27 October 2020

First Derivatives plc
("FD", the "Company" or the "Group")

Interim results for the six months ended 31 August 2020

FD (AIM: FDP.L, Euronext Growth: FDP.I) today announces its results for the six months ended 31 August 2020.

Financial Highlights

Six months to 31 August	**2020**	**2019**	***Change***
Revenue	£119.6m	£116.7m	*+3%*
Gross profit	£48.2m	£48.0m	-
Adjusted EBITDA*	£21.5m	£22.0m	*-2%*
Profit before tax	£7.4m	£8.4m	*-12%*
Reported diluted EPS	21.8p	24.2p	*-10%*
Interim dividend per share	Nil	8.5p	
Net debt**	£30.6m	£60.2m	*-49%*

*Adjusted for share-based payments and acquisition costs
**Excluding lease obligations

Business Highlights

- Software license growth of 12% drove total software revenue up 4% to £74.4m (H1 2020: £71.4m)
- Managed services and consulting revenue in line with the prior period at £45.2m with our strategic client relationships and market-leading services protecting our revenue base and providing a solid foundation for a return to growth
- Group revenue increased by 3%, representing a highly resilient performance during a period in which sales cycles lengthened as a result of macro uncertainty caused by COVID-19
- Underlying performance across the Group remains consistent with our AGM trading update, with the timing of staff holidays benefitting Q1 performance relative to a typical year and a currency headwind in Q2
- Adjusted EBITDA down 2% to £21.5m following investment in customer success team and R&D to improve our competitive position and sales and marketing to strengthen our go-to-market capability
- Very strong cash conversion over the period, with net debt falling significantly to £30.6m
- Demand for digital transformation is accelerating our growth opportunity, as organisations seek to increase their competitiveness through continuous intelligence powered by Kx
- Release of version 4.0 of Kx to further advance our performance lead, representing a major upgrade with performance gains of 5x over the prior version
- Strengthened leadership focused on driving growth from our world-class products and services provide confidence in the outlook for the Group

Donna Troy, Chairman of FD, commented: "During the period we have demonstrated the Group's resilience while continuing to focus on the considerable opportunity ahead. It is clear that the use of data, particularly streaming operational data, to drive decision-making will become critical for enterprises and COVID-19 will accelerate this trend. Kx technology is ideally placed to be the streaming analytics software of choice that customers and partners trust to solve their most demanding and complex data challenges, and it is our mission to capitalise on that opportunity.

With our new leadership teams in place following a number of senior appointments we are making good progress on our strategic objectives, with enhancements to our internal structures and go-to-market capabilities as well as our technology roadmap. While the current year outcome remains difficult to predict, we are excited by the potential of our business and the capability to significantly accelerate our growth."

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About FD

FD is a global technology provider with more than 20 years of experience working with some of the world's largest finance, technology, automotive, manufacturing and energy institutions. The Group's Kx technology, incorporating the kdb+ time-series database, is a leader in high-performance, in-memory computing, streaming analytics and operational intelligence. Kx delivers the best possible performance and flexibility for high-volume, data-intensive analytics and applications across multiple industries. FD operates from 15 offices across Europe, North America and Asia Pacific, including its headquarters in Newry, and employs more than 2,400 people worldwide.

For further information, please visit www.firstderivatives.com and www.kx.com

Conference call and webcast

FD will host a live webcast at 09.30 BST today which can be accessed via this link:

http://bit.ly/FDEarningsCall

Business Review

The Group has delivered a very resilient financial performance during a period in which the full impact of the COVID-19 pandemic has been in force; revenue increased by 3% to £119.6m and adjusted EBITDA of £21.5m was achieved, down 2%. This strong performance in this time of uncertainty has allowed us to continue to invest across the Group, confident that our strategy is correct and that the growing requirement for real-time, data-driven decision making in every enterprise has the potential to accelerate our growth.

Our Kx technology sits at the intersection of multiple growth trends and drivers including digital transformation, the shift to the cloud, IoT, edge computing and the demand for personalised customer experiences. These trends are all powered and enabled by the increasing amount of real-time data generated by sensors and networks within enterprises. We are increasingly seeing potential customers that realise that they can be more efficient and competitive by making decisions as data is generated.

Our focus remains on the most demanding streaming analytics use cases where our differentiation is greatest, and where we can transform our customers business by making them more competitive, driving automation and bringing continuous intelligence to the enterprise. The sectors where we focus are our core market of FinTech, powering applications that make use of market data; MarTech, where we process trillions of data signals to help our customers lead generation activities; and Industry, where we see enormous potential for our horizontally scalable platform across markets that are undertaking digital transformation. Within Industry, we are beginning to generate revenue from the automotive, energy and manufacturing sectors and see growing potential demand from telco.

Kx Streaming Analytics is ideally positioned to enable those analytics and drive continuous intelligence within organisations, with potentially thousands of use cases including network optimisation in telco, smart meter data management in utilities and connected cars in automotive.

To ensure we derive maximum benefit from these trends we significantly strengthened our leadership during the period, with the appointment of three senior industry figures as Non-Executive Directors and three senior executives providing technology development, strategy and commercial expertise.

Kx platform and market opportunity

Our Kx technology enables the analysis of vast quantities of data, both real-time and historic, at cost and performance levels unmatched by competing solutions. Within a single technology stack, Kx provides significant value for clients where real-time insights materially change the game in terms of growth, efficiency or profitability. Kx ingests, processes and analyses ultra-high volumes of data; contextualises the data by seamlessly merging real-time event streams in memory with historical data at rest; and enables high-value decisions to be made from this analysis across the edge and cloud.

