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20 August 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 19th August 2021 at 10:30am to discuss the company's FY2021 Annual Financial Results.

By authority of the Board,

David Purdue
Company Secretary
Integrated Research Limited
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MARKET ANNOUNCEMENT

Investor Conference Call Transcript

Sydney, August 20, 2021 – Integrated Research ("IR") (**ASX: IRI**) advises the following is a transcript (excluding Q&A) of the Investor Conference Call held on Thursday 19 August 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 19 August 2021*.

Start of Transcript

Operator: Thank you for standing by and welcome to the Integrated Research Limited Fiscal Year 2021 Full 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 call over to Mr John Ruthven, Chief Executive Officer, please go ahead sir.

John Ruthven:
Slide 1: Introduction: Good morning and welcome to the FY21 full year results briefing for Integrated Research. My name is John Ruthven [JR] and I am the CEO of IR. With me today is Peter Adams [PA], our Chief Financial Officer. This morning we posted our results presentation to the ASX website, which we will be referring to during this call.

Slide 2: Agenda: Today's presentation is in two sections; First, a **Full Year Results Analysis** – I will provide a high-level introduction and Peter will follow with a detailed overview; I will then talk to our **Transition and Growth Strategy**; and then close out and take some questions.

Slide 3: Section 1 – Results Analysis

Slide 4: CEO Key Messages: The key point I would like to emphasise today is that we are making good progress in our customer and innovation led multi-year transition. This growth strategy will result in higher quality SaaS subscription revenues. FY22 is an important year in this transition as we move to TCV (total contract value) and free cash as our primary operating metrics.

This transition commenced in FY21, and we see it in three phases; FY21 – was about innovation; FY22 - execution; and FY23 - scale.

We were pleased to deliver a stronger second half in FY21, after the disappointment of the first half. For the full year, revenue is down 29% and NPAT down 51% in constant currency. These results reflect a difficult trading environment in which deal deferrals and cautious buying behaviour had an impact, particularly in the first half.

During the second half we worked a 4-point plan to improve performance. The result was second half revenue up 30% on the first half, NPAT up 210% over H1 and solid cash flow.

Strategically we remain well-positioned for long-term growth, benefiting from growth trends in remote working and cashless payments. We have delivered a rich portfolio of new products into the market and have a future product roadmap that positions us well to build share in a growing $1.2B total addressable market.

Slide 5: Full Year Performance Review: As I move to slide 5, the impact of the first half on full year results is confronting. Revenues declined by 29% to $78.5 million driven by a shortfall in licence fees that are recognised upfront. Our NPAT result came in at $7.9 million, with virtually all the profit coming in H2 after the near breakeven first half result. The annual result is driven by the fall in revenue and partly shielded by a reduction in operating expenses that 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 $11.9 million for the full year.

The cashflow story shown on the right-hand side is down but highlights the fundamental strength of our business model. Our contracts with customers are non-cancellable term-based agreements. Cash receipts from customers was $78.8 million, down 18%. There was no debtor factoring. Operating cashflow was $21.1 million - a stark comparison to the $7.9 million of reported profit! The Company remains in a positive net cash position.

Slide 6: 2H FY21 Results: The second half performance of FY21 demonstrates that we have regained positive momentum in the business. Compared to the first half, both revenue and profit are up 30% and 210% respectively. Cash flow from operations was down 14% compared to the first half and naturally a flow on effect from lower first half revenues. Importantly, the EBITDA margin bounced back to just under 40% and broadly consistent with FY20 performance.

Slide 7: Transition Underway: We are in a multi-year transition – which is framed in three phases: innovation, execution, and scale. We then look at it across three key elements: product, revenue, and metrics.

In FY21, a year of innovation – we delivered new SaaS products for MS Teams, Zoom and Webex, as well as Payment Analytics in the Transact portfolio. In FY22 and FY23 we will extend and expand on this foundation – with direct routing, SBCs, vendor integrations as well as launching into real-time and high-value payments.

As we transition, we will move from upfront revenues to higher quality SaaS subscription revenues, with higher levels of ARR or annual recurring revenues.

