

14 November 2013

## **Integrated Research Limited**

### **Chairman's Address**

Ladies and gentlemen I would like to welcome you to the 13th Annual General Meeting of Integrated Research. I am pleased to present my summary of the year to 30th June 2013, and to comment on the current reporting period and the company's future.

Last year saw NPAT slightly increase by 0.5% to \$9.08 million compared to \$9.04 million in the prior financial year of 2012. The company also experienced a small increase in revenue of 0.6% to \$48.9 million compared to \$48.6 million in the prior financial year. The Unified Communications (UC) business recorded revenue of \$21.8 million compared to \$21.4 million for the prior financial year. Our traditional HP-Nonstop and Infrastructure business reported a drop in revenue of 4.8%. I will comment on the performance of both the Unified Communications and HP-Nonstop businesses in more detail later in the report.

The company's consulting business performed exceptionally well and increased revenue by 35% to \$4.5 million in the 2013 financial year. The consulting revenues are now 9% of total company revenue and are becoming a more significant component of total revenue. Consulting is expected to continue its strong growth into the future.

Maintenance retention continued to be strong with a 95% average renewal rate across all product lines. UC was particularly strong posting a 97% renewal rate which is indicative of a happy customer base.

The background economic conditions experienced in 2013 were slightly better than the prior year. However, quantitative easing is under-pinning the US economy and sequestration is affecting government expenditure in areas where Integrated Research operate. If quantitative easing were to slow then the US dollar would most likely appreciate which would be positive for Integrated Research. In the current financial year the global economy appears to be in better shape than the prior financial year with Europe posting its first positive quarterly GDP number in six quarters.

The Australian dollar declined toward the end of the financial year. The average exchange rate against the USD for the year was 103 cents compared to 104 cents for the prior financial year. As a result, the Company's reported results would not be materially different using the preceding year's exchange rates.

In underlying natural currencies the Americas reported 6% growth in revenue, Europe decreased by 4% and Asia Pacific contracted by 14% over the prior year. Both the European and Asian results were under expectation and management has undertaken strategies to improve the operations of both divisions.

Mark Brayan departed from Integrated Research on 27 August and has been succeeded by Darc Rasmussen. I would like to thank Mark for his six years of service. Over this period of time the company's organization capabilities have improved substantially, revenues have grown to record levels and the stock price appreciated by 121% in the last six years. The company has a strong management team with world class skills.

Darc will bring new vigor to the role and will be placing an emphasis on strategy, particularly partner management, and building the European operation. Darc is ideally suited to the role. Darc grew up in Denmark and worked for SAP, both in Germany and in the United States. As SAP's Senior Vice President of CRM he was responsible for building their CRM business from \$15 million in annual revenues to \$1.5 billion. He was recently the COO of the successful publicly listed company TrustedCloud and left after the company was acquired.

Integrated Research continues to build its strategic partnership with AVAYA and has been appointed to their Select Partner Program which will result in commissions being paid to AVAYA salespeople for Prognosis sales. Additionally, Integrated Research has been selected as the 2013 technology partner of the year for the Select Partner Program, the only company to be awarded the title. This will increase brand awareness, underscore the quality of our products and generate prospects. The company added many new named high profile accounts including Humana, Mary Kay, McAfee and Volkswagen.

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 declined by 5% 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 will maintain its pivotal role in transaction processing.

We generated just over \$3 million from our Payments products as we progress from a direct to an indirect sales model. Both the Company and ACI are continuing to work together to increase Prognosis sales through the ACI channel with additional resources and focus.

The Unified Communication (UC) product line experienced a flat year with revenue increasing only marginally, much of the delay in revenue can be attributed to a slow start to the AVAYA Select Partner Program which is now being rolled out within AVAYA. The number of phones and end points under management by Prognosis has been steadily increasing and was 9.1 million on 1st November 2013. The company is continuing its significant investment in this product line and will expand its range and capabilities with a new human interface which is both web and mobile based. The company's products are leading edge and have a distinctive competitive advantage.

The company has released Prognosis 10 under an early adopter program. This is the largest release in the company's history. Darc will be providing you with further insight during his presentation this afternoon. The new release is cloud based and will enable the development of new applications for the Prognosis range of products.

Looking forward, the current year will have its challenges with the global economies only slightly more robust. Sequestration in the US will dampen government business demand however the strength of the German economy and the EU posting its first GDP growth in six quarters indicates some positive signs for Europe. The Australian dollar has currently stabilized and has recently been trading in the 93c to 97c range. It is not expected to trade substantially above its current range. The Australian dollar is currently underpinned by strong iron ore prices. If the US winds back its Quantitative Easing program the US dollar would be expected to strengthen relative to the Australian dollar and other currencies. A substantial fall in the Australian dollar, if it were to happen, would be highly beneficial to the company as 95% of our revenue is derived outside of Australia with only 42% of expenses incurred outside of Australia.

In the 2013 financial year, the company's cost base increased by 2.4%. Staff numbers have slightly decreased, and as at the beginning of November 2013 the company employed 194 people, this compares to 200 staff at 1st July 2013. Integrated Research maintains a healthy cash position with \$14.8 million at the end of the financial year compared to \$12.0 million at the end of the prior financial year.

The company paid a final dividend of 3c per share, which was 40% franked. This brought the total dividend for the year to 5.0c per share of which 36% was franked. The company expects future dividends to be partly franked at similar levels to the 2013 financial year if the company's profits were similar or higher. A lower profit would result in a lower franking credit.

The company is not providing market guidance on revenue or profit projections; however the October year to date results are ahead of the comparable period for both revenue and profit.

The company has no plans for major acquisitions and will continue to focus on organic growth. However some small acquisitions of complementary products may be considered 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.