



22 February 2021

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 18<sup>th</sup> February 2021 at 10:30am to discuss the company's FY2021 First Half Results.

By authority of the Board,

David Purdue  
Company Secretary  
Integrated Research Limited  
ABN: 76 003 588 449



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## MARKET ANNOUNCEMENT

### Investor Conference Call Transcript

**Sydney, February 22, 2021** – Integrated Research (“IR”) (ASX: IRI) advises the following is a transcript (excluding Q&A) of the Investor Conference Call held on Thursday 18 February 2021 at 10:30am. 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 18 February 2021.*

#### Start of Transcript

Operator: Thank you for standing by. Welcome to the Integrated Research Limited FY21 Half Year Results 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 FY21 results briefing for Integrated Research. My name is John Ruthven, and I am the CEO of IR. With me today is 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.

Today’s presentation will be in three sections. First, a H1 results analysis. I will provide a high-level introduction, and then Peter will follow with a detailed review. I will follow with an insight into our new product launches, then close out with the review of our growth strategy, and the key success drivers, and finally, take some of your questions.

Please move to slide 3, CEO key messages. IR is the leading global provider of performance and experience management solutions, unified communications, payments, and infrastructure. We have an extensive enterprise customer base that includes over 25% of the Fortune 500 companies, with a long history of creating value through our deep [domain] knowledge to optimise operations of mission critical systems.

We’re a company transitioning across a number of fronts; face-to-face engagement to digital channels, on-premises to cloud, and up-front revenue to subscription. This is in response to new and changing market dynamics in our key markets. The structural market changes of remote working and cashless payments continue to disrupt traditional markets and accelerate the shift to cloud, and the decline of cash.

In the first half of FY21, we delivered new cloud products to position us for these market opportunities, including Microsoft Teams, Zoom, and Payment Analytics. The first half also provided impetus to our thinking and planning for the transition of our business model to subscription. A key aspect of this was the proforma results and solid cashflow performance through the first half. Cash receipts from customers was down 7%, whilst revenue was down 36%.

The first half was challenging, with revenue well down, and a near break-even profit result. Having completed a thorough review of our sales execution, four deal related factors affected the result. Firstly, non-renewals.

Second, reduction in deal value. Third, deals deferred to a future period, and foreign exchange. I will cover this in more detail shortly.

We have a new product pipeline over the next 12 to 18 months to capitalise on an addressable market opportunity of over \$1 billion. We will support the three biggest cloud collaboration platforms; Microsoft Teams, Zoom, and Webex. In addition, we will expand our card payment opportunity through integration to additional switches and enter the real-time payment segment.

We remain well-positioned for long-term growth, benefitting from structural market changes in remote working and contactless payments by accelerating our innovation agenda in the high-growth areas of conferencing and real-time payments.

As I move to slide 4, the numbers are confronting. At the same time, they tell a clear story. The charts are naturally divided into two columns. The left-hand side representing revenue and profit, and the right-hand side representing cashflow and cash.

Revenue has declined by 36% to \$34.1 million, driven by a shortfall in license fees that are recognised upfront. Our NPAT result came at \$129,000, just above break-even point. The result is driven by the fall in revenue, and partly shielded by a reduction in operating expenses, as Peter will talk to later.

We were negatively impacted by the increase in the Australian to US dollar exchange rate. NPAT in constant currency would have been \$2.9 million for the half. The cashflow story shown on the right-hand side is down but highlights the fundamental strength of our business model; cash receipts from customers were \$42.4 million down 7%. There were no material [doubtful] debts. There was no debtor factoring. Operating cashflow was \$11.3 million, a stark comparison to the near break-even result. As a result, the company remains in a positive net cash position.

Moving to slide 5, I want to address the deal movement we experienced late in the first half. At a primary level, our sales execution was not what it needed to be. I will address that. The waterfall chart shows a starting point of \$53.2 million representing first-half revenues from the prior year. We've previously explained that up-front revenue – our up-front revenue model is exposed to some level of volatility with deals closing late in the period.

The waterfall chart illustrates four deal-related factors that lead to the decline in revenue. \$4.9 million was from business that did not renew. \$2 million was from deals closing at a lower value. \$11 million was from deals deferred beyond the first half. \$1.2 million of other net movements including other currency impacts from a rising Australian dollar.

The reasons why a contract does not renew are varied. They include customers migrating to new platforms the prognosis does not support bringing their monitoring in-house, moving to a competitor, or budget constraints. The reasons why deals reduce in value are typically related to a shortening of contract periods. What we have seen during the pandemic is some customers opting for shorter-term contracts as they work through their own uncertainties.

