

First Derivatives plc

Interim results

Six months to 31 August 2018



www.firstderivatives.com

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Highlights



+20%

**Revenue
£105.6m**



+12%

**Adjusted EBITDA
£18.1m**

- 21% growth in recurring software revenue
- Adjusted PAT up 15% to £10.6m
- Interim dividend up 10% at 7.7p per share

Strategy on track



Accelerated investment in response to multiple growth opportunities

Reinvesting in our Business



Strong growth in MSC and healthy pipeline as we scale operations

Strong pipeline



Kx established as market leader in FinTech

Winning market share



Increasing traction in other markets through direct sales and partners

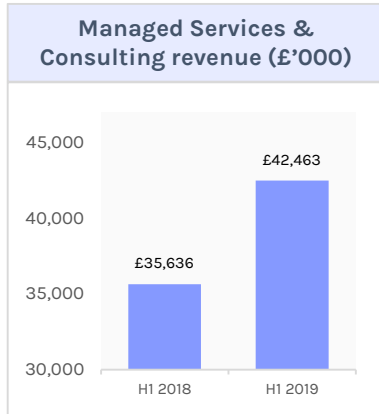
Delivering in other markets

Recognising our success

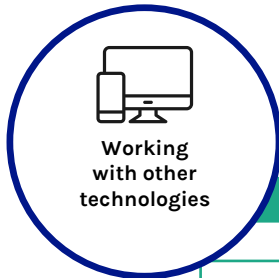
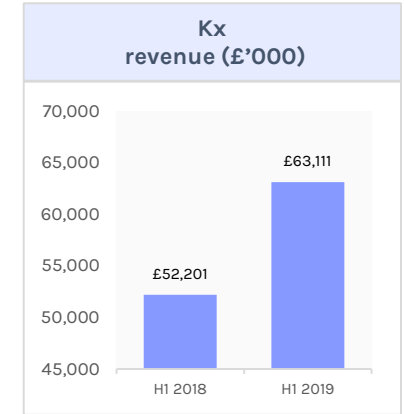


SELECTED AS
**Best Technology
2018**

Financial Review



Group Performance			
	H1 2019	H1 2018	Growth
Revenue	£105,574	£87,837	↑ 20%
Cost of Revenue	(£61,692)	(£51,500)	↑ 20%
Gross Profit	£43,882	£36,337	↑ 21%
Gross Margin	42%	41%	



Managed Services & Consulting			
	H1 2019	H1 2018	Growth
Revenue	£42,463	£35,636	↑ 19%
Cost of Revenue	(£33,293)	(£25,891)	↑ 29%
Gross Profit	£9,170	£9,745	↓ 6%
Gross Margin	22%	27%	



Kx			
	H1 2019	H1 2018	Growth
Revenue	£63,111	£52,201	↑ 21%
Cost of Revenue	(£28,399)	(£25,609)	↑ 11%
Gross Profit	£34,712	£26,592	↑ 31%
Gross Margin	55%	51%	

Income statement – revenue and gross profit



£'000	31 Aug 2018	31 Aug 2017	Movement
Software Licenses			
Software perpetual licenses	6,615	2,322	↑185%
Software recurring licenses	23,823	19,618	↑21%
Total Software license revenue	30,438	21,940	↑39%
Cost of Software license revenue	(5,004)	(5,260)	
Software Gross Profit	25,434	16,680	↑ 52%
Software Gross Margin	84%	76%	↑ 8%
Software Services			
Implementation and support revenue	32,673	30,261	↑18%
Cost of software services revenue	(23,395)	(20,349)	
Services Gross Profit	9,278	9,912	↓6%
Services Gross Margin	28%	33%	↓5%
Total Software			
Software revenue	63,111	52,201	↑ 21%
Cost of software revenue	(28,399)	(25,609)	
Software Gross Profit	34,712	26,592	↑ 31%
Software Gross Margin	55%	51%	↑ 4%
Managed Services & Consulting (“MSC”)			
MSC revenue	42,463	35,636	↑ 19%
Cost of MSC revenue	(33,293)	(25,891)	
MSC Gross Profit	9,170	9,745	↓6%
MSC Gross Margin	22%	27%	↓5%

Software licenses

- Continued penetration as clients make Kx a key part of their IT architecture
- Growth of 39% delivering strong margin progression of 8%

Software services

- Further Investment in expanded delivery capabilities to meet expected client needs
- Growth of 22% in FinTech services held by impact of GDPR on MarTech
- Recent wins provides confidence in full year performance

Managed Services & Consulting

- Further penetration of client base
- Gross margin of 22% driven by ongoing investment in personnel and skills expansion in response to client demand

Income statement – revenue and adjusted EBITDA



£'000	31 Aug 2018	31 Aug 2017	Movement
Total Group			
Total revenue	105,574	87,837	↑ 20%
Total cost of revenue	(61,692)	(51,500)	
Gross Profit	43,882	36,337	↑ 21%
Gross margin	42%	41%	
Adjusted Operating costs			
Total R&D	(4,883)	(4,285)	↑14%
(of which capitalised)	3,833	3,766	↑2%
Sales and marketing costs	(15,785)	(11,973)	↑ 32%
General and admin costs	(8,979)	(7,735)	↑16%
Adjusted EBITDA	18,068	16,110	↑ 12%
Adjusted EBITDA margin	17%	18%	

Summary

- Gross margin growing, up 4% in last 5 reporting periods
- Corresponding increase in gross profit invested in:
 - Additional R&D (14% per annum)
 - Additional sales (50% per annum)
 - Additional infrastructure (19% per annum)
- Above achieved while delivering adjusted EBITDA increase of £4.5m or 15% per annum
- Fiscal discipline of investing while delivering growth in profits



Income statement – profit and earnings



£'000	31 Aug 2018	31 Aug 2017	Movement
Adjusted EBITDA	18,068	16,110	↑ 12%
Adjusted EBITDA margin	17%	18%	
Additional administration costs			
Acquisition related costs	(1,582)	(1,364)	
Share-based payment costs	(1,543)	(1,006)	
Depreciation and amortisation	(4,774)	(4,218)	
Amortisation of acquired intangibles	(1,846)	(2,335)	
Operating profit	8,323	7,187	↑ 16%
Net finance and assoc. costs	(765)	(880)	
Profit before tax	7,558	6,307	↑ 20%
Income tax	(1,626)	(1,729)	
Profit for the period	5,932	4,578	↑ 30%
Earnings per share (diluted)	21.7p	17.1p	↑ 27%
Adjustments			
Acquisition related costs	1,582	1,364	
Share based payment costs	1,543	1,006	
Amortisation of acquired intangibles	1,846	2,335	
Finance and associate	52	391	
Tax effect of above	(384)	(466)	
Adjusted profit for the period	10,571	9,208	↑ 15%
Diluted average shares in issue (m)	27.3	26.8	
Adjusted EPS (fully diluted)	38.7p	34.4p	↑ 13%

Operating Profit

- Operating profit up 16% to £8.3m
- Increased software amortisation (£0.2m) and depreciation (£0.3m)

Taxation

- Reported tax rate fell to 22% from 27%
 - Reduction mainly due to U.S. tax reforms

Adjusted Earnings

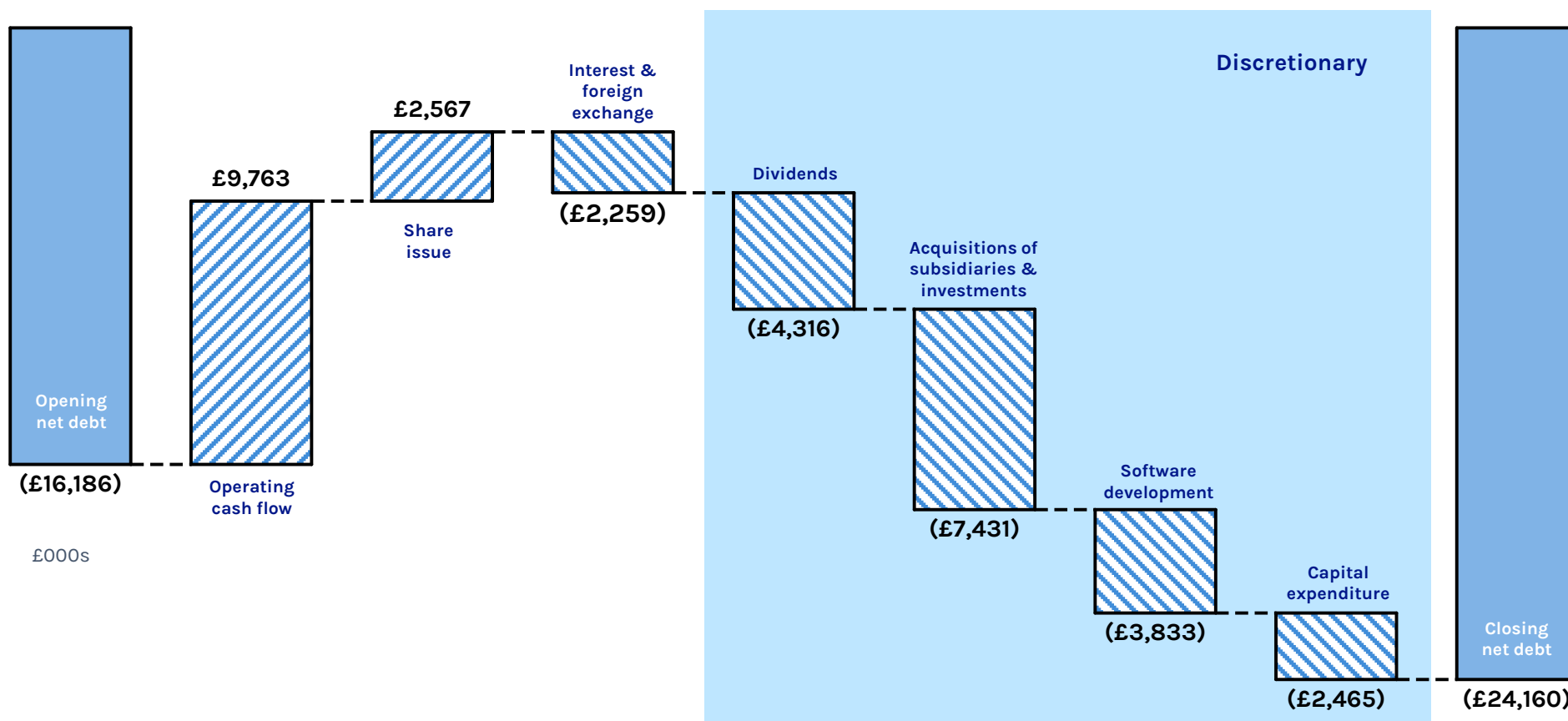
- Adjusted EPS increased by 13% to 38.7p (H1 2018: 34.4p)
- Shares in issue increased due to exercise of employee share options

