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24 February 2020

ASX Market Announcements Office
Australian Securities Exchange Limited

Dear Sir/Madam

ASX Market Announcement

In accordance with the ASX Listing Rules, Integrated Research Limited (ASX: IRI) encloses for release to the market:

- Transcript of conference call with Investors held on Thursday 20th February 2020 at 9:00am to discuss the company's FY2020 First Half Results.

By authority of the Board,

David Purdue
Company Secretary
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MARKET ANNOUNCEMENT

Investor Conference Call Transcript

Sydney, February 24, 2020 – Integrated Research ("IR") (**ASX: IRI**) advises the following is a transcript (excluding Q&A) of the Investor Conference Call held on 20 February 2020 at 9:00am. The Conference Call was conducted via the Open Briefing format of Orient Capital. *References to slides are to the slides contained in the Results Briefing released to the ASX on 20 February 2020.*

Start of Transcript

Operator: Thank you for standing by, and welcome to the Integrated Research Ltd FY20 Half Year Result Investor Conference Call. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key followed by the number 1 on your telephone keypad. I would now like to hand the conference over to Mr John Ruthven Chief Executive Officer. Please go ahead.

John Ruthven: Good morning and welcome to the First Half FY20 results briefing for Integrated Research. My name is John Ruthven and I am the CEO of IR, and with me today is the Peter Adams, our Chief Financial Officer. This morning we posted our results presentation to the ASX website which we will be talking to during this call. Please take this opportunity to download the presentation during the introduction if you haven't already done so. The agenda for today's call will closely follow the presentation and we will refer to each slide number as we progress.

Firstly, I will provide a summary overview of results and operational milestones, and then Peter will take you through a detailed analysis about financial results for the first half of FY20. We'll close out the session with a look at the key growth drivers for the second half of FY20 and finally take some of your questions. We anticipate the call will close at about 9:45am Sydney time.

Please now move to *Slide 2*, the key financial metrics. We've delivered another record revenue and net profit after tax resolve for the first half of FY20. Revenue for the half was again in excess of $50 million coming in at $53.2 million and up 6% over the prior year.

NPAT was up 1% over the prior year at $11.8 million and was a solid result against the tough compare in the prior year. This result was driven by solid growth in license sales of $33.4 million, up 7% over the prior year, and a good performance from our professional services team of $4.5 million, up 39%.

The quality of these earnings remains strong, with the recurring revenue portion at 86% and maintenance renewals at 93%. Operating cashflow was up 28% over the prior period at $13.2 million. The Board of Directors has approved a fully franked dividend of $0.035 per share, continuing a strong track record of returns to shareholders. Peter will shortly talk you through the details and mechanics of these results. These strong results have been achieved at a time that we are making strategic investments to drive long-term sustainable growth.

If you now move to *Slide 3*, I will talk you through some key operational milestones that underpin the first half result, and the plan to further growth in the second half. On 20 December, our new real-time SaaS platform went live, and we're now in the phase where Beta customers are on the platform using the Beta version of the first product – a Payments Assurance product.

This significant milestone was achieved through a balanced approach to R&D investment, supporting both development of the new SaaS platform and ongoing innovation on Prognosis. Gross R&D spend as a per cent of revenue were 21% in the first half, up from 19% in the prior period.

During the half, 20% of our total license sales came from brand new customers; 20 net new logos. This compared to 26 new logos for the full in FY19. Companies like BP, Marriott Hotels and Singapore Power joined IR's customer community. This new business momentum is critical to our growth aspirations and highlights the quality of our revenues, balanced across maintain the base, grow the base and adding net new customers

Across the regions, the Americas was down 10% for the first half, and as previously discussed at our AGM last year, we expect the Americas to return to growth for the full year. New leadership came onboard in Q1 and is already having a positive impact expected, with a strong performance in Q2. Growth in APAC and Europe combined was 30% up over the prior year, with outstanding growth in APAC; 62% up over the prior year.

The new leadership in Europe is also getting results with the focus on building a sustainable growth model. Key investments, like our first customer summit events in Europe are critical to this strategy. During the first half, we built a quality pipeline to support second half growth. Importantly, there is a very strong renewals component to this overall pipeline which has a much higher probability of closure due to the high recurring revenue nature of our business. Please now turn to *Slide 4* and I'll hand over to Peter to talk through the details, financials.

