Outlook

Edison investment research

13 October 2008

First Derivatives

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
02/07	9.3	2.8	16.7	5.0	9.9	3.0
02/08	12.7	5.0	23.9	8.1	6.9	4.9
02/09e	16.1	5.0	23.4	8.3	7.1	5.0
02/10e	21.6	5.8	27.6	8.9	6.0	5.4

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items and share based payments

Investment summary: No slowdown at FD

First Derivatives (FD) has grown its staffing levels by more than 20% since February to meet demand and, in spite of the turmoil shaking the financial services industry, utilisation levels remain high. In our view this reflects the group's success in establishing a strong niche as a supplier of mission critical capital markets technologies and expertise to financial institutions and hedge funds worldwide.

Capital markets technology solutions provider

FD is a leading mid-size capital markets IT specialist which provides products and services to major investment banks and hedge funds. Despite recent financial turbulence management believe the outlook for FD's specialised niche skills remains very strong – particularly for real-time trading applications. Furthermore, the business benefits from outsourcing trends within financial services - FD consultants can replace high cost permanent employees and in many cases, move work offsite.

Business model: Consultancy with software sales

FD has developed a 'near shore' offering, built a presence as an expert and product seller of Kx trading software and established a growing portfolio of high-margin bespoke software. FD has purchased Philadelphia, Pennsylvania-based Market Resource Partners with an initial payment of $6m which extends FD into marketing and broadens the verticals. Further, it establishes a major base for FD in the US.

Financials: Growth remained healthy in H1

Revenue jumped 21% in H1 and a higher gross margin outweighed the rise in administrative expenses, enabling operating profits to rise by 24%. EPS was held back by a rise in the tax charge and the interim dividend was lifted by 2% to 2.35p.

Valuation: Low valuation with strong growth prospects

FD has grown quickly in recent years and, in our view, is well-placed to achieve management's 20-30%pa growth target. Nevertheless, the stock trades on just 7.1x our FY09 earnings forecast, falling to 6.0x (FY10) and 5.1x (FY11). Our DCF model values the shares at 284p, 72% above the current price.

Price	165p
Market Cap	£25m

Share price graph

Share details

Code	FDP
Listing	AIM
Sector	Software & Computer Services
Shares in issue (diluted)	15.2m

Price

52 week	High	Low
	332.5p	160.0p

Balance Sheet as at 31 August 2008

Debt/Equity (%)	97.5
NAV per share (p)	67
Net borrowings (£m)	8.7

Business

First Derivatives provides a range of capital markets information technology products and support services to investment banks and hedge funds.

Valuation

	2008	2009e	2010e
P/E relative	49%	81%	77%
P/CF	4.3	5.0	3.9
EV/Sales	2.5	2.6	1.9
ROE	40%	52%	39%

Revenues by geography (FY09 est)*

UK	US	Sing	Other
50%	35%	5%	10%

* Does not include MRP.

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First Derivatives is a research client of Edison Investment Research Limited

Investment summary: No slowdown at FD

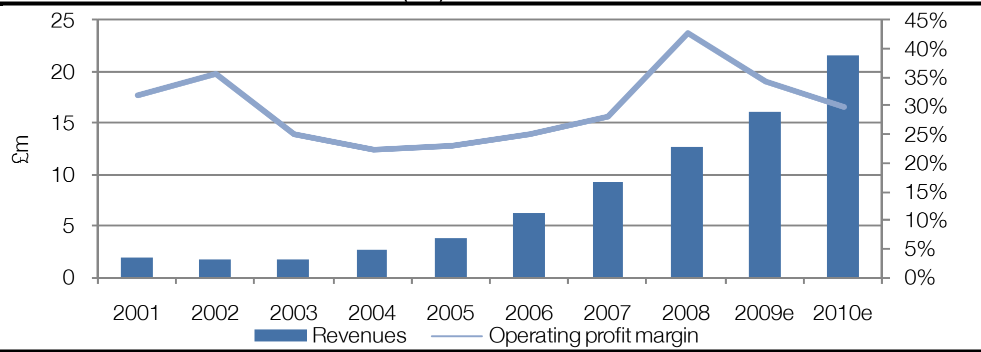
Company description: Capital Markets IT specialists

First Derivatives (FD) is a leading mid-size IT specialist focused on trading and risk management systems and with particular expertise in real-time trading applications. Its consultants combine financial knowledge and IT skills, giving clients access to expertise across a range of asset classes, systems and technologies. FD operates primarily in the UK, the US, continental Europe, Singapore and Ireland. Its customers include many top tier banks, hedge funds and large financial institutions.