Kx's small footprint provides a number of deployment and cost advantages while an enterprise layer delivers vital functions such as security, control and visualisation. We provide all the integration and development tools required to enable a third party, such as an OEM partner or a direct customer, to build their own customised applications. The stability of our platform, which is tried and tested across some of the most demanding industries in the world, is also a differentiator, providing competitive advantage against emerging technologies that cannot demonstrate either the performance or the resilience achieved by Kx.

Kx technology's ultra-high performance from a single processing, contextualisation and analytics stack provide compelling return on investment and leave us well placed to benefit from some of the most exciting opportunities in technology. Exploding data volumes and enterprise demand for continuous intelligence are driving the streaming analytics market, which is growing at 25% per annum and will be worth $39bn by 2025 according to MarketsandMarkets.

Our commercial strategy is to engage partners with domain expertise and commercial presence in our key target markets, supplemented by direct sales into key customers, particularly larger opportunities that showcase the capabilities of our technology by solving new or unsolved problems where customer propensity to buy is differentiated and the customer's return on investment is high. Our goal is to generate predictable, long-term revenue streams via OEM and royalty

agreements and during the period we signed a global partnership agreement with Tata Consultancy Services for the use of Kx within its transformative solutions as the time series database for the collection of fast-moving data from machines. Earlier this year we set up a dedicated team focused on identifying potential strategic partners and have ongoing discussions with a range of potential new OEM partners across our key markets, including software, hardware and cloud vendors.

Research and development

Our R&D focus is to accelerate growth in software revenue. That includes ensuring Kx remains the best performing technology, while ensuring that it can be deployed rapidly at scale, is interoperable with other technologies utilised by customers and continually improving our ease of use.

During the period our release of version 4.0 of Kx further advanced our performance lead, representing a major upgrade with performance gains of 5x over the prior version. Version 4.0 also saw us improve our ease of use with the introduction of serverless Kx which removes the need for users to manage physical computing infrastructure, together with native support for Intel Optane, a high-performance storage and memory hardware component deployed by Amazon and Google across their datacentres. We also increased our R&D investment in line with our go-to-market strategy to focus on the development of connectivity and integration interfaces to enable Kx to operate seamlessly with third party systems and introduced Auto ML, a further advance in our machine learning capability powered by Kx.

These initiatives support our strategy by reducing the development and deployment effort required to deliver our platform to clients, ultimately enabling more rapid revenue growth as client demand grows.

Business development

Kx

FinTech revenue

In FinTech we continued to deliver growth, with total revenue up by 9% to £48.7m and recurring license revenue up by 10% to £17.3m. Kx continues to be the platform that capital markets firms trust to power solutions such as regulatory and risk reporting, market surveillance and trading analytics.

Capital markets volumes spiked during the period and systems powered by Kx scaled well to support our clients' trading systems. This led to increased reliance on both FinTech software and services and resulted in positive customer feedback in the period and stands us in good stead to expand the use of Kx across capital markets.

In recent months we have had many conversations with our existing clients about moving to the cloud with Kx, which they see as a way to create value with minimal disruption. This shift to the cloud is already under way, and its effect will be to move us closer to our FinTech clients while also forming deep relationships with the major public cloud vendors. It also provides the potential to drive significant growth in our revenue from both FinTech software and managed services and consulting.

While the impact of COVID-19 meant that sales cycles were longer than in previous periods, we did sign a deal with a major European bank which has made a significant commitment to use Kx within its capital markets trading operation. We continue to engage with existing and potential clients across our range of products and geographies, including areas such as surveillance and market analytics where our pipeline remains strong.

Industry revenue

Our industry recurring license revenue recorded strong growth up 46%, in line with our goal to grow predictable long-term revenue, although total revenue decreased by 22% to £3.5m in the period (H1 2020: £4.4m). While total revenue can be dependent on the timing of larger deals at this early stage of commercialisation, we are pleased with the high level of interest we are seeing across industries in the adoption of our software, resulting from our initial marketing, development and sales expansion efforts. Importantly, during the period we progressed a number of high-value

opportunities relating to both potential partnership and OEM agreements as well as direct sales. Notable progress during the period included:

- *Automotive* – Our proven ability to handle a range of use cases from analysing enormous quantities of data generated in wind tunnels to rapid analytics from onboard sensors create multiple opportunities. In particular, Kx addresses client needs for performing complex engineering calculations and analytics on high velocity data from sensors, enabling engineers to visually interact with streaming and historical data of tests involving motorsport and production vehicles. Additionally, we are working to develop opportunities in the connected car ecosystem. Although automotive was one of the markets we target that was most impacted by COVID-19, we have seen some confidence return to the market in recent months and continue to progress a number of direct sales and partner opportunities.
- *Energy* – We continue to make progress towards our goal of establishing Kx as a key component of the streaming analytics infrastructure within the energy market, particularly utilities. We have successfully installed Kx as planned to provide the meter data management functionality within Fingrid's next-generation electricity information exchange, datahub, with go live expected in early 2022. Our OEM partnerships with Utilismart and Survalent are also progressing well. We are currently in discussion to provide meter data management capability, with existing and potential partners, to a number of utilities, particularly in North America. While bid cycles within the energy market are lengthy, it offers the potential for large and long-lasting revenue streams.
- *Manufacturing* –This is a large and attractive market in which Kx stands out against incumbent solutions powered either by relational databases, which are struggling to keep up with growing data volumes, or historians that were not designed for complex analytics or real-time actions. We are working with a range of partners across use cases including fault detection, process control, asset monitoring and predictive maintenance to target large, global manufacturing organisations where we see the potential for large contract wins that deliver a high return on investment for the customer.

In addition to the markets above, we are also making good progress within the telco market where our conversations with partners and potential customers centre around network and customer management, particularly network optimisation, service assurance and customer engagement. As 5G rolls out we believe the performance advantage of Kx will enhance our competitiveness and these factors mean that we now consider telco as our fourth key market within Industry.

