



MARKET ANNOUNCEMENT

Investor Conference Call Transcript

Sydney, February 22, 2019 – Integrated Research (“IR”) (ASX: IRI) advises the following is a transcript (excluding Q&A) of the Investor Conference Call held on 14 February 2019 at 9:30am. The Conference Call was conducted via the Open Briefing format of Orient Capital. *References to slides are to the slides contained in the Results Briefing released to the ASX on 14 February 2019.*

The audio recording (including Q&A), can be found at <https://www.ir.com/investors/asx-announcements>

Operator: Ladies and gentlemen, thank you for standing by and welcome to the IRI investor conference call. This morning, IRI posted their results briefing PowerPoint presentation to the ASX website, which the speakers will be talking to during this call. Please take this opportunity to download the presentation during this introduction. The URL is asx.com.au. The agenda for today's call will follow the presentation and the speakers will refer to each slide number. Following the presentation there will be a question and answer session during which time if you wish to ask a question you will need to press star one on your telephone keypad. Please be advised that this conference is being recorded today, Thursday, 14 February 2019. I would now like to hand the conference over to Paul Brandling, Chairman of Integrated Research. Thank you. Please go ahead.

Paul Brandling: Good morning, ladies and gentlemen. My name is Paul Brandling and I am the Chairman of Integrated Research. I would like to welcome you all to the call today where we will provide a briefing on IR's results for the first half FY19. With me is Peter Adams who many of you will know as IR's long-serving Chief Financial Officer. Peter is currently acting as Interim CEO for Integrated Research following the previously announced resignation of John Merakovsky in November, who has decided to relocate back to Melbourne for family reasons. As Interim CEO, Peter will deliver the presentation and I wanted to attend to also be available for Q&A and to provide an update on our progress to appointment a new permanent CEO.

Within 24 hours of John's resignation we had engaged and briefed a Tier 1 search firm to commence the process of assisting us in appointing a top-quality replacement. We have been very pleased with the response. The process is well underway and going very well with a range of strong candidates both internal and external. I expect that we will be in a position to appoint and announce during this current half year period. While the CEO search is ongoing we remain highly focused on executing our growth strategy. We will not be distracted during the process.

Now I'll hand over to Peter who will take you through the details of a very pleasing set of results for Integrated Research in the half year FY19.

Peter Adams: Thanks, Paul. I'll be starting at slide 1 which is subtitled with our purpose statement, creating clarity and insight in a world of connected devices. Across the presentation I will cover three core messages, firstly an understanding of our financial performance, secondly our current strategy in a changing world and thirdly my belief in the management team and our staff to deliver into the strategy to achieve success over the coming five years.

Turning to slide 2, who is IR, what do we do and what is our competitive advantage? Integrated Research or IR as we prefer to be known, is an Australian software development company who has been

around for over three decades. This longevity together with the global footprint of serving some of the largest companies on the planet provides some insight into who we are.

We are first and foremost a company who prides itself in innovation. Our flagship product is called Prognosis. In the early days, Prognosis provided a performance monitoring capability on fault tolerant HP non-stop computer hardware that exists in large enterprises. Over time, Prognosis has evolved to meet the changing needs of customers and could be generically labelled as experience management software. These customers now demand that they not only want to know where a problem is in real time but more importantly, why it occurred and what can be done to fix it. Our competitive advantage of providing real time clarity and insights is best served in customer environments who experience complexity, typically found in large enterprise or service providers. Today, we see this complexity at its peak in hybrid environments which may include cloud and on-premise ecosystems.

Slide 3 provides a snapshot of our financial performance for the half. For the first time, revenue has surpassed \$50 million in any half-year period. Licence fees for the half grew 22% to \$31.3 million over the previous corresponding period. EBITDA grew 14% to \$20.8 million and bottom line profit grew 26% to \$11.7 million. Our compound growth rate for profit across a 10 year period stands at 15%. Pleasingly, the revenue and profit numbers reported are at the high end of the guidance provided to the market on 10 January. A fully ranked interim dividend of \$0.035 per share has been declared. This compares to the prior equivalent dividend of \$0.03 per share.

Turning to slide 4, key operational highlights. These five points on the slide are relevant not just for the half year but also in how they contribute to the longer-term success of the business. The payments growth for the first half was 144% up to \$9 million. This half year figure surpasses any annual figure in IR's history. Why? The payments contribution is significant based on an array of factors. Firstly, the renewal of previously closed contracts. Secondly, the extension of the time period for these contracts, in some cases five years. Thirdly, an increase in capacity based on transactional volume. Fourthly, deeper account penetration, that is, new areas of the business to manage.

The payments contribution is also significant because of new product capabilities such as dynamic thresholds and a deepening relationship with ACI. Looking back over the last 18 months, we have experienced some very healthy licence sales across the globe. How big could this payments number become? I will save that answer for the full year release but the Company is currently exploring a number of development opportunities that could unlock meaningful growth across our five-year horizon. There will always be some element of cyclicity to the revenue stream but the longer-term trend is expected to be attractive for further investment.

European revenue grew 14% over the previous corresponding period after management action was taken to improve execution. The region has reported a good half premised on a couple of large deals but more importantly, has made the first steps under our Chief Commercial Officer Matt Glasner who has implemented a more strategic go-to-market approach with refreshed leadership.

