16 November 2017

Integrated Research Limited

Chairman's Address 2017

Ladies and gentlemen, I would like to welcome you to the 17th Annual General Meeting of Integrated Research. I am pleased to present my summary of the year to 30th June 2017. I will also comment on the current reporting period and the company's future.

I will start by summarising the key highlights from the 2017 financial year. Once again I am pleased to announce that the company achieved record revenues and profits which were driven by the strong results for the Payments and Infrastructure business lines and good sales performance in the US and Asia. All product lines and regions reported growth. This is the seventh year of continuous revenue growth.

Revenue from new licence fees increased by 17% to $53.4 million, up from $45.7 million in the prior financial year. Total company revenue increased by 8% to $91.2 million, up from $84.5 million in the prior financial year. Expenses were flat when compared to the prior year, resulting in NPAT increasing by 16% to $18.5 million.

The underlying result would have been stronger were it not for the appreciating Australian dollar. On a like for like currency basis revenue growth would have been 13% while NPAT would have increased by 28%. The average exchange rate against the USD was 75 cents compared to 73 cents for the prior financial year while the average exchange rate against the British pound was 59p compared to 49p for the prior financial year.

The Payments product line performed exceptionally well, growing by 58% to $8.8 million with growth in every region. The Infrastructure product line also recorded strong revenue growth of 17% to $24.4 million. These product lines are highly profitable and highly correlated with the underlying licence renewal cycle, which was strong in the 2017 financial year and are unlikely to be repeated this year. The diversified income streams of Integrated Research highlight the underlying strength of the business model. The Unified Communications product line increased by 1% or 6% on a currency adjusted basis to $51.1 million. I will comment on the performance of Unified Communications in more detail later in the report.

Consulting services achieved revenue of $6.8 million in 2017. Our consulting services practice is an important part of the Company as it provides Prognosis customers with not only implementation and training services but also enables customers to extend the use of Prognosis to maximise their return on investment.

In the 2017 financial year maintenance retention remained strong with an average renewal rate of 97% across all product lines. Recurring maintenance revenue now represents 29% of total revenue while total recurring revenue as a percentage of total revenue increased to 84% up from 77% in the prior financial year.

The company continues to move towards a recurring licence revenue model signing three to five year licenses with deferred payments for Unified Communication, Payments and Infrastructure. This will enable stronger and more efficient revenue growth in the future.

The background global economic conditions for 2017 are somewhat stronger than the prior year but still subdued when compared to the average economic conditions of the last 20 years. Future lower corporate taxes and increases in infrastructure spending, if passed into law, would bode well for U.S. GDP growth over the next two years. Current growth estimates for the US economy for 2017 are 1.6% while the EU estimates are 1.8% growth for 2017.

Last year's result was underpinned by a number of factors, including strong performance by the Americas, which grew by 15% and Asia, which grew by 13% when compared to the prior year. Europe's growth was more modest at 4%. The company is now servicing customers in over 50 countries.

The company added many new name accounts in the 2017 financial year, including Deloitte, Starbucks and Stanley Black & Decker. 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 79 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 seven of the ten largest telcos.

The strong Unified Communications (UC) growth from Microsoft Skype for Business customers was offset by lower sales in the Avaya channel. The UC product line continues to gather momentum, with the company being well-positioned for future growth. Of particular note for Integrated Research was the acceptance of a number of prestigious acknowledgements and awards for its Unified Communications products. The first was from Nemertes, a US based technologies market research firm, who surveyed over 700 organisations to determine what management solutions they were using, including their UC plans. Integrated Research was the leading performance management vendor. The second acknowledgement was an award from IDC as an IDC Innovator. Integrated Research was chosen because of its competitive advantage derived from its unique intellectual property and 100% software-based 'probe-less' design. Additionally, Integrated Research has received the Gartner 'Cool Vendor' award and the 'Hot Vendor' award from Aragon in the prior year.

The company continues to expand its UC product line broadening its range of products and depth of functionality, making it well positioned to take advantage of this growing market. This includes increasing market share for the existing "on premise" UC market through Cisco, Avaya and Microsoft together with new solutions to take advantage of the emergence of cloud based technologies. The number of phones and end points under management by Prognosis has been steadily increasing and was over 16 million at 30 June 2017. The FEDRAMP roll-out has been slower than expected due to delays in the authorisation and compliance process within the US government. This has delayed the project 1 year, however all authorisations have recently been approved and Cisco, along with their partners, are now engaged in a number of proof of concepts.

The HP-Nonstop and Infrastructure product performed strongly, boding well for future performance with high renewal rates and high levels of profitability. The profile of licence renewals is cyclical and was particularly strong in the 2017 financial year. The Company is expecting a healthy contribution to future profitability from the HP-Nonstop product line based on the historically strong retention rate. HP-Nonstop is dominant in the financial transaction processing market and is expected to maintain its pivotal role.

The company continues to develop its Heartbeat Testing Services and is acquiring more customers through leveraging our existing Fortune 500 companies. The Company achieved $4.1 million in revenue from the Testing Services line and the deferred revenue backlog more than doubled 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 in Contact Center, Call Recording Assurance and Skype for Business are continuing. This will underpin the company's long-term commitment to strong growth. The company has also substantially increased its research and development expenditure, mainly in additional personnel. Additional resources were also added to sales and marketing. This will allow a more aggressive product strategy, taking advantage of additional adjacent market opportunities.

Looking forward, the underlying business conditions are better than last year with slightly higher GDP growth rates forecast for both the U.S. and Europe. Importantly, the company's UC product lines will now be carried in the Cisco price book and their sales personnel and those of their global partner network will be commissioned and have quota retirement for the sales of Integrated Research's products. This will be highly beneficial to company in ensuing years. For the first four months of this financial year, license fees from UC have been substantially higher when compared to the same period in the prior year.

Additionally, the company anticipates that Avaya will emerge from Chapter 11 shortly, which should remove uncertainty from the market and provide a stimulus for Prognosis sales. Further, the growing market share of Microsoft along with the increasing importance of service providers are all positive, with the Company being well-placed to take advantage of this trend.

After a year of the Australian dollar appreciating, the exchange rate at the time of this meeting is approaching the same average exchange rate as last year. The company is not expecting major movements in the currency in the near future. If it should happen, a fall in the Australian dollar is highly beneficial to the company as 95% of our revenue is derived outside of Australia with approximately 57% of expenses incurred outside of Australia.

Total expenses were $64.5 million for the 2017 financial year, this is flat when compared to the prior year. The static result in costs was assisted by the appreciation of the AUD, which meant that overseas expenses were calculated at a lower cost. The company finished the financial year with $14.1 million in cash, 65% higher than last year and with no debt.

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 is 85% franked.

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

The company is not planning any major acquisitions. It will continue to focus on organic growth or small acquisitions of complementary products, if appropriate.

I would like to highlight that the company's transition to a higher recurring licence model continues and will yield higher returns in coming years; , however cashflow from operations may not necessarily follow the same trajectory due to the increasing demand to pay for the solution over time.

In summary, the Company maintains its global leadership position in the performance management space in which it operates. The Company's longevity is a function of continuous innovation through its research and development program and the channels to market that provide access to some of the largest and well-known customers on the planet. The Company is well-positioned to move forward and take advantage of technological progress and increase its global presence over the coming years.

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.