Although revenue from Industry remains low, we continue to expect it to grow rapidly over the medium term to become a meaningful proportion of our revenue.

MRP

Revenue from MarTech decreased by 1% to £22.2m with 54% of this revenue derived from subscription contracts (H1 2020: 52%). Our MRP SaaS-based solution, powered by Kx, changes the game for organisations by enabling them to identify and engage potential customers earlier and more effectively, driving greater revenue and market share. It does so using predictive analytics derived from trillions of data points, enabling clients to dynamically activate a wide range of sales and marketing tactics informed by real-time insights, in an approach known as Account Based Marketing (ABM).

Early in the period, in response to the impact of COVID-19, some existing clients paused subscription renewals and services spend as a result of macroeconomic uncertainty and their desire to focus on serving existing customers rather than driving new sales. However, as the period progressed, we have seen our customers adapt and recommence their wider MarTech activities as they look to grow their client base. This resulted in expansion within our existing client base, in addition to adding several important new clients onto the platform that have strong growth potential.

Our R&D team continued to increase functionality and improve performance of our platform, which is rated as a leader in its market by both Forrester and Ovum. During the period we won the award for Best Overall Account Based Marketing Solution from martechbreakthrough.com, again emphasising the technical superiority of MRP.

While the short-term impact of COVID-19 remains difficult to predict, our discussions with existing and potential clients lead us to expect an acceleration of the move of sales and marketing activity to digital channels, a move which will help

fuel our growth. To position ourselves to benefit from wider adoption of ABM by enterprises we continue to invest in our sales and marketing channels as well as in R&D to enable greater integration with CRM and marketing automation platforms.

Managed services and consulting

Revenue from managed services and consulting was £45.2m, in line with the prior period (H1 2020: £45.2m). FD has more than 20 years of experience providing services to leading capital markets firms, training and developing our consultants in-house through industry-recognised programmes to equip them with technical skill sets around data management and an understanding of how capital markets firms use technology to underpin their business.

In response to COVID-19, we rapidly transitioned to remote service delivery to ensure we continued to support our clients' mission critical systems. While COVID-19 has negatively impacted revenue in the short term through reduced levels of new project work, particularly in lower demand for less experienced consultants, in the longer term we believe our response has further strengthened our client relationships and will stand us in good stead for growth to resume as demand recovers.

Our ability to offer tightly defined, high-calibre services is increasingly well appreciated throughout capital markets, particularly in areas of key focus including the management of mission-critical systems, regulatory compliance and client lifecycle management. The strength of our services here is illustrated through the onboarding of several new clients across geographies during the period to support their operations:

- A global hedge fund for the upgrade of a third-party vendor trading platform.
- A regional bank in Asia Pacific for the provision of managed services supporting a mission-critical system.
- A global asset manager to support its upgrade of a third party mission-critical system.

The priorities to accelerate growth within managed services and consulting are centred on focusing on high value areas where FD's expertise enables us to develop repeatable propositions, with targeted improvements to sales and marketing to increase the reach of these propositions. Achieving these goals will both accelerate our growth and lead to improved margins.

COVID-19

Our response to COVID-19 has been guided by the principles of ensuring the health and safety of our staff and supporting our customers, many of whom rely on our technology and services to run their operations. We rapidly transitioned our employees to working remotely, although in recent months we have initiated gradual programmes of re-opening offices to allow staff to collaborate in person while ensuring their safety.

While sales cycles across the Group have lengthened, we are also seeing areas of increased demand for solutions that enable our clients to manage their business more effectively. Having conducted scenario testing with a range of assumptions including a severe, extended downturn in economic activity we remain confident that the Group will continue to be profitable and cash generative.

Early in the financial year the Group acted to mitigate the potential impact of COVID-19, including suspending non-essential business travel and deferral of the summer graduate intake. The Executive Directors did not receive a bonus payment relating to the financial year to 29 February 2020 and the Board did not recommend a final dividend payment for the year. The payment of dividends will be reviewed at the full year. To ensure liquidity, in March 2020 we drew down £34.2m from our available finance facility with the funds placed on deposit. Given the strong level of cash generation in the first half of the current financial year, we will repay this in the near future and the structure of our facility agreement means this remains available to the group going forward.

Leadership and people

The period was notable for the strengthening of the leadership team through the appointment of three Non-Executive Directors and three senior executives, all with valuable industry experience and expertise that will drive our growth plans. The Board appointments were Ayman Sayed, CEO of BMC Software, who brings a track record of driving business success through growth strategies focused on product innovation; Thomas Seifert, CFO of Cloudflare, who brings expertise across cloud, SaaS and data analytics and scaling businesses; and after the period end Steve Fisher, former CTO of eBay and who held senior technology leadership roles at salesforce.com, who provides expertise in the development and scaling of market-leading enterprise platforms.

We significantly added to the executive team, with the recruitment of high calibre individuals including: David Collins, formerly of GFT and Capco, as Managing Director of managed services and consulting; Alan Coad, formerly leading enterprise sales at Google Cloud and Pivotal, as Kx Chief Revenue Officer; and Kathy Schneider, formerly of Sungard and Level 3, to the role of Chief Marketing Officer. All have previous experience in growing enterprise technology companies and are already making a valuable contribution to the business.

The Group employs more than 2,400 people, unchanged from the same time last year. As mentioned above, we paused graduate recruitment in March 2020 in response to COVID-19 but recently resumed hiring to keep pace with growing demand, with 41 new graduates recruited in September 2020. Our attrition rates, which have traditionally been low by industry standards, fell further during the period.

