



The Manager
Company Announcements Office
Australian Stock Exchange
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

18 February 2021

Dear Sir or Madam

RE: 2020 Results Conference Call – CEO Script

Please see attached the script from Iress' 2020 results conference call held today at 9:30am.

Yours sincerely

Peter Ferguson
Chief Legal Officer & Company Secretary



2020 Results Conference Call

CEO Script

Slide 1 – Cover slide

Thank you for joining us today, and welcome to Iress' 2020 results call. I am joined by John Harris, our CFO.

We have released a new presentation to ASX. I am conscious of your time, and I will concentrate my remarks to the opening pages of the deck and John will take you through the financials. We will then open the lines for questions.

As well as reporting results and affirming our growth strategies, the deck has more disclosure to give you a clearer view of underlying business performance.

We will be highlighting pro forma results in constant currency, as we did in the Q3 update. We are doing this because it strips away the noise of foreign exchange movements and the timing of acquisitions. There are full reconciliations in the appendix of the deck.

There is additional information on ROIC trends and growth and margin expectations for relevant business segments. I hope that you will find this clear and useful.

Slide 4: 2FY20 pro forma financial performance

I'll start on page four, '2020 Results summary'.

I'd like to make three key points today:



1. First: We are pleased to deliver results ahead of the guidance we reinstated on November 4.

At that time, we expected Segment Profit for the year, on a constant currency basis and excluding the impact of OneVue, to be around \$152m' which was at the same level as in 2019. We've had a good fourth quarter since then, and Segment Profit on the same basis as guidance was \$154.4m for the year, exceeding guidance by 1.6%.

Pro forma revenue for the group was up 2%. Pro forma net profit was up 7% and pro forma ROIC was 10%.

2. Second: These results reflect the strong performance of our Australian businesses, and returns on growth investments.

I call this out because in the past, Iress' group results have been diluted by investments in growth, scale and product development, as well as acquisitions.

I am pleased to report our Australian business is performing well, delivering 8% organic revenue growth in Australian Advice and Super.

We are also seeing margin improvements in a number of our growth investments.

You can see this in QuantHouse. Last year on a full year basis it reported a loss of \$2.3m and this year we have turned it around and delivered a profit of \$1.8m. As the returns on our growth investments improve with scale, we expect they will enhance overall group margins and the ROIC. The mix is improving.



3. Finally, we have a confident outlook. Iress is growth focussed with 2021 set to be another year of profitable growth and improved returns. There's a lot of detail provided on page 13, but in summary:

Our guidance for 2021 is for Segment Profit in constant currency to grow by 7-10% to \$164m - \$168m versus the pcg. We expect ROIC to be 9 - 10%.

Our guidance assumes organic growth of around 5%, and a \$6m - \$7m profit contribution from OneVue. Again, we expect over 90% of our revenues to recur.

Slide 7: 2020 execution

Turning to slide 7.

In 2020 did we deliver what we set out to do?

Overall, in the context of a challenging year, I am pleased with our 2020 execution. We made good progress in executing on seven of these eight key priorities.

We focussed on controlling what we can control in this volatile environment.

We completed the OneVue acquisition in November and have started the integration program. By combining the largest provider of adviser and trading software in Australia with the largest unlisted fund registry, we will offer seamless execution of investment advice from Xplan. We are getting on with offering a new wholesale "Investment infrastructure-as-a-service" subscription offer to support the \$3bn+ pool spent in administration of retail investments.



We are making good progress in super admin, another one of our growth priorities. We are on track to deliver two key projects to clients in 2021. Our outsourced offer is materially more efficient and cheaper than in-house fund administration and other providers - it enables funds to focus on member experience. We are focussed on growth and adding more clients in 2021.

Another example of our execution is progress of our infrastructure to cloud - we migrated 1000 clients to Iress' Cloud platform last year. This helps both our clients and Iress. This transition of infrastructure was performed seamlessly while all teams were remote. In this digital and remote environment, we saw a 7x increase in the use of our Client Portal as advisers interact with their clients online.

We delivered on another priority – increase recurring revenues in our mortgage business in the UK. Recurring revenues now make up 46% of the business' total revenue, up from 31%. Our target is 75%, so there is more room for improvement and we see a pathway there.

More broadly in the UK, the financial outcome was disappointing. You won't be surprised to hear that the pandemic has affected the implementation of projects there and new business development. Revenues were down 3% for the year on a constant currency basis excluding acquisitions. We did grow revenues in Private Wealth by 3% within this. We have reviewed our UK strategy in detail, to confirm that revenues are mostly deferred rather than lost and the growth opportunity is intact.

Late last year, we established a new role and appointment to Chief Commercial Officer for the group, whose primary focus is clients and revenue.



