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| **Company** | First Derivatives PLC |
| **TIDM** | FDP |
| **Headline** | Final Results |
| **Released** | 07:00 24-May-2010 |
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RNS Number : 3889M
First Derivatives PLC
24 May 2010

**24 May 2010**
Embargoed until 07:00

**First Derivatives plc**
**("First Derivatives" or the "Company")**

**Final Results**

**First Derivatives (AIM: FDP.L, IEX: GYQ.I),** a leading provider of software and support services to the financial services and technology industries, today announces its results for the twelve months ended 28 February 2010.

**Financial Highlights**

- Turnover £25.476m (2009:£17.548m) +45%
- EBITDA £7.247m (2009:£6.447m) +12%
- Pre-tax profit £5.645m (2009: £4.461m) +27%
- Diluted Earnings per share 25.8p (2009:22.2p) +16%
- Net Assets £16.310m (2009: £11.271m) +45%
- Final dividend 2.75p which together with the interim dividends of 6.75p amounts to 9.5p for year (2009: final dividend 9.0p) +6%

**Business Highlights**

- Trading performance remains robust in all divisions
- Increase in Consulting activity
- Further uplift in Delta software sales
- Acquisition of Hologram in Australia
- Increase in stake in Kx to 20%
- Acquisition of Reference Data Factory in the USA
- Acquisition of Dublin based Cognotec

**David Anderson, Chairman of First Derivatives commented:**

"The substantial investment into First Derivatives coupled with acquisitions made during the year have increased our global coverage and extended our range of Delta software products. We are continuing to make a substantial investment in the development of the Group to ensure it is positioned for both short and long term benefits to shareholders. We have made a strong start to the current year and expect to be able to report further progress in the year to 28 February 2011."

**Enquiries:**

| | | |
|---|---|---|
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**About First Derivatives**

First Derivatives is a global provider of software and consulting services to the financial services industry. With almost 15 years experience working with leading financial institutions, it continues to deliver technologically advanced products and services that anticipate and respond to the evolving needs of global capital markets.

First Derivatives currently employs over 450 people worldwide and counts many of the world's top investment banks, brokers and hedge funds as its customers. It has operations in London, New York, Stockholm, Shanghai, Singapore, Toronto, Sydney, Dublin, Newry and Hong Kong.

For further information please visit **www.firstderivatives.com**

## CHAIRMAN'S STATEMENT

I am pleased to report that this was the fourteenth year of continuous profitability growth for the Group. Further the management team have executed against the Board's stated strategy, investing in the Group to deliver a platform for growth in future years.

***Financials***
Revenues for the year ended 28 February 2010 increased by 45% to £25.476m from £17.548 million in the previous year. Pre-tax profits increased by 27% to £5.645m compared to £4.461 million in 2009. Diluted earnings per share increased by 16% to 25.8p per share (2009: 22.2p).

***Dividend***
The Group continues to generate a strong operating cashflow and this along with our retained cash of £1.711 million at the year end allows the board to recommend a final dividend of 2.75p per share which together with the second interim dividend of 4.0p per share paid on 31st March 2010 amounts to 6.75p per share (2009: final dividend of 6.65p per share). Total dividends declared in respect of the year ended 28th February 2010 amount to 9.5p per share (2009: 9.0p per share) an increase of 6%. This will be paid on 5th July 2010 to those shareholders on the register on 4th June 2010. The shares will be marked ex-dividend on 2nd June 2010. Total dividends are covered approximately three times by earnings.

***Delta software sales***
This year has seen substantial investment in the development of our Delta product suite which has resulted the release of new product applications in the year. These new products have contributed to the continued growth in sales in the second half of the year. We recently announced the receipt of further investment from Invest Northern Ireland, Northern Ireland's Economic Development Agency, to aid market research and product development which will help accelerate the rate of development and the opportunity for return. We have been successful in increasing our channels to market for the Delta product suite. During the past year we have entered into distribution agreements with companies in Mumbai, India and Singapore.