Importantly, to provide transparency to the underlying performance of the business, we will evolve our performance metrics. We commenced these four reporting periods ago, when we introduced 'proforma subscription revenues' to smooth out the lumpiness of upfront revenue recognition. This year, we will move to TCV and free cash flow as the two primary operating metrics and by FY23 expect to be reporting in the full spectrum of SaaS metrics.

FY22 is anchored on execution – particularly the front-end of the business. We have made GTM and organisational changes to drive this – focus account territories, new business teams, customer success teams, investment in SDRs, and additional marketing spend to drive demand.

Slide 8: FY21 Progress Report: In February, we shared a 4-point plan as well as set of performance indicators that would be used to turn-around performance in H2. This slide reports on our progress.
FY21 was a strong innovation year with the delivery of lots of new product. Real-time and High-value payments solutions are now due this half.

Customer growth and retention as well as new SaaS customer acquisition, was solid – but behind expectation in terms of new customers.

We have done a lot of work in the last 12-24 months to ensure our systems and processes are evolving to meet the demands of running an ARR business. Progress is good, and ongoing.

I will now hand over to Peter to provide a detailed overview of our financial performance.

Peter Adams:
Slide 9: Revenue: Thanks John. We are on slide 9 titled "Revenue". Revenue for the year was down 29% to $78.5 million. There are several factors for the decline in revenue. The pandemic had a significant impact on performance. The sales cadence was disrupted through limitations on travel, cancellation of trade shows and limited face to face meetings. The Company improved sales in the second half.

Maintenance fees of $18.1 million, declined 24% over the previous corresponding period. The three contributors to this decline include: maintenance cancelations of approximately 12%; an impact from currency translation of 7%; and the residual from perpetual to term contract conversions.

Revenue from subscription fees of $312,000 relates predominately to our early cloud products, not to be confused with our new cloud products recently released during the year. 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 four reporting periods.

The calculation of these numbers is based on amortising the licence 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 revenue of US$52.1 million for the year is down 3% compared to the prior year. We have also disclosed on this slide cash receipts from customers of US$58.9 million which is predominantly aligned to the proforma revenue number. In summary, the statutory revenue model with the upfront licence recognition is more volatile and 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.

Slide 10: Geographic and Product Analysis: Turning to slide ten, Geographic and Product Analysis. We have continued with our seven-year series of revenue on a statutory basis represented by the line on each chart compared to proforma subscription revenue represented by the bars on each chart.

So, what insights do we glean from these charts? There are a few points to make:

1. FY21 was a difficult trading year for reasons already outlined in the presentation. The impact was global and is clearly seen by the downward movement of the lines on the chart. What the charts don't show is that we have seen a positive momentum return in the second half which John explained earlier.
2. Exchange rates have also impacted the reported results. The geographic charts are in natural currency to eliminate this consequence. The product charts show proforma subscription revenue in both Australian dollars and US dollars to provide a view to underlying performance;
3. As I said, there is greater volatility in the upfront revenue model compared to the proforma subscription model. The upfront revenue model is impacted by the time length of contracts. The average deal term in FY21 was approximately three years compared to four years for the preceding year. The proforma subscription model is not impacted by deal length;
4. Revenue from new cloud products released during the year have not come through yet in either the upfront revenue model or the proforma subscription model. The reason is that cloud bookings is not an upfront revenue event, and it takes time for the delivery of those cloud revenues to come to

fruition. The good news is we have $5.5 million in cloud bookings to be released as revenue over coming periods. Further, we will continue to build the bank of bookings in coming periods through the addition of new customers and the sale of new products to existing customers;

5. Lastly, blended upfront and revenues recognised over time from the new and hybrid cloud solutions will increase so we will continue to report proforma subscription revenues to assist you. Further, we will commence reporting total contract values or TCV at each reporting period to provide further insight on performance.

Slide 11: Operating Expenses / Other: Operating expenses shown on slide 11 are down 12% over the prior year to $68.7 million.

The key takeaway from this slide is that we have maintained our spend on development despite the difficult trading conditions. The investment in development has borne fruit this year with several new products to market as John has referenced earlier.