Slide 10: Revenue record

On slide 10 we unpack our revenue track record. We showed on slide 3 that the recurring revenue growth since 2015 has been 10% per annum. Here we look at growth in a different way.

The slide addresses two key questions:

1. Have we delivered organic growth; and
2. Have we added value to acquisitions?

Overall Iress has grown total revenues by 9% per annum since 2016.

To explain, I'll start with the "existing businesses" – this is organic growth. It includes the businesses within Iress prior to 2016. It's the blue blocks. Trading & Market Data, Advice, South Africa, Canada and Asia. We have increased revenues organically by 5% per annum over the last 5 years. We have consistently grown the base.

We also split out the revenue contribution from each of our main acquisitions since the date we bought them. There has been positive growth in each of these as well. Our UK business has delivered revenue growth of 4% per annum, Super 5% and QuantHouse 7% on a pro forma basis. Mortgages has seen the slowest growth at 1%.

OneVue is the latest addition and as we have said previously, we expect to deliver strong growth in this business as we grow funds registry and launch infrastructure-as-a-service in 2021.

Slide 11: Contribution margins

Moving to slide 11, we focus on margins.

Investors' questions relating to margin have been exploring more detail on Iress' operational gearing. What's happening to the margin in our core



Australian business, and are we making an acceptable return on growth investments?

This table shows contribution margins. Our strategy is to leverage our fixed costs to drive revenue growth. We spend 24% of group revenue on investing in our product and technology, and look to leverage this IP across multiple markets. We also look to make logical decisions on operations and corporate services to achieve the best outcome efficiently. These services cost 8% and 7% of revenue respectively. The contribution margin shown here excludes these costs.

So what has our margin track record been like?

At the top of this table we break out the contribution margin across our 'existing businesses' – Australia, South Africa and Canada. These are the businesses we have owned prior to 2016. You can see the contribution margin in Australia has remained consistently high for the last five years. In Advice the contribution margin increased in 2020. Our priority is to maintain this impressive performance.

The margins in our growth investments in the bottom half of the table are more mixed as they scale in Iress' hands. They are below levels exhibited in the existing business. We expect these margins to increase as we build scale.

The contribution margin improvements we had been seeing in the UK over 2018 and 2019 paused in 2020 reflecting the broader economic challenges and the pandemic impact. We expect these margins to continue improving as revenue growth returns.

The contribution margin in mortgages has bounced around over the last few years depending on the commercial terms of non recurring revenue as we implement new clients. We would expect margins to grow as the proportion of recurring revenue continues to increase.



QuantHouse is a good news story and you can see the improvement in contribution margin here. That's a 9% increase this year.

Super's margin declined in 2020 which reflected the level of project work as we pursued the super administration opportunity.

And finally, the OneVue contribution margin is 31%. This will be a drag on group margin in 2021 but we do expect this to improve meaningfully as the business is integrated with Iress and begins to scale.

So the Australian business is performing well and we do expect improvement across our growth investments.

I'll now hand over to John to take you through some more detail on the financials before I finish with our outlook for 2021 and beyond and some closing remarks.

Thanks Andrew.

As Andrew has said, the first half of the deck is focussing on pro forma metrics which remove the noise of acquisitions and FX and make the underlying performance of the business more transparent.

Slides 17-21 contain more detail on reported results on a constant currency basis, movements in our operating costs and further information about cash flow and balance sheet.



Slide 17: Income statement - constant currency

As you will see on slide 17, constant currency segment profit and NPAT are below the corresponding pro forma metrics due to the impact of acquisitions including transaction costs associated with OneVue.

The detailed reconciliation between reported results and pro forma is shown on pages 28, 29 and 30 of the deck.

Iress also raised capital during 2020 in conjunction with the announcement of the OneVue acquisition which impacted the EPS outcome for the year. As we said at the time, the capital raise reflected a conservative balance sheet stance during the early stages of the coronavirus pandemic. Other than for this uncertainty, it is unlikely that we would have raised equity in 2020.

The capital raised was also upsized to \$175m. This reflected conservative positioning at a point of uncertainty and an expectation that the volatile economic environment would flush out further M&A opportunities. This additional M&A capacity has not yet been deployed but we continue to have a keen eye for opportunities to leverage the strength of our balance sheet, our software capability and our global team for the benefit of shareholders.

This capital raise had the effect of reducing Reported EPS by 1.8 cents per share and ROIC by 3 percentage points, all else being equal.

Slide 18: Segment performance

Slide 18 summarizes the financial performance by segment on a constant currency basis. As Andrew has said, we are happy with the growth we have seen in Australian Advice and Super during the year where revenue is up 8% versus 2019 and, along with the impact of



acquisitions, is the main driver of revenue growth in APAC which was 10%.