Since the year end we have signed three contracts which will generate approximately $1 million in annualized revenue and our sales pipeline is continuing to grow. The group strategy is to establish an initial foothold with a new client and to then expose our broader offering to the relevant client areas. This progression in the client base is giving us the opportunity to pitch for substantially larger contracts than when we initially launched the product range

***Consultancy***
Capital Markets Consulting revenue continues to grow year on year as new clients are won and further opportunities are realised within our existing client base. We continue to experience price pressure on certain contracts; a position we expect to continue for the foreseeable future. In the summer of 2009 a significant investment was made in this division with the recruitment of an additional 43 personnel (mainly graduates) in order to build for the future. All new staff are placed in our Capital Markets Training Programme which ensures they are provided with appropriate level of domain knowledge and expertise to meet client requirements. We now have 174 people working in this area worldwide.

Market Resource Partners LLC ("MRP") which assists technology companies in the management and execution of sales programmes has had a strong year and is currently trading in line with management expectations. We have recently opened an MRP Global Centre of Excellence in Newry to provide existing and prospective clients with a global service.

***Acquisitions***
Lepton Solutions Pty Limited (trading as Hologram), an Australian based company was acquired in April 2009 and has been integrated successfully into the Group enhancing our global service in the Asia Pacific region. The addition of this team has allowed us to harness their domain expertise in adding Exchange and Treasury Risk Management products to the Delta suite. These are scheduled for launch in the coming months. Recently it has been instrumental in winning two software contracts in the Far East.

In October 2009 First Derivatives acquired a further 17% of the equity in Kx Systems Inc. (Kx) taking its holding to 22%. Kx is now treated as an associate of First Derivatives and its share of the profits since acquisition after amortization of acquired intangible assets of £54,000 has been included within profit before tax.

Reference Data Factory LLC ("RDF") based in New Jersey, USA was acquired in October 2009. RDF specializes in reference data management systems and has expanded First Derivatives' range of products in this area. RDF's credibility in its marketplace has been enhanced by its membership of the First Derivatives group and we are in detailed negotiations on two major contracts with the sales pipeline starting to build up.

The business and assets of Cognotec Limited, a Dublin based company, was acquired in February 2010. It is a specialist provider of software products for the Foreign Exchange ("FX") market and has a long history of providing enterprise based products to this market. The acquisition has seen First Derivatives acquire the rights to Real Stream (rebranded as "Delta RealStream") its next generation retail FX platform and we have commenced deploying it worldwide to FX Brokers.

In April this year the first contract was announced for the provision of Delta RealStream to AFT, one of the leading Japanese online FX brokers. Contracts are transaction based whereby payments to the Company arise as volume of use of the system increases. Further contracts are currently under negotiation and there is a healthy pipeline of prospective customers. Whilst there has been an encouraging start to the use of the software it is very early to assess the volume flow through the system as volumes will progressively build as the clients start migrating to the system. Cognotec's legacy software product AutoDeal+ has also been added to the First Derivatives product range.

Since the acquisition of Cognotec, a cost reduction programme has been implemented and whilst the Cognotec business is currently loss making the Board anticipates that it will break even in the current financial year.

***Outlook***

The substantial investment into First Derivatives coupled with acquisitions made during the year have increased our global coverage and extended our range of Delta software products. We are continuing to make a substantial investment in the development of the Group to ensure it is positioned for both short and long term benefits to shareholders. We have made a strong start to the current year and expect to be able to report further progress in the year to 28 February 2011.

I would like to thank Brian Conlon and his team for their input in what has been another successful year.

David Anderson
Chairman

## CHIEF EXECUTIVE'S STATEMENT

Despite continuing uncertainty as to the strength and sustainability of the recovery in the financial markets I am pleased to report that First Derivatives has had another successful year and we have continued to grow our operations.

***Review of activities***

First Derivatives sells software products to the capital markets and provides a range of associated consulting services. We have a broad customer base and provided services last year to 65 different investment banks, brokers and hedge funds (2009: 42). The group has a global reach with a presence in many of the top financial centres such as Toronto, Chicago, Singapore, Hong Kong, Sydney and Shanghai.

