



21 February 2022

ASX Market Announcements Office
Australian Securities Exchange Limited

Dear Sir/Madam

ASX Market Announcement

In accordance with the ASX Listing Rules, Integrated Research Limited (ASX: IRI) encloses for release to the market:

- Transcript of conference call with Investors held on Thursday 17th February 2022 at 10:30am to discuss the company's FY2022 First Half Results.

By authority of the Board,

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



MARKET ANNOUNCEMENT

Investor Conference Call Transcript

Sydney, February 21, 2022 – Integrated Research (“IR”) (ASX: IRI) advises the following is a transcript (excluding Q&A) of the Investor Conference Call held on 17 February 2022 at 10:30am. 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 17 February 2022.*

Start of Transcript

Operator: Thank you for standing by and welcome to the Integrated Research Limited fiscal year 2022 half year results investor conference call. All participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. If you wish to ask a question you will need to press the star key followed by the number 1 on your telephone keypad. I would now like to hand the conference over to Mr John Ruthven, Chief Executive Officer. Please go ahead.

John Ruthven: Good morning and welcome to the FY half year results briefing for Integrated Research. My name is John Ruthven and I'm the CEO of IR. With me today is Peter Adams, our Chief Financial Officer. This morning we posted our results presentation to the ASX website, which we will be referring to during this call.

Integrated Research, or IR as we are better known, is a global software company providing performance and experience management solutions for critical business systems. We have three product lines: Collaborate for unified communications and UCaaS; Transact in the payment space; and Infrastructure for HP in Non-stop environments. We have a substantial global enterprise customer base, including more than 25% of the Global 500.

Moving to slide 3, titled CEO Key Messages, IR is executing a phased, multiyear transition. We are confident that our strategy is right to make our solutions more relevant and expand our addressable markets into higher growth opportunities, and this will lead to higher-quality earnings. In the first half we delivered some encouraging early results. Total contract value, or TCV, was up 8% PCP driven by an 88% increase in new business and a 424% growth in SaaS users.

By contrast, we had a challenging half in the Americas and a plan to rejuvenate growth is underway. With a strong balance sheet, we are self-funding our growth. An adjusted EBITDA of \$15.6 million for our on-premises business, funded a \$12 million invested in our cloud business. Net cash was also well up on the prior period. We have a positive second half outlook with expected growth in TCV and NPAT driven by new products and new customer wins.

As I move to slide 4, TCV for the half was \$31.7 million. Europe and Asia Pacific TCV results were also up strongly. There was a greater percentage of new business relative to the same time last year. We achieved an overall 400% increase in cloud and hybrid users on the platform. On the flipside, the Americas experienced a dip in TCV, noting that the current half was not a strong period for renewals. Pro-forma revenue is a trailing measure of amortised revenue and is 7% down, not surprising after the difficult 2001 [sic - 2021] financial year.

Moving to slide 5, customer wins are a critical validation of our strategy and value proposition. Our strategy in simple terms is to extend our value proposition for customers and prospects with new capabilities and support them on their platform of choice, on-premises, hybrid, or cloud. During the first half, we onboarded Thomson Reuters as a new customer through our BT relationship. Importantly, they are the first customer for the just-launched Collaborate Space Management product. Like many large enterprise customers, their environment is hybrid, which plays to our strengths.

We also extended our relationship with BP through our partner HCL. In this case, they added MS Teams capability to their existing on-premises licensed products for nearly 100,000 users. In doing so, they too become a hybrid customer. Sloan Kettering, one of the world's largest cancer research centres joined our customer ranks and is a proof point of the growing success we are having with our health care industry focus. They are a large Cisco environment and licensed our on-premise solution, including support for video.

Lastly, we extended our relationship with Standard Bank South Africa, a customer for nearly 20 years, expanding our footprint to support increased transaction volumes. This sample of wins demonstrates the high-quality customer base and the ongoing expansion of our business model with SaaS products.

Slide 6 really highlights two things: the strength and quality of IR's customer base and the early signs of positive momentum as we execute our plan. Customer retention remains high at 97% with many large customers having been with us for more than 15 years. We've previously communicated a shortening in contract length, now 2.5 years. This is mainly in the Collaborate portfolio and represents the underlying decisions customers are making in terms of their future environment. Importantly, our strategy and product suite supports them whether they are on-premises, hybrid, or pure SaaS.