The main reduction in expenses is across sales and marketing representing a decrease of 20%. As mentioned earlier, we have adapted our structure and process during the pandemic since travel and face to face meetings have been significantly reduced.

Approximately one third of the cost base is in the US, so there is sensitivity to movements in currency as presented at the bottom of the slide.

Moving forward we would expect an increase in the cost base back toward FY20 levels. The current scarcity of developers has put some pressure on the cost base. Further, the transition of the business to cloud has seen some resource reallocation and alignment. Margins may remain under some pressure for the short term, however further out we would see margin expansion through the optimisation of the cloud platform and other economies of scale.

Slide 12: Net Cash Flow Analysis: Turning to slide 12 headed Net cashflow analysis.

Cash flow from operations was $21.1 million for the year which was driven by a strong cash conversion rate of 100%. Cash collections from customers were strong and there were minimal doubtful debt exposures. The cash generation continued to support ongoing development.

Slide 13: Balance Sheet: Our balance sheet shown on slide 12 remains in a net cash position of $5.5 million on 30 June. Trade receivables of $79.5 million remains a strong source of future cashflow. We have $14.7 million undrawn on our debt facility. I will now pass back to John who will talk about our growth strategy.

John Ruthven:
Slide 14: Section 2 – Transition and Growth Strategy

Thanks Peter, moving to our Transition and Growth Strategy.

Slide 15: Platform Approach to Product Innovation: In order to expand our target addressable market, we take a platform-centric approach to solving customer problems.

We have been transitioning our product portfolio to a hybrid delivery model, allowing our customers to consume products in a way that best matches their own internal delivery models.

Underpinning this hybrid delivery model is the Prognosis Platform – made up of, Prognosis Server, along with our newer Prognosis Cloud and Prognosis Edge. These components deliver services that can be pieced together to accelerate our product delivery efforts and unlock higher value customer use cases.

Slide 16: Product Strategy: IR's target addressable market is $1.2B and growing. We offer solutions that deliver deep domain data, to a broad set of customers, with increasing intelligence in the products.

- **Deep** is about domain data, leveraging our know-how for extracting meaningful information from critical systems and surfacing it, and extending our reach using the Prognosis Intelligent Edge
- **Smart** is about evolving our platforms to leverage newer technology like ML and AI, to solve higher value problems and emerging complex use cases
- **Wide** is about extending the platform with an open API interface, surfacing more data, and expanding beyond traditional IT Operations. It opens up the platform to democratize value creation in the medium term.

Slide 17: Accelerated move to cashless payments: As you will have seen, the disruption of the payments market continues. In the last few weeks, we have seen Square acquire AfterPay and Microsoft and ACI announce a partnership to develop Cloud based payments solutions. The rise of cashless payments has been accelerated by the pandemic and the resultant changes in social and commercial behaviour. At the same time, new regulatory standards are driving the requirement for financial institutions to upgrade their real-time and high-value payments environments, with a move away from traditional clearance methods. This plays well into IR's position and value proposition – monitoring and analytics of card transactions, with expanding support for real-time and high-value payments.

This slide illustrates that IR is well positioned to benefit from cards growth and the new real-time payments market.

The size of the market is significant, 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% CAGR, out to 2023.

IR's growth opportunity is in two main areas;

Firstly, Cards payments – we already have a significant customer base of financial institutions and card processors like Fiserv, FIS, JPMC, Barclaycard and others. There are two primary vectors for growth; to provide payments analytics to processors and banks and provide a broader range of users within new and existing customers. During FY21 we announced a major deal with ACI for Transact Payments Analytics and we have a growing pipeline in support of this.

Second, Real-time payments – an emerging market globally and is the simplification of the payment process from initiation to reconciliation. We will be launching new High Value and Real-Time product-lines in the coming months that will provide customers with the monitoring and analytics tools needed to capture greater insights into this new payment space. The growth in this segment is projected to be 23.4% CAGR out to 2024.

Slide 18: Rapid growth in high value conferencing segment: Going to Slide 18, the 'future of work' is evolving rapidly as organisations set their course for employees' work location and work environment and how they engage and collaborate. Whatever an organisation's strategy, 'hybrid work' is here to stay.