Our track record of organic growth continued this year but the group has been strengthened by a series of strategic acquisitions - Hologram in Australia, RDF in the US and Cognotec in Dublin - and an increase of our stake in Kx Systems. These acquisitions have broadened our geographical reach, strengthened our management and R&D teams, given us direct entry into new markets, provided us with recurring revenue streams and added a number of new product lines to the Delta suite. These companies have been successfully integrated into the First Derivatives Group.

***Software division***

Our Delta brand is now firmly established and a number of high profile successful implementations have helped propagate the spread of the technology. The Delta suite now contains a range of mature products with an installed user base of more than 30 customers worldwide. These products are used for enterprise market data, trading and risk management. The Delta products are sold on an annual licence basis to further enhance our revenue visibility.

Our development plans have been accelerated from a number of perspectives by the recent strategic acquisitions and their associated software assets. Many of their product offerings were on our long-term product roadmap. We will continue to invest in these legacy product offerings by adding to their functionality and by merging them seamlessly with the Delta suite.

We now have managed data centres in London and Chicago. The capacity to host and manage data and software either on our own behalf or on behalf of others is a significant development. This development enables us to also promote the sale of our software via a transaction revenue based model. This allows us to share in the success of our customers and already billions of dollars of FX is being traded on a daily basis through our venues. We anticipate new ventures in this area including the trading of CFDs and oil.

The R&D team has increased substantially in size following our acquisitions and the Group is benefitting from the deep domain knowledge of experienced software professionals. Sales and delivery capacity has also been boosted and this is allowing us to attack with confidence new market segments such as Exchanges, Treasury Risk and Reference Data. In addition, our consulting work keeps us abreast of the latest technology trends and keeps us informed of the major problems faced by our customers. This combination of a larger R&D team, more delivery capacity and an increased sales force, will translate in to new product lines and additional revenue in the year ahead.

Our relationship with Kx Systems continues to flourish and we have increased our stake to in KxSystems to 22%. Our consultants are providing sales and marketing support to various Kx initiatives around the world. Their products are used by some of the world's largest financial institutions and Kx Systems lists organisations such as JP Morgan, Goldman Sachs, Zurich Financial Group, Morgan Stanley, Fidelity Investments and Total Gas & Power as users. We derive revenue from sales commission, support contracts, training and consulting.

***Consulting division***

First Derivatives provides highly skilled resources to the capital markets in the areas of consulting, support and development services. We have ongoing contracts with many of the leading global banks, supporting their activities across a range of asset classes including credit, interest rate, foreign exchange and equity cash and derivatives markets. The Company has been working in this area for

14 years and has been involved in many successful initiatives. The premium attached to our brand, the increasing scale of our business and our global presence is giving us the critical mass needed to bid for larger more lucrative contracts. Although there is anecdotal evidence that demand in the market in general is picking up there is still significant downward pressure on margins. Our consulting with the technology industry continued to expand in the year exceeding internal budgets with a number of new clients being added in the period.

***Management and Personnel***

During the past year the Board has continued to assess the business structure of the Group during this phase of our expansion and growth. This has resulted in a number of strategic hires and these along with the additions to the team in the year through the acquisitions have significantly strengthened our management team. This will enable us to sustain the Company's growth and to exploit ongoing opportunities. We now employ almost 450 people and our success in retaining staff means that the experience profile of our consultants continues to improve. Our Capital Markets Training Programme, implemented in late 2006 has been a resounding success and has helped to differentiate the Group from its competition. Once again I would like to pay tribute to all First Derivatives employees who without exception are hard working, talented, flexible and dedicated. Our customer retention rates are evidence of this.