The most exciting aspect of our first half performance was new business, up 88% on the prior corresponding period with the addition of great brands and organisations like Thomson Reuters, NYPD, Bank of New York Mellon and more. SaaS users added to the platform was an amazing 424% growth. These are key indicators of our progress in executing our phased multiyear transition.

As previously shared, we are working to a clear plan with key performance indicators to support the transition. This slide reports on progress. The first half had some mixed results. Customer retention and new business TCV was ahead of plan. In fact, new business TCV was 38% of total TCV. The launch of Collaborate Space Management through a strategic third-party relationship demonstrates good product innovation and progress, as did the certification of our ServiceNow integration.

We added 23 new customers, which is behind our plan but up on the prior year. Whilst gaining momentum, we are behind where we want to be on new products to existing customers and the per cent of TCV from products released in the last five years. This includes our new SaaS products. Second half pipeline is stronger for both new customers, new to existing, and SaaS.

I will now hand over to Peter to provide a detailed overview of our financial performance.

Peter Adams: Thanks, John. We are on slide 9, titled TCV Revenue and Cash. The key metrics that management focus on the most are in the top table of this slide. Both definitions and reconciliations have been included in the appendix of the slide deck. The reason we chose total contract value, or TCV, as a measure of performance is because it provides the organisation to sell on-premises, hybrid, and cloud solutions with equal incentive. Previously, the upfront revenue model provided a bias toward on-premises solutions. This is the first six-month period where sales management have been incentivised on TCV.

TCV of \$31.7 million was up 8% on the previous corresponding period. Noting that it was not a strong half for renewals, the performance was mixed, APAC and Europe up strongly, and Americas down compared to previous corresponding period. We will talk about geographic performance shortly. TCV for new business was up 88% to \$12.2 million. We take encouragement from new sales. Our sales processes have become sharper and whilst not yet seen in the first half numbers, we believe that we have a much stronger TCV performance in the second half backed by this additional selling maturity, a stronger renewals pipeline, and products becoming more market relevant.

Pro forma subscription revenue of \$34.4 million was down 6% over the previous corresponding period. This result is not a surprise given the disappointing FY21 financial year. Remember, pro forma subscription revenue is derived by amortising licence fees over the contract life and adding related maintenance. It is therefore a trailing measure from TCV performance in prior periods. As we move through time, pro forma subscription revenue will rise from stronger TCV performance.

Cash receipts from customers was \$37.7 million. We would expect a close relationship of this number to pro forma revenue since customers typically pay annually over their contract term and pro forma revenue is broadly aligned to recurring revenue, with the exception of onetime through revenue like testing solutions and professional services. The 11% drop in cash receipts is partly timing. We saw a strong catch-up in

[inaudible] with cash receipts for the month at \$7.1 million, up 57% compared to January of the preceding year.

The two callouts in the statutory results are maintenance fees, down 24%, and subscription fees, up over 300%. Increasingly, most of our contractual maintenance is part of a term-based licence contract and that base remains solid. However, within the portfolio there are independent maintenance streams associated with perpetual licences where we are experiencing higher level of cancellations. As the portfolio transitions further to term-based licence contracts, we should see a more retentive portfolio.

We are starting to see revenue come through from our cloud and hybrid solutions. Subscription fees of \$0.5 million is up 314% when compared to the prior corresponding period. There are 440,000 users on the new platform in either a hybrid or cloud capacity. It should be noted that hybrid revenue has both licensed and subscription characteristics in the classification in the [SaaS G] accounts.

Turning to *slide 10*, we have continued our seven-year series of revenue on a pro forma basis. The top three charts represent the geographic segmentation in their natural currencies. The bottom three charts represent the product segmentation in both Australian and US dollars.

Let's look at these charts from a Q&A perspective.

Question 1, why is Asia Pacific doing so well? Asia Pacific has been able to build from a much smaller base compared to the Americas. Sales leadership has been in place for over seven years and the business is well balanced across new and existing business as well as the product portfolio.

Question 2, why is there a decline in the Americas and Europe? There are three factors for the decline in pro forma revenue. Firstly, macroenvironmental factors, namely COVID. The sales and marketing efforts have adapted to living with the virus. Selling face-to-face and attending events has been difficult. Secondly, customer environmental changes, particularly in Collaborate. Examples of this has been movement of our customer environments from on-premise to either hybrid or cloud.