In response to COVID-19 we put in place a range of initiatives to ensure continued support and pro-active engagement with our employees across the globe. These initiatives included group virtual Q&A sessions, one-to-one sessions for those with particular needs such as caring for dependents, a number of events to promote wellbeing and career development as well as a range of forums to bring together colleagues socially.

The Board recognises that the past six months have been unprecedented and that our employees have demonstrated great commitment and flexibility to support our clients and would like to thank them for their efforts.

Current trading and outlook

We delivered a resilient performance in H1 2021, taking into account the macroeconomic effects of COVID-19 which saw lengthening sales cycles across the Group. The outcome for the full year remains uncertain, with a wider range of possible outcomes than is typical. Despite this uncertainty, we anticipate our high level of repeat and recurring revenue will underpin our performance for the full year. We are confident in our strategy and excited by the growth opportunities in the medium term and will continue to invest to maximise our market position.

Financial Review

The table below highlights the components of revenue growth across the Group along with an analysis of gross profit. The analysis also shows our revenue and growth by vertical market.

Revenue and Gross Margin Analysis (£m)

H1 2021	H1 2020	Growth	H1 2021	H1 2020	Growth	H1 2021	H1 2020	Growth		H1 2021	H1 2020	Growth
Software by sector									**Total Software**			
FinTech Revenue			**MarTech Revenue**			**Industry**						
4.6	1.9	*136%*	-	-	-	0.4	1.2	*(70%)*	Perpetual	4.9	3.2	*56%*
17.3	15.8	*10%*	11.9	11.7	*2%*	1.2	0.8	*46%*	Recurring	30.4	28.3	*7%*
21.8	17.7	*23%*	11.9	11.7	*2%*	1.5	2.0	*(24%)*	Licenses	35.3	31.5	*12%*
									Cost of sales	(6.7)	(6.0)	*12%*
									Gross profit	28.5	25.4	*12%*
									Gross margin	*81%*	*81%*	*0%*
26.9	26.9	*0%*	10.2	10.7	*(4%)*	2.0	2.4	*(19%)*	Services	39.1	40.0	*(2%)*
									Cost of sales	(29.1)	(28.3)	*3%*
									Gross profit	10.0	11.7	*(15%)*
									Gross margin	*26%*	*29%*	*(3%)*
48.7	44.6	*9%*	22.2	22.4	*(1%)*	3.5	4.4	*(22%)*	Revenue	74.4	71.4	*4%*
									Cost of sales	(35.8)	(34.3)	*4%*
									Gross profit	38.6	37.2	*4%*
									Gross margin	*52%*	*52%*	*0%*
Managed services and consulting by sector									**Total Managed services and consulting**			
FinTech Revenue			**MarTech Revenue**			**Industry**						
45.2	45.2	*0%*	-	-	-	-	-	-	Revenue	45.2	45.2	*0%*
									Cost of sales	(35.6)	(34.4)	*3%*
									Gross profit	9.6	10.8	*(11%)*
									Gross margin	*21%*	*24%*	*(3%)*
Sector Totals												
FinTech Revenue			**MarTech Revenue**			**Industry**						
93.9	**89.8**	***5%***	**22.2**	**22.4**	***(1%)***	**3.5**	**4.4**	***(22%)***	**Revenue**	**119.6**	**116.7**	***3%***
									Cost of sales	(71.4)	(68.7)	*4%*
									Gross profit	48.2	48.0	*0%*
									Gross margin	*40%*	*41%*	*(1%)*
EBITDA and net margin profit analysis												
									R&D	(7.7)	(5.6)	*37%*
									Capitalised R&D	6.1	4.4	*38%*
									Sales expense	(17.5)	(17.2)	*2%*
									Adjusted admin expense	(7.6)	(7.6)	*0%*
									Adj. EBITDA	**21.5**	**22.0**	***(2%)***
									Adj. EBITDA margin	*18%*	*19%*	*(1%)*

Revenue and Margins

Group revenue increased by 3% to £119.6m (H1 2020: £116.7m), a creditable performance in a period entirely impacted by COVID-19. Highlights were 12% growth in software license revenue driven by 10% growth in recurring software revenue in FinTech and 46% growth in recurring revenue in Industry. This growth was tempered by a broadly neutral performance in both consulting and MarTech. As a result of our continued investment, particularly in our Kx customer success team as detailed below, gross margin reduced slightly to 40% (H1 2020: 41%).

Currency rates and the timing of holidays taken had an impact on our performance in the period. In the first four months, currency had a positive impact of 2%, while in the last two months the impact was -2%, resulting in a negligible impact on the period as a whole. Fewer holidays taken relative to the prior year resulted in a contribution to growth in the first four months of 3% compared to neutral in the last two months, providing a total benefit of 2% in the period.

We continued to invest in the Group's operations, in line with our strategy. Total R&D increased by 37% to £7.7m and sales and marketing costs increased by 2% despite lower event and marketing expenditure, particularly in Q1. We continued to increase our sales headcount and expect sales and marketing costs will continue to increase in future periods. Administrative costs were flat as we invested in our leadership team and central functions and controlled costs in other areas.

Software

Total software revenue increased by 4% to £74.4m and represented 62% of total Group revenue (H1 2020: 61%). Software license revenue increased by 12%, including 7% growth in recurring license revenue to £30.4m and a 56% increase in perpetual license revenue to £4.9m. We are transitioning to secure all software contracts on a recurring basis in future periods, further increasing revenue predictability.

Software revenue from FinTech increased by 9% to £48.7m, reflecting a 23% increase in license revenue (10% increase in recurring license revenue and 136% increase in perpetual licenses) and services revenue was flat. Our software services, comprising implementation, managed services and development work for our Kx clients, remain in high demand. However, during the period we took the decision to set up a customer success team with responsibility for pre- and post-sales engagement which resulted in some senior staff being removed from short-term revenue-generating roles. This investment is expected to increase customer satisfaction and speed of implementation, ultimately leading to higher recurring revenue.