Of the \$11 million of deals deferred, \$1.1 million have already closed in H2 and a further \$7.3 million are forecast to close in H2. The reason that this total does not tie to the \$11 million in deferrals is that some deals reduced in value because a customer is looking to contract for a shorter term. The net impact is around \$2.5 million. In an upfront revenue model, this impacts the total revenue recognised for a deal in the current period. I hope this provides visibility as to what happened, whilst at the same time acknowledging the factors such as sales execution and cautionary buyer behaviour contributed to the poorer result. I will now hand over to Peter.

**Peter Adams:** Thanks, John. We are on slide 6, titled Revenue. Revenue for the half was down 36% to \$34.1 million for reasons highlighted in the waterfall chart shown on the previous slide. With our current revenue recognition model, license fees had the largest impact on aggregate revenue, being down 49% to \$17.1 million.

Maintenance fees of \$10.3 million declined 15% over the previous corresponding period. The three contributors to this decline include maintenance cancellations of approximately 10%, an impact from currency translation of 3%, and the residual from perpetual to term contract conversions.

Revenue from SaaS fees of \$125,000 relates predominantly to our early cloud products, not to be confused with our new cloud products recently released during the half. It should be noted that these new cloud solutions will provide a meaningful contribution to future revenue streams that John will talk about shortly.

As the business transitions to higher SaaS revenues, it is appropriate to understand underlying performance through a proforma revenue lens using a subscription model. This is not a new concept. We have presented proforma revenues over the previous three reporting periods. The calculation of these numbers is based on amortising the license fees over the term of the contract and adding recurring maintenance. Whilst these numbers do not form part of our statutory reporting, the proforma equivalent subscription revenues of US\$26.6 million for the half is down 2% compared to the prior equivalent half. We've also disclosed on this slide cash receipts from customers of US\$30.6 million, which is broadly aligned to the proforma revenue number.

In summary, the statutory revenue model, with the upfront license recognition provides greater volatility, and is less aligned to cashflow. The proforma revenue numbers are more stable, predictable, and more aligned to cashflow. A reconciliation of statutory reported revenue to proforma revenue is included in the appendix to this presentation.

Turning to slide 7, titled Interim revenue analysis by product. We continue with our seven-year series of revenue on a statutory basis with US dollar equivalents as shown in the top-half of the slide. For clarity, all these bars represent first half of each financial year. We have brought onto the bottom-half of the slide, the seven-year series of revenues on a proforma subscription basis for ease of comparison.

It is interesting to note that the deal commitment period can have an immediate affect on license fees recognised up-front based on the statutory model compared to the proforma subscription revenue model, that effectively [straight lines] the revenue across the contract period. You will also see later in the presentation, a reduction in five-year deals from customers during the current half relative to prior periods.

Turning to the interim revenue slide on geography. The statutory results were below our expectations across all regions. There is a degree of commonality across the regions for the shortfall in statutory revenue, so perhaps a few comments on proforma subscription trends would be appropriate at this point.

We can see the Americas proforma subscription revenues were up year over year from 2015 to 2020 with the exception of 2021 showing a 10% decline. Looking at the statutory chart above, it is clear that the decline has been triggered by falls in license fees for 2020 and 2021. The action to address this decline is to retain and grow the base on premise together with opening up new opportunities from our new cloud solutions.

APAC proforma revenues show an upward trend year over year through to 2021, driven by consistent execution across both Collaborate and Transact. Europe proforma revenues also show an upward trend across the series, driven predominantly by Collaborate, and more recently, Transact.

Operating expenses shown on slide 9 are down 15% over the equivalent prior half to \$32.9 million. The key takeaway from this slide is that we have maintained our spend on development with the main reductions in

expenses being across sales and administration, representing decreases of 20% in each area, illustrating that we have been proactive in managing the business through the pandemic. The biggest hit to profit below the expense line has been through unrealised foreign currency losses of \$3 million for the half, noting that the AU/US exchange rate increased 13% across the half to finish at US\$0.77.

Turning to slide 10, headed Net cash flow analysis. Despite reporting bottom-line profit of \$129,000, cashflow from operations was \$11.3 million for the half, which was driven by a strong cash conversion rate of 124%. Translated, our cash collection from customers was strong, and there were minimal doubtful debt exposures arising during the period. The final dividend from FY20 of \$6.4 million was paid during the half. No interim dividend has been declared to preserve capital for growth.

Our balance sheet, shown on slide 11, remains in a strong position with net cash of \$1.7 million at 31 December. Trade receivables of \$70.3 million remain a strong source of future cashflow. We have \$13.5 million undrawn in our debt facility. I now will pass back to John, who will talk about our new product launches and growth strategy.