Peter Adams: Thanks John. We are on *Slide 4*. The results for the first half should come as no surprise based on the trading updates provided at the AGM and also the early release to the ASX on 13 January. In summary, we have delivered $11.8 million in profit on revenue of $53.2 million representing a profit margin of 22%. Revenue and operating expenses have both grown at 6%.

The current period [sourced] from one time through tax benefits, compared to the prior year that had a large unrealised exchange gain. The EBITDA increases and other swing factors results in a 1% increase in profitability. The good news is that these results including investments in both development and regional capabilities to deliver a strong second half result.

Turning to *Slide 5*, high quality revenues. The company continues to sign multi-year contracts yielding term recurring revenues across a diverse range of industries. Some of the more significant transactions during the half were with Fiserv, Capgemini, BT and ANZ Bank.

Turning to *Slide 6*, presenting our geographic performance. There is some unevenness in the first half performance with Asia Pacific up strongly, Europe with modest growth, and the Americas experiencing a decrease. We would anticipate the results to smooth out over the full year and collectively achieve full year growth year on year. Anyone who has followed our stock for some time will understand that growth is not always linear, and this period is no different. The diversified geographic portfolio enables a balanced approach to aggregate revenue growth.

Slide 7 presents our revenue performance by product. Unified communication achieved growth of 10% to $29.7 million through the successful closure of Avaya renewals. Microsoft Skype revenues continues to decline as customers give consideration to migration to Teams. Cisco revenues for the half were stable. Payments revenue was down 14% due to the cyclical downswing of renewals. Pushing the cyclicality aside, new business in payments grew 17% and bodes well for the longer-term trend of this revenue stream. Infrastructure revenues were up 1% and continues the trend of providing high margin performance on a sticky customer base.

Slide 8 presents our revenue numbers on a restated subscription basis. The calculation of these numbers is based on amortising license fees over the term of a contract and adding the recurring maintenance. Whilst these numbers do not form part of our statutory reporting, the proforma subscription equivalent revenues chose growth across unified communications and payments revenue streams. Further detail can be found in the appendix to the presentation.

Turning to *Slide 9* on cash flow. Cash generated from operating activities is up 39% to $13.2 million, or 28% on a like-for-like basis after adjusting for the new leasing standard. Cash receipts excluding debtor factoring is up 14%, noting that these cash receipts come from two sources; deals with upfront payments and deals with payments over time. Cash outflow from investing activities increased 31% to $7.4 million and is predominantly driven by the acceleration of investment in development of new products.

The balance sheet shown on *Slide 10* shows no bank debt and $7.6 million in cash. The one significant change between periods is the gross up of the balance sheet of approximately $7 million as a result of the introduction of the accounting standard on leases. The company's primary leased assets are office space both in Australia and abroad. In summary, the balance sheet remains strong and is well positioned to fund growth. With that, I would now like to pass back to John, who will take you through the rest of the presentation.

John Ruthven: Thank you, Peter. I'm on *Slide 11*, what does IR do. Being relatively new to the business, it is clear to me that the problems that IR solves for customers are complex and of high value. Given the breadth of problems IR solves, we felt it would add value to provide a few working examples of the areas where IR adds significant value for our clients.

This slide take four very common issues that occur in the payments and communications face, and in plain English, steps you through the problem why these complex, or difficult to solve, how IR provides a simple resolution and the relevance or value to our customers, and in many cases, our customers customer.

I'll quickly step you through one of our examples. Take the second one. You're in a retail store at the cash register trying to pay and your card is declined. This could happen for a whole host of reasons, and bear in mind, retailers could be processing thousands of transactions an hour. It's even more complex today because of the many payment methods available; swipe, tap, et cetera, and the range of technologies behind this. In real time, IR software is monitoring the transaction and assists the payments operations team to drill down to the root cause of the decline and to enable a faster resolution and provide revenue assurance for the retailer.

We like to think of it as complexity simplified. Complexity because of the sheer transaction volumes, complexity because of the sophisticated technologies that make up the core and payment workflows, and complexity driven by consumer demand for an ever-increasing simple, or 'Apple like' experience.