Reported Earnings

- Reported profit after tax up 30% at £5.9m (H1 2018: £4.6m)
- Reported diluted EPS up 27% at 21.7p (H1 2018: 17.1p)



Investments for growth



Operating cash flow (exc. tax) £13.5m

- Cash to adjusted EBITDA conversion: 74%

Debt headroom

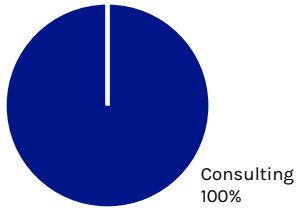
- Net debt £24.2m (FY 2018: £16.2m)
- 0.6x consensus adjusted EBITDA
- 25x interest cover

Discretionary expenditure

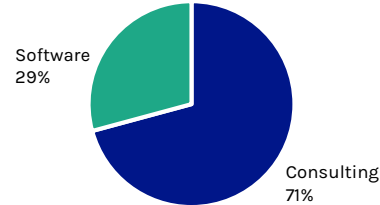
- £4.1m deferred consideration (H1 2018: £1.2m)
- £3.3m ventures funding (H1 2018: £3.1m)
- New office premises, Belfast, Newry, Philadelphia

FD overview

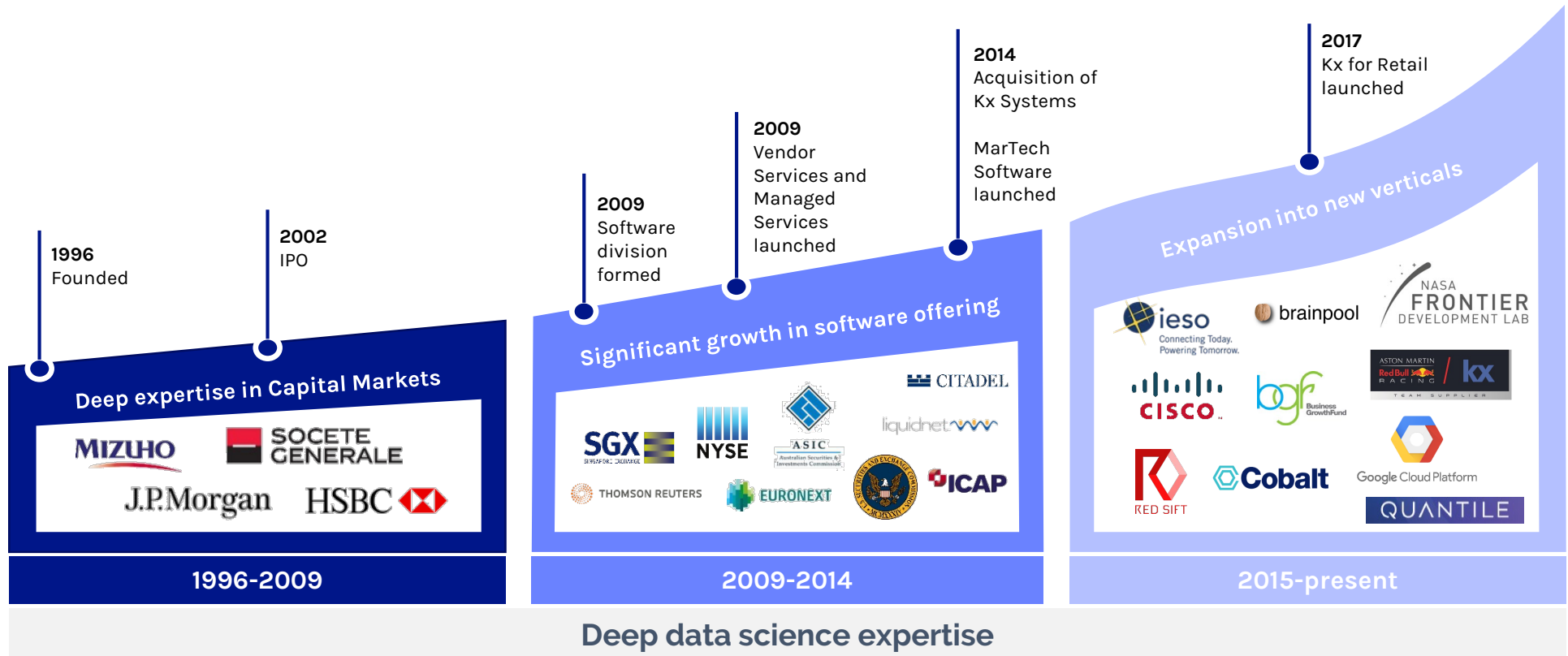
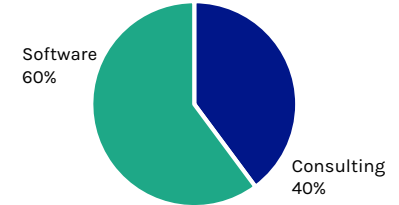
Revenue % - 2002