Total revenue from MarTech decreased by 1% to £22.2m. While subscription revenue increased by 2% to £11.9m, our growth was impacted by customers taking longer to renew subscriptions. Services revenue declined by 4% to £10.2m as some clients chose to pause lead engagement activities during the height of the pandemic. We remain optimistic about the growth potential in MarTech as clients seek effective ways to implement Account Based Management strategies based on real-time insights.

Software revenue from Industry decreased by 22% to £3.5m. Our short-term performance in this early stage of development in Industry is driven by the level of perpetual license revenue, which fell by 70% in the period as customers focused on their existing systems in response to COVID-19. Recurring revenue grew by 46% to partially redress this decline and as our target customers adapt, we expect the benefits in terms of continuous intelligence and return on investment that Kx delivers to drive an acceleration in our growth.

Software gross margin was flat at 52%, driven by investment in our future growth and delivery capability. Software license gross margin was maintained at 81% and license revenue was 47% of total software revenue (H1 2020: 44%). Software services gross margin fell to 26% (H1 2020: 29%) as we invested in our customer success team.

Managed services and consulting

Managed services and consulting revenue was flat at £45.2m while delivering gross margins of 21%, down from 24% in the prior period. The reduction in margin was attributable to lower utilisation, particularly at the less experienced

consultant level. As previously reported, we had seen delays to the start of two multi-year third party vendor implementation projects which impacted our performance in H2 2020. These implementations were impacted by COVID-19 and while one of these projects remains delayed the other resumed in August 2020.

Profit before tax

Adjusted profit before tax decreased by 19% to £10.7m (H1 2020: £13.3m) held back by increased financing costs and higher depreciation and software amortisation charges. Financing costs include a £0.9m increase in interest charges relating to the additional debt facilities drawn down in June 2019 to complete the acquisition of Kx Systems and the drawdown of £34.2m from our available debt facility as part of our mitigation against the impact of COVID-19. Reported profit before tax decreased by 12% to £7.4m (H1 2020: £8.4m). The reconciliation of adjusted EBITDA to reported profit before tax is provided below.

	H1 2021	**H1 2020**
	£m	**£m**
Adjusted EBITDA	21.5	22.0
Adjustments for:		
Depreciation	(3.6)	(3.1)
Amortisation of software development costs	(4.7)	(4.0)
Financing costs	(2.5)	(1.6)
Adjusted profit before tax	10.7	13.3
Adjustments for:		
Amortisation of acquired intangibles	(1.8)	(1.9)
Share-based payment and related costs	(0.8)	(1.6)
Acquisition costs, associate disposal costs and changes in deferred consideration	(0.5)	(0.9)
Loss on foreign currency translation	(0.2)	(0.5)
Reported profit before tax	7.4	8.4

The Group continued to invest in research and development to maintain its technology lead, with total R&D up 37% to £7.7m, of which £6.1m was capitalised. Amortisation of R&D increased by 17%, resulting in net capitalisation of £1.4m in the period (H1 2020: £0.4m).

	H1 2021 £m	H1 2020 £m	Movement
Research and development costs:			
Expensed during the period	1.6	1.2	*33%*
Capitalisation of product development costs	6.1	4.4	*38%*
Total research and development	7.7	5.6	*37%*
Amortisation of R&D	(4.7)	(4.0)	*17%*

Earnings per share

Reported profit after tax decreased by 8% to £6.1m (H1 2020: £6.6m) and reported diluted earnings per share decreased by 10% to 21.8p per share (H1 2020: 24.2p).

The adjusted profit after tax for the period of £8.8m (H1 2020: £10.9m) represented a decrease of 19%. The calculation of adjusted profit after tax is detailed below:

	H1 2021 £m	H1 2020 £m
Reported profit after tax	6.1	6.6
Adjustments from profit before tax	3.2	4.9
Tax effect of adjustments	(0.5)	(0.6)
Adjusted profit after tax	8.8	10.9
Weighted average number of ordinary shares (diluted)	27.9m	27.5m
Adjusted EPS (fully diluted)	31.7p	39.6p

Balance sheet

Total assets increased by 16% to £369.4m (H1 2020: £317.7m). This included cash of £71.6m, an increase of £51.4m which comprised cash generated from operations as well as the deposit of the £34.2m of available debt facility drawn down to mitigate the potential impact of COVID-19.

Other financial assets, which includes equity investments, increased to £16.2m (FY 2020: £15.8m).

Cash generation and net debt

The Group generated £24.3m of cash from operating activities before taxes paid (H1 2020: £16.4m) representing 113% conversion of adjusted EBITDA (H1 2020: 74%). The period benefitted from a focus on cash collection, including from revenue recognised in H2 2020 where the cash was received during H1 2021. We continue to expect cash generated from operating activities to represent 80-85% of adjusted EBITDA in a typical year.

At the period end, net debt was £30.6m (H1 2020: £60.2m). The factors impacting the movement in net debt are summarised in the table below:

	H1 2021 £m	H1 2020 £m
Opening net debt (excluding lease liabilities)	(49.4)	(16.1)
Operating cash flow	24.3	16.4
Taxes paid	(0.4)	(3.0)
Dividends paid	0.0	(5.1)
Capital expenditure: property, plant and equipment	(1.3)	(1.2)
Capital expenditure: intangible assets	(6.1)	(4.4)
Acquisition of subsidiaries	0.0	(43.0)
Investments	(0.5)	(1.0)
Issue of new shares	5.5	3.6
Interest, foreign exchange and other	(2.7)	(6.4)
Closing net debt (excluding lease liabilities)	**(30.6)**	**(60.2)**

The Group's Kx Ventures programme assists innovative start-up and scale-up businesses seeking to use the power of Kx under a revenue share license agreement. In some cases, cash and services were invested as part of the companies' capital raising. In the last period, the Group has re-focused its activities towards its corporate partnerships program with a reduced emphasis on Kx Ventures. The table below summarises the investments made to date as well as the maximum future commitment and the revenue generated for the Group. In H1 2021 the Group advanced £0.6m in equity and loans to its new and existing venture agreement companies with a maximum further commitment of up to £1.5m across all 29 venture agreements.