Moving to *Slide 12*, the real value of IR is the blue-chip customers and the quality of the revenue base. Validated by the recurring nature of these revenues at greater than 86%. At the same time, this high-quality customer base continues to grow with the addition of new logos; 20 new logos were added this last half, including names like BP, Prisma Health, Marriott Hotels.

Slide 13 highlights the dynamics of the ongoing change as enterprises move some of their workloads to Cloud or SaaS environments. It's important to understand IR's strategy and the progress we are making against this strategy. IR's high-quality enterprise customer base of large financial institutions, retailers, Telecoms and the like. Our strategy is to leverage our dominant market position on premise, and to support our customers on their journey or evolution to cloud. We will recognise that this evolution will go through a hybrid phase, meaning part of the business process runs on premise and part runs on SaaS or in the Cloud.

We are executing on the strategy, having launched our sales platform with plans to bring new and complimentary products to market, where customers can consume them as a service, or SaaS on premise or as a hybrid solution.

Moving to *Slide 14*. There is no better validation of a strategy being executed than results. In our last earnings announcement, we talked about the mission critical nature of our software, the fact that is sticky and of a recurring nature. Leveraging this position, we need to three things and do them really well. Maintain the base, grow the base, and add net new customers. Ours is a multi-vector strategy. We're not single point sensitive or betting the farm on one big play.

In the last half, a great example of maintaining the base was our largest yielding which we consolidated contracts with Fiserv after their acquisition of First Data Corporation. In simple terms, they consolidated towards us, not away from us. Increasingly, we are cross selling our solutions within existing customers. A great example of this was a recent deal we completed with ABSA, one of Africa's largest financial institutions. They've been a long-standing payments and infrastructure customer and they've now licensed our UC and call centre solutions in a multi-platform environment to manage their video and voice platform.

To round in out, GSA or GlaxoSmithKline, the large pharma company, became a new customer when looking for a 'Single Pane of Glass' to manage their collaboration platform with further plans to extend the rollout beyond the UK and Europe.

As I move to wrap up, *Slide 15* highlights a number of the key drivers for the second half. Our increased investment in R&D saw the launch of the new SaaS platform in December, and leveraging this, we will bring our, or our first new SaaS product to market this half in the payment assurance space. This is new, but complimentary functionality for our payments customers.

It is important to note that SaaS revenues will be recognised over time, not upfront. We will ship Prognosis with 11.8 which will include support for Microsoft Teams, and in fact, will be our first HYBRID product. This means that part of the solution will be on premise and part will be SaaS. Additionally, we're working hard to ensure that existing customers are upgrading to the current release to ensure they are benefitting from the latest functionality. Proof of this is that greater than 40 of customers have upgraded to the 11.7 release that was shipped in December.

Through the first half, we continued to build quality pipeline to support continued growth in the second half. H2 pipeline supports our expectation that the Americas will return to growth as the new leadership continues to have a positive impact. Greater than 50% of the license outlook for H2 is renewables, providing a strong base on which to grow. We also anticipate a strong infrastructure half based on the pipeline that is in play.

We expect our new business momentum to continue with a high number of new logo opportunities in play in our second half pipeline. Additionally, changes in our professional services business including global leadership is having a positive impact with a strong backlog, we expect this part of our business to continue to grow.

In summary, we have a sound business model based on an enduring value proposition. Our global customer base is world class, diversification across verticals in geographies de-risks concentration in any one market or segment. As we have seen this last half with the Americas down there was an offset through excellent and sustained growth in Asia Pacific. Our revenue base is balanced and high-quality.

As UC in payment networks across the globe are becoming more pervasive, more complex, with accelerating transaction volumes, IR solutions are increasingly relevant. Consumer expectations continue at a frenetic pace. These expectations drive demand for performance and user experience management. We believe IR plays a critical role in creating clarity and insight in a connected world.

That concluded the formal part of today's presentation, and we will now turn it over to the moderator to take questions.

End of Transcript

By authority of the Board,

David Purdue
Company Secretary
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About Integrated Research Limited (ASX:IRI), Integrated Research is a leading global provider of proactive performance management software for critical IT infrastructure, payments and communications ecosystems. IR Prognosis is deployed in over 60 countries—including some of the world's largest banks, airlines and telecommunication companies who rely on Prognosis to provide business critical insights and ensure continuity-critical systems deliver high availability and performance for millions of their customers across the globe.
For further information on IR, visit www.ir.com.

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