

First Derivatives plc

Interim results

Six months to 31 August 2019

Seamus Keating, Chairman
Graham Ferguson, CFO
Ian Mitchell, Head of IR



www.firstderivatives.com

Cautionary Statement

The following presentation is being made only to, and is only directed at, persons to whom such presentation may lawfully be communicated (“relevant persons”). Any person who is not a relevant person should not act or rely on this presentation or any of its contents. Information in the following presentation relating to the price at which relevant investments have been bought or sold in the past or the yield on such investments cannot be relied upon as a guide to the future performance of such investments. For the avoidance of doubt, nothing in this presentation should be construed as a profit forecast.

The information, statements and opinions contained in this presentation do not constitute a public offer under any applicable legislation, an offer to sell or solicitation of any offer to buy any securities or financial instruments in First Derivatives plc (the “Company”) or any company which is a subsidiary of the Company. Further this presentation does not provide any advice or recommendation with respect to any such securities or other financial instruments.

The release, publication, or distribution of this presentation in certain jurisdictions may be restricted by law, and therefore persons in such jurisdictions into which this presentation is released, published or distributed should inform themselves about, and observe, such restrictions.

Forward-looking Statements

Certain statements contained in this presentation constitute forward-looking statements. All statements other than statements of historical facts included in this presentation, including, without limitation, those regarding the Company’s financial condition, business strategy, plans and objectives, are forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including, for example, the terms “believes”, “estimates”, “anticipates”, “expects”, “intends”, “may”, “will”, or “should” or, in each case, their negative or other variations or comparable terminology. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company’s present and future business strategies and the environment in which the Company will operate in the future. Such risks, uncertainties and other factors include, among others: inherent difficulty in predicting customer behaviour; customers may not respond as we expected to our sales and marketing activities; the competitive environment; our ability to adapt to technological change; business interruption or failure of our systems architecture and communication systems; problems with implementing upgrades to our applications and supporting information technology infrastructure; any failure to properly use and protect personal customer information and data; our ability to manage and maintain third party business partnerships; increased regulation of our businesses; changes in laws; any failure to process transactions effectively; any failure to adequately protect against potential fraudulent activities; any significant quality problems or delays; the global macro-economic environment; the potential for one or more countries exiting the Eurozone; the implications of the exercise by the United Kingdom (the “UK”) of Article 50 of the Treaty of Lisbon and the disruption that may result in the UK and globally from the withdrawal of the UK from the European Union; our inability to attract, retain and develop talented people; our ability to repurchase shares; our inability to adequately protect our intellectual property rights; disruptions, expenses and risks associated with any acquisitions and divestitures; amortisation of acquired intangible assets and impairment charges; our use of debt to finance acquisitions or other activities; and the cost of, and potential adverse results in, litigation involving intellectual property, competition authority, shareholders and other matters. These forward-looking statements speak only as at the date of this presentation. Except as required by the Financial Conduct Authority, or by applicable law, the Company does not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events, or otherwise.

Highlights

Highlights – business on track



Revenue
£116.7m

+11%



Adjusted EBITDA
£20.2m (pre IFRS 16)

+12%

- 19% growth in recurring software revenue
- Profit before tax up 12% to £8.4m
- Interim dividend up 10% to 8.5p per share

Execution of strategy remains on track



Good progress in securing cross-industry partnership agreements and contract wins