Financials: Strong growth trends since FY04

Group revenues have grown rapidly since FY04, while FD has maintained the healthy operating margins generated since before its FY02 IPO (see Exhibit 1). FY08 operating profit was £5.4m, more than twice FY07. Excluding property purchases (apartments for overseas-based consultants), free cash flow rose from £2.6m to £3.6m in FY08. We forecast that underlying operating margins will dip in FY09 and FY10, mainly due to the MRP acquisition, but then recover as own IP software sales gather pace. We expect year end net debt of £12.8m after the MRP deal (or £16.1m including our estimate of the additional MRP earn out cost of £3.3m).

Exhibit 1: First Derivatives revenue trend (£m)



Source: Company accounts (historicals)/Edison Investment Research (forecasts)

Sensitivities: Economic slowdown could accelerate outsourcing

FD's markets have seen some contraction recently. Bear Stearns was absorbed into JP Morgan, Lehman Brothers dissolved and the hedge fund industry is under pressure. Nevertheless, staff utilisation rates remain high and the key threat is perhaps increased regulation, which may restrict client's growth. Conversely, pressure on financial sector IT budgets in an economic slowdown may drive demand for outsourcing as customers seek to reduce their costs, mergers could generate systems integration work and increased regulation might boost demand for real-time information systems.

Valuation: Single digit PE with high growth prospects

FD is interestingly positioned. Its investment banking customers are under pressure to change their cultures and reduce their risk appetite. Outsourcing could accelerate as banks seek ways to improve efficiencies. Our DCF calculation values the shares at 284p or 72% above the current share price, based on a weighted average cost of capital (WACC) of 15%. The model incorporates a conservative valuation of £16m for the property portfolio, which was valued at £19.3m at 28 February 2008 and is in FD's books at £16.8m. In traditional valuation terms, the stock trades on 7.1x our forecasts for FY09. This falls to 6.0x for FY10.

Company description: Capital markets IT specialist

FD is a global capital markets IT specialist focused on real-time trading products across all asset classes. Its consultants work on complex internal development projects for clients that can involve lengthy, multi-year rolling contracts. We estimate that outsourcing a project to FD rather than developing in-house can save a bank over 50% of the cost. In addition to its successful partnership with Kx Systems, a leading trading systems database vendor, the group develops its own software products. FD is based in Newry, Northern Ireland with operations in London, Shanghai, Singapore, Sweden and the US. It generates c 50% of sales in the UK and c 35% in the US.

Background: Software sales & services to investment firms globally

The group was founded by Brian Conlon in 1996. The goal was to create the preferred derivatives consultancy for banks, insurance companies and corporate treasurers worldwide. Mr Conlon previously worked for Renaissance Software Inc, which was subsequently acquired by SunGard. Prior to that Mr Conlon had been controller of Morgan Stanley's derivatives trading desk in London.

An early breakthrough was a contract to implement and customise SunGard's Opus solution at client sites around the world. This enabled the business to establish a client base as it built its skills. Another milestone was a joint sales, consulting and implementation partner agreement with Kx Systems in 2001. This initially covered European financial institutions, but the relationship has since been extended geographically and FD holds c 5% of Kx's equity. FD floated on AIM in March 2002 and issued 2.3m new shares at 50p/share. The stock opened at a small premium, slipped back to 27.5p later that year and rebounded to peak at 347.5p in February 2007.

Growth over the last four years has been driven by strong demand for the group's core consultancy and Kx technology. Employee numbers have expanded at an average rate of over 30% pa since February 2004 and the group currently employs c 145 people (excluding MRP). Management and staff retain a strong interest in the business and control c 80% of the equity.

Consulting: Domain expertise is key

FD consultants have the specific investment banking and hedge fund domain expertise to contribute to projects in all major financial market technologies, while its senior consultants can advise on capital markets technology. It builds customised solutions for both banks and financial software vendors. These range from simple back office reporting to complex exotic derivatives pricing analytics. It has particular expertise in the area of real-time trading applications.

FD has expanded its near shore operations, effectively the consultancy business that operates out of FD's offices and works with clients remotely. FD's managed support service is also growing quickly. This is a remote web-based response service, where FD engineers respond to customer questions while they do their other scheduled work.