Staying with slide 4, third bullet point, unified communications software as a service or UCaaS for short. This is the first time we have reported on cloud services. So, what is it, why report it and where is it heading? The UCaaS revenue stream represents the Company's first revenues from early investments into cloud services for unified communications. These products include UC Assessor and Skype for Business online troubleshooting. Interestingly, we have reported \$286,000 in recognised revenue but have more than \$1 million in deferred cloud revenue which will be booked for future periods.

Acknowledging that over the long term on-premise unified communications revenue will begin to plateau the Company is investing now in cloud-based strategies to serve the customers' needs whether

they be in a hybrid or pure cloud environment. The strategy was communicated at customer summit and received overwhelming support.

More importantly, the Company has taken the appropriate action to invest in both management and staff to assist in the journey to the cloud. This includes three leadership positions covering product management, development and commercial activities. Each of these leaders is responsible for delivering products and revenues for today but also designing and creating the systems and processes of the products and revenue we will deliver tomorrow.

Slide 5 represents a graphical snapshot of what Prognosis does today. Underlying the markets we serve, namely unified communications, payments and infrastructure, is a core development capability. Adding to these markets and capability is the extensibility that comes from consulting services. Together the Prognosis solution provides real time clarity and insights into a customer's environment.

Slide 6 provides a summary of our key technology partners. Certification across each of the three major unified communications platform vendors is one of the keys to our success. The relationship with each of our vendors is very strong. One of the competitive advantages we have is a global high-quality customer base that can be seen on slide 7 which provides confidence to the markets that we operate in. Understanding how our customers operate and think about problem-solving helps us design which in turn helps them attain the clarity and insight that they seek in their business.

The high quality customer base from slide 7 feeds its way into slide 8 which reveals customers' preparedness to stay with IR as indicated by their willingness to sign multi-year contracts on high retention rates that come with good relationships. The table below this slide shows some of the key customers who have signed with us on a multi-year basis. Please note the diversified industries and the varying product sets purchased, namely payments, unified communications and call recording assurance.

Our overall results summary as presented on slide 9 has growth characteristics from many angles, growth at each of the key line items, revenue, EBITDA, EBIT and profit after tax. Margin improvement at the EBITDA, EBIT and PAT levels. Importantly, cash from operations is up 19% to \$9.6 million achieved not from cutting cost but an increase in cash receipts from customers. The resulting constant currency also shows growth with revenue up 5% and profit after tax up 15%.

The slides that follow will provide more colour on where the growth came from and the outlook for the second half.

The key performance metrics presented on slide 10 provide management with the insights to the health of the business. High term recurring revenue, adding new customers, growing the pipeline and having a strong retention base collectively provide a good platform to drive sustainable growth.

Slide 11 provides our geographic revenue analysis across a series of seven first-half results. Overall trending is positive with the Americas continuing to represent the largest share of our overall revenues. Asia Pacific was down for the first half due to deal slippage and it is anticipated the region will return to growth in the second half.

Slide 12 provides product revenue analysis across a series of seven first-half results. In unified communications we have seen a compound growth rate of 17% but a question is why the sideways movement in the current period? There are a series of mixed drivers that contribute to the relatively flat result. Firstly, Avaya licence sales continue to decline. We anticipate a recovery for Avaya in the second half based on a stronger pipeline. Secondly, Microsoft licence sales plus software as a service

bookings grew over the same time last year but with licence in isolation, Microsoft declined. Cisco grew marginally over the prior year without a material contribution from the Cisco SolutionsPlus program although the pipeline has grown strongly. We anticipate licence fees across unified communications to return to growth at the full year.

Payments revenues trending has been relatively modest with the most recent half significantly up for reasons previously explained. It is our ambition to attain more revenue from payments product line. The second half pipeline is good but some expectation containment is required in 2020 due to big deal cyclicality. Our high margin low growth infrastructure trend line is as anticipated, broadly flat.

Our balance sheet presented on slide 13 is in a strong position. There is no debt and \$9.6 million cash at bank. The large trade receivables balance of \$70.6 million provides a rich source of cash flow for future periods based on a high quality customer base with minimal historic bad debt write-offs.

Our cash flow statement presented on slide 14 demonstrates a 19% improvement in cash from operating activities to \$9.6 million, enabling the ongoing funding of development and the facilitation of a consistent dividend payment.

Slide 15 is our outlook statement and our final slide for today's presentation. On this slide, I have called out four key drivers for the second half being service providers, Cisco SolutionsPlus, call recording assurance and payments. We are well placed to achieve growth for the full year and we understand what our execution priorities are. It is more than just these four key drivers alone but to me, these are the ones that are key to making a difference.

I trust that you have enjoyed today's presentation and that it has provided you with the insight into our financial performance, strategy and management capability. I encourage you to read our investment summary subtitled driving sustainable long-term performance at the appendix section to the presentation. I will now pass back to the call moderator to facilitate any questions you have for Paul or myself.

End of Transcript

By authority of the Board,

David Purdue
Company Secretary
Integrated Research Limited
ABN: 76 003 588 449

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About Integrated Research Limited (ASX:IRI), Integrated Research the leading global provider of proactive performance management software for critical IT infrastructure, payments and communications ecosystems. More than 1200 organizations in over 60 countries—including some of the world's largest banks, airlines and telecommunication companies rely on IR Prognosis to provide business critical insights and ensure continuity-critical systems deliver high availability and performance for millions of their customers across the globe. For further information on IR, visit www.ir.com.