Gaining traction



Strong momentum in MS&C through the period with good visibility

Growing momentum



Kx delivering strong growth in FinTech software recurring revenue

Increasing visibility



CEO succession process progressing

Interim in place

Recognising our success

SELECTED AS

Global Technology Partner
- Financial Services

2018

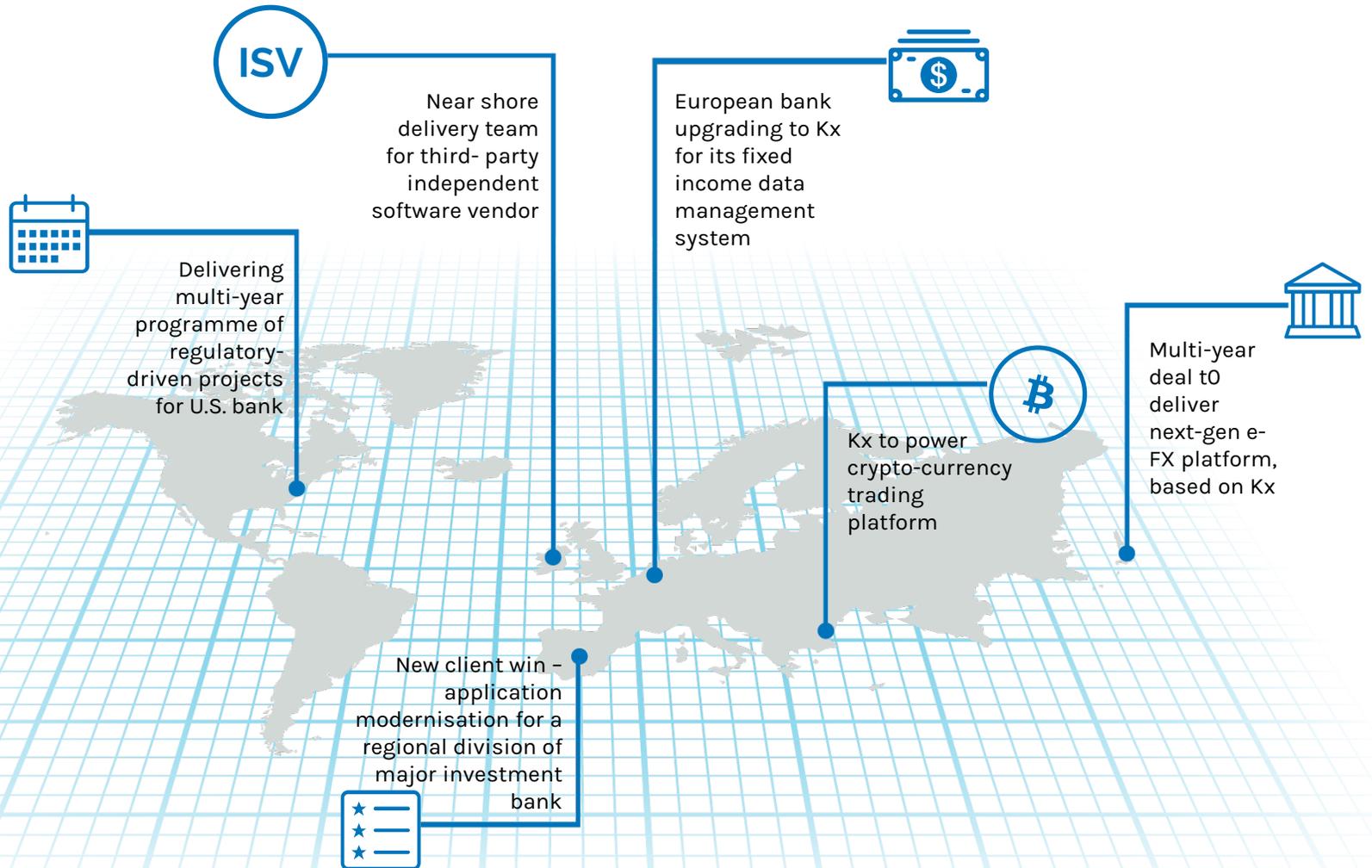


Partner of the Year

Google Cloud



Major contract wins across the business



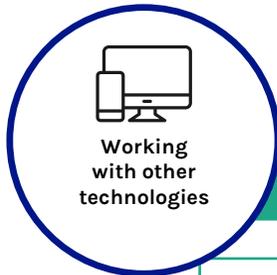
Financial Review



Revenue and gross profit sources



Group Performance			
	H1 2020	H1 2019	Growth
Revenue	£116,676	£105,574	↑ 11%
Cost of Revenue	(£68,697)	(£61,692)	↑ 11%
Gross Profit	£47,979	£43,882	↑ 9%
Gross Margin	41%	42%	



Managed Services & Consulting

	H1 2020	H1 2019	Growth
Revenue	£45,235	£42,463	↑ 7%
Cost of Revenue	(£34,411)	(£33,293)	↑ 3%
Gross Profit	£10,824	£9,170	↑ 18%
Gross Margin	24%	22%	



Kx

	H1 2020	H1 2019	Growth
Revenue	£71,441	£63,111	↑ 13%
Cost of Revenue	(£34,286)	(£28,399)	↑ 21%
Gross Profit	£37,155	£34,712	↑ 7%
Gross Margin	52%	55%	

Income statement – revenue and gross profit



£'000	H1 2020	H1 2019	Movement
► Software Licenses			
Software perpetual licenses	3,160	6,615	↓ 52%
Software recurring licenses	28,293	23,823	↑ 19%
Total Software license revenue	31,453	30,438	↑ 3%
Cost of Software license revenue	(6,026)	(5,004)	↑ 20%
Software license gross profit	25,427	25,434	-
Software license gross margin	81%	84%	
► Software Services			
Implementation and support revenue	39,988	32,673	↑ 22%
Cost of software services revenue	(28,260)	(23,395)	↑ 21%
Services gross profit	11,728	9,278	↑ 26%
Services gross margin	29%	28%	
► Total Software			
Software revenue	71,441	63,111	↑ 13%
Cost of software revenue	(34,286)	(28,399)	↑ 21%
Software gross profit	37,155	34,712	↑ 7%
Software gross margin	52%	55%	
► Managed Services & Consulting (MS&C)			
MS&C revenue	45,235	42,463	↑ 7%
Cost of MS&C revenue	(34,411)	(33,293)	↑ 3%
MS&C gross profit	10,824	9,170	↑ 18%
MS&C gross margin	24%	22%	

Software licenses

- Strong growth in recurring software licenses, up 19% in period
- Lower FinTech perpetual revenue against a strong comparative period

Software services

- FinTech services growth of 30% reflecting strength of Kx software sales
- Higher utilisation contributing to improvement in margin
- Focus on product growth in MarTech and Industry

Managed Services & Consulting

- Momentum built through the period with a number of multi-year contract wins that will contribute to future years
- Investment in prior period resulting in margin improvement

Income statement – revenue and adjusted EBITDA



£'000	H1 2020	H1 2019	Movement
▶ Total Group			
Revenue	116,676	105,574	↑ 11%
Cost of revenue	(68,697)	(61,692)	↑ 11%
Gross Profit	47,979	43,882	↑ 9%
Gross margin	41%	42%	
▶ Adjusted operating costs			
Total R&D	(5,605)	(4,883)	↑ 15%
(of which capitalised)	4,425	3,833	↑ 15%
Sales and marketing costs	(17,244)	(15,785)	↑ 9%
General and admin costs	(7,692)	(9,343)	↓ 18%
Other Income	121	364	↓ 67%
▶ Adjusted EBITDA	21,984	18,068	↑ 22%
Adjusted EBITDA margin	19%	17%	

Summary

- Gross margin down slightly due to lower perpetual license revenue in mix
- Increase in gross profit invested in:
 - Additional R&D but in line with second half of prior year (up 15%)
 - Additional sales and marketing (up 9%)
- Reduction in G&A costs of 18% as reported; reduction driven by IFRS 16 impact (on normalised basis up 2%)
- Adjusted EBITDA increase of £3.9m (up 22%) - excluding IFRS 16 increase £2.1m (up 12%)
- Continued fiscal discipline of investing while delivering growth in profits



Income statement – profit and earnings



£'000	H1 2020	H1 2019	Movement
▶ Adjusted EBITDA	21,984	18,068	↑ 22%
Adjusted EBITDA margin	19%	17%	
Additional administration costs			
Acquisition related costs	(871)	(1,582)	
Share-based payment costs	(1,578)	(1,543)	
Depreciation and amortisation	(7,083)	(4,774)	
Amortisation of acquired intangibles	(1,850)	(1,846)	
▶ Operating profit	10,602	8,323	↑ 27%
Net finance and associate costs	(2,170)	(765)	
Profit before tax	8,432	7,558	↑ 12%
Income tax	(1,791)	(1,626)	
Profit for the period	6,641	5,932	↑ 12%
Earnings per share (diluted)	24.2p	21.7p	↑ 11%
Adjustments			
Acquisition related costs	871	1,582	
Share-based payment costs	1,578	1,543	
Amortisation of acquired intangibles	1,850	1,846	
Finance translation and assoc. costs	556	52	
Tax effect of above	(604)	(384)	
▶ Adjusted profit for the period	10,892	10,571	↑ 3%
Diluted average shares in issue (m)	27.5	27.3	
▶ Adjusted EPS (fully diluted)	39.6p	38.7p	↑ 2%

Operating Profit

- Reported operating profit up 27% to £10.6m
- Increased software amortisation (up £0.7m) and depreciation (up £1.6m, mostly relating to IFRS 16 charge)

Taxation

- Adjusted tax rate increased to 18% (H1 2019: 16%)
- Adjusted tax rate should be similar going forward

