



25 November 2016

## Integrated Research Limited

### Chairman's Address 2016

Ladies and gentlemen, I would like to welcome you to the 16<sup>th</sup> Annual General Meeting of Integrated Research. I am pleased to present my summary of the year to 30<sup>th</sup> June 2016. I will also comment on the current reporting period and the Company's future.

I will start by summarising the key highlights from the 2016 financial year. I am pleased to announce that the Company achieved record revenues and profits, which were delivered by strong results in our emerging product lines. It is especially pleasing to see the strong growth in Unified Communications where we have made substantial and sustained investments for the prior five years.

The Company has reported its best financial performance in its 28 year history. Revenue from new licence fees increased by 11% to \$45.7 million, up from \$41.0 million in the prior financial year. Total Company revenue increased by 20% to \$84.5 million, up from \$70.3 million in the prior financial year. Expenses increased by 22% to \$64.5 million resulting in NPAT increasing by 12% to \$16 million, when compared to the prior financial year.

The Unified Communications business increased by a healthy 39% and recorded \$50.8 million in revenue compared to \$36.5 million for the prior financial year. This is its eighth year of consecutive growth. Our traditional HP-Nonstop and Infrastructure business, after posting strong growth of 19% in 2015, returned to its five year trend recording \$20.8M in revenue, and representing a 10% contraction in revenue. This product line continues to be a high margin business. 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 well, growing by 10% over the prior financial year. The Company has expanded its suite of Payments products by adding new modules including a custom visualisation module, a new Money Transfer System for ACI On-Demand as well as transaction management for ApplePay and other tokenized transaction services.

The Company's consulting services business grew for the seventh consecutive year with revenue increasing by a healthy 33% to \$7.4M for the 2016 financial year.

Maintenance retention remains strong with a three year average of 94% across all product lines. Recurring maintenance revenue now represents 32% of total revenue.

The Company continues to move more towards a recurring licence revenue model signing three to five year licenses with deferred payments for Unified Communication. In the 2016 financial year 77% of revenue was recurring. This will enable stronger and more efficient revenue growth in the future.

The background global economic conditions for 2016 are still subdued when compared to the average economic conditions of the last 20 years. Although it is too early to clearly understand the impact of the U.S. presidential election, promises of lower corporate taxes and increases in infrastructure spending would bode well for U.S. GDP growth rates over the next two years. The U.S. is Integrated Research's largest market representing 69% of total revenue. Current growth estimates for the U.S. economy for 2016 are slightly less than 2% while the EU estimates are 1.6%. Clearly the Company is outperforming these estimates.

The Australian dollar continued to decline through the 2016 financial year. The average exchange rate against the USD for the financial year was 73 cents compared to 84 cents for the prior financial year.

Last year's result was underpinned by a number of factors, including product innovation in the Microsoft Skype for Business market place. Additionally, the investments in Europe and Asia are now starting to produce stronger results with Europe growing by 58% and Asia by 16% for the reporting period with both regions positioned for solid growth. The Company is now servicing customers in over 50 countries. The Americas' 4% reduction in revenues was largely driven by a reduction in the infrastructure product line which returned to historic performance levels.

The Company added many new name accounts in the 2016 financial year, including Unilever, Kimberley-Clark, General Mills and Intercontinental Hotels Group. Of particular note, Integrated Research has collaborated with Cisco to achieve compliance with both the US Government Federal Information Processing Standards (FIPS 140-2) and the Federal Risk and Authorization Management Program (FedRAMP). It is expected that, over the next 3 years, the collaboration with CISCO will result in many millions of additional end points. The Company intends to maintain its focus on the Fortune 500 corporations, Service Providers and Contact Centres where Integrated Research has a compelling product offering. The Company added over 100 new name accounts during the period and now has over 1,200 customers, including 122 of the Fortune 500 companies. This includes ten of the ten largest banks, six of the ten largest financial services companies and six of the ten largest telcos.

The Unified Communication product line continues its strong performance, with the company being well positioned for future growth. The Company's cloud based solutions continue to gain traction in the UC market. Integrated Research's strong position in the Unified Communications market was underlined by the awarding of Gartner's Cool Vendor of the year award. Our Company was the only company to receive this award and cements its position as the leading UC management vendor. Integrated Research was also named the only 'Hot Vendor' by Aragon Research in the Unified Communications and Collaboration segment. Aragon Research selects Hot Vendors across multiple markets that are unique technology leaders. The Company continues to expand its UC product line by broadening its range of products and depth of functionality, making it well positioned to take advantage of this growing market. Of particular note is the release of the Skype for Business assessor product which is the only assessor product that has been certified by Microsoft. This deepens the Company's relationship with Microsoft and furthers our competitive advantage. The Avaya relationship remains strong with the Company benefiting from Avaya's endorsement as their preferred provider. The number of phones and end points under management by Prognosis has been steadily increasing and was over 14 million at 30 September 2016.

As foreshadowed in last year's AGM Chairman's Address, the HP-Nonstop and Infrastructure product line declined in revenue. However, it is still tracking to its five year trend after the higher than normal 2015 performance. The underlying business remains strong and highly profitable and the Company expects the business to retain its strength in the coming years. HP-Nonstop is dominant in the financial transaction processing market and is expected to maintain its pivotal role.

On the 1st July 2015, Integrated Research completed its biggest acquisition to date with the purchase of IQ Services. 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. The integration of the acquisition is substantially complete. The Company achieved \$4.3 million in revenue from the Testing Solutions line and the deferred revenue backlog grew over the course of the year. As the business model for Heartbeat Testing Services 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 continuing and underpin the Company's long term commitment to growth in these areas. These products are leading edge and have a distinct competitive advantage. Initial versions of each of these product lines have been successfully introduced to the market. Early market traction has delivered good growth, with each of these new products quickly achieving over 7 figure revenue numbers.

Looking forward, the underlying business conditions are better than last year, with the USD having marginally appreciated, and is expected to appreciate further. This is highly beneficial to the Company as 95% of our revenue is derived outside of Australia while approximately 57% of expenses are incurred outside of Australia.

Total expenses were \$64.5 million for the 2016 financial year, up 22% against the prior year. The increase in cost was driven by three factors. Firstly, the annualisation of investments made part way through the 2015 financial year; secondly, additional cost carried from the acquisition of the Testing Solutions business; and thirdly, the higher cost base driven through a lower Australian dollar giving rise to higher offshore translated costs.

The Company paid a final dividend of 3.5c per share. This brought the total dividend for the year to 6.5c per share of which 58% was franked.

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 Company's transition to a higher recurring licence model is on track and will yield higher returns in coming years, however cashflow from operations may remain tighter as we move through this transition which is expected to be completed by the end of 2017.

I would like to thank the Board, management and staff for their dedication and hard work in achieving these results.

I would also like to thank the shareholders for their support of the Company and reinforce the Board's view of the strength of the Company's future growth prospects.