**John Ruthven:** Thanks, Peter. Moving to our product innovation strategy. On slide 13 now, more than 30 years ago, IR launched Prognosis as a platform, not a product. Some might say, ahead of its time, but in essence, we have always been a platform company. This slide depicts in simple terms that we have continued this strategy with the launch of our SaaS platform in December 2019.

We effectively have two complementary platforms – on premise and cloud. This innovation strategy enables us to support customers on their journey, whether they are on premise, hybrid – meaning they have workloads in both on-premises and cloud – or pure cloud. In market terms, this means that our addressable market is not limited in the same way that pureplay or on-premises vendors are. This strengthens our competitive edge, reduces time to market, and drives greater efficiency in R&D spend.

On slide 14, we are sharing with you the new products that we have released, and will release, over an 18-month window. This expands our addressable market by \$1 billion. Within this period across our Transact and Collaborate product line, we will support the three biggest cloud-based collaboration vendors: Microsoft, Zoom, and Cisco, as well as entering the high-growth real-time payments market.

At the same time, we'll continue to innovate and support our existing on-premises customers. Our R&D investment will continue at around 19% to 20% of annual revenue. In short, we are positioning the business for long-term growth and strengthening our competitive edge.

Moving to our growth strategy. Slide 16 illustrates that IR is well-positioned to benefit from cards growth, and the new real-time payments market. The size of the market is immense, some 737 billion payment transactions globally in calendar year 2020, defined as non-cash transactions, excluding cheques. Per the Capgemini world payments report, these volumes are growing at 11.5% CGAR out to 2023.

IR's growth opportunity comes in two areas. Firstly, card payments, where we are already well-entrenched with large financial institutions and card processors like Visa, FIS, JPMC, Barclaycard and others. There are two vectors for growth; to expand our support through additional switch vendors and cross-sell, up-sell cloud-based analytics. As a proof point, we concluded a new contract with ACI in late December for \$1.8 million for our newly launched Transact payments analytics SaaS product line.

Secondly, real-time payments: an emerging market globally and is the simplification of the payment process from initiation to reconciliation. We will launch our first product in this space this half, and the initial opportunity is to up-sell and cross-sell existing customers. The growth in this segment is projected to be 23.4% CAGR, out to 2024 per ACI's *Prime Time for Real-Time* report published in April last year.

Going to slide 17, the overall unified communications market has 550 million users, as defined by Gartner and has been low single digits for a number of years. What has changed is the acceleration of growth in the conferencing segment, driven by the global shift to remote working as a result of the pandemic. The number of conferencing users grew 48% in 2020 and is projected to grow 14% CAGR out to 2024.

IR has a great strategy that is focused on this high value segment. The opportunity is across both on-premise and cloud. First, by leveraging our strength and existing position in on-premise, supporting Microsoft, Cisco, and Avaya, we'll continue to support these customers. This will be a longtail because of our large enterprise customer base.

We will support these customers on their journey as they transition to cloud by cross-selling and up-selling our new Collaborate hybrid cloud solutions. Second, in the cloud, new products for Teams, Zoom, and Webex in the digital experience monitoring category. We will also support direct routing, which in simple terms, allows customers to use their chosen collaboration vendor with their preferred telecoms carrier.

Our SaaS platform expands the conferencing opportunity for analytics upsell. The proof point of this is an \$3.5 million contract just signed with BT or British Telecom to provide digital experience monitoring for their Digico platform.

Let's move to slide 18: IR's customer base. In simple terms, IR's value proposition is selling mission critical software to large global enterprises. We have a significant global enterprise customer base across diverse segments which include over 25% Fortune 500 companies. The key to maintaining and growing this base of customers is our ability to innovate and evolve with them to meet current and future needs.

I would now like to provide you some deeper insight into the make-up of our customer base across a number of vectors. Customer tenure: we establish long-term relationships, the majority greater than 15 years. A good example is JPMC, who have been a customer for more than 25 years. Contract length: our average weighted life of a contract has typically been more than four years. That said, we have seen a shortening of this in the last 12 months, driven by more cautious buying behaviour, and in some cases, less certainty by customers on their own strategy for on-premises and cloud.

New customers: there is good new business momentum with a number of new customers trending up. We expect to close more than 40 new customers this year, and our strategy calls for further acceleration. The signature win in H1 was FedEx joining our customer community for \$1.1 million for our Collaborate product line.

