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23 November 2022

ASX Market Announcements Office
Australian Securities Exchange Limited

2022 AGM ADDRESS TO SHAREHOLDERS

Integrated Research Limited (ASX: IRI) will address shareholders at its Annual General Meeting, to be held on 23 November 2022 commencing at 10:00am at The Museum of Sydney and streamed live via webcast.

In accordance with the ASX Listing Rules, the Chairman's, CFO, and CEO addresses are attached within this release.

By authority of the Board,

Will Witherow
Company Secretary
Integrated Research Limited
ABN: 76 003 588 449

Integrated Research Limited (IRI) – 2022 AGM Addresses

Chairman's Address, Peter Lloyd

Good morning, ladies, and gentlemen. Welcome to IR's 2022 Annual General meeting. We are delighted to be here today and to meet many of our shareholders in person.

What started as a one-man organisation in Australia, today has a staff of about 200 team members, with 5 direct sales offices globally. Currently, we work with over 600 organizations, more than 25% of which are global Fortune 500 companies. I am very proud of how far we have come and believe that the best years of the organisation are ahead of us.

However, the journey has not been easy. For the last couple of years, we have faced multiple headwinds including cost pressures, changing markets and other global factors which has primarily led to customers delaying their buying decisions. Internally, we dealt with challenges in executing our strategy. While we did well in maintaining a strong cash balance, we quickly realised we had to implement other corrective measures. So, we re-aligned the business and have now considerably strengthened our leadership team.

We have continuously refined our business strategy and are strongly focused on achieving our goals. John will talk to this more in his CEO's presentation today.

We are laser focused on delivering two very key themes which were underscored through the pandemic - hybrid working and the rise of cashless payments.

With the increased adoption in hybrid working, organizations will rely on specialised services like ours for monitoring and managing the proliferation of devices in the increasingly complex world of communications. Gartner currently projects that the strong demand for solutions that monitor Unified Communications as a Service (UCaaS) will grow at the same rate as demand for UCaaS solutions themselves.

In the world of payments, cashless transactions have become the new normal. Globally, governments are mandating the modernization of payment systems to create a common language for payments worldwide. Our products and solutions in this space are well-suited to meet these dynamic environments.

The team at IR is working hard to create second generation cloud-based products and solutions which we believe will make us an ideal partner for large enterprises, as they transition to new ways of working. While we rely on renewals for existing customers, we are also working to gain traction among new customers.

Our recently strengthened leadership team has several key objectives, including establishing a better model for forecasting pipeline, improved cross-sell and partner and channel strategy uplift. We are working closely with existing partners to deepen our relationships with them and are getting new partners on board to access new markets. Our sales teams are spending more time with customers and working closely with our product and engineering teams to ensure our products are fit for purpose.

I want to remind you that we have also embraced additional metrics to measure success for the business. With the increased adoption of SaaS services, we have moved to a subscription-based pricing model. This brings into picture metrics such as Total Contract Value (TCV), Annual Recurring Revenue and Proforma Revenues which our interim CFO, Matthew Walton will be outlining shortly.

In line with investor interest, we are further developing our approach to Environmental, Social, and Governance (ESG) matters. You will hear more from us in this regard in the coming year.

Given the microscopic lens on security and cyber-related matters recently, I am pleased to inform you that IR is now ISO 27001:2013 Certified. This is a significant milestone in our Information Security Program and one that enables us to guarantee clients, customers, and partners that we have implemented best practice information security methodology.

Turning now to the Board. I'd like to call out the extensive support of my fellow Non-Executive Directors Allan Brackin, Anne Myers, Cathy Aston, and James Scott. Their commitment and dedication to the organization is second to none.

The Board believes that IR continues to be well served by having John Ruthven lead as the CEO along with the strong support of the Executive Leadership Team. I am sincerely grateful for all the hard work from the team over the past year when the environment has been difficult and challenging. I also thank our customers for their confidence in our products and solutions.

Last but definitely not least, thank you to all our shareholders for your ongoing trust and support.

I believe we are well-placed to deliver on our strategy and build a bright future for all.

Thank you.

CFO Address

Matthew Walton, Interim CFO

Slide 6: Full-Year Performance Review – Statutory (A$M)

Thank you Peter. We are on slide 6.