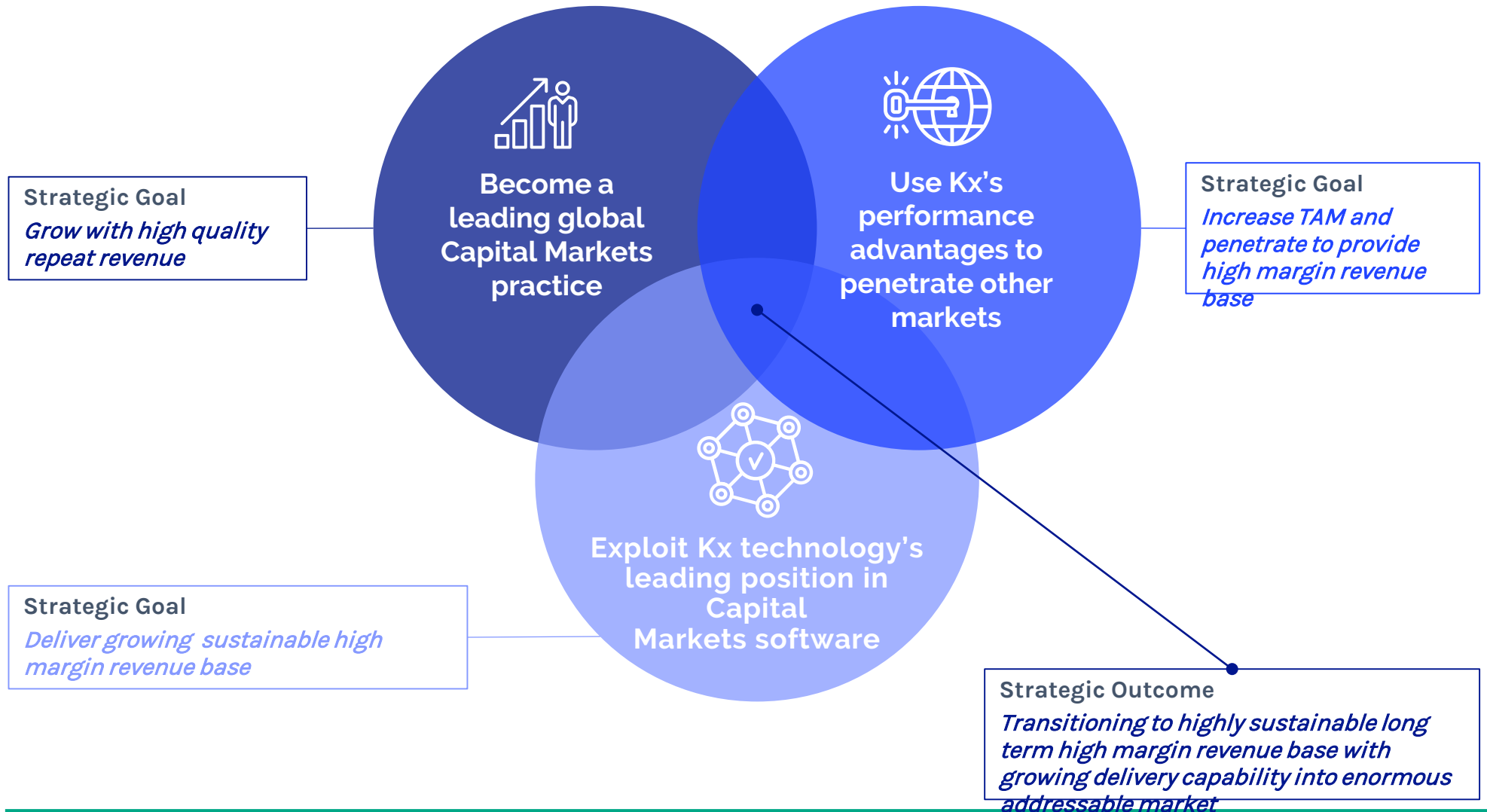


Revenue % - 2012



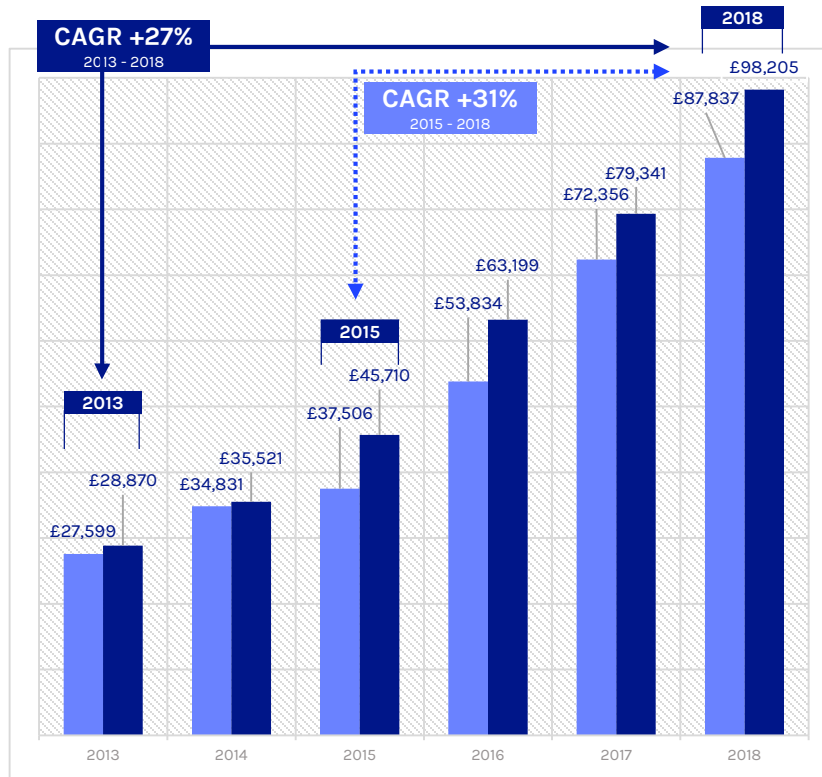
Revenue % - 2018





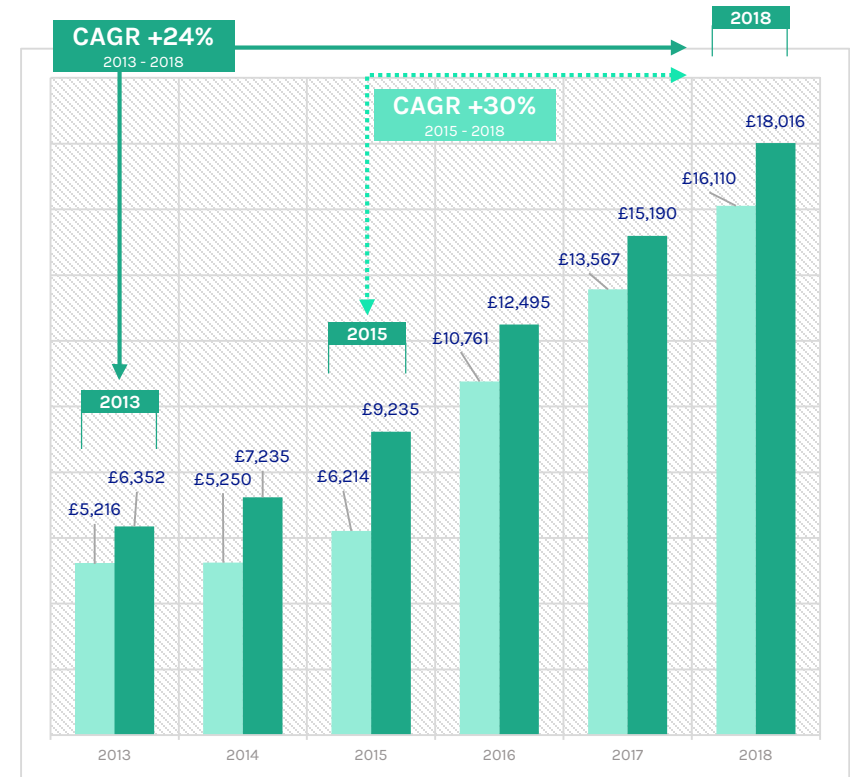


Revenue and EBITDA growth



Revenue

- Consistent period-on-period revenue growth for last six years
- CAGR of 27% from 2013 to 2018
- Growth accelerating since acquisition of Kx in FY 2015 to CAGR of 31%

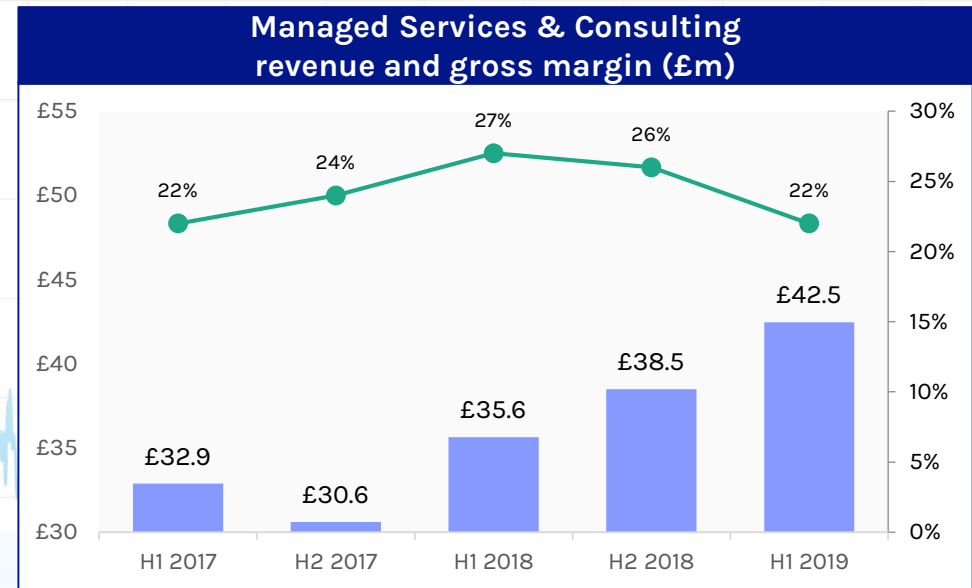


Adjusted EBITDA

- Consistent period-on-period growth in adjusted EBITDA since 2015
- CAGR of 24% since 2013 reflecting investment for future growth
- Growth accelerating since 2015 to CAGR of 30%

Managed Services & Consulting

Managed Services & Consulting			
	H1 2019	H1 2018	Growth
Revenue	£42,463	£35,636	↑ 19%
Cost of Revenue	(£33,293)	(£25,891)	↑ 29%
Gross Profit	£9,170	£9,745	↓ 6%
Gross Margin	22%	27%	



Commentary

- Revenue growth 19% (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
- Penetration is 0.05% of a \$218bn addressable market (Gartner estimate)