Software: Kx business plus FD's own IP

This revenue stream includes the entire Kx business income as well as FD's own software. The latter, which it is expanding, includes tools, add-ons, interfaces to Microsoft Excel and enabling tools, plus tools to simplify Kx's Kdb+ for users. Other areas in which FD is seeking to capitalise upon its expertise and expand its business include: programme trading, order management, complex event processing, market simulation (including back testing), derivative trading systems, market data products and feed handlers.

- **Kx Systems.** The group has worked with this small California-based company (http://kx.com/) since 1998 and has been its worldwide sales and services partner since 2003. FD is effectively Kx's marketing and services arm, responsible for a large majority of its sales. It has exclusive rights to Kx products in North America, most of Europe and Asia and operates the largest team of Kx consultants globally. More than 30 FD consultants work on Kx projects at any time.
- **What does the Kx software do?** Its key product, kdb+, was launched in 2003 and is a highly sophisticated 64-bit relational database. kdb+ can process extremely large data volumes in a fraction of a second and this makes it ideally suited to trading and real-time data applications. Customers include investment banks and hedge funds. It is used by the New York Stock Exchange to help spot fraudulent trading patterns.

Acquisition: Market Resource Partners

Market Resource Partners (MRP) was founded in 2002. It specialises in the strategic development and tactical execution of marketing and sales programmes for software and technology service firms. Clients use MRP's strategic consulting and predictive analytics to help them make better informed decisions and boost immediate and longer term sales opportunities. Clients comprise technology firms, independent software vendors and channel resellers. These include Microsoft, Sun Microsystems and Cisco Systems. MRP employs 95 people at its office in Philadelphia, Pennsylvania.

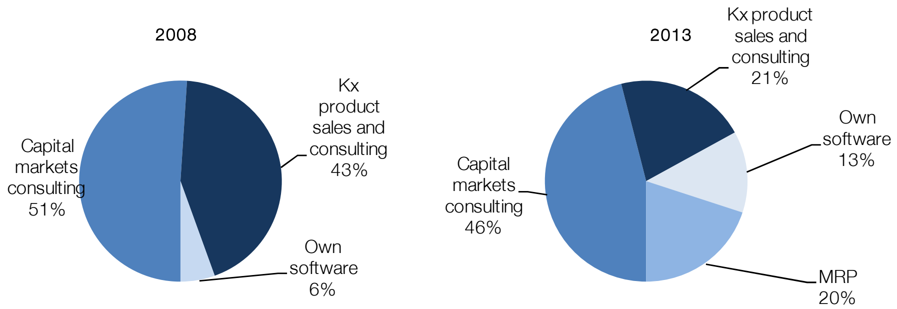
- **Cost.** FD has made an initial payment of $6m. This comprises $4.5m cash, financed from existing bank facilities and $1.5m in new FD shares. Deferred consideration of up to $14m will be determined by a formula based upon profits generated during the two years ending 31 August 2010. We have incorporated a payment of an additional $6m in our forecasts, as we believe that the maximum payment would only be due if a very optimistic profit target is achieved.

- **Rationale.** FD acquired MRP to help grow FD product sales by providing lead generation, a sales team and a route to market. The channel to market is not only to financial services, but also to other sectors. This service is also available for its partnership products. MRP will help identify FD product opportunities. The establishment of a major office in the US should help FD resolve the issues involved in moving employees in and out of the US. FD also plans to use this new base to expand its near shore support offering into the US market.

Property strategy: Portfolio for own accommodation

The group took a strategic decision to buy properties to accommodate its employees. This obviates a number of issues it previously experienced such as expensive hotel room rates and the challenges of dealing with landlords in New York. The portfolio of c 35 properties is located in valuable areas such as Manhattan and Mayfair.

Exhibit 2: Revenue breakdown in FY08 and what it may look like in FY13



Source: First Derivatives (historics)/Edison Investment Research (forecasts)

Strategic goal: Capital markets technology specialists of choice

FD provides products and services to the top eight investment banks as well as to a number of hedge funds. The core strategy is to get a 'beachhead' project in an investment bank and then cross-sell products and services, using internal references to expand into other departments. FD has two salespeople in New York, two in Europe and will shortly have one in Shanghai. FD looks for a broad range of cross-sell opportunities, from IT to business heads or trading desk leads.