Adjusted Earnings

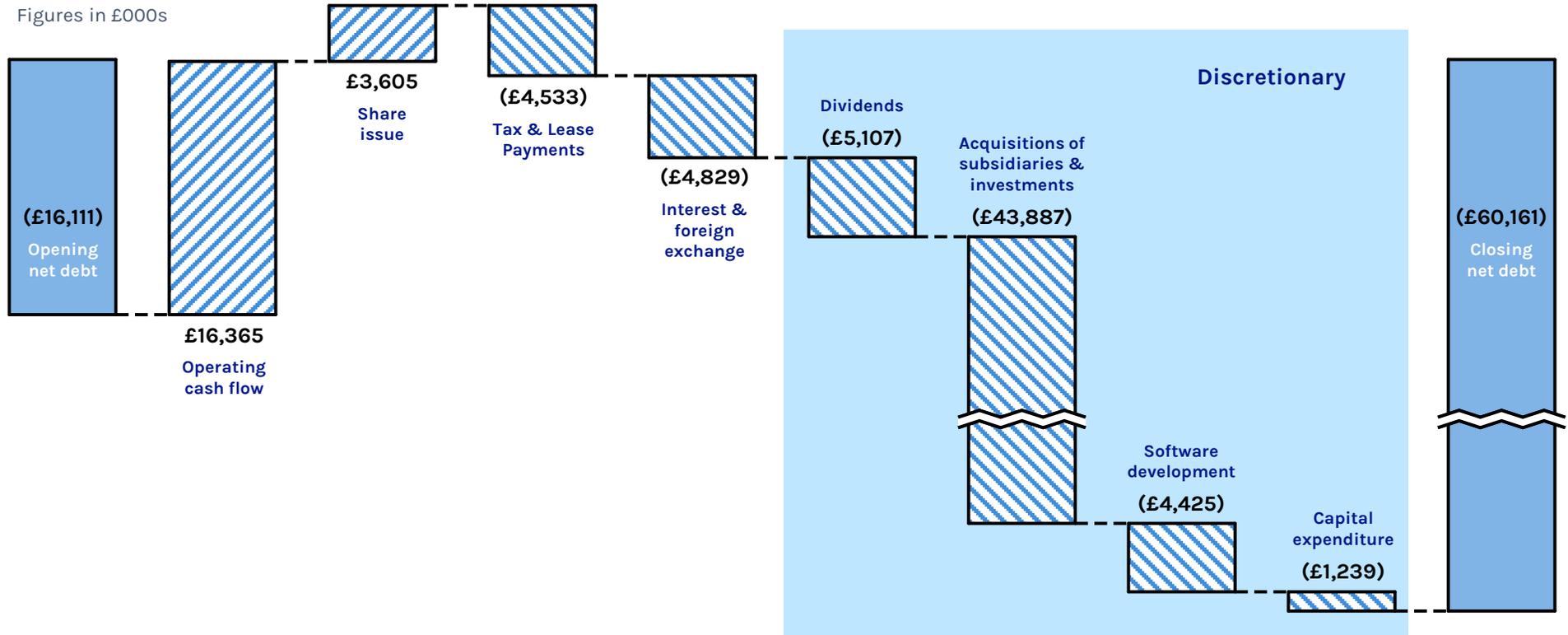
- Adjusted diluted EPS increased by 2% to 39.6p (H1 2019: 38.7p)
- Higher adjusted tax charge and increased shares in issue (employee option exercises) restricted adjusted EPS growth

Reported Earnings

- Reported profit after tax up 12% at £6.6m (H1 2019: £5.9m)
- Reported diluted EPS up 11% at 24.2p (H1 2019: 21.7p)

Cash flow bridge

Figures in £000s



Operating cash flow (exc. taxes paid) £16.4m

- Conversion of adjusted EBITDA to cash: 74%

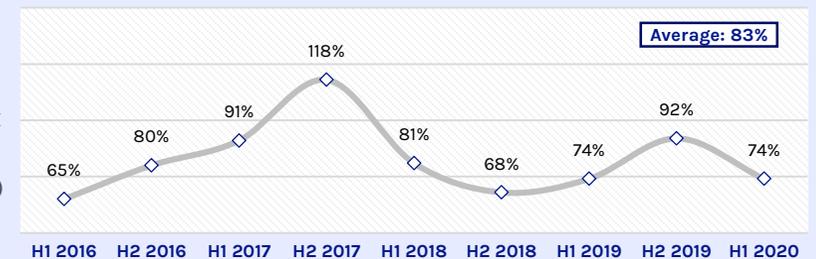
Net debt

- Net debt £60.2m (H1 2019: £24.2m)
- 1.3x consensus adjusted EBITDA
- New facilities up to £130m

Discretionary expenditure

- £42.9m acquisition costs, relating to Kx minority purchase
- £1.0m ventures funding (H1 2019: £3.3m)
- Historically H1 weaker period for cash generation

Cash conversion %

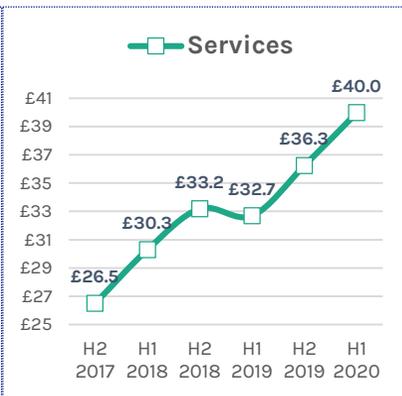
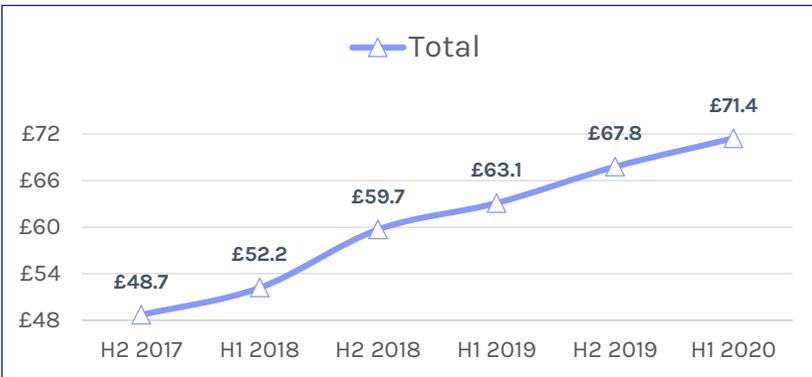