*Expanding
offices to
support
growth*



Belfast



Newry



Toronto



Philadelphia

*Continuing
recruitment to
seed future
growth*



Our Strategic Goal



Become a leading global capital markets practice

Growth Priorities



Near-shore & managed services



Create new practices & expand range of services

How We Will Enable Growth



Recruitment and training to drive organic growth

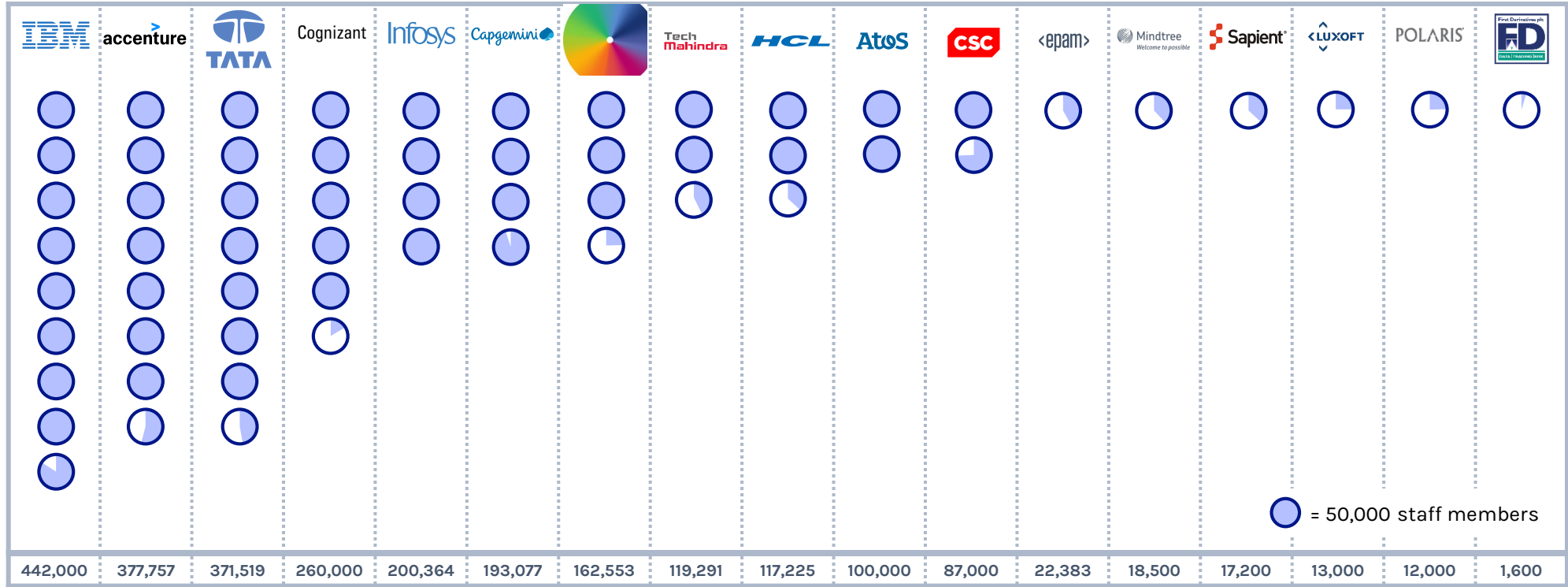


Key accounts focus to maximise opportunities



Harvest IP

>> Opportunity for market share gains



Commentary

- Total employees of major outsourcers is 2.5 million people
- FD's total employees represents less than 0.1% of the marketplace
- FD well placed to benefit from high quality, cost competitive location in Northern Ireland
- Growth in near shore provides benefits to FD including employee synergies, visibility over recurring revenue and deeper client relationships



Major contract wins in period



Tier 1 U.S. investment bank

Tier 1 US Investment Bank to meet European reporting obligations



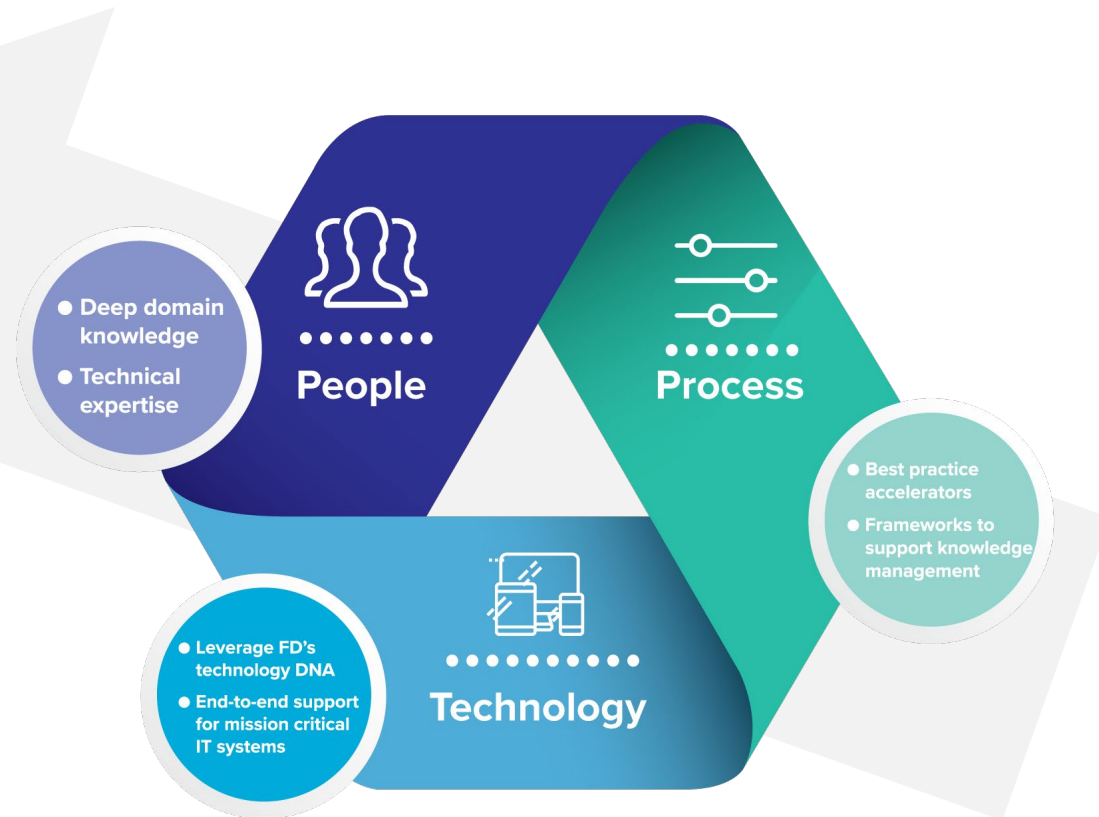
European financial services client

To support and manage trade and other financial data

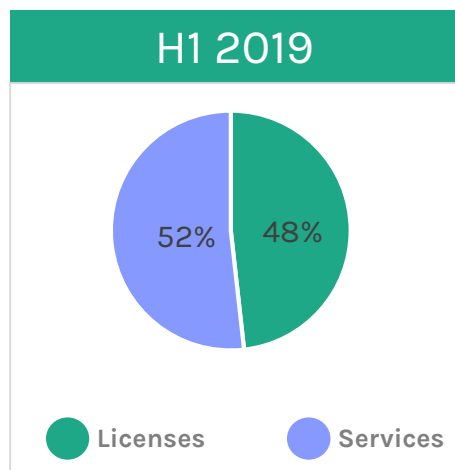


Major North American bank

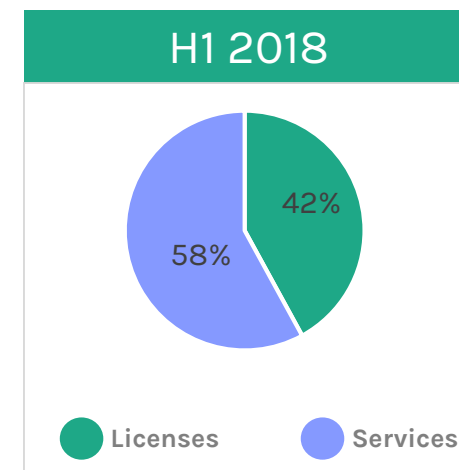
To assist with mission-critical projects and regulatory compliance



Software



kx	H1 2019	H1 2018	Growth
Recurring	£23,823	£19,618	↑ 21%
Upfront	£6,615	£2,322	↑ 185%
Licenses	£30,438	£21,940	↑ 39%
Services	£32,673	£30,261	↑ 8%
TOTAL	£63,111	£52,201	↑ 21%



FinTech

	H1 2019	H1 2018	Growth
Recurring	£13,335	£12,185	↑ 9%
Upfront	£6,267	£2,090	↑ 200%
Licenses	£19,602	£14,275	↑ 37%
Services	£20,650	£16,937	↑ 22%
TOTAL	£40,252	£31,212	↑ 29%

MarTech

	H1 2019	H1 2018	Growth
Recurring	£9,780	£6,890	↑ 42%
Upfront	—	—	
Licenses	£9,780	£6,890	↑ 42%
Services	£10,009	£11,370	↓ 12%
TOTAL	£19,789	£18,260	↑ 8%

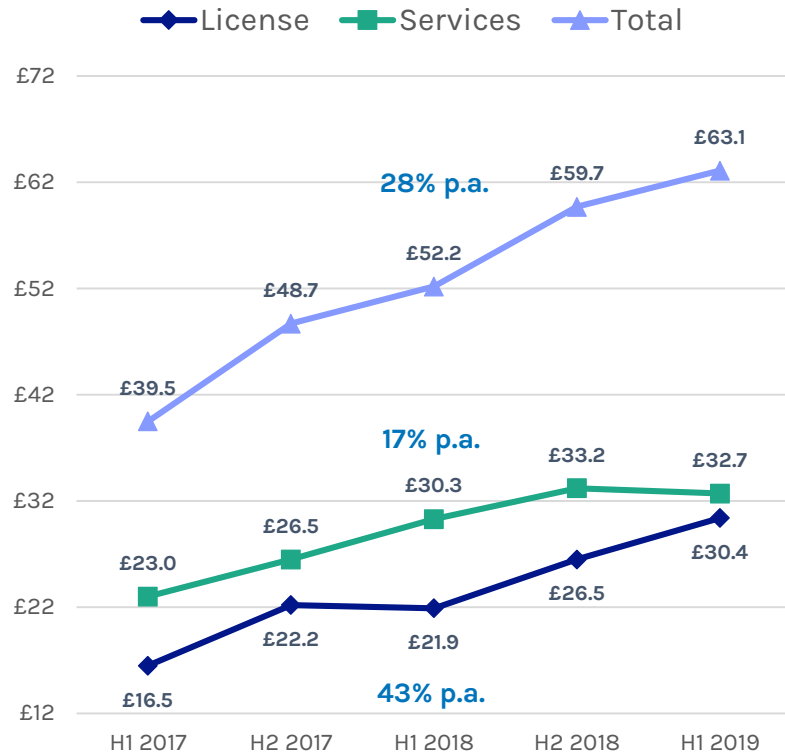
Other

	H1 2019	H1 2018	Growth
Recurring	£708	£543	↑ 30%
Upfront	£348	£232	↑ 50%
Licenses	£1,056	£775	↑ 36%
Services	£2,014	£1,954	↑ 3%
TOTAL	£3,070	£2,729	↑ 12%