Although it traditionally operates onsite, FD has found that it can often provide the same level of services offsite at a competitive price to the end user. It has therefore established near shore support operations. These enable FD to operate primarily out of its own offices, reduce the need to provide accommodation for its staff and cut travel costs. New assignments utilise the near-support model if possible.

The group plans to expand its development capacity in order to boost its own IP software revenues. FD hopes this will give it access to new customers.

The group's acquisition strategy targets legacy software which can be upgraded and also innovative new technology that lacks an effective route to market.

Growth drivers: Outsourcing of investment bankers

We believe that FD's strategy should position it to benefit from outsourcing trends and develop its own IP to take advantage of cross-selling opportunities.

- Outsourcing. FD can offer clients a cheaper alternative to additional full-time staff. Near shore support extends the outsourcing growth driver as it offers customers substantial cost reductions and grows FD's margins; it aims to provide customers with 40%-50% cost reduction on headcount alone.
- Financials markets growth. While the credit crunch might have slowed growth, there are still benefits from widening asset classes, increasing complexity and emerging market development. Significantly increased international regulation may still impair this outlook.
- Data volumes. Exponential growth in data volumes has been a strong driver of the business in recent years. Continued growth in data volumes along with potential increased regulation will drive growth of Kx as well as FD's own product suite.
- Cross sales. Once FD has established a client relationship within a specific business area, it can more readily offer services to other areas and sell software products.
- Acquisitions. The MRP acquisition is designed to boost routes to market, establish near shore support operations in the US and increase the US employee base. The group

continues to investigate potential acquisition targets, particularly in the proprietary financial software space.

Business model: Consultancy, partnerships and own IP

FD has traditionally been a consultancy along with partner product sales. Given that the business has generated significant customer financed R&D over the years, it is now keen to accelerate the development of its own IP. This process involves growing its Newry-based development team and government grants may support headcount growth. FD's core skills are in trading and risk management systems with particular emphasis on real-time trading applications. It can handle front, middle and back office functions and work with in-house legacy or third party systems. We expect scalability to come through leveraging FD's relationships with tier 1 investment banks, expanding its software offerings and widening its client base.

- Consulting. FD employed 95 billable consultants at end FY08 and the business operated at c 100% utilisation. However consultants are provided free of charge on new assignments for a period, typically 4-8 weeks to undertake onsite and offsite training. Onsite training involves shadowing the client support team members. The consultancy business includes the core onsite assignments as well as the fast-growing near shore support business.
- Near shore support. Following training, FD resources eventually replace the bank's internal support resources and the entire handover period can take 15-20 weeks. FD provides a team of requisite manpower levels which can offer the client support 24 hours a day, 365 days a year. Consultants have access to the client's network via VPN from Newry and users dial the clients' internal telephone numbers to contact them. There is a rotating weekly presence on the client site and additional resources can be provided onsite as requested. Team members are charged out at consultant rates.
- Remote support contracts. This is a very high margin managed services business. As it is web driven, it is not resource intensive for FD.
- Kx relationship. FD receives commission from selling Kx products. FD receives consultancy fees for implementation, training, customised development and ongoing support of the product. We estimate that the additional consultancy services supplied by FD generate two-three times the commission received on a Kx licence sale.
- Recurring revenue. The long-term nature of consultancy contracts means that there is a strong recurring revenue base and a high revenue visibility for the next year. Financial markets are constantly evolving ecosystems ie as one project ends another will generally develop. Hence, FD assignments typically roll into new projects.
- Own software development. As the group wants to evolve to an improved mix of high-margin software it is expanding its R&D capability. The software is sold through a dedicated sales team with help from the groups' consultants, as they build familiarity with their clients' requirements.
- Costs. Cost of sales is predominantly salaries and transport costs. FY08 gross margins were 51% (excluding share based payments). The group has begun to capitalise/ amortise development costs; £125k of such costs were capitalised in FY08. Administrative expenses were £0.9m in FY08 (excluding £180k amortisation of acquired intangibles, which have now been completely expended).

Competitive environment: Large global marketplace

First Derivatives operates in a highly competitive marketplace with relatively low barriers to entry. We see the competitive environment as follows:

- Consulting.
  - Internal IT departments – possible barriers to outsourcing.
  - Big 4 – Deloitte, PwC, E&Y, KPMG.
  - Systems integrators – Capgemini, EDS, IBM and others.
  - Boutiques – BearingPoint, Capco, Sapient and others.
- Kx products. StreamBase Systems, Vhayu Financial Software, Sybase IQ and Oracle.
- Own software. Many software vendors globally.
- MRP/Marketing. Specialist advertising companies and niche players.

