

13 November 2014

Integrated Research Limited

Chairman's Address 2014

Ladies and gentlemen I would like to welcome you to the 14th Annual General Meeting of Integrated Research. I am pleased to present my summary of the year to 30th June 2014, and to comment on the current reporting period and the company's future.

Last year, revenue from new licence fees increased by 5% to \$28.0 million from \$26.6 million and total company revenue increased by 9% to \$53.2 million from \$48.9 million when compared to the prior financial year. However, expenses increased by 11% to \$42.6 million resulting in NPAT decreasing by 6% to \$8.5 million compared to the prior financial year.

The Unified Communications business increased by a healthy 15% and recorded \$25.1 million in revenue compared to \$21.8 million for the prior financial year. Our traditional HP-Nonstop and Infrastructure business was flat at \$19.5 million. I will comment on the performance of both the Unified Communications and HP-Nonstop businesses in more detail later in this report.

The company generated \$3.9 million from our Payments products which represents strong growth of 31% over the prior financial year and is underpinned by our close working relationship with ACI. Both the Company and ACI are working together to increase Prognosis sales through the ACI channel by applying additional resources and focus.

The Company's consulting business grew 3% to \$4.6 million.

The Company's maintenance retention was strong with a 95% average renewal rate across all product lines. Unified Communications was particularly strong posting a 97% renewal rate which is indicative of a happy customer base and the competitive strengths that our products enjoy in the marketplace. Recurring revenue now represents 39% of total revenue.

The background global economic conditions for 2014 remain subdued with the US's underlying conditions improving slightly which has resulted in the end of quantitative easing. Average GDP growth for the US is estimated to be approximately 2.8% for 2014. The US is Integrated Research's largest market representing 72% of total revenue. However, the European economies have now had successive downgrades with the European Union forecasting an overall growth rate of 0.6% for 2014 and 1% in 2015. European Union debt has nearly stabilized at 88% of GDP. Given the relatively stronger economic performance of the US compared to the rest of the world, the US Dollar is expected to continue to appreciate, which will be beneficial for Integrated Research.

The Australian Dollar continued to decline through the 2014 financial year. The average exchange rate against the US Dollar for the year was 91 cents compared to 103 cents for the prior financial year. In underlying natural currencies, the Americas reported 1% decline in revenue and Europe a 2% decline. Asia Pacific grew by 8% over the prior year. Both the European and Asian operations have the potential to be a larger percentage of the overall company's revenue.

Last year's subdued result was attributable to a number of factors. Integrated Research's good years have historically been defined by the closing of one or more very large sales. In the 2014 financial year the three largest sales totalled US\$3.3 million, this compares to US\$4.4 million in the prior year. When looking at the current sales pipeline, there are a number of large "million dollar plus" sales which are expected to close before the end of this financial year.

The 2014 financial year was also a year of change and rejuvenation. Darc Rasmussen joined the company as CEO in October 2013 and has implemented a number of changes and innovations that has positioned the Company for future growth. The Company's strategy and operational plan has been upgraded with ongoing quarterly reviews.

I will now mention some of the changes. The Asian operation is now headquartered in Singapore with the regional head moving from Sydney to Singapore to be closer to the Asian growth markets. The European operation has now been split with two major offices, one in London and the second near Frankfurt. This will provide a clearer management focus, less travel and with dual managers de-risks key man dependency. The corporate marketing function has been reinvigorated and new company branding and messaging will be rolled out between now and the end of the calendar year.

The Company continues to evolve its product strategy, having recently released a new version of the architecture that is cloud based and positions its customers, partners and itself to be able to provide 'Software as a Service' capabilities. The Company is also actively developing Microsoft Lync management capabilities. Microsoft Lync is the fastest growing vendor in the Unified Communications markets. With the Company's well-established customer base and the largest Microsoft Lync deployment in the world, with 400,000 endpoints, it is well positioned to take advantage of its leadership in this field. The Company is also developing cutting edge automation products based on the concept of a virtual technician and has also expanded into the management of Contact Centres where it has now established a strong pipeline.

The HP-Nonstop and Infrastructure product line has continued to provide a highly profitable source of revenues for the Company. Revenues for the product line were flat when compared the prior financial year. The overall future for the HP-Nonstop product line is good with annual single digit growth expected in financial transactions for the next five years. HP-Nonstop is dominant in the financial transaction processing environments and is expected to maintain its pivotal role in this market.

The Unified Communication product line continues to expand and the Company is well positioned for future growth. The number of phones and end points under management by Prognosis has been steadily increasing and was 10.1 million on 1st November 2014. The Company is continuing its significant investment in this product line and will expand its range and capabilities, including automation and problem prescriptive capabilities. The Company's products are leading edge and have a distinct competitive advantage.

Looking forward, the current year will have its challenges with the global economies remaining subdued. The Australian Dollar appears to be on a long term downward trend and is particularly susceptible to the US Dollar which is appreciating on a relatively strong economy when compared to the rest of the world. The Australian Dollar when compared to the US Dollar is trading at approximately 87c compared to approximately 93c at the same time last year. A substantial fall in the Australian Dollar is highly beneficial to the company as 95% of our revenue is derived outside of Australia with only 47% of expenses incurred outside of Australia.

Underlying operating costs in the 2014 financial year were up 5% due to strategic investments to build capacity in Europe and Asia Pacific, along with one-off recruiting and management change costs. After taking into account the translation effects of the Australian Dollar, operating costs were up 11%. Staff numbers have grown from 198 since the end of the 2014 financial year to 207 at the commencement of November 2014.

The Company paid a final dividend of 2.5c per share, which was 35% franked. This brought the total dividend for the year to 5.0c per share of which 33% was franked. The Company expects future dividends to be partly franked at similar levels to the 2014 financial year if the Company's profits were similar or higher. A lower profit would result in a lower franking credit. Integrated Research maintains a healthy cash position with \$13.3 million at the end of the financial year.

The Company is not providing market guidance on revenue or profit projections.

The Company has no plans for major acquisitions and will continue to focus on organic growth or small acquisitions of complementary products if appropriate.

I would also like to thank the shareholders for their support of the Company and re-enforce the Board's commitment to work hard to create future shareholder value.

On behalf of the Board, I would like to acknowledge the dedication, hard work and professionalism of the management and staff of Integrated Research.