***Financial Review***

The group has reported revenues and profits significantly higher than last year. Pre-tax profit for the year was £5,645,000 (2009: £4,461,000) on turnover of £25,476,000 (2009: £17,548,000). Price pressure resulting from current economic factors along with long term strategic decisions made in the period have resulted in a fall in our gross operating margin from 51% to 41%. Our balance sheet is strong with a cash balances up to £1,711,000 and equity shareholders' funds of £ 16,310,000 (2009: £11,271,000), an increase of 45%. This, and our confidence in the Groups ability to generate cash, enables the Board to recommend a final dividend of 2.75p per share (2009: 6.65p) which means that we will have paid a total dividend of 9.5p (2009: 9.0p) per share for the full year.

***Outlook***

The coming financial year will be one of consolidating strategic investments made in the past 18 months. As well as organic growth the Board will continue to pursue acquisition opportunities where we see a strategic fit and have access to sources of finance to execute these. Although recent events in the debt markets have cast a pall over a nascent recovery in the banking sector we anticipate reporting further progress in the year to 28th February 2011. We are confident that our global reach, maturing and expanding software product lines and focus on recurring revenue will deliver significant benefits in the years ahead.

Brian Conlon
Chief Executive Officer

**Consolidated statement of comprehensive income**
Year ended 28 February 2010

| | Note | 2010 £'000 | 2009 £'000 |
|---|---|---|---|
| **Revenue** | *3* | **25,476** | 17,548 |
| Cost of sales | | **(15,111)** | (8,607) |
| **Gross profit** | | **10,365** | 8,941 |
| Other operating income | | **1,134** | 159 |
| Administrative expenses | | **(5,207)** | (3,165) |
| **Operating profit** | | **6,292** | 5,935 |
| Finance income | | **8** | 10 |
| Finance expenses | | **(475)** | (562) |
| Loss on foreign currency translation | | **(234)** | (922) |
| **Net financing expenses** | | **(701)** | (1,474) |
| Share of profit of associates using the equity method, net of income tax | | **54** | - |
| **Profit before income tax** | | **5,645** | 4,461 |
| Income tax expense | | **(1,858)** | (1,390) |
| **Profit for the year** | | **3,787** | 3,071 |

**Other comprehensive income**

| | | | |
|---|---|---|---|
| Net change in fair value of available for sale asset, net of tax | | **(135)** | - |
| Deferred tax on net change in fair value of available for sale asset | | **38** | - |
| Deferred tax on share options outstanding | | **263** | (308) |
| Net exchange gains on net investment in foreign subsidiary and associate | | **639** | 819 |
| Net loss on hedge of net investment in foreign subsidiary and associate | | **(189)** | (575) |
| **Other comprehensive income for the period, net of tax** | | **616** | (64) |
| **Total comprehensive income for the period attributable to equity holders' of the company** | | **4,403** | 3,007 |
| **Earnings per share** | | **Pence** | Pence |
| Basic | *5* | **27.1** | 22.8 |
| Diluted | *5* | **25.8** | 22.2 |

**Consolidated balance sheet**
Year ended 28 February 2010

| | Note | 2010 £'000 | 2009 £'000 |
|---|---|---|---|
| **Non current assets** | | | |
| Property, plant and equipment | *6* | **17,938** | 17,171 |
| Intangible assets | *7* | **22,278** | 10,513 |
| Investment in associate | | **7,710** | - |
| Other financial assets | | **-** | 1,872 |
| Deferred tax asset | | **518** | 177 |
| **Total non current assets** | | **48,444** | 29,733 |
| **Current assets** | | | |
| Trade and other receivables | | **9,725** | 6,334 |
| Cash and cash equivalents | | **1,711** | 1,299 |
| **Total current assets** | | **11,436** | 7,633 |
| **Total assets** | | **59,880** | 37,366 |
| **Current liabilities** | | | |
| Interest bearing borrowings | | **(4,574)** | (989) |
| Trade and other payables | | **(8,319)** | (4,134) |
| Current tax payable | | **(1,417)** | (1,472) |
| Employee benefits | | **(1,714)** | (833) |
| Contingent deferred consideration | | **(5,147)** | (1,175) |
| **Total current liabilities** | | **(21,171)** | (8,603) |
| **Non-current liabilities** | | | |
| Interest bearing borrowings | | **(17,703)** | (12,986) |
| Deferred tax liability | | **(679)** | (87) |
| Contingent deferred consideration | | **(2,395)** | (4,419) |
| Provisions | | **(645)** | - |
| Trade and other payables | | **(977)** | - |
| **Total non-current liabilities** | | **(22,399)** | (17,492) |
| **Total liabilities** | | **(43,570)** | (26,095) |
| **Net assets** | | **16,310** | 11,271 |
| **Equity** | | | |
| Share capital | | **72** | 69 |
| Share premium | | **3,906** | 2,274 |
| Share option reserve | | **983** | 430 |
| Fair value reserve | | **-** | 223 |
| Revaluation Reserve | | **174** | - |
| Currency translation adjustment reserve | | **694** | 244 |
| Retained earnings | | **10,481** | 8,031 |
| **Total equity** | | **16,310** | 11,271 |