FD's key differentiation lies in its combination of a leading specialised consultancy with domain expertise and ten years working experience of leading investment banks. It benefits from control of the largest team of Kx consultants worldwide. We understand that Kx's key product kdb+ can process data significantly faster than its competitors' products. FD's own software strengthens its relationships with customers. The MRP marketing business will widen routes to market for both its consulting and software businesses and help to develop customer relationships.

Financials: Impressive growth trend

The group has grown revenues at a rapid pace since FY03 and generated healthy profits since before it listed in FY02 (see Exhibit 1). Operating cash flow has been strong every year - though much of it has been invested in accommodation properties - especially in the last two financial years.

FD has term loan facilities with the Bank of Ireland. In FY08 the group secured a £6m long-term loan to fund its property investment. There is £9.9m of loans outstanding secured on the group property portfolio. Interest is charged at base rate plus 1.5%; £3.5m is repayable by 2010, the balance by 2016 and 2017. The loan to value ratio is just over c 50% based on the February 2008 valuation and just under 60% based on book value.

Profitability and cash flow: Growth continues in H1

Revenues jumped 21% to £6.8m in H109, while operating profits were up 24% to £2.5m. Operating cash flow expanded by 53% to £3.6m; interest and investment (including one apartment and the increase in the Kx stake to c 5%) took £2.1m and dividends £0.8m, allowing net debt to fall by £0.7m to £8.7m. The property investment was £0.4m (£8.8m in FY08 and £5m in FY07).

Forecasts: £25m medium-term base revenues plus MRP

We believe FD's top ten customers could generate an average of £2m revenues each in the medium-term; we note that FD's largest customer currently has twelve ongoing projects. Adding the remaining customer base implies that FD has c £25m of organic medium-term revenue potential, before including MRP.

Forecasts & assumptions

- Consulting/ business analysis. Average consultant numbers jump 21% in FY09 and 14% FY10 and billable utilisation rate assumed is 75%. That takes into account an initial training period for new consultants and also the periods that FD provides consultants for free (assume six weeks per annum) when learning a new assignment. We assume 35% gross margins.
- Managed service support. Including Kx, we expect revenues to rise strongly. We assume 85% gross margins.
- Kx. We project commissions to be lower FY09 due to trading returning to more normal levels. We assume 100% gross margins. We look for a more moderate growth rate in Kx consulting than in generic consulting/business analysis, which is more specifically outsourcing driven. Utilisation rate, rate per day and gross margin forecasts are the same as consulting/business analysis.
- Own software. We expect strong near-term revenue growth as FD seeks to drive this division and expands the development team. We assume 70% gross margins, reflecting development costs.
- Market Resource Partners. We anticipate a five month contribution of £1.9m revenues in FY09, rising to £5m in FY10 and to £5.5m in FY11. We assume 30% gross margins and an earn-out payment of $6m for this acquisition, to be paid in 2010.
- Investment. R&D is included in cost of sales. FD has begun to capitalise and amortise development expenditures as required under IFRS accounting rules.
- Gross margins. We forecast group gross margins at 43% in FY09. These ease to 42% in FY10 as MRP contributes for a full period.
- Administrative expenses. Including the MRP acquisition, we are forecasting rises of 37% in FY09 and 77% in FY10. We assume MRP has higher overheads including head office costs and marketing staff.
- EBIT margin. We assume margins of 36% in FY09, falling to 32% in FY10 as the MRP acquisition reduces margins. We have taken a conservative view and ignored any further grants received. We believe margins are likely to move back above 35% as the business gains scale. We note FD has high margins compared with other IT service companies; we estimate 8-10 percentage points is due to ownership of accommodation properties rather than paying rent. However, this broadly has no impact on pre-tax margins.
- Tax. We assume a tax rate of 28%.