	H1 2021	H1 2020	Total to date
Number of venture agreements in period	**2**	**3**	**29**
Equity and loans advanced (£m)	0.6	1.0	19.5
Outstanding commitment (£m)	1.5	1.9	
Revenue share agreements			
Revenue recognised for software services (£m)	0.4	0.4	8.4
Licenses recognised under revenue share agreements (£m)	0.8	0.1	2.3

Dividend

The Board has not declared an interim dividend (H1 2020: 8.50p per share) in light of the continuing uncertainty regarding COVID-19 and will review this position at the time of the full-year results.

Principal risks and uncertainties

The key risks and uncertainties relating to the Group's operations remain largely consistent with those listed below as disclosed on pages 23 to 25 of the Group's Annual Report and Accounts 2020, which can be viewed and downloaded on the Group website at www.firstderivatives.com.

- Pandemic (COVID-19)
- Attracting and retaining talent in a competitive environment
- Market risk
- Technological change
- Brexit
- Retention of key client relationships
- Management of growth
- Management of Information Technology security

Despite the ongoing impact of COVID-19, we remain confident in the Group's capability to withstand all modelled scenarios and our mitigating actions for this risk remain the same.

Consolidated income statement (unaudited)
Six months ended 31 August 2020

	Note	**2020 £'000**	2019 £'000
Revenue	***3 & 4***		
Software licenses and services		**74,387**	71,441
Managed services and consulting		**45,214**	45,235
Total revenue		**119,601**	116,676
Cost of sales	***3***		
Software licenses and services		**(35,825)**	(34,286)
Managed services and consulting		**(35,588)**	(34,411)
Total cost of sales		**(71,413)**	(68,697)
Gross profit		**48,188**	47,979
Operating costs			
Research and development costs		**(7,691)**	(5,605)
Of which capitalised		**6,120**	4,425
Sales and marketing costs		**(17,535)**	(17,244)
Administrative expenses		**(18,737)**	(18,874)
Impairment (loss)/gain on trade and other receivables		**(221)**	(200)
Other income		**-**	121
Total operating costs		**38,064**	37,377
Operating profit		**10,124**	10,602
Acquisition costs and changes in contingent deferred consideration		**482**	871
Share-based payment and related costs		**811**	1,578
Depreciation and amortisation		**8,294**	7,083
Amortisation of acquired intangible assets		**1,789**	1,850
Adjusted EBITDA		**21,500**	21,984
Finance income		**13**	14
Finance expense		**(2,511)**	(1,628)
Loss on foreign currency translation		**(203)**	(548)
Net finance costs		**(2,701)**	(2,162)
Share of profit/ (loss) of associate, net of tax		**17**	(8)
Profit before taxation		**7,440**	8,432
Income tax expense		**(1,351)**	(1,791)
Profit for the period		**6,089**	6,641
		Pence	Pence
Earnings per share	***6***		
Basic		**22.2**	25.2
Diluted		**21.8**	24.2

Consolidated statement of changes in equity (unaudited)
Six months ended 31 August 2020

	Share capital	Share premium	Merger reserve	Share option reserve	Fair value reserve	Currency translation adjustment	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 March 2020	136	91,002	8,118	13,775	3,587	2,418	44,125	163,161
Total comprehensive income for the period								
Profit for the period	-	-	-	-	-	-	6,089	6,089
Other comprehensive income								
Net exchange loss on net investment in foreign subsidiaries	-	-	-	-	-	(6,964)	-	(6,964)
Net exchange gain on hedge of net investment in foreign subsidiaries	-	-	-	-	-	3,494	-	3,494
Net change in fair value of equity investments at FVOCI	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	(3,470)	6,089	2,619
Transactions with owners of the Company								
Tax relating to share options	-	-	-	1,187	-	-	-	1,187
Exercise of share options	2	5,444	-	-	-	-	-	5,446
Issue of shares	-	113	-	-	-	-	-	113
Share-based payment charge	-	-	-	750	-	-	-	750
Dividends to owners of the Company	-	-	-	-	-	-	-	-
Balance at 31 August 2020	**138**	**96,559**	**8,118**	**15,712**	**3,587**	**(1,052)**	**50,214**	**173,276**

Consolidated statement of changes in equity (unaudited)
Six months ended 31 August 2019

	Share capital	Share premium	Merger reserve	Share option reserve	Fair value reserve	Currency translation adjustment	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 March 2019	131	79,726	8,118	10,744	3,587	3,944	36,560	142,810
Impact of changes in accounting policy [1]	-	-	-	-	-	-	399	399
Restated balance at 1 March 2019	131	79,726	8,118	10,744	3,587	3,944	36,959	143,209
Total comprehensive income for the period								
Profit for the period	-	-	-	-	-	-	6,641	6,641
Other comprehensive income								
Net exchange gain on net investment in foreign subsidiaries	-	-	-	-	-	10,563	-	10,563
Net exchange loss on hedge of net investment in foreign subsidiaries	-	-	-	-	-	(4,840)	-	(4,840)
Net change in fair value of equity investments at FVOCI	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	5,723	6,641	12,364
Transactions with owners of the Company								
Tax relating to share options	-	-	-	1,026	-	-	-	1,026
Exercise of share options	2	4,579	-	(976)	-	-	-	3,605
Issue of shares as contingent deferred consideration	-	1,096	-	-	-	-	-	1,096
Share-based payment charge	-	-	-	737	-	-	-	737
Dividends to owners of the Company	-	-	-	-	-	-	(5,084)	(5,084)
Balance at 31 August 2019	**133**	**85,401**	**8,118**	**11,531**	**3,587**	**9,667**	**38,516**	**156,953**