Thirdly, IR sales process and methodology changes. Selling on-premises, hybrid, and cloud solutions had required adaptive changes within the business. The increase in new business in the first half is encouraging and first signs of green shoots. Steps taken to improve performance will be covered more fully by John. In short, these improvement measures include demand generation initiatives, pipeline coverage, sales training, skills, and sales development.

Question 3, why are we not seeing growth in Collaborate? The results in Collaborate have been mixed and in part connected to the mixed regional results. The increase in customer cloud and hybrid collaboration environments was anticipated several years ago although the pandemic has accelerated some of this change. Customers are still learning how best to manage their collaboration environments.

Many of our new solutions have only been in the market a short period, so it takes time to seed the market and educate customers on how we solve these problems. We are seeing a pickup in new business, which is encouraging, but there is more work to do. There are several marketing programs in flight to drive pipeline. Strategic alliances, such as the one recently signed with Utology for the provision of collaboration space management is part of our journey toward returning to meaningful growth.

Question 4, what are the triggers for meaningful growth in Infrastructure and Transact? Prognosis for Infrastructure has been around since the inception of the Company more than 30 years ago. It is not going away anytime soon. There are likely to be further customer retirements and consolidation of their HPE NonStop platform. However, we view strategic partnerships such as HPE and ACI will provide stabilisation and growth opportunities for both Infrastructure and Transact. There are more products to sell. These include payment analytics, real-time payments, and high-value payments, which add to our card payments and other monitoring solutions.

Moving to *slide 11*. IR has undergone significant change in the last 18 months. One method of understanding the business is assessing underlying EBITDA for the on-premise business and separately reviewing the cloud and hybrid investments. Underlying EBITDA has been derived using the revenue over time pro forma calculations and backing out abnormal items such as currency exchange gains, there is a high degree of

judgement in assessing cloud versus on-premises costs. Normalised EBITDA for the on-premises business in the first half is \$15.6 million, with an EBITDA margin of 38%.

Our development spend into the cloud platform and new products over the last 18 months is \$12 million and has been self-funded from existing operations. Our expected return on investments from our cloud and hybrid solutions is 15%.

The slide on operating leverage presents each of our key operating expense line items for the last five first half periods, represented by the bars. The dotted lines represent these expenses as a percentage of pro forma revenue. Our innovation agenda remains unchanged. The jump in R&D expenditure primarily reflects the amortisation of new cloud platform and release of new products to market. Our sales and marketing spend has pulled back during COVID with less travel and trade shows. FY22 represents the first year where we have incentivised the sales team on TCV. We believe that there is an opportunity for greater productivity through the sales process of renewals and the growing of new products to sell.

Turning to slide 13. Investment in innovation as measured by capitalised development in the cash flow statement was \$6 million for the half. The spend was 95% attributed to innovation, 79% spent on the cloud platform and cloud solutions. Ongoing investment in improving these solutions plus adding other capabilities is critical to the growth of the business.

Turning to slide 14, headed Net Cash Flow Analysis. Cash flow from operations was \$8.7 million for the half with a cash conversion rate of 92%. We had a strong start to the new calendar year with cash collections for January up 57% to \$7.1 million. This cash generation continued to support ongoing development and fund future growth.

Our balance sheet shown on slide 15 remains in a net cash position of \$9.4 million. Trade receivables of \$74.8 million remain a strong source of future cash flow. We have \$14.4 million undrawn in our debt facility. I will now pass back to John.

John Ruthven: Thanks, Peter. On slide 17, we are in a phased multiyear transition: innovation, execution, and scale. At FY21 we delivered a number of new products on our SaaS platform. In FY22 and FY23 we will build on this and expand our value proposition with new products and the ongoing build-out of our platforms. In the last week we launched a brand-new product, Collaborate Space Management. This is targeted at the high growth area of collaboration spaces or rooms driven by hybrid working.

As we transition, we will move from upfront revenues to better quality SaaS subscription revenues with higher levels of ARR, or annual recurring revenues. FY22 is focused on execution, particularly our go-to-market. The changes we have made are taking time to embed as we move to selling a much higher percentage of new business. We are confident that the go-to-market design is right and investments in our demand generation capability will pay off. IR's target addressable market is \$1.2 billion and growing.

