seconds count. In addition, the client can easily perform ML models on top of that data to improve efficiency, something they had been unable to do before.

## What does Kx deliver?

Kx enables greater network efficiency, limits unneeded capex investments and reduces customer quality problems which results in higher customer satisfaction. Estimated customer savings are €10m per annum.

## How do we charge?

- Annual recurring software license determined by the number of cells and customers

## Estimated value of addressable market for similar solutions:

- >\$1.5 bn per annum

# Case study - Automotive

## Customer Challenge:

The client needs to improve the efficiency and effectiveness of the testing of their motorsports and production vehicles in aerodynamic testing facilities. The client's existing tools are not able to keep up with the volume of data being generated and the analytics required by their engineering teams. Our client currently wastes many hours per day in the wind tunnel due to legacy systems and technology.

## Why did they select Kx?

Kx will support the automaker in ingesting, processing and analyzing streaming and historical data during test runs, post-testing analysis of entire vehicles and parts. Kx will perform complex engineering calculations and advanced analytics with interactive visualizations for the client's Motorsports (NASCAR, WRC, GT4) and production vehicles

## What does Kx deliver?

Kx increases the number of tests and changes that can be run on a vehicle or vehicle component in a given time window, resulting in faster time-to-market and higher quality engineering outcomes. These improvements translate into significant ROI on time available and cost of testing, outcomes in races and development of production vehicles.

## How do we charge?

- Per site basis, with the amount determined by data levels

## Estimated value of addressable market for similar solutions:

- >\$2 bn per annum

# Case study - Energy

## Customer Challenge:

The client needed to effectively operationalize data management, message processing and transaction data. Demanding regulations for EU transmission and market operators demands providers shift towards advanced next-generation capabilities by 2022.

## Why did they select Kx?

Kx was selected alongside its partner CGI to provide key functionality for the client's data hub, integrated with CGI's Central Markets Systems (CMS). Kx will provide high-performance meter data management, settlement calculation and data retrieval capabilities. CGI found improved service levels and reduced risk by completing meter data processing and market calculations in minutes compared to many hours.

## What does Kx deliver?

This advanced system will deliver improved operational efficiency with minimal infrastructure requirements to reduce cost of operations and service delivery. This will drive simplified, faster and enhanced efficiency of data exchange across the national electricity retail market and meet the regulatory requirements of EU transmission and market operators.

## How do we charge?

- Annual recurring license based on the size of the implementation deployment

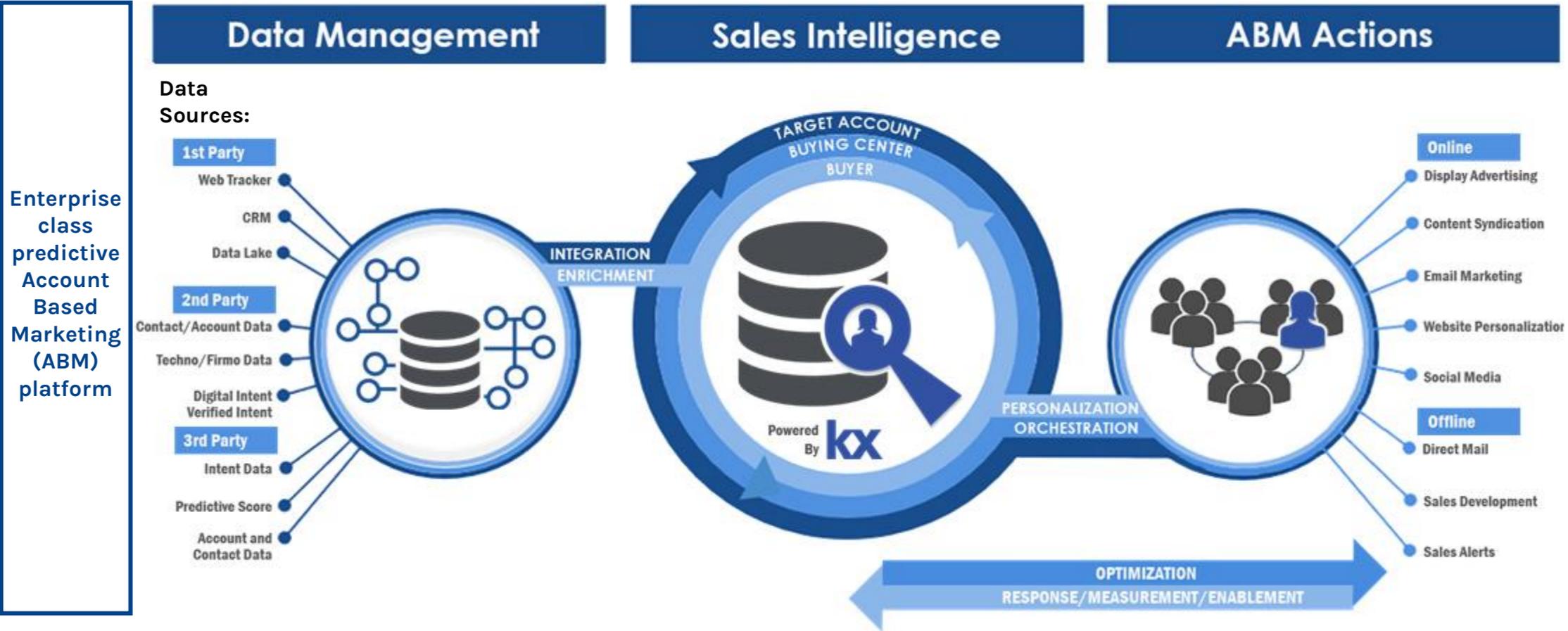
## Estimated value of addressable market for similar solutions:

- >\$1 bn per annum

# MRP

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# MRP: continuous marketing decisions at scale



Enterprise class predictive Account Based Marketing (ABM) platform

# MRP: exploiting our differentiation

## 1 Enhance MRP's position as the leading Account Based Marketing platform

### Areas of differentiation:

- Global scale
- Enterprise customer experience
- Omni-channel presence
- Trusted privacy strength

## 2 Grow high value subscription revenue streams

### Invest time and resources:

- Use R&D to enhance key strengths in continuous intelligence and data management
- Deliver enterprise class capabilities to broader ABM marketplace

## 3 Capitalise on Kx's differentiation in the MarTech space

### Expand data sources to improve insights based on:

- Real-time, streaming analytics
- Huge marketing data volumes
- Real time connection of insights to actions

# Case study – MRP

## Customer Challenge:

MRP's enterprise software client required an Account Based Marketing (ABM) solution that could apply intent data and predictive analytics to identify needs and timing for target accounts, create more effective interactions between marketing and sales teams and leverage machine learning to make better predictions around buying intent.

## Why did they select MRP?

MRP is an industry leading application of real-time AI and machine learning that automates the aggregation of data from various sources and distils actionable insights at the speed required for target account engagement. Using predictive analytics derived from billions of data points, it enables clients to dynamically activate a wide range of sales and marketing tactics informed by real-time insights.

## What does Kx deliver?

MRP was able to provide the client with predictive models to find the best outcome, resulting in a 400% increase in target buyer response. As a result the client benefited from increased opportunity volume, reduced time-to-close (identifying the exact needs of in-market buyers in real-time enabled them to provide best fit solutions, beating their competitors to the finish line) and additional upsell and cross-sell opportunities.

## How do we charge?

- Subscription revenue based on customer use of the platform plus associated services

## Estimated value of addressable market for similar solutions:

- >\$12 bn per annum by 2022

# Managed services and consulting

Interim Results October 2020  
First Derivatives

# Growing demand for our domain expertise



Optimise the cost: income ratio to fund investment



Regulation and technology disruption impacting business models



Safeguard and exploit data for value



Offer tailored customer-specific propositions



Create capability to rapidly react to customer behaviour



Strengthen procurement and centralise decision making



Movement away from metro-centres



Simplify, automate, outsource, centralise operations



Rapid digitisation of channels and services



Financial services businesses are facing an existentialist threat where the need to rapidly transform is critical - internal expertise needs to be supplemented

## Transformation

Financial services entities that do not resolve these challenges may lose their relevance in the medium term...

....and the availability of internal expertise, prioritisation and funding are substantial challenges

# MS&C: driving value

## Targeting high quality revenue services areas



Growing the sales capability



Strengthen key partnerships



Capitalise on changing delivery models



Focus on value propositions



Marketing and campaigns

### Data Services

- Enabling enterprises to exploit their data through data engineering solutions, outsourced data management and consulting around data architectures, data cleansing and visualisation.

### Vendor Services

- Reducing the cost of operating, maintaining and upgrading capital market technologies through outsourced technology support, automated/continuous testing and Cloud migration.

### Business Services

- Provision of domain expert resources to support timely regulatory change programs including around Know Your Customer and other Client Life Cycle Management.

## A resilient business with exciting growth opportunities



### Results

A highly resilient performance in a period of macro uncertainty caused by COVID-19



### Strategy

Strengthened leadership and go-to-market capabilities to take advantage of growing opportunities



### Outlook

High level of repeat and recurring revenue underpins our outlook and we are confident in our growth strategy