**Consolidated statement of changes in equity**
Year ended 28 February 2010

| | Share capital £000 | Share premium £000 | Share option reserve £000 | Fair value reserve £000 | Revaluation reserve £000 | Currency translation adjustment £000 | Retained earnings £000 | Total equity £000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 March 2009** | **69** | **2,274** | **430** | **223** | **-** | **244** | **8,031** | **11,271** |
| **Total comprehensive income for the period** | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 3,787 | **3,787** |
| **Other comprehensive income** | | | | | | | | |
| Net change in fair value of available for sale | - | - | - | (135) | - | - | - | **(135)** |
| Deferred tax on net change in fair value of available for sale asset | - | - | - | 38 | - | - | - | **38** |
| Transfer on acquisition of associate | | | | (126) | 174 | | (48) | **-** |
| Deferred tax on share options outstanding | - | - | 263 | - | - | - | - | **263** |
| Net exchange gains on net investment in foreign subsidiary | - | - | - | - | - | 639 | - | **639** |
| Net exchange loss on hedge of net investment in foreign subsidiary | - | - | - | - | - | (189) | - | **(189)** |
| **Total other comprehensive income** | - | - | 263 | (223) | 174 | 450 | (48) | **616** |
| **Total comprehensive income for the period** | - | - | 263 | (223) | 174 | 450 | 3,739 | **4,403** |
| **Transactions with owners, recorded directly in equity** | | | | | | | | |
| Exercise of share options | - | 65 | (18) | - | - | - | **-** | **47** |
| Issue of shares as purchase consideration | 3 | 1,567 | - | - | - | - | - | **1,570** |
| Share based payment charge | - | - | 333 | - | - | - | - | **333** |
| Transfer on forfeit of share options | - | - | (25) | - | - | - | 25 | **-** |
| Dividends to equity holders | - | - | - | - | - | - | (1,314) | **(1,314)** |
| **Total contributions by and distributions to owners** | 3 | 1,632 | 290 | - | - | - | (1,289) | **636** |
| **Balance at 28 February 2010** | **72** | **3,906** | **983** | **-** | **174** | **694** | **10,481** | **16,310** |