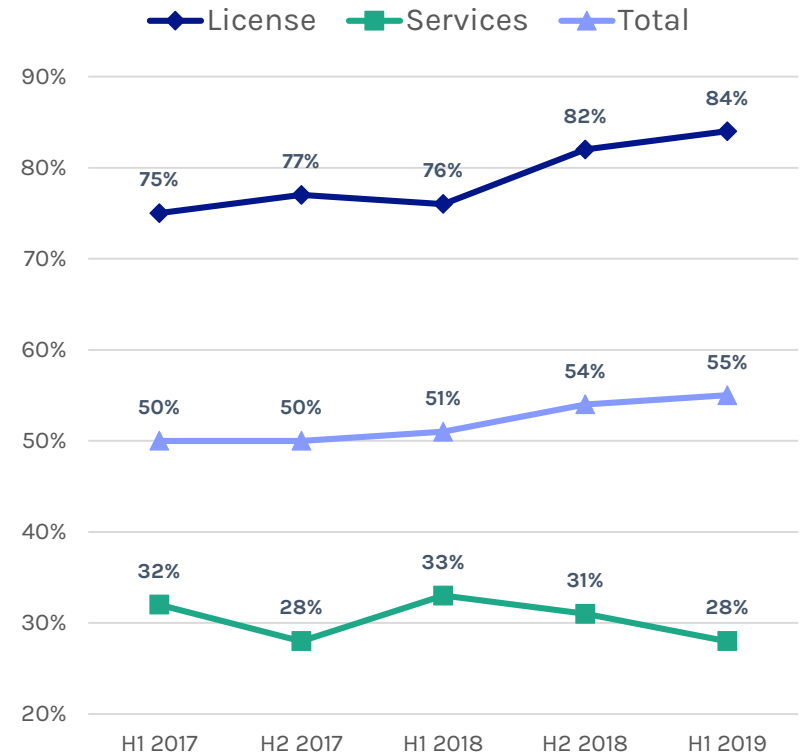


Software key metrics

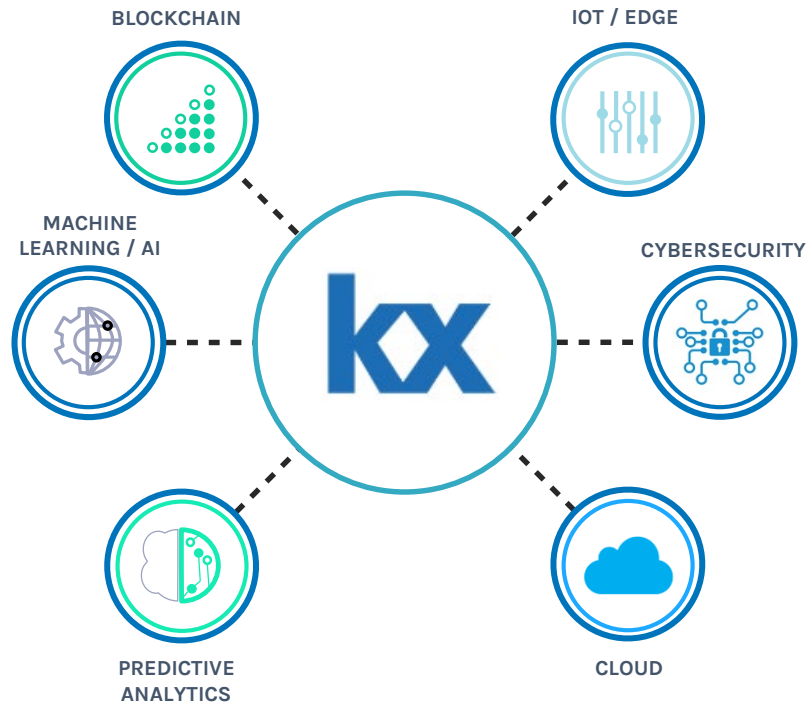
Software Revenue (£m)



Software Margins



Rise of in-memory computing & streaming analytics



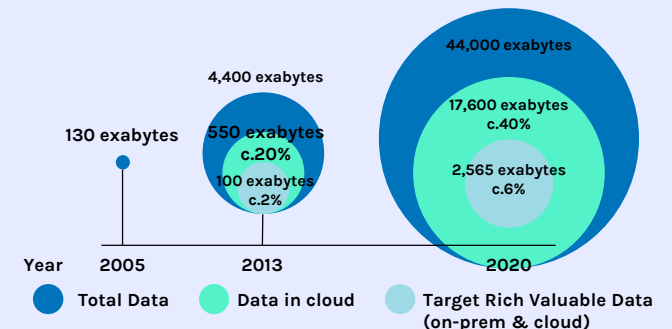
Digitisation of business driving exponential growth in demand for faster performance and real-time insight

- In Memory Computing and Stream Processing is pervasive
- Stream Processing is being added to a diverse set of products
- Kx can be utilized across all of the key areas of digitization

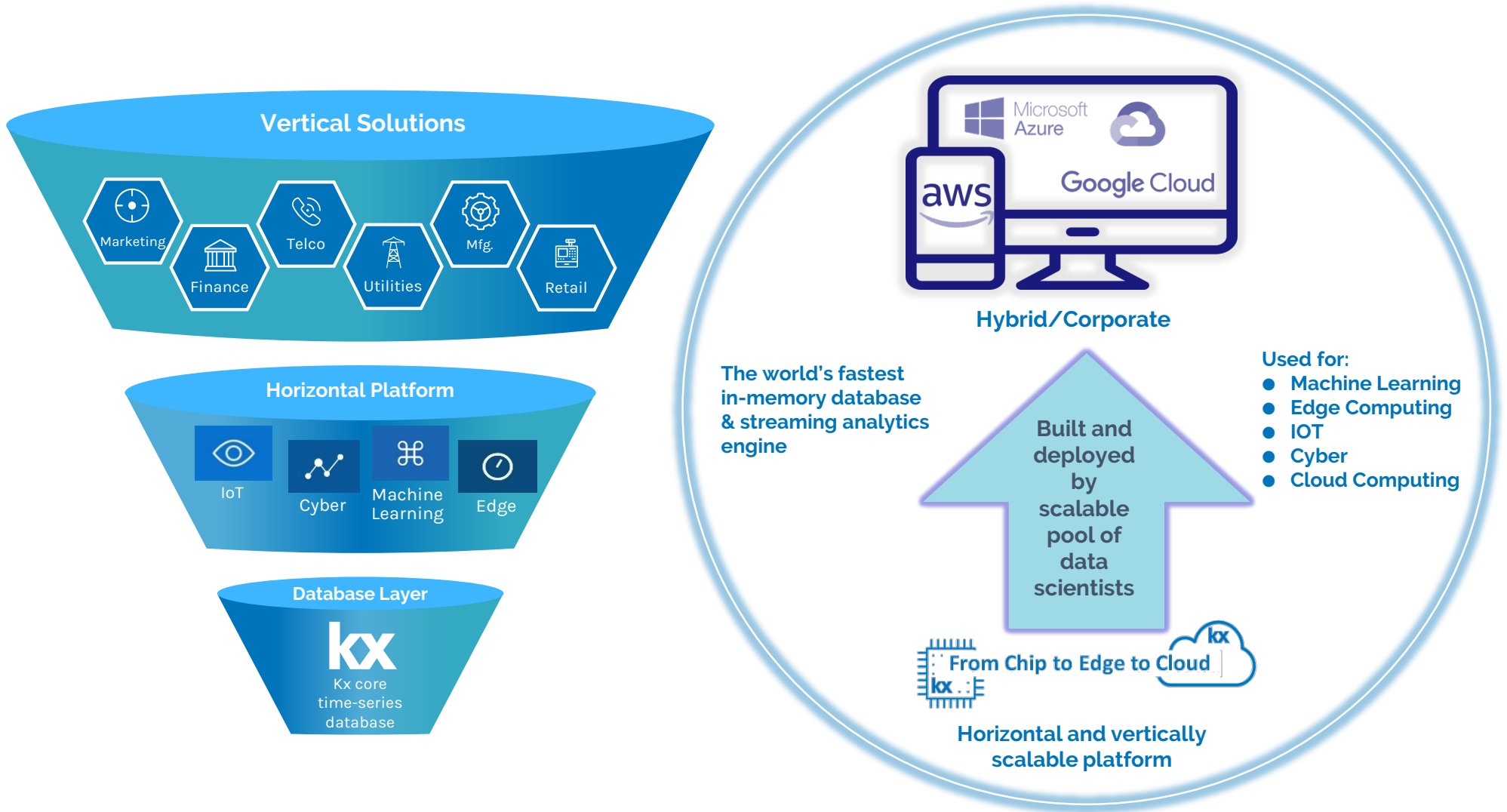
In-Memory Computing (IMC) and Streaming Analytics Forecasted developments

- By 2019, 75% of cloud-native application development will utilize IMC
- By 2019, 50% of analytics queries will be generated using search, natural language query or voice, or will be auto-generated
- By 2021, AI augmentation will generate \$2.9 trillion in business value and recover 6.2 billion hours of worker productivity
- By 2022, over half of data and analytics services will be performed by machines instead of human beings