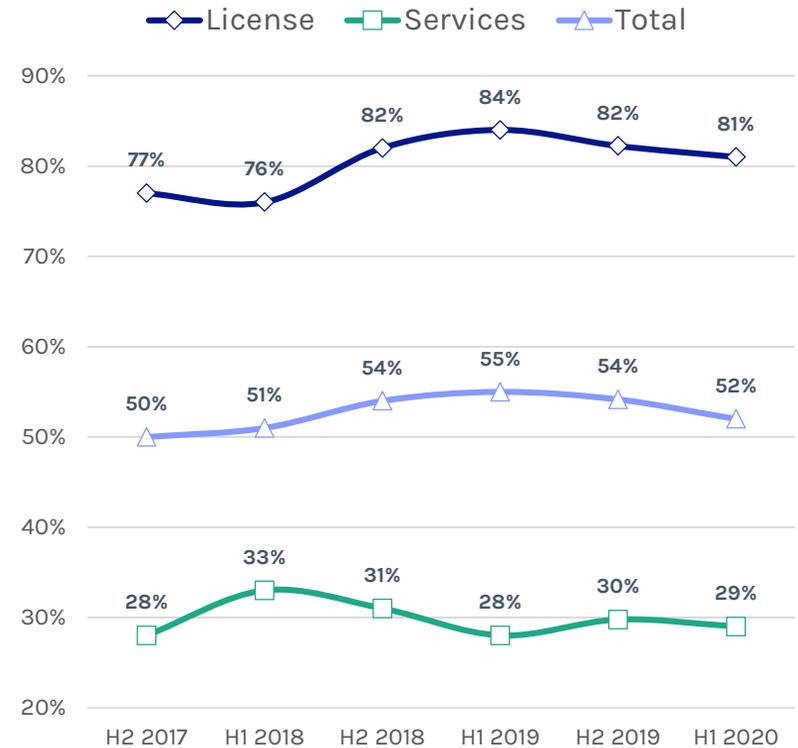
Software key metrics



Software Revenue (£m)

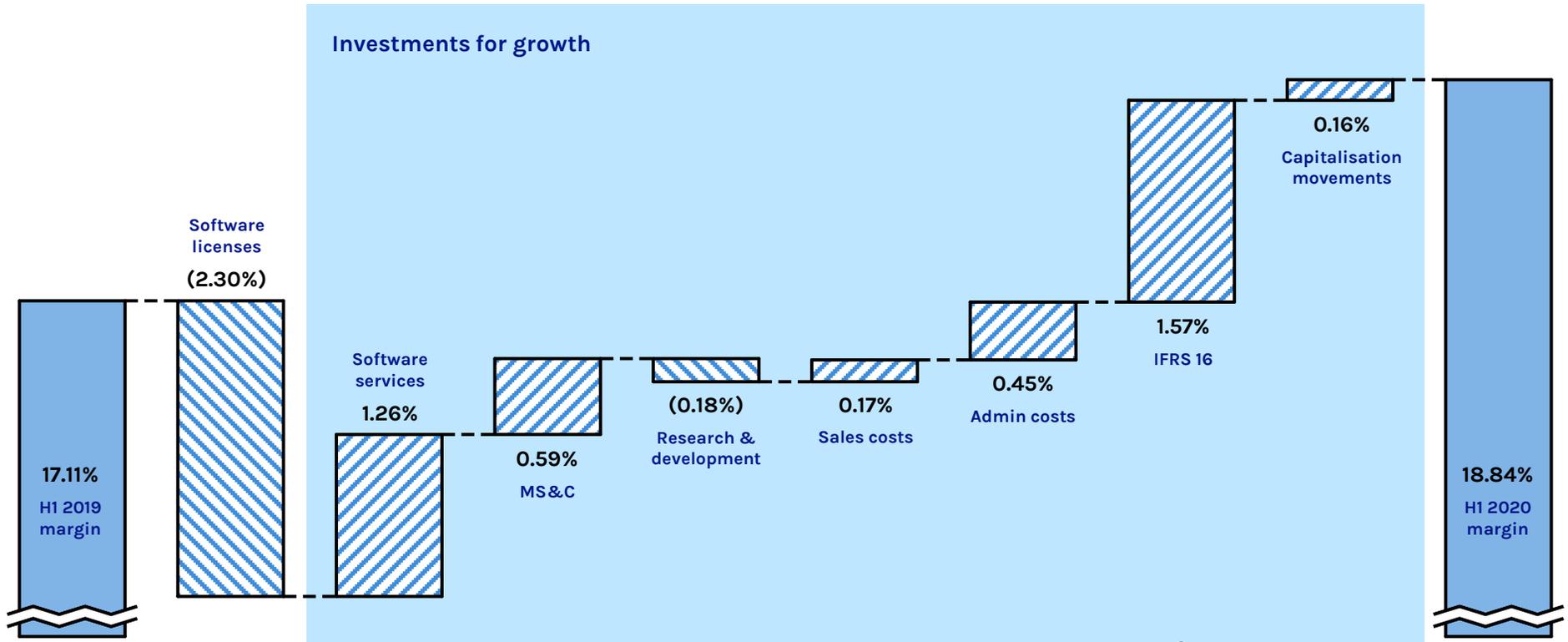


Software Margins





Adjusted EBITDA margin bridge



Revenue

- Reduction in perpetual software licenses in the mix balanced by improved margins in both software services and managed services and consulting

Operational costs

- Continued investment in R&D and sales and marketing broadly in line with revenue growth