**Consolidated cash flow statement**
Year ended 28 February 2010

| | 2010 £'000 | 2009 £'000 |
|---|---|---|
| **Cashflows from operating activities** | | |
| Profit before taxation | **5,645** | 4,461 |
| Finance income | **(8)** | (10) |
| Finance expense and foreign exchange loss | **709** | 1,484 |
| Share of associate | **(54)** | - |
| **Operating profit** | **6,292** | 5,935 |
| Depreciation | **336** | 262 |
| Amortisation of intangible assets | **619** | 250 |
| Equity settled share-based payment transactions | **197** | 183 |
| | **7,444** | 6,630 |
| Change in trade and other receivables | **(2,990)** | (1,625) |
| Change in trade and other payables | **5,508** | 1,172 |
| | **9,962** | 6,177 |
| Corporation tax paid | **(1,648)** | (1,100) |
| **Net cash from operating activities** | **8,314** | 5,077 |
| **Cash flows from investing activities** | | |
| Interest received | **8** | 10 |
| Acquisition of subsidiaries, net of cash acquired | **(5,443)** | (2,773) |
| Acquisition of property, plant and equipment | **(1,099)** | (468) |
| Acquisition of other financial assets | **-** | (1,352) |
| Acquisition of associate | **(4,189)** | - |
| Acquisition of intangible assets | **(1,323)** | (370) |
| Payment of deferred consideration | **(1,993)** | - |
| **Net cash used in investing activities** | **(14,039)** | (4,953) |
| **Cash flows from financing activities** | | |
| Proceeds from issue of share capital | **47** | 20 |
| Receipt of new long term loan | **9,726** | 10,193 |
| Repayment of borrowings | **(1,354)** | (6,221) |
| Payment of finance lease liabilities | **(70)** | (90) |
| Interest paid | **(475)** | (528) |
| Dividends paid | **(1,314)** | (1,098) |
| **Net cash from financing activities** | **6,560** | 2,276 |
| **Net increase in cash and cash equivalents** | **835** | 2,400 |
| Cash and cash equivalents at 1 March 2009 | **1,299** | 396 |
| Effects of exchange rate changes on cash and cash equivalents | **(423)** | (1,497) |
| **Cash and cash equivalents at 28 February 2010** | **1,711** | 1,299 |

## Notes

### 1 Basis of preparation

The consolidated financial statements consolidate those of the company and its subsidiaries (together referred to as the "group").

Both the consolidated financial statements and the company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

### 2 Acquisitions of subsidiaries and associates

#### Subsidiaries

On 1st April 2009 the company acquired all of the ordinary shares in Lepton Solutions Pty Limited. In the 11 months to 28th February 2010 the subsidiary contributed income of £533,000 and net profit of £40,000 to the consolidated net profit for the year. If the acquisition had occurred on 1st March 2009 Group revenue would have been £25,524,000 and net profit would have been an estimated £5,735,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1st March 2009.

On 23rd October 2009 the company acquired all of the ordinary shares in Reference Data Factory LLC for. In the 4 months to 28th February 2010 the subsidiary contributed income of £61,000 and net profit of £46,000 to the consolidated net profit for the year. If the acquisition had occurred on 1st March 2009 Group revenue would have been £25,532,000 and net profit would have been an estimated £5,823,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1st March 2009.

On 14th February, First Derivatives (Ireland) Limited (previously Elvant Limited) acquired the trade and assets of Cognotec Holdings Limited. In the 14 days to 28th February 2010 the subsidiary contributed income of £193,000 and net loss of £4,000 to the consolidated net profit for the year. If the acquisition had occurred on 1st March 2009 group revenue would have been £30,301,000 and net profit would have been an estimated £5,631,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1st March 2009.

The acquisitions had the following effect on the group's assets and liabilities.

| | Pre-acquisition carrying amounts £000 | Fair value adjustments £000 | Recognised values on acquisition £000 |
|---|---|---|---|
| **Acquirees' net assets at the acquisition date:** | | | |
| Property, plant and equipment | **33** | **-** | **33** |
| Intangible assets | **-** | **6,234** | **6,234** |
| Trade and other receivables | **1,395** | **(994)** | **401** |
| Cash and cash equivalents | **81** | **-** | **81** |
| Trade and other payables | **(134)** | **(487)** | **(621)** |
| Onerous contracts | **-** | **(683)** | **(683)** |
| Deferred tax liability | **-** | **(124)** | **(124)** |
| Net identifiable assets and liabilities | **1,375** | **3,946** | **5,321** |
| Goodwill on acquisition (note 16) including cost of acquisition | | | **3,312** |
| | | | **8,633** |
| Consideration paid, satisfied as follows: | | | |
| Cash | | | **5,524** |
| Shares issued | | | **300** |
| Share options issued | | | **137** |
| Contingent consideration - Cash | | | **2,672** |
| | | | **8,633** |
| Cash consideration paid | | | **5,524** |
| Cash (acquired) | | | **(81)** |
| Net cash outflow | | | **5,443** |