Significant data growth expected to 2020 and beyond

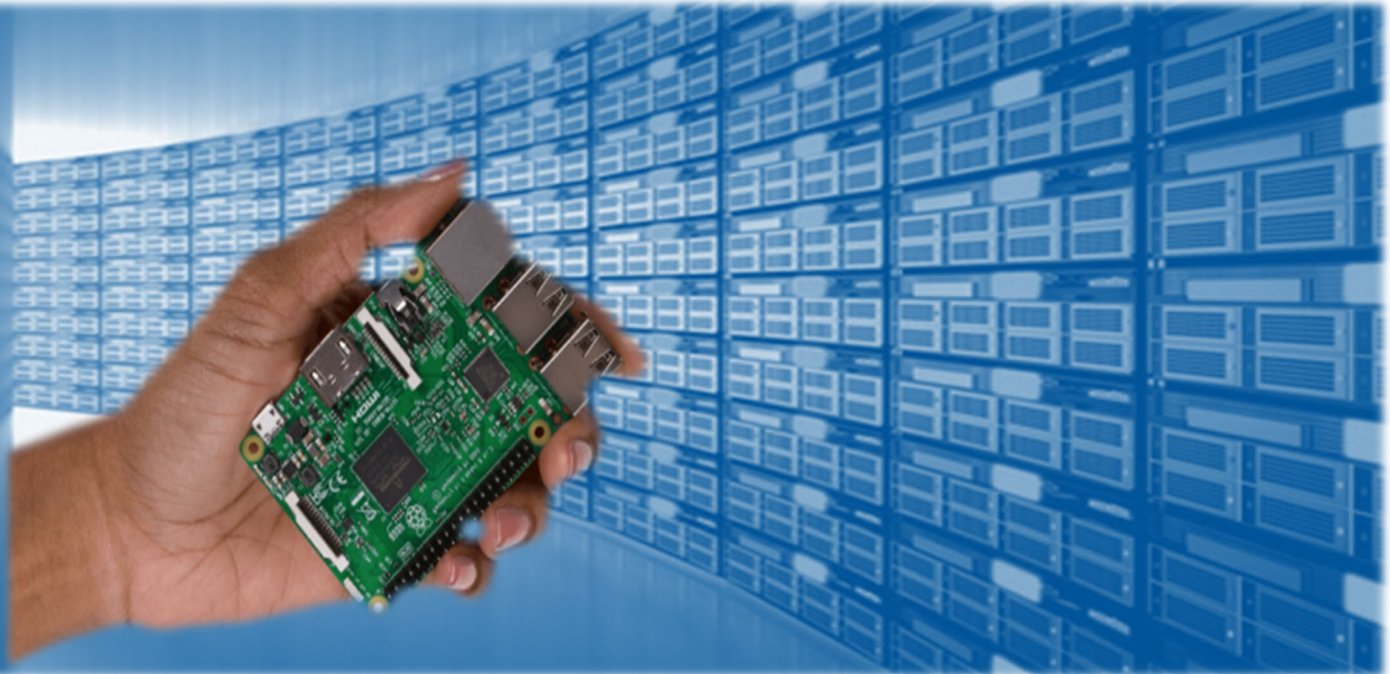


>> Our technology stack



From Chip to Edge to Cloud

- Reduces processing time from hours / days to seconds / minutes compared to other technologies
- A single Kx core can produce the equivalent performance of hundreds of competitor cores



Power

- Small code base (c. 500 KB)
- Unique language, q

Benefits

- Lower total cost of ownership, particularly power costs
- Greater speed of solution development



Pace

- Combines streaming, in-memory and at rest analytics capability
- Same code handles all the above

Benefits

- Lower total cost of ownership
- Increased confidence in analytics output



Precision

- Optimised and tightly integrated enterprise platform
- Ease of third party integration

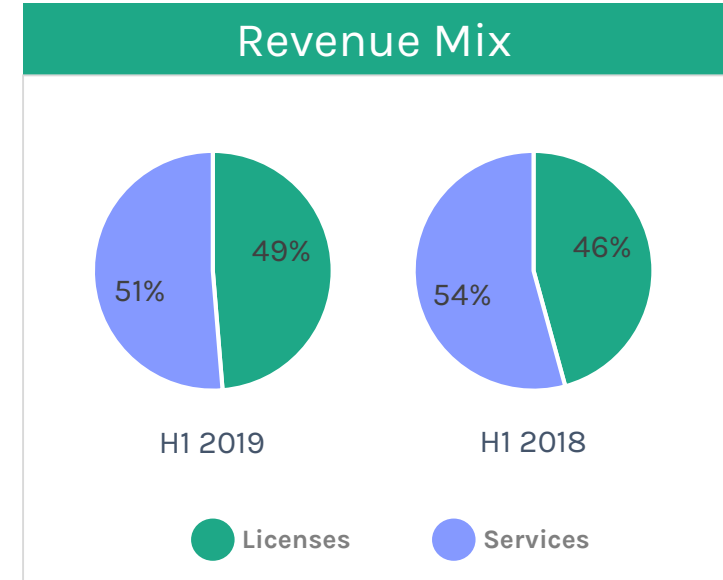
Benefits

- Single support call and reduced complexity
- Lower risk

FinTech software

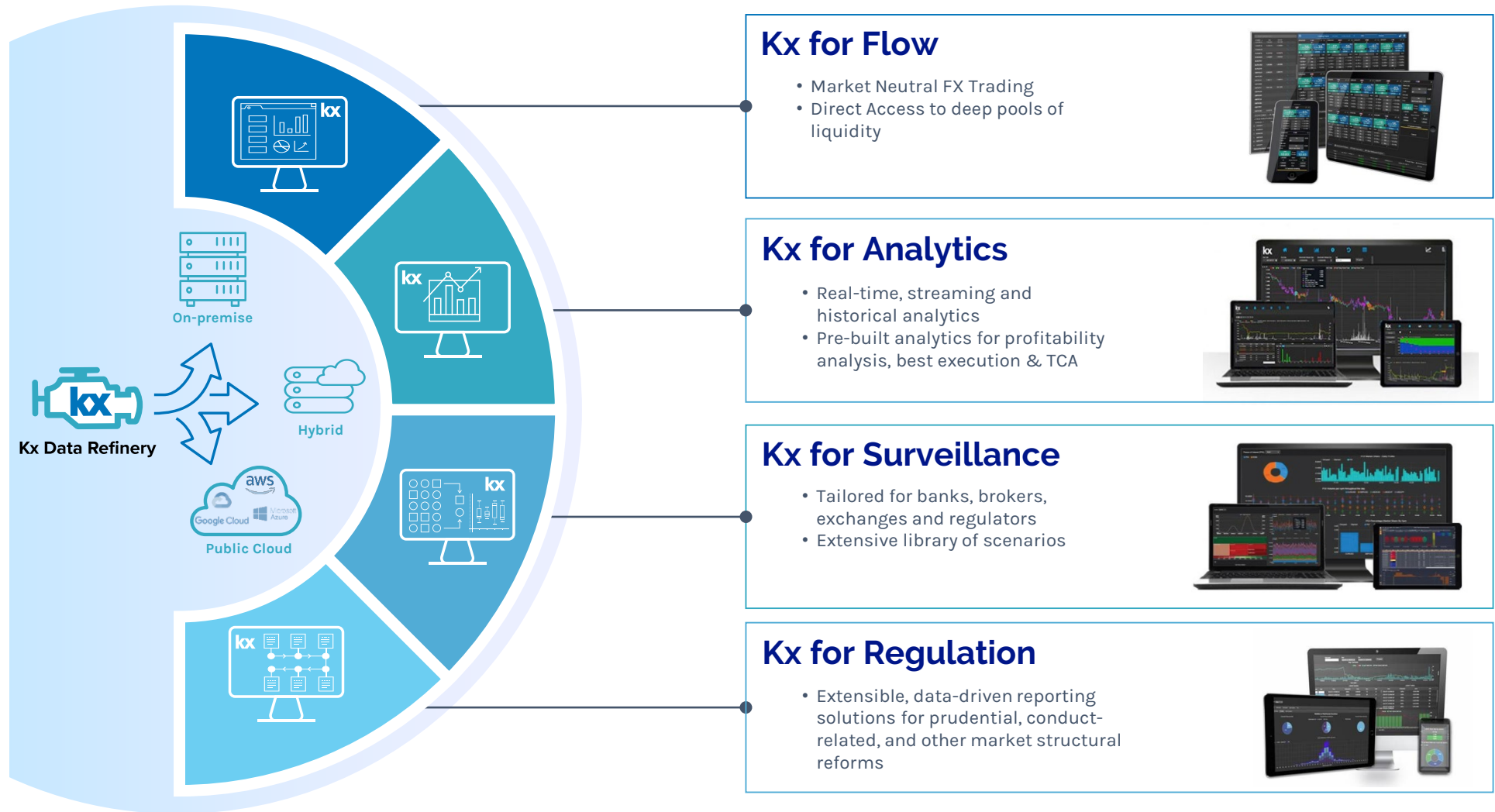


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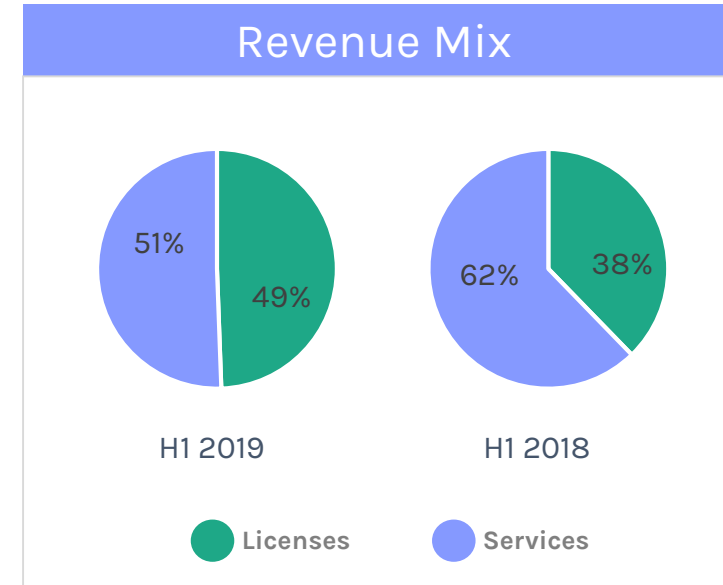
Drivers impacting verticals