Last, maintenance retention. Historically, our maintenance retention has been relatively high, particularly in the Transact and Infrastructure product lines. Current conditions and cloud migration have certainly put pressure on that, as the graph shows.

Moving to slide 19. We've taken immediate steps to strengthen our performance in the second half. A plan was implemented in early January to focus on four things: sales execution, SaaS, cost, and business model. Sales execution focused on opportunity management, executive access, and engagement with key stakeholders within the customer and alignment of timelines and expectations to close.

In January and February, we have seen inbound enquiry in the US return to pre-pandemic levels, after tailing off towards the end of last half. To drive momentum off the back of the launch of our SaaS products, we've made changes to commission plans, as well as the organisation to provide both focus and incentive.

In mid-January, we implemented a headcount freeze, reduced our staffing levels, and centralised budget control. As part of reducing staffing levels, we've moved up some changes planned for FY22 by increasing

sales development reps or SDRs focused on new business, as well as consolidating a number of functions into a technical operations organisation to support our SaaS growth.

The second part of the plan was a simple but important change we made by moving the focus from quarterly and half targets to monthly to drive linearity and de-risk the end of half. This is a significant behavioural change, and we are not naïve about the challenge, but it does move us in the direction of MRR/ARR as part of a subscription model in the future.

Further prioritisation of the product roadmap, some of which was already underway, however we have evolved the way of working between product management and development to further prioritise Zoom enhancements, Webex, and real-time payments. Lastly, internal work has been underway for some time. We've now stepped that up as we transition the revenue model. These more tactical actions are either complete or well underway. They were implemented [and will strengthen] second-half performance.

Moving to slide 20: key success drivers. Assessing where the opportunity is, the current market dynamics, and how IR is positioned demands that we are clear and focused on what will drive success in the second half, and into FY22. There are four clear drivers. Firstly, customer retention and growth; IR's high-quality customer base is a competitive advantage.

In H2 alone, we have over 100 renewal and capacity deals with existing customers; each is an opportunity to not only maintain, but to grow with the customer. Maintaining or improving our retention and renewal rates, there are eight strategic renewal and capacity deals alone in the second half over seven figures. These are well-progressed and targeted for early closure. We expect to add over 40 new customers this financial year with our existing solutions, including two seven-figure deals in the second half.

A field coverage model is balanced between salespeople focused on growing the base, and customer success managers focused on retaining the base. Our future is as a SaaS company, and we are at a critical phase of winning our first customers. We now have had two significant wins in both our Transact and Collaborate product lines that establish foundation customers, along with some smaller wins too.

We expect to add more than 20 SaaS customers in the financial year, with a solid pipeline to support this. To drive this, we have invested in additional sales development reps, developed a modern product demo capability for remote selling, and stepped up our digital channels to drive demand.

Driving our product innovation agenda is speed to market. By the end of this half, we will be in markets, supporting the three biggest cloud collaboration vendors. We will have entered the real time payment space. This is not the end game; we will continue the development and enhancement of these solutions to stay ahead of our competition. To drive this, we have totally revamped our product management function, with new leadership across the product line, realigned the teams on a product line basis, and brought them closer to the customer.

Bringing all this together, is the business model transition to SaaS and subscription. This will provide better predictability and reliability of revenue streams. From a customer standpoint, it will enable us to support their journey with flexible commercial agreements. We are well-advanced in this work from a systems and process perspective, including the upgrade of our financial systems last year.

There is a lot to do, but we are clear and focused on what will drive success for IR. Right, moving to slide 21: conclusions. Let me conclude by highlighting the key messages from today's presentation. First, the second half recovery is well underway, and we have implemented steps to drive this. Second, we have a pipeline with new products coming that will strengthen our competitive advantage and give us access to a significant new addressable market. Third, the transition of our business model is well advanced, and it will provide

better predictability and reliability to operate in the future. Fourth, IR remains well-positioned to benefit from structural market changes that will drive long-term growth.

Operator, that concludes the presentation.

### End of Transcript

By authority of the Board,

David Purdue  
Company Secretary  
Integrated Research Limited  
ABN: 76 003 588 449

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**About Integrated Research Limited (ASX: IRI).** Integrated Research (IR) is the leading global provider of user experience and performance management solutions for payment transactions and collaborative systems. We create value through our real-time, scalable & extensible hybrid cloud platform and our deep domain knowledge to optimize operations of mission critical systems and improve user experience through intelligent and actionable insights. We enable many of the world's largest organizations to simplify complexity and provide visibility over systems that millions of people can't live without – systems that allow them to transact and collaborate. For further information on IR, visit [www.ir.com](http://www.ir.com).