

IRESS FULL YEAR RESULT TO 31 DECEMBER 2014

Sound and diversified financial performance

First full-year result following Avelo acquisition

IRESS Limited today announced Underlying Group profit of \$71.4 million for 12 months to 31 December 2014, up 27.7% on the prior corresponding period (Full Year 2013: \$55.9 million) ^{1,2}.

Highlights included:

- Group Revenue of \$329.0m up 31.3%, Group Segment Profit of \$111.4m up 26.4%²
- Strong UK presence following successful Avelo acquisition
- Continued diversification with 45% of revenue from outside Australia (2013: 32%)
- Focus on growth opportunity in Australasia (Segment Profit +5.2%)
- Reported Group Profit of \$50.67m, up 109% on full year 2013
- Final dividend of 25.5 cents per share (full year up 9.2% on 2013), 40% franked

IRESS Chief Executive Officer, Andrew Walsh, said the 2014 full-year result reflects IRESS' long-term focus on delivering to clients, its reliable, differentiated solutions, and its focus on diversifying its business and achieving positions of scale.

"IRESS continues to anticipate and respond to changing market conditions at the same time as transforming itself into a more international business.

"Globally, our strategy of building and delivering reliable, trusted and innovative solutions backed by quality, on-the-ground support is evident, and has resulted in strong, recurring revenue. This is the first full-year period since our successful Avelo acquisition and a strong presence in the United Kingdom is helping deliver international opportunity and diversification."

The result was positively impacted by the full period contribution by the United Kingdom (2013: four months), with Operating Revenue for the group increasing 31.3% and Segment Profit up 26.4%.

¹ All comparisons are comparisons with the prior corresponding period (12 months to 31 December 2013) unless stated otherwise.

² IRESS considers inter-period comparability of results is best presented as the underlying operating results of the relevant businesses calculated excluding share-based payments, non-recurring items, and strategic amortisation charges and has presented results consistently in this way for the past 10 years. A reconciliation between Underlying Group Profit, Group Segment Profit and Report Group Profit is included in Note 30 of the 2014 Financial Statements.

Following the introduction of balance sheet debt to fund the Avelo acquisition, interest income was grouped with interest expense and other funding costs (see under Treasury in the investor presentation of the financial results as of the first half of 2014, including for historical periods). This was done to ensure inter-period comparability of the underlying operating performance is reflected in Segment Profit results.

For the 12 months to 31 December 2014, 45% of revenue was from outside Australasia (2013: 32%), and 25% of Segment Profit was from outside Australasia (2013: 10%). Outside of the United Kingdom, Segment Profit was up 3.4% for the year.

“Globally, our wealth management business continues to experience strong demand and growth and our financial markets result is positive in the context of ongoing pressures in the equity broking community. Overall, we are very well placed for opportunities across our businesses.”

Mr Walsh said during the period, IRESS made significant progress on transforming the Enterprise Lending business in the United Kingdom.

“Repositioning the Enterprise Lending business from being wholly services-based to being based on a flexible core product offering is well advanced. In time this transformation will provide more predictable revenue for IRESS as well as greater efficiency, and a lower total cost of ownership for our clients. This year we have been focused on our product investment and engaging with a range of prospective clients.”

Mr Walsh said the Australasian business had performed well during the year, with Segment Profit increasing by 5.2%, and that it was well positioned for the future.

“There is an ongoing focus on client service and delivery, reflecting the Australasian business’ important contribution at the group level, and the role it plays supporting IRESS’ international presence.

“We see significant opportunities to meet client demand across all markets, both in Australia and internationally, as the regulatory and business landscape continues to change.”

Dividend

In respect of the second half earnings, directors determined to pay a final dividend of 25.5 cents per share franked to 40% at a 30.0% corporate tax rate.

This represents a total dividend for the year ended 31 December 2014 of 41.5 cents per share, an increase of 9.2% on the 2013 full year dividend, paid on enlarged issued capital.

IRESS’ dividend policy remains as follows:

- To maintain a payout ratio of not less than 80% of underlying group earnings on an annualised basis, subject to accounting limitations.
- Dividends will continue to be franked to the maximum extent possible and continue to reflect the geographical diversification of the business.

The underlying earnings basis on which dividend policy has been based over time, is a deliberate approach to consistently reflect the underlying operating earnings of the business on an after tax basis, without distorting impacts from one-off events.

Balance sheet

The balance sheet continues to reflect strong cash generation after allowing for dividend payments, and stable working capital.

Borrowing levels at December were retained at a constant level of \$179.1m (2013: \$177.3m) and the cash balance at 31 December 2014 was \$75.0m (2013: \$71.4m).

SEGMENT RESULTS

Continued market convergence between retail financial markets and wealth management is providing new opportunities to meet clients' needs, Mr Walsh said.

"For some time, clients have been increasingly looking for solutions from IRESS as a strategic partner, rather than solely seeking out individual products or segments. IRESS' financial markets and wealth management divisions will continue to service distinct client solutions and needs, but lines in the retail segment are blurring and we expect this to increase over time."

For this reason, from 30 June 2015, IRESS will report geographically and not by the client segments of financial markets and wealth management. The exception to this will be in the case of Enterprise Lending, which currently has financial characteristics different to those of the remainder of the group.