- Cloud adoption gathering pace - strong data management systems and expertise key to cloud adoption
- Market operating in environment of heightened regulation and control requiring centralisation and performant access to data delivering increased momentum to surveillance sales
- Continued penetration of Kx as leading core market data infrastructure resulting in large enterprise sales across client base
- Realisation real-time analytics and machine learning are core parts of required infrastructure providing continual expansion in existing customer base.
- Capital market spending has strong focus on technology; 2018 spend \$260 bn growing at 4.2% p.a. (Source: Cellnet)





MarTech	H1 2019	H1 2018	Growth
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Drivers impacting

- Buying cycle now occurring online, before sales is engaged, need to identify customers in these early stages
- Business awarded to the first to reach the customer with a viable solution more than 50% of the time
- Market adoption of B2B predictive analytics continues. Projected \$20 bn market by 2020 (source: Marketsandmarkets)
- Market moving away from “individual widgets” to solve a marketing problem and towards more holistic solutions such as the Kx platform
- ABM platform adoption growing due to the results driven by market leaders like the Kx platform.
- Changing regulatory landscape leading buyers to concentrate with their trusted established partners like the FD Group.

>> MRP Preltyx - delivering results





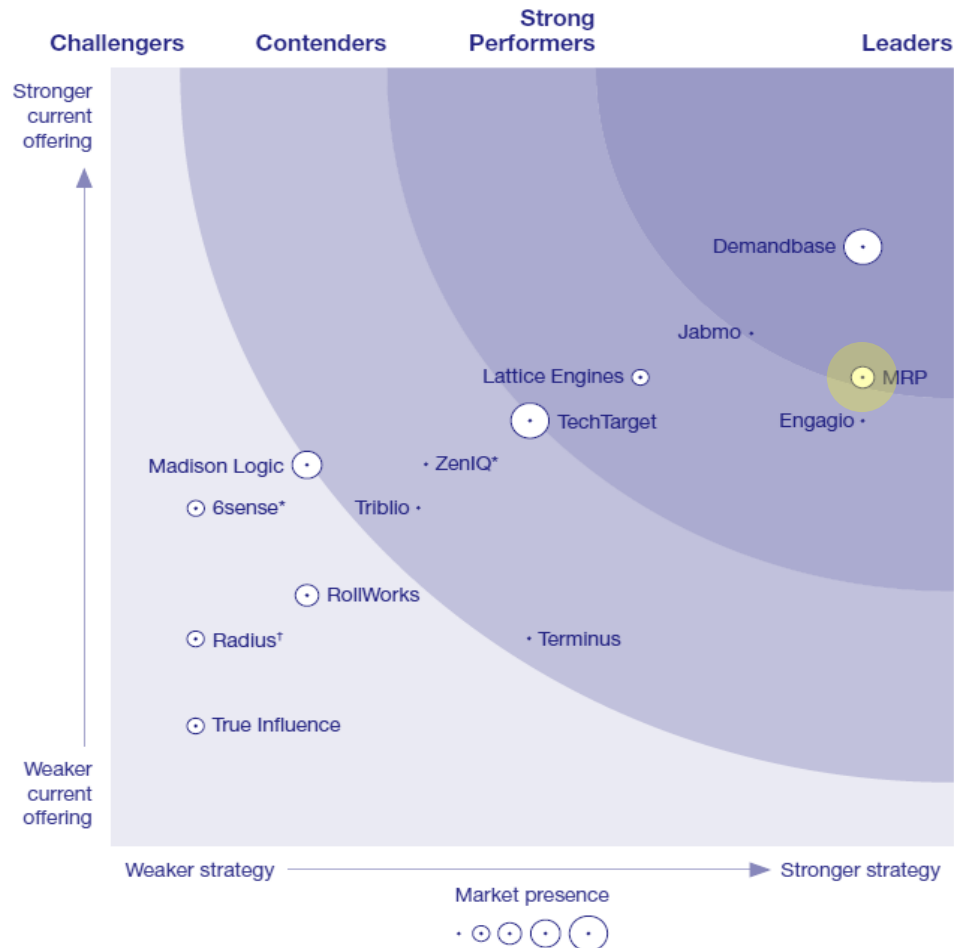
Forrester recognises MRP as a leader



THE FORRESTER NEW WAVE™

ABM Platforms

Q2 2018



“

MRP leads with AI-powered insights, orchestration, and engagement. MRP leverages its legacy in predictive analytics to model, rank, and recommend target accounts and contacts and then create and execute dynamic engagement workflows.

”

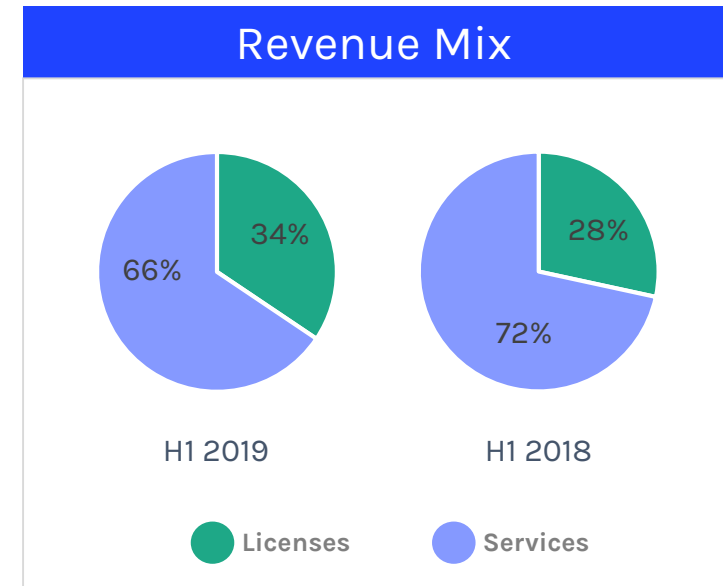
“

MRP is best for marketers pursuing a long-term vision of machine-driven marketing. MRP offers a wide range of managed services to help marketers with this transformation.

”

Other Sectors

Other	H1 2019	H1 2018	Growth
Recurring	£708	£543	↑ 30%
Upfront	£348	£232	↑ 50%
Licenses	£1,056	£775	↑ 36%
Services	£2,014	£1,954	↑ 3%
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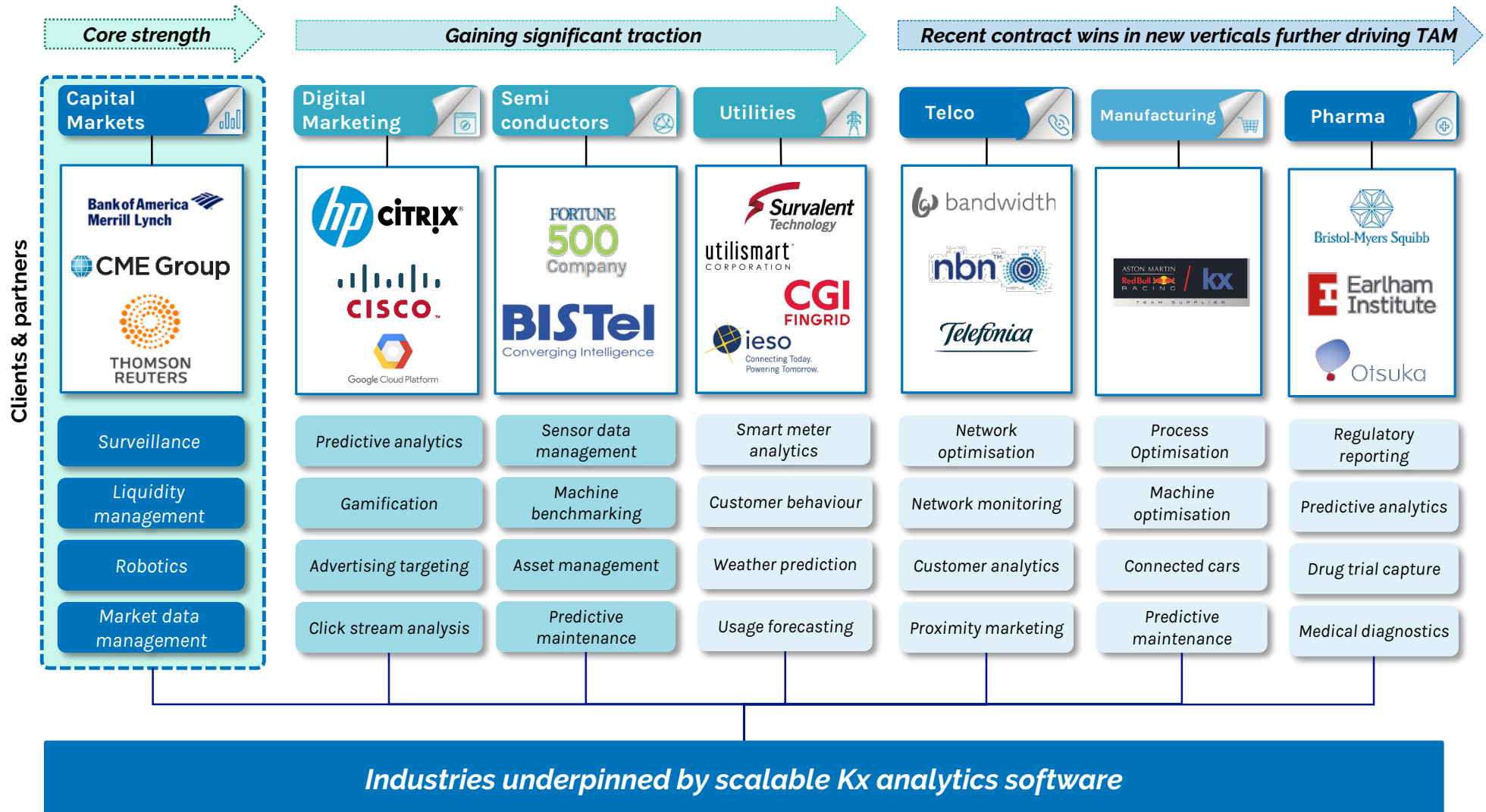