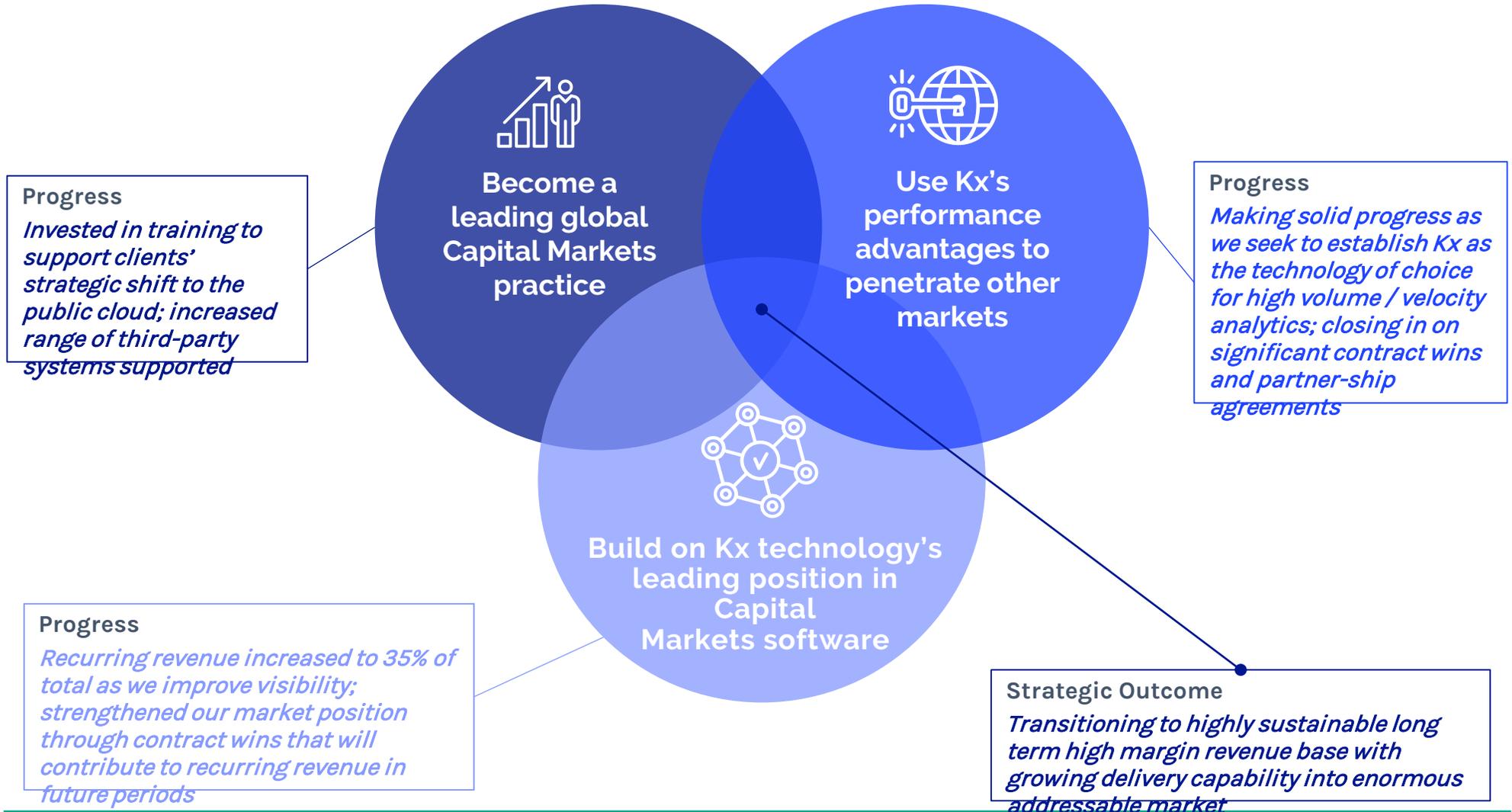
Other costs

- Excluding IFRS 16 and capitalisation movements, underlying adjusted EBITDA margins were flat, despite the continued investment and lower mix of perpetual license revenue during the period

Strategy and performance

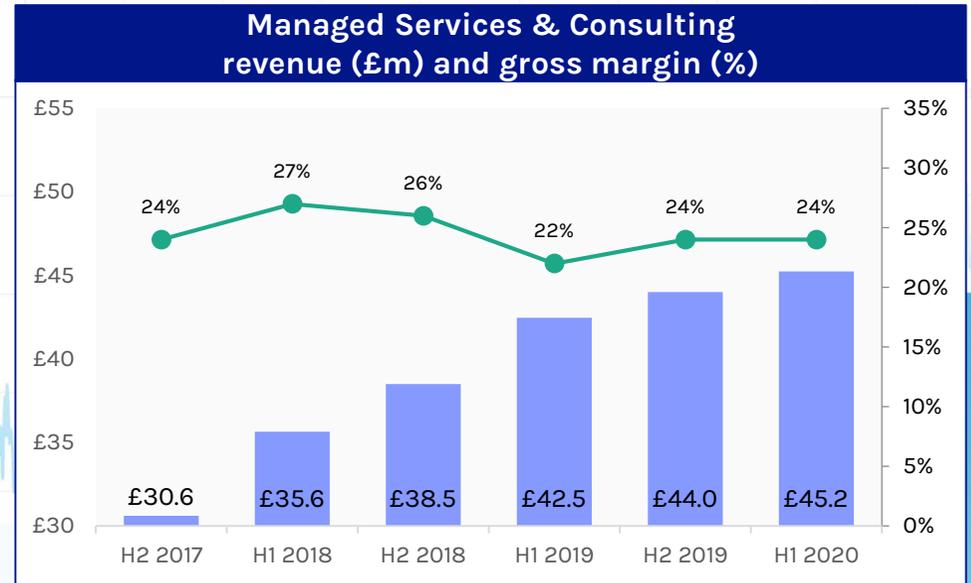


The path we are on



Managed Services & Consulting

Managed Services & Consulting			
	H1 2020	H1 2019	Growth
Revenue	£45,235	£42,463	↑ 7%
Cost of Revenue	(£34,411)	(£33,293)	↑ 3%
Gross Profit	£10,824	£9,170	↑ 18%
Gross Margin	24%	22%	



Commentary

- Revenue growth 7% (39% of Group revenue) as we managed the completion of multi-year implementations while investing in our public cloud capabilities
- Won multiple new contracts, particularly focused on regulatory compliance and market structural reform, and increased the range of third-party vendor systems we support, increasing our addressable market
- Key account management approach driving more strategic conversations and enabling cross selling, including the provision of near shore managed services
- Competitive advantage achieved through award-winning training programme, combination of domain and technology expertise and client-centric approach
- Focus on run-the-bank delivers high levels of repeat revenue



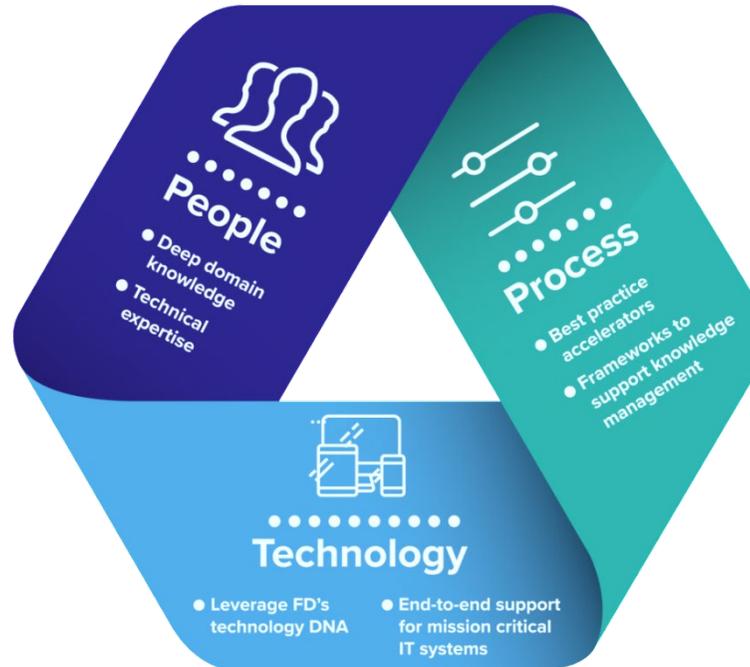
Client-focused and comprehensive services



Core Focus

- Managed Services**
- Vendor Technologies**
- Regulatory & Compliance**
- Program support**

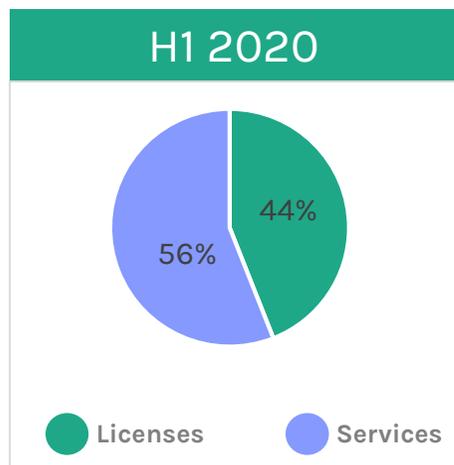
We are a performance-focused firm who clients go to “to get it done”