[1]The Group initially applied IFRS 16 at 1 March 2019

Consolidated balance sheet (unaudited)
As at 31 August 2020

	Note	**As at 31 August 2020 £'000**	As at 31 August 2019 £'000	As at 28 February 2020 £'000
Assets				
Property, plant and equipment		**34,725**	32,597	37,143
Intangible assets and goodwill		**150,537**	160,559	154,416
Equity accounted investee		**2,838**	2,710	2,937
Other financial assets		**16,228**	15,374	15,750
Trade and other receivables		**2,086**	4,809	5,000
Deferred tax assets		**15,674**	17,367	14,982
Non-current assets		**222,088**	233,416	230,228
Trade and other receivables		**73,854**	61,516	76,330
Current tax receivable		**1,909**	2,655	3,142
Cash and cash equivalents		**71,572**	20,128	26,068
Current assets		**147,335**	84,299	105,540
Total assets		**369,423**	317,715	335,768
Equity				
Share capital		**138**	133	136
Share premium		**96,559**	85,401	91,002
Merger reserve		**8,118**	8,118	8,118
Shares option reserve		**15,712**	11,531	13,775
Fair value reserve		**3,587**	3,587	3,587
Currency translation adjustment reserve		**(1,052)**	9,667	2,418
Retained earnings		**50,214**	38,516	44,125
Equity attributable to shareholders		**173,276**	156,953	163,161
Liabilities				
Loans and borrowings	*7*	**119,539**	95,188	94,311
Trade and other payables		**2,210**	3,773	2,610
Deferred tax liabilities		**11,086**	11,153	10,585
Non-current liabilities		**132,835**	110,114	107,506
Loans and borrowings	*7*	**10,442**	8,094	10,868
Trade and other payables	*8*	**46,814**	37,392	47,719
Current tax payable		**-**	537	312
Employee benefits		**6,056**	4,625	6,202
Current liabilities		**63,312**	50,648	65,101
Total liabilities		**196,147**	160,762	172,607
Total equity and liabilities		**369,423**	317,715	335,768

Consolidated cash flow statement (unaudited)
Six months ended 31 August 2020

	2020	2019
	£'000	£'000
Cash flows from operating activities		
Profit for the period	**6,089**	6,641
Adjustments for:		
Net finance costs	**2,701**	2,162
Depreciation of property, plant and equipment	**3,544**	3,086
Amortisation of intangible assets	**6,539**	5,847
Associate income	**17**	8
Equity settled share-based payment transactions	**750**	1,578
Grant income	**-**	(121)
Tax expense	**1,351**	1,791
	20,991	20,992
Changes in:		
Trade and other receivables	**7,273**	(2,067)
Trade and other payables	**(3,948)**	(2,560)
Cash generated from operating activities	**24,316**	16,365
Taxes paid	**(351)**	(2,986)
Net cash from operating activities	**23,965**	13,379
Cash flows from investing activities		
Interest received	**13**	14
Acquisition of subsidiary	**-**	(42,874)
Acquisition of other investments and associates	**(378)**	(668)
Increase in loans to other investments	**(161)**	(345)
Acquisition of property, plant and equipment	**(1,318)**	(1,239)
Acquisition of intangible assets	**(6,169)**	(4,425)
Net cash used in investing activities	**(8,013)**	(49,537)
Cash flows from financing activities		
Proceeds from issue of share capital	**5,559**	3,605
Drawdown of loans and borrowings	**34,208**	76,933
Repayment of borrowings	**(3,280)**	(35,210)
Payment of finance lease liabilities	**(2,151)**	(1,547)
Interest paid	**(2,702)**	(1,386)
Dividends paid	**-**	(5,107)
Net cash generated from financing activities	**31,634**	37,288
Net increase in cash and cash equivalents	**47,586**	1,130
Cash and cash equivalents at 1 March	**26,068**	18,798
Effects of exchange rate changes on cash held	**(2,082)**	200
Cash and cash equivalents at 31 August	**71,572**	20,128

Notes to the Interim Results

1. General information

First Derivatives plc ("FD" or the ''Company'') is a public limited company incorporated and domiciled in Northern Ireland. The Company's registered office is 3 Canal Quay, Newry BT35 6BP. This condensed consolidated interim financial information was approved for issue by the Board of Directors on 26 October 2020.

This condensed consolidated interim financial information does not comprise statutory financial statements within the meaning of section 434 of the Companies Act 2006. Statutory financial statements for the year ended 29 February 2020 were approved by the Board of Directors on 18 May 2020 and delivered to the Registrar of Companies. The auditors reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

2. Accounting policies

Basis of Preparation

This condensed consolidated interim financial information for the half-year ended 31 August 2020 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, 'Interim financial reporting' as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 29 February 2020, which have been prepared in accordance with IFRSs as adopted by the European Union.

This condensed consolidated interim financial information is unaudited and has not been reviewed by the Company's Auditors. Except as described below they have been prepared on accounting bases and policies that are consistent with those used in the preparation of the financial statements of the Company for the year ended 29 February 2020.

Going concern

The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Management has performed a detailed going concern assessment that reflects the significant uncertainty arising from the Covid-19 pandemic. The assessment concluded that the Group has sufficient headroom and liquidity, accordingly, we continue to adopt the going concern basis in preparing the condensed financial statements.