Growth in this segment reflects the underlying strength of our position in the financial advice market as we help the industry adapt and transition following the Hayne Royal Commission. As we have said previously, we see long term opportunity for software in the Australian market, albeit with some heightened risk of half on half volatility in the short term.

As expected, revenue in Financial Advice declined in the second half as some revenue normalised across different sized licensees. We expect this trend to continue into 2021. However, this does not reflect a change in market share with Xplan the clear advice and wealth platform of choice for advice groups.

The focus of the Super business in 2020 was on the implementations at ESSSuper and Guild which are expected to go live this year. 2020 revenue growth in Super was driven by these projects.

In the UK, revenue in local currency excluding acquisitions was down 3% versus 2019 reflecting project and business development delays amidst Covid lockdowns. We remain confident of our opportunity in the UK and view the 2020 revenue performance as timing only, reflecting the external environment.

We are also excited to have completed the OneVue acquisition in November. This opens up a new growth opportunity for Iress in a revenue pool of \$3bn+. We believe the combination of Xplan and OneVue's managed fund admin business provides a unique opportunity to bring automation and efficiency to the industry. Integration of OneVue has commenced and will be an important focus in 2021. The guided corporate cost synergies of \$3m and integration costs of \$7m remain intact.



Slide 19: Pro forma costs

On slide 19 you will see that pro forma costs have been well controlled increasing by 1% versus 2019. The largest increases in cost were within APAC to support the super admin growth opportunity and in Product and Technology which you can think of as R&D.

Slide 20: Cash flow

Slide 20 shows the progression of our cash position over the year. The key metrics on this slide are cash conversion which was very strong at 108% and free cash flow of \$114m. As you can see on this slide our largest single outflow other than the acquisition of OneVue was dividend payments to shareholders which totalled \$80.7m

Slide 21: Capital management

And finally, on slide 21 you will see that our level of debt remains very conservative. The dip in pro forma ROIC that you can see on this slide is driven by the 2020 capital raise which I discussed earlier. I also note that our dividend payout ratio remains high as we are able to generate the funding needed for investments in our products and technology through strong operating cash flows.

I will now hand back to Andrew.

Slide 13: Outlook

I am now back on slide 13.



As I said at the beginning of the presentation, we have a positive growth outlook and we are giving guidance today for the year ahead.

We expect Segment Profit in 2021 to increase by between 7% - 10%. That's \$164m - \$168m in total. This guidance is in constant currency as usual.

We are giving a high - low range in the guidance because Segment Profit is subject to the timing of client projects. We can review the range as the year progresses.

This guidance includes organic growth of \$6-\$9m. The total contribution from OneVue is expected between \$6-7m.

We expect growth in Australian Financial Advice and Super to be low single digits. The restructuring of the industry is set to continue. This is positive longer term given the opportunity around the unmet need for advice, but it can create some movement between periods.

For the first time we are also tracking the Segment Profit guidance down to EPS and ROIC. We are doing this because we understand there are moving parts such as D&A etc that can make forecasting difficult.

Compared to \$59 million in 2020, we expect Reported Net Profit After Tax to be between \$56m - 63m. That's a small increase year on year, based on the mid point of the range.

Reported EPS reflects the full impact of the capital raise. The range here is 28.7 cents per share to a high of 32 cents.

ROIC guidance is 9-10%.



As you know the world is an uncertain place, so things can clearly change. But we do want to share with you our view on growth as we see it today, and we will update you should it change.

Slide 15: Medium term operating trend – outlook

Slide 15 takes the analysis further out.

This slide lays out our financial expectations for each of our businesses over the next 3 - 5 years. We include expectations for organic revenue growth, margin trajectory and ROIC, compared to the current group average for each of these businesses and strategies.

They are growth rates from what should be considered a mid-cycle level – for example, not related to a pandemic recovery period where growth rates may be faster.

I'll let you read the individual line items but in summary, we expect Iress overall to deliver around 5-10% pa organic revenue growth, with a modestly increasing margin driven by returns from growth investments and an increasing ROIC as we build scale in these areas of investment.

Slide: 26 – Summary and conclusions

Let me make some summary comments. I'll take you to page 26.

Following a year of uncertainty and change, where is Iress today?

Overall, I see Iress as well-placed to grow. We have come through the last year well. The pandemic made us more flexible. We have demonstrated efficiency, agility and innovation, and our growth opportunities are certainly intact.



The execution of our strategies to leverage our technology, add more value to our clients, and build scale across our geographic markets, will deliver profitable growth and improved returns.

Thank you all for dialling in and I'll now hand back to the operator to open the line for questions. Thank you.