



15 November 2018

Integrated Research Chairman's Address 2018

Good afternoon and welcome to the 2018 Annual General Meeting of Integrated Research.

I would like to start this afternoon by acknowledging all of our shareholders and thanking you for your continued support of Integrated Research Ltd.

In FY18 IR delivered a 4% increase in profit to \$19.2 million on flat revenues of \$91.2 million.

Unified Communications remains the Company's largest line of business and revenue grew 7% to \$54.9 million. The UC result was affected by Avaya being in Chapter 11 Bankruptcy Protection for half of the financial year resulting in a 20% decline in licence revenue. Avaya has now emerged from Chapter 11 and signed a new reseller agreement with IR in July 2018. Most importantly IR remains the only company certified by the 3 major UC vendors being Avaya, Cisco and Microsoft thus providing optimum market coverage. The relationship with Cisco continues to deepen including the signing of a global distribution agreement whereby Cisco will now carry Prognosis UC products in its global price book. The company achieved strong UC licence sales growth from Cisco customers in FY18 and the sales pipeline continues to build.

After strong growth in the previous year, the infrastructure product line was affected by a cyclical downturn in licence renewals with overall revenues declining 15% to \$20.8 million. This is a well established mature business line in which infrastructure revenues are highly correlated with the underlying licence renewal cycle.

Payments revenue declined 8% to \$8.1 million with licence sales growth in Asia Pacific and the Americas being offset by a decline in Europe. The global payments sales pipeline indicates a return to strong growth in the coming year.

The Company delivered strong growth in both Consulting and Testing Solutions during the year. Consulting fees increased by 9% to \$7.4 million and sales of testing solutions increased by 28% to \$5.2 million.



Looking at the geographic regions, Asia Pacific recorded the strongest revenue growth of 14% to \$13.2 million. The Americas grew by 3% (on a large base) to US\$49.5 million which was held back by the cyclical downturn in infrastructure. European sales declined by 10% to £7.8 million partly driven by poor trading conditions and partly due to internal execution issues. The European operation has since been re-organised under new leadership with a strong focus on execution improvement.

Total expenses for the year were 4% higher at \$66.9 million. Research and development expenditure was \$17.3 million or 19% of revenue. This is up from 15% in the prior year and is a key part of the Company's commitment to continued technical excellence and driving innovation.

The Company's balance sheet remains strong, with \$11.2 million of cash at 30 June 2018 and no debt.

The total dividend paid for the year was 6.5 cents franked at 100%, which compares to 6.5 cents franked at 85% for the prior financial year.

IR benefits from a world class customer base built up over 30 years. Over 1200 customers including 125 of the Fortune 500 plus 72 new customers were added in FY18 including BHP, Coles, Bosch and Paypal as well as service providers DXC Technology, Ethan Group and Inside One.

This year's results again show the diversity of the Company's business enabling it to evolve and take advantage of growth trends such as the move to service providers. Prognosis is a differentiated, highly scalable technology platform that forms the basis of the majority of the Company's products. It is built on a single code base that is leveraged across multiple portfolios and provides a sound base for future innovation. This allows for significant product diversification and has enabled the Company to consistently maintain its margins.

The Company is investing for future growth. The uplift in R&D expenditure is part of the strategy to grow through significantly enhancing existing products and bringing to market new capabilities such as cloud analytics which deliver considerable value to customers.

In recent months the Company has also invested in upskilling leadership capability. As mentioned, the European operation has been reorganised under new leadership, and we have made senior appointments in the roles of Chief Product Officer, Head of Development and General Manager of People and Culture.



IR competes in an exciting and highly competitive environment. Attracting and aligning the best talent and facilitating a culture of innovation is a key focus to underpin operational excellence, innovation and growth.

In summary the Company has a well-crafted multi-pronged strategy to build on its global leadership position in the performance management space and drive growth. This will come from expanding the capabilities delivered into existing markets and customers, expanding our sales and service capabilities into new geographic markets, and by creating new products that open new markets.

As noted, there were a number of factors which held back overall performance last year. Management have taken appropriate actions and continue to work diligently on these factors which may still affect the immediate term though the influence is seen as temporary.

The foundations of the business remain strong. With 88% of revenue now recurring as multi-year deals with a typical term of 3 years, and retention rates across our portfolio exceeding 90%, the compounding effect of recurring term renewals coupled with expansion of our share of customer wallet, contributes significantly to future earnings.

The Company is following our usual practice of not providing market guidance on revenue or profit projections given the lumpy nature of licence sales particularly towards the end of the reporting period. However, I will make brief comment on the year to date performance. Similar to the prior year, there have been two large licence transactions (greater than \$2M) closed out in the year to date trading period.

The Company is not planning any major acquisitions. It will continue to focus on organic growth and small acquisitions of complementary assets which accelerate growth, if appropriate.

In my final comments, I note that the Company maintains its global leadership position in the performance management space in which it operates. The Board remains confident in the underlying strength of IR and the Company is well positioned to grow and increase its global presence in the future.

On behalf of the whole team at Integrated Research, I would like to acknowledge and thank our customers.

Thank you also to CEO John Merakovsky, CFO Peter Adams, the management team and all the dedicated staff at IR for their commitment and hard work.



I would also like to thank my fellow Directors Nick Abrahams, Garry Dinnie, Peter Lloyd and Anne Myers plus our Company Secretary David Purdue for their hard work and collegiate support.

And all of us wish the Founder of IR, Steve Killelea, all the very best with his international philanthropic activities. Steve remains very supportive of IR and we will continue to benefit from his expertise and knowledge via the 2-year consultancy agreement outlined in the recent ASX release.

Finally, I want to once again want to thank our shareholders for their support of the company.

Thank you.