Exhibit 3: Forecasts

First Derivatives	2007a	2008a	2009f	2010f	2011f
Revenues (£'000s)					
Capital markets consulting	4,847	6,465	8,352	9,932	11,516
Software	4,485	6,204	5,908	6,632	7,288
Market Resource Partners			1,852	5,000	5,500
Group Revenue	9,332	12,669	16,112	21,564	24,304
Growth (%)	47.8	35.8	27.2	33.8	12.7
Gross Profit	3,302	6,427	6,953	9,024	10,304
Other operating income	147	151	134	0	0
Administrative expenses	(506)	(911)	(1,248)	(2,204)	(2,524)
Group EBIT	2,943	5,667	5,839	6,820	7,780
EBIT Margin (%)	31.5	44.7	36.2	31.6	32.0
Growth (%)	61.4	92.6	3.0	16.8	14.1
Amortisation of acquired intangibles	(180)	(180)	0	0	0
Share based payments	(131)	(259)	(300)	(350)	(400)
Exceptional items		199.0			
Net interest	(101)	(711)	(888)	(972)	(980)
Profit before tax	2,531	4,517	4,651	5,498	6,400
Tax charge	(624)	(1,662)	(1,386)	(1,638)	(1,904)
Profit after tax	1,907	3,054	3,265	3,861	4,496
Adjusted EPS (p)	16.7	23.9	23.4	27.6	32.1
P/E - Adjusted EPS	9.9	6.9	7.1	6.0	5.1

Source: Edison Investment Research

Cash flow and balance sheet assumptions

The group had net borrowings of £8.7m at 31 August 2008. The MRP acquisition adds nearly £6m to debt (which includes our estimate of the earn-out) to the balance sheet. We forecast free cash flow (before dividends) of £1.5m in FY09, rising to £2.5m in FY10 and for net debt of £12.8m (not including the earn-out) at the end of FY09. This falls to £11.5m by end FY10.

Sensitivities

- Financial sector exposure. Financial sector contraction may result in closures or mergers of investment banks and hedge funds that would reduce the size of FD's potential marketplace. Increased regulation may restrict the growth of FD's clients and therefore reduce the demand for its products and services. Financial sector IT budgets will be subject to pressure in an economic slowdown. However, a slowdown could also speed up the pace of outsourcing as customers seek to reduce costs.
- Competitive environment. Rival provides may put pressure on pricing.
- Customer considerations. IT departments might be reluctant to outsource, in particular mission-critical tasks. FD's growth might be limited by potential conflicts of interest related to supply of services to competing firms in similar key business areas.
- Technological change. Software products (Kx and own IP) may not keep pace with the competition.
- Staff. Key employees may leave to work directly for investment bank customers.
- Property. Ownership of accommodation exposes the business to property risk.
- Acquisitions. Implementation risk in the acquisition strategy, beginning with MRP.

Valuation

FD is in an interesting position. Its investment banking customers are under enormous pressures to change their cultures and reduce their risk appetite. We believe this could accelerate the move to outsource as the banks seek ways to reduce their cost bases.

While ownership of accommodation properties exposes the company to property risk it also provides the company with a strong tangible asset base and this value could eventually be released, eg, via a sale and leaseback arrangement.

As it is based just a few miles from the border, FD has a relatively cheap option to rebase in the Republic of Ireland and take advantage of the lower corporate tax rates. We believe management would be interested to expand the free float in order to increase liquidity in the shares.

We highlight the follow points on valuation:

- **Discounted cash-flow valuation.** Based on our forecasts and a weighted average cost of capital (WACC) of 15%, our DCF model values the shares at 284p, 72% above the current share price. This includes a conservative valuation of £16m for the property portfolio, which was valued at £19.3m as at 28 February 2008 and in the books at £16.8m. We have stripped out an estimation of the cost of renting properties and paying hotel rates from group cash flow in order to value the FD operations separately and have conservatively assumed these costs grow in line with revenues (excluding FDP). We have valued the Market Research Partners earn out at $6m. Discounting back from our forecasts, the market attributes a break-even WACC of 22% to the stock (see Exhibit 5, Group DCF scenarios).
- **Traditional valuation measures.** In traditional valuation terms, the stock trades on 7.1x our earnings forecasts in FY09, falling to 6.0x in FY10 and to 5.1x in FY11.
- **Peer comparison.** The stock trades on 1.9x Y2 revenues (well ahead of its peers and reflecting the value in the property portfolio) and 5.7x Y2 EBITDA (below its peers).