The Company achieved annual profit after tax of $1.5 million, which is at the upper end of the guidance provided to the ASX in early July. Statutory revenue for the year was $62.9 million, down 20% over the prior year. The decline in performance was the consequence of external trading conditions, market disruption, delays in new product traction and sales execution. Typically, the fourth quarter of the financial year is the Company's strongest period for sales. However, the deteriorating macro-economic environment caused by geo-political unrest and inflationary pressures resulted in customers delaying or cancelling purchasing decisions. Sales execution risk was much higher in FY22 due to the lower renewal volume compared to preceding years.

Cash receipts from customers totalled $75.5 million, down 4% over the prior year. The Company continues to benefit from term based non-cancellable licence contracts with a high-quality customer base. This, together with other revenues has yielded an improvement in net cash of $12.3 million up from $5.5 million in the previous year.

Slide 7: Full-Year Performance Review – Proforma (A$M)

We are now on slide 7.

As communicated at last year's AGM and the half year results release, Total Contract Value or TCV is a core measure of IR's performance. TCV represents the total value of a revenue generating contract written in the year. It includes software licence and related maintenance, cloud bookings, testing bookings and consulting services. TCV for FY22 was $56.7 million, down 25% over the prior year for reasons that were highlighted earlier.

You will see we have reported annual recurring revenue for the first time. Annual recurring revenue as of 30 June 2022 was $68.1 million, up 3% over the prior year supported by long dated non-cancellable contracts.

As provided in previous investor updates, we continue to report revenue on a proforma subscription basis, which we believe is more reflective of the underlying performance of the business. Subscription revenues for the year were $68.4 million, down 2% and represent 86% of total proforma revenue, which also includes revenue from testing solutions and services. Our cash conversion rate for the year ended 30 June was 95% and shows the close alignment of this revenue series to cash receipts.

Slide 8: Revenue Analysis: TCV, Statutory, Proforma, and ARR (A$M)

We move to slide 8.

Slide 8 shows the linkage between Total Contract Value, Statutory Revenue, Proforma Revenue and Annual Recurring Revenue. It's worth unpicking this for a moment.

Total Contract Value (TCV) – the top black line - is the total value of a revenue generating contract written in the period of performance - this includes software licence and related maintenance, cloud, testing and consulting services revenue. TCV is a function of the term of the contract, and the annual value of the contract. For example, client TCV can reduce significantly if the term is reduced, even though the annual value of the licence subscription has increased.

Statutory Revenue – the red line - is revenue recognised per the accounting standard – this has strong upfront revenue recognition, with less revenue recognised over the life of the contract. As a consequence, there is a strong alignment with TCV.

Proforma subscription revenue – the middle blue bar – is the licence and maintenance revenue from the contract spread over the life of the contract. It is a non-statutory and unaudited view that better represents the recurring nature of the contracted revenue streams.

Proforma revenue – the purple bar - is proforma subscription revenue plus other non-recurring revenue streams typically professional services and one-time through testing services.

Annual Recurring Revenue – the white bar - is the annualised end of period subscription revenue, and best represents the ongoing recurring value in the revenue stream.

This chart highlights that while there is more volatility in TCV and Statutory Revenue, there is more consistency in the revenue streams over time as represented by proforma and annual recurring revenue.

Slide 9: TCV, Statutory, Proforma, and ARR (A$M)

We are on slide 9.

Slide 9 presents our TCV, Statutory revenue, Proforma Subscription Revenue and Annual Recurring Revenue by geographic region and by product set.

The Asia Pacific chart clearly shows the volatility of TCV and Statutory Revenue, and the more stable reflection of Proforma and ARR. Similarly with the Transact chart.

Slide 10: Proforma Subscription Revenue

We are on slide 10.

This slide presents proforma subscription revenue for both geographic and product sets. For simplicity, we have combined Transact & Infrastructure in the geographic set and Europe and APAC in the product set. These charts provide more insight than provided in previous presentations.

To be clear, these charts are not to be confused with either the TCV charts on prior slides or the statutory revenue shown in the Financial Report. Proforma revenue is a trailing measure of performance and the result of historic TCV achieved. The numbers represent recurring revenue based on amortised licence fees, maintenance and SaaS revenue for the year.