Embedded in our strategy is a projected view of how our TCV mix will transition over time from on-premises to hybrid to cloud. As the slide shows, this will vary by product line with infrastructure expected to remain 100% on-premises for the foreseeable future. We expect that there will be a long tail to on-premises based on the large enterprise market that we serve. This view is backed up by our customer engagement and recent wins.

Moving to slide 19. The future of the workforce and workplace is hybrid. Increasing the relevance of the IR Collaborate product line, there is significant complexity and challenge in providing a reliable and rich hybrid working experience. Part of this is flexible work patterns where it is expected that hybrid workers will split their time between remote and then variations of anything from one to four days a week in the office. This is placing pressure on capacity planning, infrastructure, employee expectations of both the digital experience as well as the office experience.

A key theme that emerges is that infrastructure to effectively support remote work must be enterprise-grade. We're also witnessing collaboration between HR, IT, and facilities as organisations try to earn the commute for employees to attend the office. Last week, we launched our newest product, Collaborate Space Management. Through a strategic OEM partnership we are extending our value proposition to existing customers in increasing our competitive differentiation to win new ones.

The target customer is large enterprises with a significant number of conferencing rooms or collaboration spaces, say greater than 500. The solution is sold to the same buyer and addresses the problems of room readiness, space utilisation, and health and safety. Gartner sizes the unified communications market as 550 million users of which 193 million are estimated to be the higher-value, more sophisticated conferencing users. This segment saw 7% growth in 2021 and it is expected to continue at this rate for the next few years. We see growth in conferencing users, increased platform intelligence to support new services that will increase our ARPU with customers.

On *slide 20*, we continue to see a massive shift in consumer buying behaviour from credit cards to online. Mobile transactions are driving major advances in technology and connected devices. At the same time, government policies and regulations are mandating adoption of new payment standards. We support our customers across a range of mission critical use cases from monitoring the availability and throughput of payment channels and partners to providing insights into payment flows to maximise business value.

We also help in the rapid detection of blockages in high-value payment processing and provide actionable dashboards for new payment types. We see the growth opportunity in three areas: (a) organic growth with our customers as payment volumes are increasing; (b) expand our base to support new payment types like real-time payments and high-value with the launch of new products in this area; and (c) extending the value proposition with greater business insights to existing customers. The market is significant with 1.073 trillion non-cash payments globally in calendar year 2021. Per the Capgemini World Payments Report, these volumes are growing at 18.6% CAGR and are split, \$586 billion to cards and \$86 billion real-time.

As I said in my opening remarks, we see TCV growth for the full year. We have started the second half ahead on a PCP basis and the pipeline supports our outlook, noting a dependence on higher levels of new business. We expect pro forma revenue to be comparable to the last year. We have a plan in place to rejuvenate in the Americas. We have bolstered our sales leadership with new business experience, there is solid new business pipeline cover, and many of the changes we made at the start of the year are bedding in. With international travel opening up, I will be in the US in March. I expect to spend a portion of time in the half in the Americas with customers, partners, and of course our team.

Supporting our expectation of TCV growth is a stronger renewals portfolio. The expanded customer success team has implemented new field processes focused on retention and renewal rates. The ongoing transition of our business is supported by a strong balance sheet and positive second half cash flow. Like many businesses, a risk we are facing is higher levels of staff turnover. New business growth should see ongoing traction for new products launched, including Collaborate Space Management. We expect to see growth in our SaaS TCV in the half. Finally, based on a stable currency assumption we expect to see annual growth in net profit after tax. The high-level takeaway is that we are building a stronger Company with an expanded product set and a greater market opportunity.

Operator, that concludes the presentation.

End of Transcript

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About Integrated Research Limited (ASX: IRI). Integrated Research (IR) is the leading global provider of user experience and performance management solutions for payment transactions and collaborative systems. We create value through our real-time, scalable & extensible hybrid cloud platform and our deep domain knowledge to optimize operations of mission critical systems and improve user experience through intelligent and actionable insights. We enable many of the world's organizations to simplify complexity and provide visibility over systems that millions of people can't live without – systems that allow them to transact and collaborate. For further information on IR, visit www.ir.com.