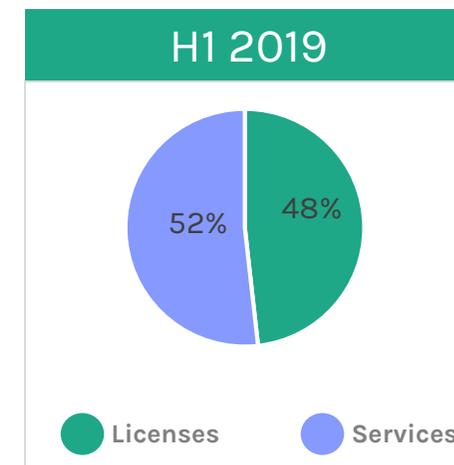
Core Strengths

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

Software



kx	H1 2020	H1 2019	Growth
Recurring	£28,293	£23,823	↑ 19%
Upfront	£3,160	£6,615	↓ 52%
Licenses	£31,453	£30,438	↑ 3%
Services	£39,988	£32,673	↑ 22%
TOTAL	£71,441	£63,111	↑ 13%



FinTech

	H1 2020	H1 2019	Growth
Recurring	£15,753	£13,335	↑ 18%
Upfront	£1,932	£6,267	↓ 69%
Licenses	£17,685	£19,602	↓ 10%
Services	£26,880	£20,650	↑ 30%
TOTAL	£44,565	£40,252	↑ 11%

MarTech

	H1 2020	H1 2019	Growth
Recurring	£11,745	£9,780	↑ 20%
Upfront	–	–	
Licenses	£11,745	£9,780	↑ 20%
Services	£10,684	£10,009	↑ 7%
TOTAL	£22,429	£19,789	↑ 13%

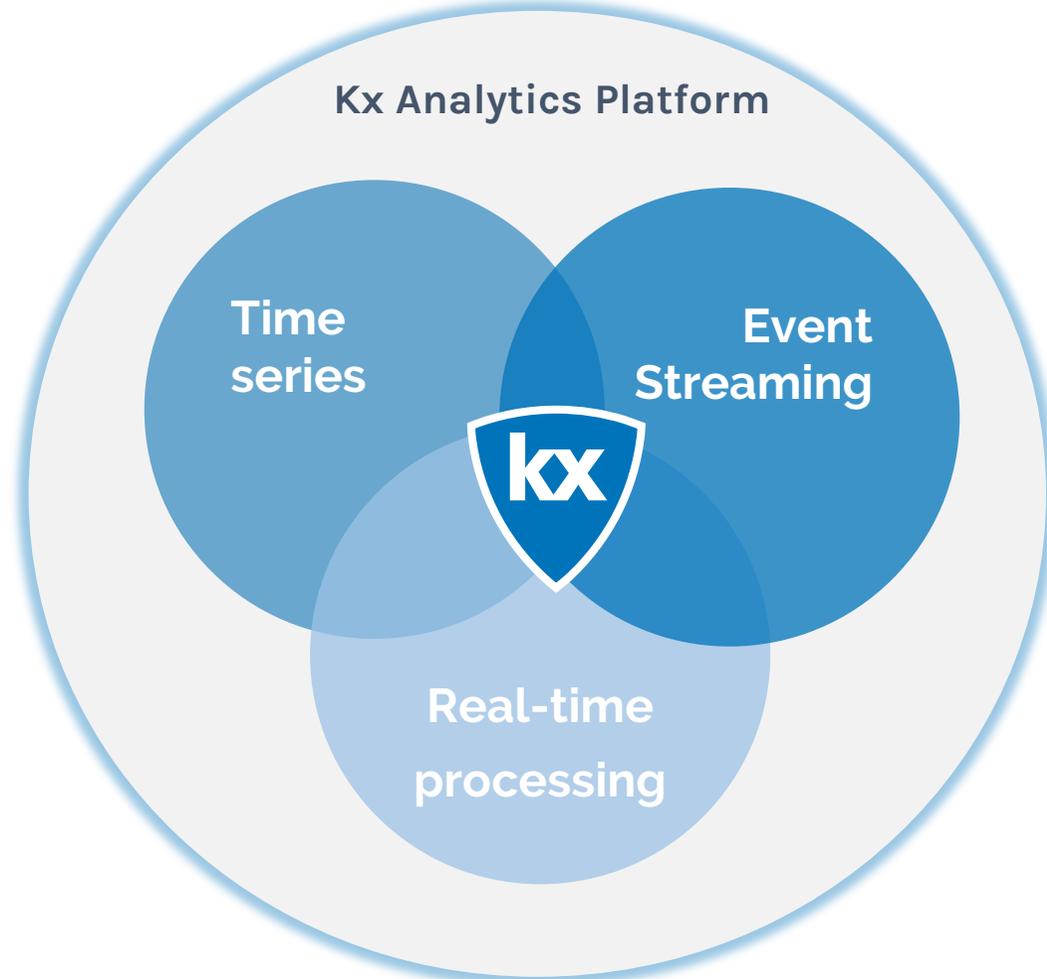
Industry

	H1 2020	H1 2019	Growth
Recurring	£795	£708	↑ 12%
Upfront	£1,228	£348	↑ 253%
Licenses	£2,023	£1,056	↑ 92%
Services	£2,424	£2,014	↑ 20%
TOTAL	£4,447	£3,070	↑ 45%

Edge

Kx's extreme data processing capabilities enables operational intelligence at the edge

By 2022, 50% of all enterprise-generated data will be created and processed outside the data centre or cloud
- Gartner, Edge Will Eat the Cloud, March 2019



Cloud

Kx is cloud-friendly and operates across all the major cloud provider platforms, avoiding the risk of vendor lock-in.