What do we glean from these charts? For each region, we can see the make-up of product and whether the product set is growing or declining. For instance, APAC has higher subscription revenue from Transact & Infrastructure compared to Collaborate. It is also showing growth across both product sets with Collaborate growing at a faster rate.

If we take Transact from the bottom row, we see that it has an equal distribution between the Americas and rest of world with the Americas growing more strongly.

Slide 11: Operating Costs

Turning to slide 11 titled Operating Costs. We finished the FY22 financial year with 202 staff compared to 240 staff at the start of the year. The decline in staff numbers reflects the realignment of the business to the changing market environment.

Our innovation agenda remains unchanged as illustrated by the left-hand chart. The jump in Product and Technology expenditure primarily reflects the amortisation of the new cloud platform and release of new products to market.

Our sales and marketing spend pulled back during Covid with less travel and trade shows. This trend will slowly reverse as customer face to face meetings and marketing events return. FY22 represents the first year where we incentivised the sales team on TCV. We will continue with TCV to be the key metric to drive FY23 performance.

Slide 12: Innovation – Investment Over Last 2 Years

Slide 12 highlights that our R&D innovation agenda remains firm. Across the last two years, we have enhanced our cloud platform and brought new solutions to market for both Collaborate and Transact. We have continued our investment into on-premises solutions and the combination of all these investments has facilitated a capability to serve on-premises, hybrid and pure cloud environments. This means we can flex with the market and support customers on their individual journeys.

I will now pass to John for the rest of the presentation.

CEO's Address

John Ruthven, CEO

Slide 14 – Company Overview

Now on Slide 14.

IR was founded more than 30 years ago. We have over 600 customers across our global, enterprise customer base, including more than 25% of the Fortune 500 companies. We serve customers in more than 60 countries through offices in the USA, UK, Singapore, and Australia, and via a global channel-driven distribution network. We had strong growth in users on our SaaS platform for our cloud and hybrid solutions over the prior year. These customers rely on our solutions for performance and experience management of their core, mission-critical systems.

Slide 15 – Blue Chip Customer Base

Moving to Slide 15.

Core to IR's value proposition is the simple phrase; mission critical software – sold to Tier 1 customers. We play at the big-end of town, large global enterprises with mission-critical environments like healthcare, payment processing, higher education, law enforcement and more.

Over 25% of Fortune 500 companies are customers, as well as the top US banks and telcos. Although 95% of our revenue is outside of Australia, 6 of the top 20 Australian companies by market capitalisation are customers.

Key to our go to market are partners and service providers. Companies like NTT, CDW and Verizon embed our solutions into their managed services, that they on-sell to their customers.

Slide 16 – Phased Strategy

Slide 16 details our multi-year phased transition – innovation, execution, and scale.

The innovation phase kicked off with the launch of our SaaS platform, as the foundation for a range of new products. This innovation is ongoing, and the launch of new and enhanced products will continue to meet current and emerging customer use cases.

We are deep in the execution phase, and whilst it is taking longer than we anticipated, we are confident that our go-to-market strategy is right and the return to face-to-face engagement, like Trade Shows, will assist our demand generation. We are evolving our first-generation new products with our customers and partners, to better position ourselves and grow.

As we transition to scale in the future, we will move from contracting upfront revenues to better quality subscription revenues, with higher levels of annual recurring revenues.

Slide 17 – Short-term challenges

Now on Slide 17.

The past couple of years have been a difficult trading period for IR. Our performance has been impacted by both internal and external factors. This slide looks to provide some insight to the key challenges.

In the Collaborate product-line, both TCV and revenue have been negatively impacted by shorter contract lengths. This has been driven by customers evaluating their future requirements – be that, on-premises, hybrid, and Unified Communications as a service (UCaaS); think Teams, Zoom, etc. In H1 FY22 average contract length dropped to a low of 2.3 years from above 4 years pre-pandemic.

Our Collaborate customers are large, the average number of users per customer is greater than 25,000. These organizations go through a rigorous evaluation process when selecting new solutions. We have launched a Flex-License to assist customers in using our solutions on-premises, SaaS, or hybrid – but with limited take-up. We have experienced a time-lag as customers first assess vendor tools.