Exhibit 4: Valuation

DCF valuation	% owned	£ m	-- Per share --	Assumptions		
First Derivatives operations	100.0%	43.5	285p	WACC: 15%	Number of shares (diluted)	15.2m
Property portfolio	100.0%	16.0	105p		Share price	165.0p
					Market capitalisation	£25.1m
Total consolidated assets		59.5	390p			
Group Enterprise Value		59.5	390p			
Less: Adjusted net (debt)/add cash		(16.2)	(106p)			
Group Equity Value (£m)		**43.3**	**284p**	**Up/(down)side from current price**		**72%**

Ratio Analysis	2009f	2010f
EV/Sales	2.6	1.9
EV/EBITDA	6.5	5.7
EV/EBIT	7.1	6.1
Price/Book	3.6	2.3
Price/Earnings	7.1	6.0
Price/Op Cash Flow	5.0	3.9
ROE	52%	39%
Gearing	234%	150%
Interest Cover	6.6	7.0

Grp DCF Scenarios		------------------Terminal growth rate------------------	
		3.00%	6.00%
---WACC---	25.00%	139p	140p
	22.50%	161p	163p
	20.00%	189p	194p
	17.50%	228p	237p
	15.00%	284p	303p
Breakeven WACC		22.1%	

Peer comparison (Year 2)	EV/Revs	EV/Ebitda
---------Financial software---------		
FFastFill	1.4	8.4
Fidessa	1.1	6.0
Orc Software	1.7	6.5
Patsystems	1.2	7.5
---------Consulting---------		
Capgemini	0.3	3.2
Sapient Corp	0.6	5.7
Median	1.1	6.3
Mean	1.1	6.2
First Derivatives	**1.9**	**5.7**

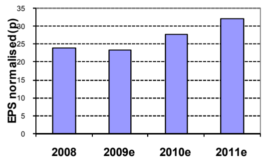
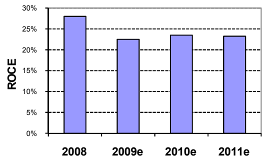
Revenue sensitivity					
Multiple	1.8x	2.0x	2.2x	2.4x	2.6x
Revenue Y2 (£m)	21.6	21.6	21.6	21.6	21.6
Implied EV (£m)	38.8	43.1	47.4	51.8	56.1
Net (debt)/cash (£m)	(16.2)	(16.2)	(16.2)	(16.2)	(16.2)
Grp equity value (£m)	22.6	27.0	31.3	35.6	39.9
Per share (p)	**149**	**177**	**205**	**234**	**262**

Source: Edison Investment Research

Exhibit 5: Financials

£'000s Year end 28 February	2006 UKGAAP	2007 IFRS	2008 IFRS	2009e IFRS	2010e IFRS	2011e IFRS
PROFIT & LOSS						
Revenue	6,313	9,332	12,669	16,112	21,564	24,304
Cost of Sales	(3,959)	(6,030)	(6,242)	(9,159)	(12,540)	(14,000)
Gross Profit	2,354	3,302	6,427	6,953	9,024	10,304
EBITDA	1,916	3,039	5,820	6,347	7,208	8,218
Operating Profit (before GW and except.)	1,823	2,943	5,667	5,839	6,820	7,780
Amortisation of acquired intangibles	(180)	(180)	(180)	0	0	0
Exceptionals	0	0	199	0	0	0
Share based payments	(51)	(131)	(259)	(300)	(350)	(400)
Operating Profit	1,592	2,632	5,427	5,539	6,470	7,380
Net Interest	(106)	(101)	(711)	(888)	(972)	(980)
Profit Before Tax (norm)	1,717	2,842	4,956	4,951	5,848	6,800
Profit Before Tax (FRS 3)	1,486	2,531	4,716	4,651	5,498	6,400
Tax	(468)	(624)	(1,662)	(1,386)	(1,638)	(1,904)
Profit After Tax (norm)	1,249	2,218	3,294	3,565	4,211	4,896
Profit After Tax (FRS 3)	1,018	1,907	3,054	3,265	3,861	4,496
Ave Diluted Number of Shares Outstanding (m)	12.6	13.3	13.8	15.2	15.2	15.2
EPS - normalised (p)	9.9	16.7	23.9	23.4	27.6	32.1
EPS - FRS 3 (p)	8.1	14.3	22.2	21.4	25.3	29.5
Dividend per share (p)	3.00	5.00	8.10	8.30	8.93	10.04
Gross Margin (%)	37.3	35.4	50.7	43.2	41.8	42.4
EBITDA Margin (%)	30.4	32.6	45.9	39.4	33.4	33.8
Operating Margin (before GW and except.) (%)	28.9	31.5	44.7	36.2	31.6	32.0
BALANCE SHEET						
Fixed Assets	3,799	9,291	17,972	18,970	21,048	24,162
Intangible Assets	360	180	125	583	1,540	2,904
Tangible Assets	3,349	9,111	17,847	18,387	19,508	21,258
Investment in associates	90	0	0	0	0	0
Current Assets	3,312	2,894	4,522	7,965	11,817	14,280
Stocks	0	0	0	0	0	0
Debtors	2,251	2,538	4,126	6,937	10,619	13,554
Cash	1,061	356	396	1,027	1,198	725
Current Liabilities	(2,082)	(3,921)	(6,140)	(7,954)	(10,612)	(12,498)
Creditors	(1,942)	(2,736)	(4,306)	(6,154)	(9,412)	(11,898)
Short term borrowings	(140)	(1,185)	(1,834)	(1,800)	(1,200)	(600)
Long Term Liabilities	(1,717)	(2,838)	(8,052)	(12,065)	(11,465)	(13,115)
Long term borrowings	(1,717)	(2,838)	(7,965)	(12,065)	(11,465)	(13,115)
Other long term liabilities	0	0	(87)	0	0	0
Net Assets	3,312	5,426	8,302	6,916	10,788	12,829
CASH FLOW						
Operating Cash Flow	1,606	3,232	5,304	5,075	6,378	7,840
Net Interest	(106)	(101)	(549)	(888)	(972)	(980)
Tax	(232)	(456)	(1,279)	(1,662)	(1,386)	(1,638)
Capex	(1,389)	(4,977)	(8,797)	(1,047)	(1,509)	(2,187)
Acquisitions/disposals	0	0	0	(3,852)	0	(3,333)
Financing	127	(9)	354	0	0	0
Dividends	(181)	(560)	(769)	(1,060)	(1,139)	(1,225)
Net Cash Flow	(175)	(2,871)	(5,736)	(3,435)	1,371	(1,523)
Opening net debt/(cash)	622	796	3,667	9,403	12,838	11,467
HP finance leases initiated	0	0	0	0	0	0
Other	0	0	0	0	0	0
Closing net debt/(cash)	797	3,667	9,403	12,838	11,467	12,990