Providing a single solution that operates in the cloud and at the edge is unique to Kx

Kx provides all the components needed to deliver real-time operational decision-making in a single platform

Enabling action in real-time drives efficiency

FinTech



	Competitors	kx
Monitor	✓	✓
Report	✓	✓
Action		✓

OUTCOME: Ensure market integrity, increase trading profits, achieve regulatory compliance

Manufacturing



	Competitors	kx
Monitor	✓	✓
Report	✓	✓
Action		✓

OUTCOME: Increase production quality, minimise faults and downtime, improve yield

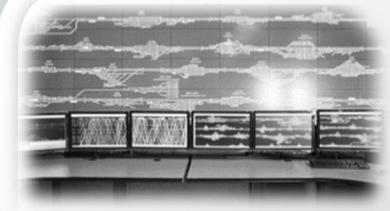
Automotive



	Competitors	kx
Monitor	✓	✓
Report	✓	✓
Action		✓

OUTCOME: Improve car set-up leading to greater chance of winning race and lower risk of crashing

Utilities



	Competitors	kx
Monitor	✓	✓
Report	✓	✓
Action		✓

OUTCOME: Improve network efficiency, achieve regulatory compliance, increase customer satisfaction

Kx processes all the relevant data in real-time for optimal decision-making



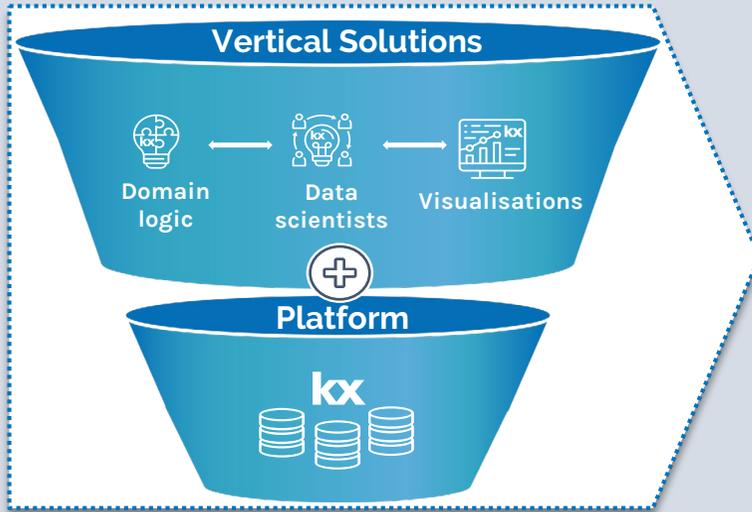


One Platform

Three Prongs of Attack: Benefits and Rationale



Vertical markets



Capital markets needs

- Regulatory requirements**
- Compliance requirements**
- Algorithmic trading**
- \$5.1 trillion FX trades per day**

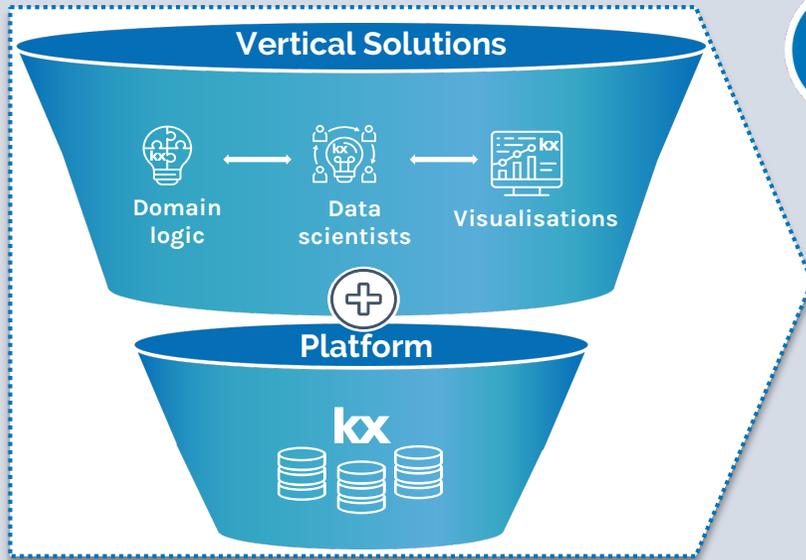
Kx solutions

- Kx for Regulation**
 - Extensible, data-driven reporting solutions for prudential, conduct-related, and other market structural reforms
- Kx for Surveillance**
 - Tailored for banks, brokers, exchanges and regulators
 - Extensive library of scenarios
- Kx for Analytics**
 - Real-time, streaming and historical analytics
 - Pre-built analytics for profitability analysis, best execution & TCA
- Kx for Liquidity**
 - Market Neutral FX Trading
 - Direct access to deep pools of liquidity

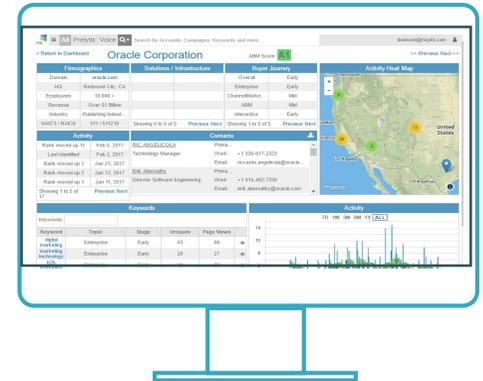
Numerous global banks, exchanges and regulators as customers e.g.