Our value proposition is anchored on mission critical environments with use cases that are real-time, high volume and high complexity. As enterprise customers respond to the demands of hybrid working, new use cases are emerging. For example, being able to trouble-shoot an employee's home network. Customers are grappling with new challenges which results in significant pressure on our product and engineering teams to respond to, in a dynamic market.

The Transact and Infrastructure product portfolio have different challenges. Our investment in new solutions for Real-Time and High-Value payments is taking time to get market traction. New payment schemes are continuing to be rolled out across the world, but this is often a slow and stop-start process. However, we are well positioned to support both central banks and scheme participants as they come online.

We have made investments in new products like Payment Analytics. These new products are 'generation one' and are highly innovative. That said, the sales cycles are complex with major payment processors and financial institutions.

We have messaged for some years that our Infrastructure product is impacted by some customers moving off HPE non-stop. Our solution is specific to this hardware platform.

As we assess our operational performance, sales execution and performance has not been at par. The environment over the last two years has been challenging, however we did not respond to some of those changes quickly enough and have been impacted as a result.

Similarly, the pressure on our product and engineering teams has been heightened to bring new products to market, to address new uses cases and new competitors. Anticipating the market, as well as increasing our speed to market has had its challenges.

Like all businesses, particularly in the technology sector, the last couple of years has seen much higher levels of employee turn-over and cost pressure. We are not immune and have witnessed it across all functions of our business. The loss of experienced employees has been particularly challenging.

Slide 18 – Addressing the Challenges

Now on Slide 18.

As we work hard to return the business to growth, there are five broad areas where I would like to provide an update. Clearly, our principal focus is on sales execution and performance. We have refreshed our senior sales leadership, focused on experienced business builders. Rodney Foreman is now four months into running the Americas and is creating real momentum. Jason Barker, a successful operator at IR took on expanded responsibility to run EMEA and APAC, relocating back to London. Again, there is a clear plan and good momentum with improved sales discipline and customer engagement.

We have re-invigorated some key partnerships. Working with ACI, their sales organization will now take our new Transact products to market. We are close to finalising a reseller agreement with HPE for our Infrastructure products, for their sales organization to sell our products. We have several key renewals with service providers in this half pipeline.

Leveraging the return of travel, we have invested in getting back to face-to-face engagements. Leveraging Trade Shows and customers willing to meet in person are both improving our demand generation and customer commitment to progress opportunities. There is a strong renewal portfolio in H1 to leverage – both the renewal and upsell. We have also increased prices by 7% across our product portfolios.

Turning to product and matching our resources to the opportunity, we have made some tweaks. As we anticipate the market and emerging use cases, we are working closely with key enterprise customers in a co-innovation type model. A recent win with a large US health insurer is a good example where we are developing a solution for a Genesys cloud contact centre environment, to support their 18,000 agents.

At the same time, we are seeing a momentum shift with new payment schemes, particularly in the Middle East and South East Asia. A proof point being a new Real Time customer win this year with a Middle East central bank and the opportunity to extend into their participant banks.

In support of this, we are embedding R&D resources into the field on secondment type engagements. This brings us closer to the customer and shortens the innovation cycle as feedback is almost real-time.

Our development process has been revamped, to break releases into smaller increments. This adds velocity to the release cycle and drives a stronger focus on value in each deliverable. Combined with this, we have re-factored the product roadmap, to be more closely aligned to near-term opportunities. Tied to my earlier co-innovation point - the voice of the customer is stronger in this working model.

We have re-aligned our cost base to our strategy and the execution phase that we are in. This has resulted in a 10% reduction in workforce and realignment of our organizational model, including streamlining our sales regions into two, bringing product and engineering together and combining our services and support organizations. Research and development spend has increased rigour, as already referenced, to nearer term opportunity.

There has been a significant increase in employee remuneration in our industry, and we are not immune. We have responded from both a cash and equity stand-point. We have moved to a simpler, more aligned organizational model and are focused on providing career opportunities like overseas secondments to attract and retain key employees.

Receivables management is a key focus, to bring down our days-sales-outstanding, or DSO. Cash receipts is now more closely aligned to proforma revenue and there has been no debtor factoring in the preceding year.

Slide 19 – Collaborate – The Opportunity

Moving to slide 19.

IR's target market is the 590 million seats across telephony and cloud conferencing with a heavy emphasis on those 170 million sophisticated conferencing users. Today, we have 5.8 million users, or around 3% share. The addressable market is growing at over 6% CAGR.