Australia & New Zealand

Operating Revenue in Australasia was up 6.0%, with an increase in Segment Profit of 5.2%.

During 2014 significant effort was directed to implementing XPLAN in large wealth managers. There has also been further innovation in the areas of online market data and trading solutions and in providing scaled advice solutions.

"We are well positioned for the opportunities in Australia and New Zealand and to provide value to new and existing clients as the landscape continues to evolve through regulation and the requirements of end consumers.

"Our core focus remains anticipating the opportunities and challenges faced by clients, across equity markets and financial advice. We are focused on strengthening and developing our solutions to maintain and grow our strong position in Australia and New Zealand."

United Kingdom

This is the first full-year result period since the acquisition of Avelo in 2013. In the 2014 year, the United Kingdom represented 32% of Operating Revenue and 19% of Segment Profit in Australian dollars.

"IRESS' presence in the United Kingdom across capital markets, wealth management and lending, forms an important part of IRESS' global operations. It is also a sound strategic platform for growth in the United Kingdom and regionally, through organic and inorganic opportunities."

For the wealth management business, the focus during 2014 was on implementing strategic and operational programs of activity following the integration. These programs centre on human resources, business processes, and products where applicable and are a critical part of achieving the unique, long-term opportunities of scale and growth from the transaction.

“During the year, the business experienced strong demand from advice and retail wealth management businesses for integrated IRESS solutions, with several large wealth projects now in the implementation stage.

“IRESS’ Private Wealth solution continues to demonstrate the differentiated opportunities it can provide to wealth management firms seeking strategic platforms to integrate portfolio, trading, and wealth capabilities. We will continue to invest given the strong market interest.”

For the Enterprise Lending business, Operating Revenue was £16.7m and Segment Profit was £2.2m.

As reported at 2014 half year results, some client decisions, including postponement of projects, impacted expected revenue and profit of this business during the year. Mr Walsh said the business had responded appropriately to this, which included significant progress in re-shaping this business during 2014.

“During the year, we made significant changes to transform the business, through restructuring and accelerating a clear product strategy: from being services-based with less predictable revenue, to being focused on scalable functionality and delivery in order to generate a more stable revenue profile.

“This is an important strategic and operational change. The Mortgage Sourcing & Origination (MSO) platform is a highly differentiated and leading solution in the United Kingdom representing one in four mortgages processed. The financial impact of these changes for IRESS in time will be more predictable revenue, higher margin, and the ability to increase new client sales beyond Tier 1 lenders where the business has traditionally focused.”

South Africa

Operating Revenue growth for the year was 10.0% with Segment Profit increasing 7.2% in local currency. In Australia dollars, this translated to 0.9% Segment Profit growth.

“This is a strong local result reflecting speed to market and innovative responses to client demand and opportunities.”

Over the course of the year, strategic and operational efforts were directed to professional market data, private wealth and retail wealth conversions, delivery of enhanced trading algorithms, and the deployment of a new intelligent trading connectivity network.

Canada

Operating Revenue in Canada was down 8.0%, with a decrease in Segment Profit of 27.6% in local currency.

Revenue in the second half was stable. This follows a long period where economic and business conditions had led to a decline in revenue for the Canada business.

The reduction in Segment Profit is due to increased investment in the second half to support the diversification strategy in Canada to include wealth management. This increased investment is visible in the annualised result.

IRESS is continuing to build from its established base and is investing to ensure its long-term success in this market.

“The changing regulatory environment in Canadian financial services is creating an increased need for integrated IRESS solutions and we are confident of diversification and future growth. To support this we made a number of changes during the year including leadership and composition of our on-the-ground team in Canada.”

Asia

In Singapore, IRESS continues to establish itself as a provider of solutions to participants in South-East Asia.

“Our strategy is to provide a diversified range of technology solutions in different asset classes for key clients in the Asian region, as well as build connectivity within Asia in order to meet the needs of clients from other regions who are doing business in this region.”

“This is a long-term strategy for IRESS and I am pleased with the progress being made against our objectives.”

IRESS' investment constrained by its net loss limit in Asia represents approximately 3% of group Segment Profit.

Outlook

Trading early in 2015 has commenced in line with the average of the second half of 2014. IRESS expects sell-side pressures to remain for at least the short-term. However, it sees growing interest from clients for a range of strategic initiatives balanced against their regulatory needs.

Implementation activities and client support underlie existing recurring revenue and growth over time, and investments anticipating future revenue continue to be carefully managed. In addition to investment in client implementation projects which anticipate revenue, specific additional product and business investment has and will continue to be made to accelerate new products that anticipate client requirements and provide for future revenue growth. In 2015, additional investment to new products and capability will be 2-3% of Segment Profit.

IRESS' Enterprise Lending business is a potential source of high growth but is more difficult to predict due to heavy dependence on client-driven timetables and long lead times. Efforts during 2014 have been focused and successful to ensure the business is positioned for more reliable revenue in time. Until revenue reflects this, results should not be extrapolated based on a single half. In the current circumstances, contribution in 2015 is expected to exceed 2014 levels, with half on half variability.

Assuming foreign exchange at constant levels, IRESS expects 3-5% Segment Profit growth in 2015.

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