With it, comes even more complexity and challenge in supporting the UC environment to provide a reliable and rich user experience. Industry specific video applications are emerging, which are mission critical to the delivery of services – like healthcare. There is an increase in partnering between UC vendors and carriers to integrate telephony and the UCaaS application. At the same time, there is rapid expansion of what is classified as the collaboration environment – with faster growth in 'rooms' as part of this new 'hybrid' way of working. These are complex mission critical environments to support.

Gartner sizes the Unified Communications market as 550 million users of which 185 million are the higher value more sophisticated conferencing users. This segment saw significant growth in 2020 with solid mid to high single digit growth projected out to 2025.

We have a strong on-premise market position, supporting the likes of Cisco and Avaya, where our average users per customer is in excess of 25,000. There will be a long-tail to this business due to the nature of our large enterprise customer base. As a proof point, in July we closed a net-new customer, a 40,000 user Cisco environment. Critical to winning this business was our ability to support a multi-vendor, hybrid environment – on-premise & Cloud, Cisco & MS Teams.

With new products launched in FY21 we have coverage of up to 60 per cent of the market, Microsoft, Cisco & Zoom. We signed a foundational deal with BT to support their DigiCo platform and have just announced a partnership with ServiceNow which will embed Collaborate into organizations' wider IT management workflows and processes. Further innovation is underway to support enterprises and carriers to integrate existing telephony solutions with new UCaaS applications. Our first such solution will be in market this half, initially supporting MS Teams Direct Routing through a wide range of telephony systems from AudioCodes, Ribbon, Oracle, Avaya, and Cisco.

Slide 19: Quality customer base: Let's move to Slide 19, IR's customer base. We have a significant global blue-chip enterprise customer base, across diverse segments. Our innovation strategy is to map our solutions to the customer journey – whether they are on-premises, hybrid whilst migrating to the cloud, or pure cloud.

We establish and maintain long-term relationships as can be seen by the **customer tenure** – many of them more than 15 years. In H2 we renewed our agreement with Visa, a customer for 20 years.

The **average weighted life of our contracts** has typically been greater than 4 years. However, we have seen a shortening of this in FY21 driven by more cautious buying behaviour and in some cases less certainty by customers on their own strategy for on-premises and cloud.

Key to our growth is new business and **new customers**. An important win was Zebra Technologies, a mobile computing company who licensed our Collaborate SaaS products for MS Teams & Zoom for over 12,000 users.
Historically our **maintenance retention** has been relatively high, particularly in the Transact and Infrastructure product lines. Current conditions and cloud migrations have put pressure on that, as the graph shows.

Slide 20: FY22 Action Plan: We have a clear set of priorities to accelerate our growth.

We have implemented a focused go-to-market with key design elements to maintain and grow the base and add significantly more new customers. We have also in increased investment in our demand generation engine.

We are cognisant that our systems, people, and processes need to be aligned to Transform IR. We are clear on the priorities in FY22 to further this and ensure our journey to higher quality subscription revenues stays on-track. Like many tech companies, we have experienced an appreciating talent market and are taking appropriate steps to ensure our reward and recognition programs retain key talent.

Slide 21: Key Performance Indicators: Tied to the action plan just discussed, we have in place key performance indicators, across customer growth & retention, new customer acquisition, product innovation and business model transition.

Some key take outs from this slide;

- Improving customer retention and reducing churn
- 30% of TCV from new customers, a significant step-up from prior years
- More of our TCV from new products
- Growing our deferred revenue backlog

We are confident that these targets will serve us well in transitioning and growing the business.

Slide 22: Conclusions: In conclusion, let me highlight the key messages from today's presentation.

a. We are executing a plan to grow higher quality, SaaS based subscription revenues
b. There is confidence from better second half results and a solid balance sheet
c. Innovation is driving new products and an extension of our value proposition that in turn expands our addressable market
d. And finally, the long-term growth trends of remote working and cashless payments further reinforces IR's value proposition.

Operator: That concludes the presentation.

End of Transcript

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