Driving the requirement for specialized tools to manage these complex environments is the increase in remote working and the user expectation that they should be able to do their work seamlessly. The CIO's challenge is balancing user experience and expectations with the increasing complexity of managing these environments and the proliferation of devices.

Slide 20 – Collaborate – Key Growth Drivers

Now on Slide 20.

The uptake of remote working was accelerated by the pandemic. At the same time, the conferencing and unified communications market is moving rapidly to the cloud, led by Microsoft Teams.

The mix of cloud, on-premises and hybrid solutions increases complexity, and managing this complexity is core to IR's value proposition. We support existing on-premises solutions as well as hybrid and cloud solutions, effectively supporting a customer's digital transformation journey.

User experience is key, which comes with the expectation that their collaboration and UC environment 'just works'. When they don't, support staff are under pressure to quickly identify and resolve the source of the issue.

Slide 21 – Transact – The Opportunity

Slide 21 highlights that the opportunity for Transact is significant with IR currently monitoring approximately 600 million transactions a day and a global payment CAGR of 18.6% forecast in FY23. This growth has been brought about by the rapid rate of change in the payments sector over the last couple of years and the overwhelming shift to cashless payments.

Slide 22 – Transact – Key Growth Drivers

Moving to Slide 22.

We continue to see a massive shift in consumers and businesses moving to non-cash payment methods. In support of this is the expansion of payment types and channels – increasing use of debit and credit cards as well as real-time payments displacing legacy batch systems. With all of this comes increasing complexity – additional systems, applications and the greater risk of issues and failures.

In response to this, we have launched new products and continue to enhance existing ones, to up-sell to existing customers and win new ones. User expectations continue to increase around a seamless experience. At the same time, payments providers are looking to monetise their data to acquire new customers, grow revenues and optimize costs.

Slide 23 – FY23 Key Priorities

Now on Slide 23.

We are in the execution phase of our strategy; we have a firm foundation from which to grow and have clear priorities for the year ahead.

1. Critical to our return to growth is the Americas and Europe. We have made leadership changes, enhanced our go to market model to balance the requirements of retention, up-sell and winning new business.
2. Getting the new products, we have launched, into the hands of our customers and prospects is a critical focus. We have had some early wins and the focus is now to accelerate the adoption and take-up with customers.
3. We have clear line-of-sight to our customer renewals where there may be at risk, as well as our customer plans for their unified communications and payment platforms. Whilst we can't influence their migration decisions, we have optimised our go-to-market to maximise our retention opportunity.
4. Our phased strategy kicked off with bringing a SaaS platform and products to market. In modern software development, this implies moving quickly to get generation one product in market. Focused work is ongoing with customers to bring generation two products to enhance performance, add new capabilities and reduce cost of running the platform.
5. We have re-aligned the company to be more efficient and retain a strong balance sheet, to support our self-funding model of innovation and growth.

Slide 24 – Trading Update

Moving to Slide 24.

Whilst we are not providing specific guidance, we will provide insights to the first four months of this fiscal year via a trading update.

As has been the case in prior periods, many of our contracts close in December. Some of this is driven by the renewal portfolio, where the contract renewal date falls in December.

Year to date, up until 31st October this year, we have been pleased to see contract length continue to trend back from a low point of 2.3 years in H1 FY22 to 3.2 years. This is positive, as customers demonstrate confidence in a longer-term commitment to IR's solutions and it drives a higher TCV. ARR is trending in line with the same time as last year, and we have added 10 new customers.

Based on the AUD to USD exchange rate, we anticipate a foreign exchange tailwind for TCV, whilst US denominated expenses will go the other way.

Senior field leadership observe that there does not appear to be an impact to customer IT budgets or projects, despite rising inflation and a more uncertain economic environment.

The leadership changes made to our field operations are showing early positive signs. There has been an uptick in momentum, greater discipline in deal management, an increased level of engagement with decision makers and an improving forecast accuracy.

As we head into December, greater than 75% of the remaining pipeline to close is made up of renewals. This is a positive, as our renewal rates continue to be close to 90%, and we are working to get this back above 90%.

We remain confident that the company is well positioned to self-funded innovation and long-term growth.