Source: Company accounts/Edison Investment Research

Growth	Profitability	Balance sheet strength	Sensitivities evaluation	
		N/A	Litigation/regulatory	◖
			Pensions	○
			Currency	○
			Stock overhang	◖
			Interest rates	◖
			Oil/commodity prices	○

Growth metrics	%	Profitability metrics	%	Balance sheet metrics		Company details	
EPS CAGR 06-10e	29.3	ROCE 09e	22.4	Gearing 09e	233%	Address:	
EPS CAGR 08-10e	7.5	Avg ROCE 06-10e	29.3	Interest cover 09e	6.6	3 Canal Quay Newry, County Down N.Ireland, BT35 6BP	
EBITDA CAGR 06-10e	39.3	ROE 09e	51.5	CA/CL 09e	1.0		
EBITDA CAGR 08-10e	11.3	Gross margin 09e	43.2	Stock turn 09e	N/A	Phone	+44 28 3025 2242
Sales CAGR 06-10e	35.9	Operating margin 09e	36.2	Debtor days 09e	157	Fax	+44 28 3025 2060
Sales CAGR 08-10e	30.5	Gr mgn/Op mgn 09e	1.2	Creditor days 09e	104	http://www.firstderivatives.com/	

Principal shareholders	%
Brian Gerard Conlon	68.5
Michael Gerard O'Neill	8.0
Robert David Anderson	1.1

Forthcoming announcements/catalysts	Date *
Preliminary results	April 2009
*Note: * = estimated*	

Management team
CEO: Brian Conlon
Trained with KPMG before he joined the risk management team at Morgan Stanley International, London. Then joined SunGard, a NASDAQ-quoted derivative software house, as a capital markets consultant. During his time with SunGard, he worked with more than financial institutions worldwide. He left in 1996 to set up First Derivatives.
COO: Michael O’Neill
Joined First Derivatives in 1997 and has responsibility for all operational aspects of the business. He spent 6 years in the actuarial industry with Lloyds Abbey Life, latterly involved in designing, marketing and managing derivative-based investment products and overseeing the development of his departmental IT infrastructure.
CFO: Graham Ferguson
Graham joined the Board in August 2008, taking responsibility for the financial operations of the Group. He formerly held senior roles with KPMG, Bank of Ireland and Silverwood Property Developments Limited. Graham is a Qualified Chartered Accountant.