



13 November 2015

Integrated Research Limited

Chairman's Address 2015

Ladies and gentlemen I would like to welcome you to the 15th Annual General Meeting of Integrated Research. I am pleased to present my summary of the year to 30th June 2015, to comment on the current reporting period and the company's future.

I would like to summarise the key highlights from the 2015 financial year. The company achieved record revenues and profits, which were delivered by strong results in our traditional infrastructure business combined with high growth in the emerging product lines in which we have invested. These excellent results have meant the best returns to date for shareholders.

The company has reported its best financial performance in its 27 year history for the 2015 financial year. Revenue from new licence fees increased by 46% to \$41.0 million, up from \$28.0 million in the prior financial year. Total company revenue increased by 32% to \$70.3 million, up from \$53.2 million in the prior financial year. Expenses increased by 24% to \$52.8 million resulting in NPAT increasing by 68% to \$14.3 million, when compared to the prior financial year.

The Unified Communications business increased by a healthy 45% and recorded \$36.5 million in revenue compared to \$25.1 million for the prior financial year. Our traditional HP-Nonstop and Infrastructure business also posted strong growth, increasing by 19%, when compared to the prior financial year. I will comment on the performance of both the Unified Communications and HP-Nonstop businesses in more detail later in the report.

The Payments product line also performed strongly, growing by 28% over the prior financial year. The Company has expanded its suite of Payments products by adding new products for additional platforms, vendors and applications, including fraud management, payments analytics and wholesale money transfer applications.

The company's consulting services business grew for the sixth consecutive year with revenue increasing by 20% for the 2015 financial year.

Maintenance retention was strong with a 95% average renewal rate across all product lines. Unified Communications was particularly strong posting a 96% renewal rate which is indicative of a happy customer base and the competitive strengths that our products enjoy in the marketplace. Recurring maintenance revenue now represents 34% of total revenue.

The company continues to move towards a recurring licence revenue model signing three to five year licenses with deferred payments for Unified Communication. While cashflow timing is impacted in the short term there are longer term benefits through the establishment of a higher recurring revenue base. Our

customers have a preference for an operational expense rather than a capital expense. This makes our sales cycle more efficient.

The background global economic conditions for 2015 are still subdued when compared to the average economic conditions of the last 20 years. However, there has been some moderate improvement in underlying conditions in the US. Average GDP growth for the US is estimated to be approximately 2.8% for 2015. The US is Integrated Research's largest market representing 75% of total revenue. The European economies are forecasting slightly higher growth rates than last year with the GDP expected to grow by approximately 1.8%. The EU debt position has slightly deteriorated reaching 93% of GDP. This is an increase of 5% compared to a year earlier. 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 2015 financial year. The average exchange rate against the USD for the financial year was 84 cents compared to 91 cents for the prior financial year. In underlying natural currencies the Americas reported 25% increase in revenue, Europe a 21% improvement and Asia Pacific grew by 9% 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 exceptional 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. The value of the five largest license sales increased by 68% to USD\$7.6 million compared to the prior financial year. Additionally, the infrastructure business had more than normal license renewals fall due during the financial year. After reviewing the current sales pipeline the prospects for the 2016 financial year remain buoyant.

The company added many new name accounts in 2015 financial year, including Zurich Insurance, Standard Chartered Bank, The Royal Mail Group, The US Customs and Border Protection and Cabcharge. One of the more significant license arrangements is with Rabobank, which has 1,600 branches around the world. Prognosis monitors the performance of a range of their payment systems in one unified dashboard. In addition to the IR Payments solution, Rabobank also uses Prognosis for Unified Communications, Contact Center and more recently our new Testing Solutions. The company intends to maintain its focus on the fortune 500 corporations and Contact Centres where Integrated Research has a compelling product line.

The Unified Communication product line continues its strong performance, with the company being well positioned for future growth. The company's cloud based solutions, which were released last year, are being licensed by many Services Providers. It is expected that this side of the business will have sustained growth as the future demand for outsourcing grows. Integrated Research's Avaya relationship remains strong with the company benefiting from Avaya's endorsement as their preferred provider. The Skype for Business market continues to expand with the company broadening its range of products and depth of functionality, making it well positioned to take advantage of this emerging market. The number of phones and end points under management by Prognosis has been steadily increasing and was over 13 million at 30 June 2015.

The HP-Nonstop and Infrastructure product line performed very strongly and was one of the highlights of the result. As mentioned a higher number of licenses than normal fell due for renewal during the financial year. As a result, there may be a slight drop in revenue for this product line for this financial year. The underlying business remains strong and the company expects average single digit growth for the next five years. It continues to provide a highly profitable source of revenues for the company. HP-Nonstop is

dominant in the financial transaction processing environments and is expected to maintain its pivotal role in transaction processing.

On the 1st July 2015, Integrated Research completed its biggest acquisition to date with the purchase of IQ Services for an initial US\$1.5 million, with a further US\$3.5 million in performance based earn-out payments over the next three financial years. IQ Services provides a variety of testing solutions to large corporations. Part of the rationale for the acquisition was to leverage the testing solutions into Integrated Research's existing Fortune 500 customers. Although the merger is only 5 months old there have been a number of early cross sales wins. As the license model is subscription it will take three years for the benefit to be fully realized.

The company is also continuing its significant investment in its product lines to improve its competitive position and to expand into new markets. The investments to date in Contact Center, Call Recording Assurance and Skype for Business are all delivering early returns and provide confidence that the company's products are leading edge and have a distinctive competitive advantage.

Looking forward, the underlying business conditions are marginally better than last year. 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 US economy when compared to the rest of the world. The Australian dollar when compared to the US dollar is trading at approximately 71c compared to approximately 87c 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 approximately 50% of expenses incurred outside of Australia.

Operating costs in the 2015 financial year were up 24%, when compared to the prior financial year. This was mainly due to strategic investments, increased sales coverage and a higher translation cost from the US and Europe expenses. Staff numbers continue to grow in line with a growing business, increasing from 198 at the beginning of the 2015 financial year to 246 on the 1st November 2015 including 20 staff that joined IR as part of the IQ Services acquisition on 1 July 2015.

The company paid a final dividend of 4c per share, which was 35% franked. This brought the total dividend for the year to 7.5c per share of which 35% was franked. The company expects future dividends to be partly franked at similar levels to the 2015 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.

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

In summary, I would like to highlight that the return to shareholders both in terms of dividend and share price increase has been the best year ever. This performance attests to the dedication and commitment of the staff and management of Integrated Research.

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