MarTech: leadership in Account Based Marketing



MRP Prelytix



Marquee client base



Key metrics

150⁺

Clients

35%

Outside the US

100⁺

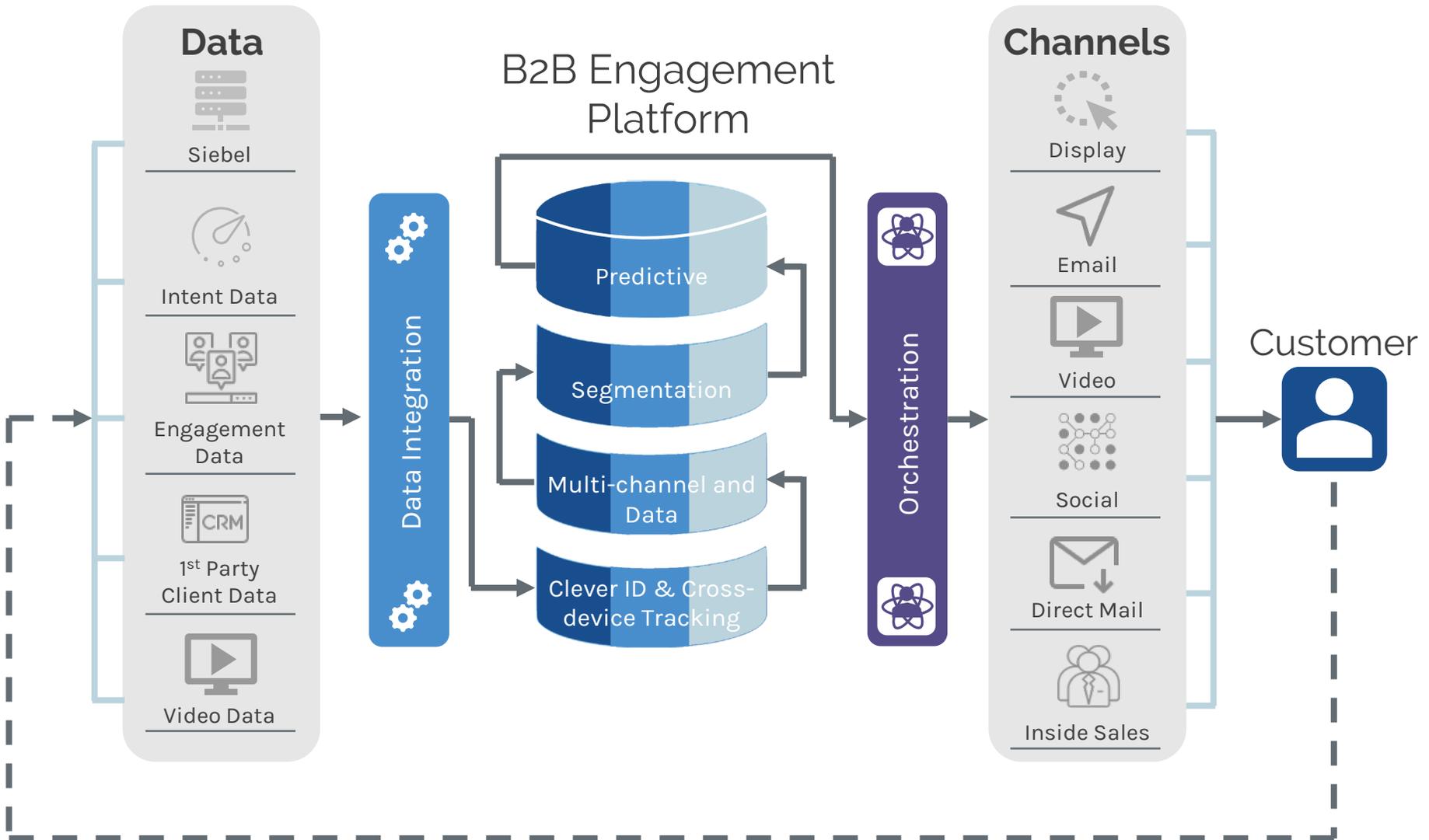
Countries

93%

Higher conversion vs. internal / competition



MRP Prelytix: an end-to-end platform





Forrester

MRP Prelytix recognised as 'Leader' in B2B Marketing:

'MRP unites predictive analytics with demand generation services. MRP [has] the proprietary ability to analyse data from demand generation activity, merge it with a customer's first-party data, and produce a multidimensional account score, which helps marketers determine the next best step to take with accounts. The result is a self-professed closed-loop between predictions and marketing activity for feeding results back into models'



Ovum

MRP Prelytix recognised as 'Leader' in ABM:

MRP's 'thoughtful integrated use of artificial intelligence within ABM is going to create many opportunities for sales and marketing organizations to better engage with their target account portfolio'



2019 MarTech Breakthrough Awards

MRP Prelytix won 'Best Overall Account Based Marketing Solution'

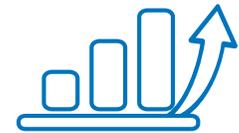


2019 Drexel LeBow Analytics 50 Awards

MRP Prelytix recognised for 'Excellence in Data Analytics' at cross industry awards for notable and innovative ways to solve business problems



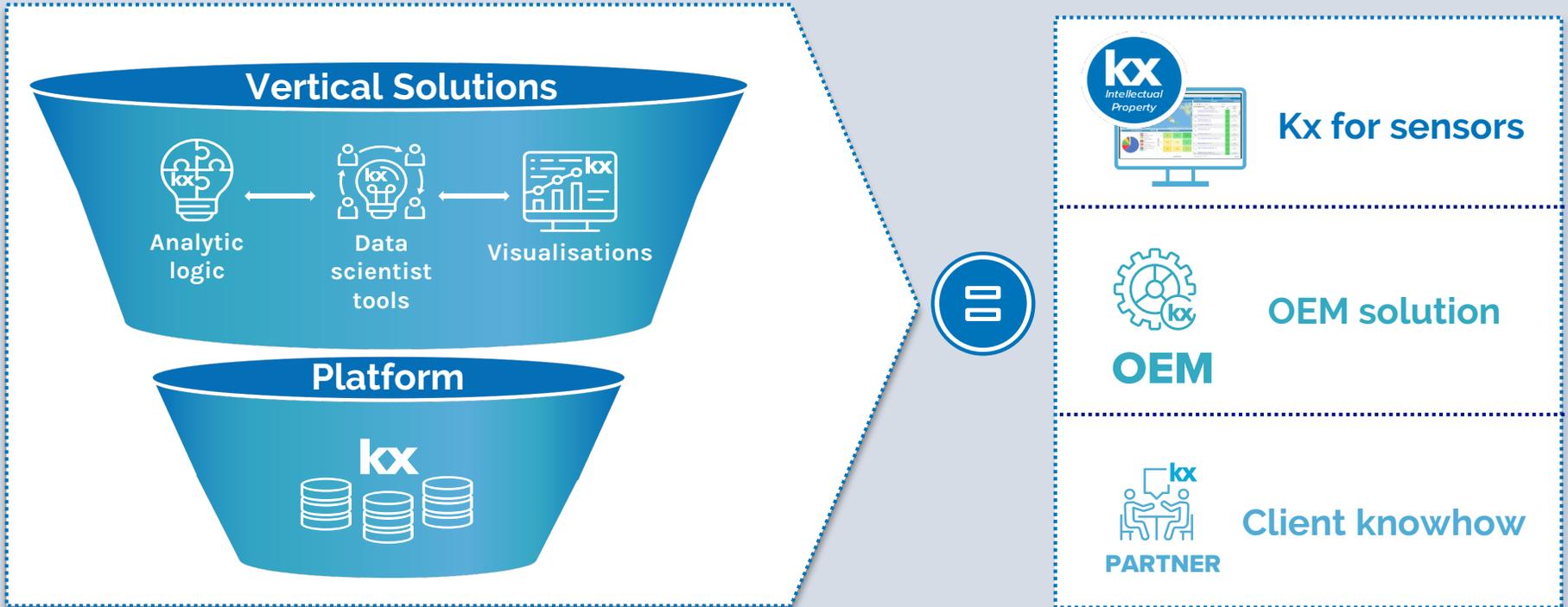
New routes to market through agency and channel partners



Growth in subscription revenue



Breaking through in Industry



Initial client wins across multiple markets



Summary and Outlook

- Solid results with important contract wins across the business
- High level of visibility and good momentum provide confidence in meeting full year consensus forecasts
- Continued strategic progress positioning our technology to meet the challenges faced by organisations across industries
- Closing in on landmark contracts and partnership agreements

On track for FY 2020 with positive momentum as we execute our strategy

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



First Derivatives plc

Contact Us

New York +1 (212) 447-6700

Europe +44 (28) 302 52242

Asia-Pacific +61 2 9477 0200
+65 6592 1960

info@firstderivatives.com

www.firstderivatives.com

FD provides a range of brochures on its products and services.
For more information please contact us via our website or the above numbers