Drivers impacting verticals

- Growth of technology enabled devices has seen data explosion resulting in more complex data
- In-memory is pervasive for streaming analytics, it cannot be done in relational databases
- The IoT market is evolving and in-memory is key to supporting both device and edge computing
- Market approach of OEM / royalty deals ('Kx Inside'), while slow to build, will provide strong sustainable revenues in future periods
- The Analytics and Business Intelligence markets are now demanding performant infrastructure with deeper analysis and insight (the advent of machine learning and AI)

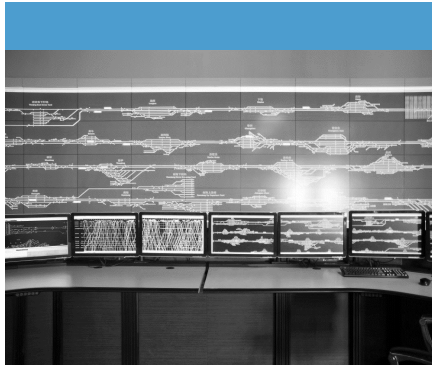


Expansion into new verticals increasing TAM





Survalent.



Kx will be embedded in Survalent's product, allowing its customers to access advanced analytics on sensor data. Expected to be launched in H1 2019 across its 100's of global utilities clients



SENSOR
ANALYTICS

FINGRID

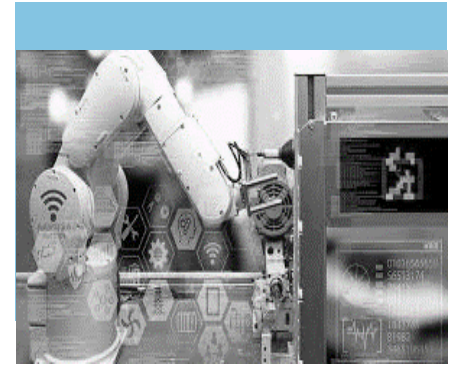


Kx, working with CGI, has been selected to deliver a next-generation electricity information exchange for Fingrid, the transmission system operator for Finland.



UTILITIES

BISTel



Kx announced an OEM agreement with BISTel, a leading provider of smart manufacturing solutions, for the use of Kx for Sensors and kdb+ in its product line. Clients include Samsung, Toshiba and SK Hynix



INDUSTRY
4.0



Our goal and the pillars for Kx Ventures



Drive long-term, high margin software revenues by promoting Kx as a disruptive technology across multiple industries



A range of initiatives geared to academia and designed to showcase our technology

We operate academic licenses with leading universities such as MIT, UC Berkeley and Princeton



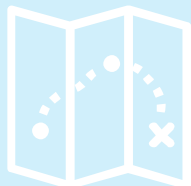
We are building strong alliances with key industry players through OEM agreements

This allows us to leverage their brand and global sales reach

We bring the technology and our high-potential partners bring domain expertise. Together, we can deliver solutions to market fast

We have a pipeline of exciting opportunities in this area

We are working in partnership with leading organisations to provide innovative, new commercial products and services



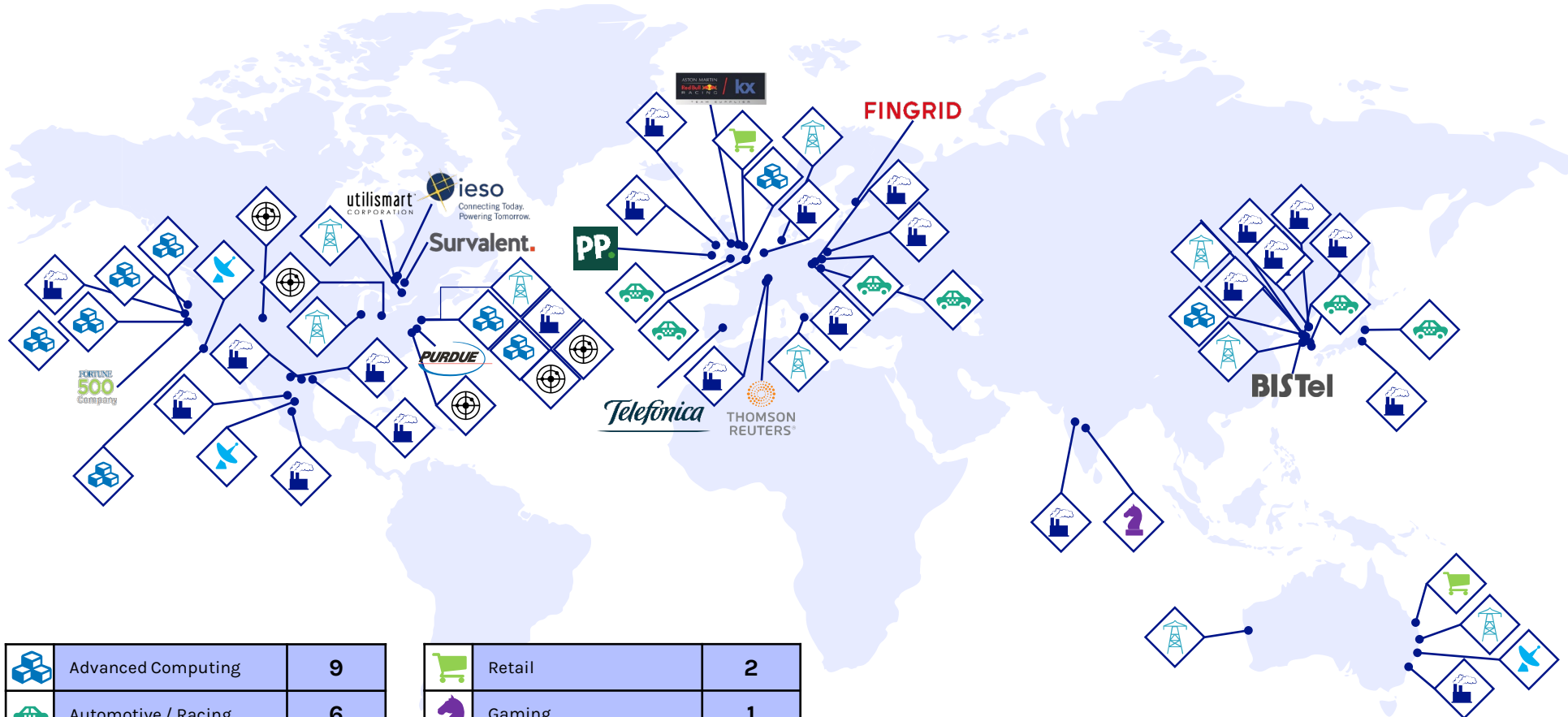
Growing the Kx Ecosystem





Agile Access to New Markets





Global contract wins and developing pipeline



	Advanced Computing	9
	Automotive / Racing	6
	Utilities	9
	Manufacturing	20

	Retail	2
	Gaming	1
	Telco	3
	Marketing	5

Summary and Outlook



Summary and outlook



- Massive addressable market for both Kx technology and our MSC practice
- Strong revenue growth and high software margins enabling us to reinvest back into the business
- Kx's unified platform and leading edge capabilities enabling disruption across multiple industries including IIoT, utilities, automotive and telecoms
- Increasing scale and breadth of services coupled with key account management approach enabling us to deepen client relationships

Positive momentum and revenue and adjusted EBITDA expected to be slightly ahead of FY 2019 consensus forecasts

Appendix

>> Reconciliation of current and prior cost allocations

Six months to 31 August 2018

	H1 2019 (prior)	Sales and marketing	R&D	Other Income	H1 2019 (current)
Revenue	£105,574				£105,574
Cost of sales	(£77,069)	£14,327	£1,050		(£61,692)
Gross profit	£28,505				£43,882
Other income	£364			(£364)	-
Net R&D	-		(£1,050)		(£1,050)
Sales & marketing	-	(£15,785)			(£15,785)
Admin expenses	(£20,546)	£1,458		£364	(£18,724)
Operating profit	£8,323				£8,323

Six months to 31 August 2017

	H1 2018 (prior)	Sales and marketing	R&D	Other Income	H1 2018 (current)
Revenue	£87,837				£87,837
Cost of sales	(£62,778)	£10,759	£519		(£51,500)
Gross profit	£25,059				£36,337
Other income	£596			(£596)	-
Net R&D	-		(£519)		(£519)
Sales & marketing	-	(£11,973)			(£11,973)
Admin expenses	(£18,468)	£1,214		£596	(£16,658)
Operating profit	£7,187				£7,187

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



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