Changes in accounting policies

The following standards, amendments and interpretations were effective for accounting periods beginning on or after 1 March 2020 and these have been adopted in the Group financial statements where relevant:

- Amendments to IFRS 3 Definition of a business in business combinations
- Amendments to IAS 1 Definition of material
- Amendments to IFRS 9 and IAS 39 Interest rate benchmark reform impact
- Amendments to IFRS 16 Covid-19 related rent concessions
- Amendments to IFRS 9 and IFRS 4 Insurance contracts

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3. Segmental Reporting

Information about reportable segments

	Managed services and consulting		Software		Total	
	2020	2019	**2020**	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Revenue by segment						
Revenue	**45,214**	45,235	**74,387**	71,441	**119,601**	116,676
Cost of sales	**(35,588)**	(34,411)	**(35,825)**	(34,286)	**(71,413)**	(68,697)
Gross profit	**9,626**	10,824	**38,562**	37,155	**48,188**	47,979

Geographical location analysis

	2020	2019
	£'000	£'000
UK	**34,374**	31,272
Rest of Europe	**21,824**	21,920
North America	**49,334**	49,599
Asia Pacific	**14,069**	13,885
Total	**119,601**	116,676

4. Revenue

Disaggregation of revenue

	Managed services and consulting		Software		Total	
	2020	2019	**2020**	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Revenue by industry						
FinTech	**45,214**	45,235	**48,733**	44,565	**93,947**	89,800
MarTech	**-**	-	**22,167**	22,429	**22,167**	22,429
Other	**-**	-	**3,487**	4,447	**3,487**	4,447
	45,214	45,235	**74,387**	71,441	**119,601**	116,676
Type of good or service						
Sale of goods – perpetual	-	-	**4,921**	3,160	**4,921**	3,160
Sale of goods – recurring	-	-	**30,368**	28,293	**30,368**	28,293
Rendering of services	**45,214**	45,235	**39,098**	39,988	**84,312**	85,223
	45,214	45,235	**74,387**	71,441	**119,601**	116,676
Timing of revenue recognition						
At a point in time	-	-	**4,921**	3,160	**4,921**	3,160
Over time	**45,214**	45,235	**69,466**	68,281	**114,680**	113,516
	45,214	45,235	**74,387**	71,441	**119,601**	116,676

5. Dividends

No interim dividend payment will be made for the six months to 31 August 2020 (H1 2020: 8.5p).

6. Earnings per Share

Basic earnings per share for the six months ended 31 August 2020 has been calculated on the basis of the reported profit after taxation of £6.1m (H1 2020: £6.6m) and the weighted average number of shares for the period of 27,405,169 (H1 2020: 26,396,587). This provides basic earnings per share of 22.2 pence (H1 2020: 25.2 pence).

Diluted earnings per share for the six months ended 31 August 2020 has been calculated on the basis of the reported profit after taxation of £6.1m (H1 2020: £6.6m) and the weighted average number of shares after adjustment for the effects of all dilutive potential ordinary shares 27,897,118 (H1 2020:27,496,863). This provides diluted earnings per share of 21.8 pence (H1 2020: 24.2 pence).

The Board considers that adjusted earnings is an important measure of the Group's financial performance. Adjusted earnings in the period were £8,847k (H1 2020: £10,892k), which excludes the amortisation of acquired intangibles of £1,789k, (H1 2020: £1,850k) share-based payments of £811k (H1 2020: £1,578k), acquisition costs of £482k (H1 2020: £871k), loss on foreign currency translation of £203k (H1 2020: £548k), share of profit of associate £17k (H1 2020: £8k loss) and associated taxation impact of these adjustments of £510k (H1 2020: £604k). Using the same weighted average of shares as above provides adjusted basic earnings per share of 32.3 pence (H1 2020: 41.3 pence) and adjusted diluted earnings per share of 31.7 pence (H1 2020: 39.6 pence).

7. Loans and borrowings

	31 August 2020 £'000	29 February 2020 £'000
Current liabilities		
Secured bank loans	**6,105**	6,337
Lease liabilities	**4,337**	4,531
	10,442	10,868
Non-current liabilities		
Secured bank loans	**96,095**	69,156
Lease liabilities	**23,444**	25,155
	119,539	94,311

8. Trade and other payables

	31 August 2020 £'000	29 February 2020 £'000
Current liabilities		
Trade payables	**6,085**	7,725
Other payables	**13,327**	9,235
Accruals	**3,839**	8,684
Deferred income	**22,932**	21,778
Government grants	**631**	297
	46,814	47,719

	31 August 2020 £'000	29 February 2020 £'000
Non-current liabilities		
Government grants	**2,210**	2,610
Accruals	**-**	-
	2,210	2,610

9. Interim Report

Copies can be obtained from the Company's head and registered office: 3 Canal Quay, Newry, Co. Down, BT35 6BP and are available to download from the Company's web site www.firstderivatives.com.

10. Responsibility Statement

The Directors confirm that this condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed consolidated interim financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months of the financial year and any material changes in the related party transactions described in the last Annual Report.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors of First Derivatives plc are listed in the Company's Report and Accounts for the year ended 29 February 2020. A list of current Directors is maintained on the First Derivatives plc website: www.firstderivatives.com.

11. Forward Looking Statements

The financial information contained in this announcement has not been audited. Certain statements made in this announcement are forward-looking statements. Undue reliance should not be placed on such statements, which are based on current expectations and are subject to a number of risks and uncertainties that could cause actual results to differ materially from any expected future results in forward-looking statements.

The Company accepts no obligation to publicly revise or update these forward-looking statements or adjust them to future events or developments, whether as a result of new information, future events or otherwise, except to the extent legally required.