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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 18th August 2022 at 10:30am to discuss the company's FY2022 Annual Financial Results.

By authority of the Board,

David Purdue
Company Secretary
Integrated Research Limited
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MARKET ANNOUNCEMENT

Investor Conference Call Transcript

Sydney, August 22, 2022 – Integrated Research ("IR") (**ASX: IRI**) advises the following is a transcript (excluding Q&A) of the Investor Conference Call held on Thursday 18 August 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 18 August 2022*.

Start of Transcript

Operator: Good morning, ladies and gentlemen and thank you for standing by. Welcome to the Integrated Research Limited FY22 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 one on your telephone keypad.

I would now like to hand the conference over to Mr. John Ruthven, Chief Executive Officer. Please go ahead, sir.

John Ruthven:
Slide 1: Introduction: Good morning and welcome to the FY22 full year results briefing for Integrated Research. My name is John Ruthven and I'm the CEO of IR. With me today are Peter Adams, our outgoing CFO, and Matthew Walton, our interim CFO. I will open the presentation and then hand to Peter to take us through the detailed financial review. He will then hand back to me to talk through strategy and priorities. As a conclusion we will open it up for questions and both Peter and Matthew will be available to take questions at this time. This morning we posted our results presentation to the ASX website, which we will be referring to during this call. You can also find a copy of it in the ASX announcement section on our website at ir.com.

Slide 2: 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. First is Collaborate, for unified communications and UCaaS, or unified communications as a service. Second is Transact, which sits in the payment space. Thirdly, our Infrastructure product for Hewlett-Packard Enterprise, or HPE [NonStop] environments. Common to the customer use cases that we support are complexity, mission criticality and scale.

Slide 3: We have over 600 customers across our global enterprise customer base, including more than 25% of the Fortune 500 companies, well-known global brands in key industries, technology, telecommunications, financial services, government, healthcare, and higher education. We had strong growth in users on our SaaS platform for our cloud and hybrid solutions over the prior year. [These] customers rely on our solutions for performance and experience management of their core mission critical systems.

Slide 4: CEO key messages. It goes without saying that FY22 was a challenging year. The macro environment contributed to sale cycle deferrals and pressure on our retention, particularly for Collaborate. Enterprise customers continue to assess their platform strategy for keeping their technology on premises against the benefit of UCaaS solutions like Microsoft Teams. Whilst we saw over 450% growth in users on our SaaS platform, this growth has been slower than anticipated. Enterprise customers moving from [Cisco and Nuova] go through a rigorous evaluation process to select their UCaaS experience management solution vendor like IR. To date, this has not been a single sales motion and is a process that takes time.

At the same time, we recognise that we have had field execution issues. In part, to address this we have made leadership changes in both the Americas and Europe. We have re-aligned the Business to drive both efficiency and execution. We remain confident that the market trends across both Collaborate and Transact product portfolios support our future growth ambitions. Our three-phase growth strategy of innovate, execute, and scale remains appropriate to the Business. However, we have seen an extension in the execute phase as we look to gain traction with our new products with scaling the Business to follow.

Slide 5: Statutory. Importantly, the balance sheet continues to support our self-funded innovation and growth agenda. We are pleased to have reported a strong cash position with no debt. The Company achieved annual profit after tax of $1.5 million, which is at the upper end of the guidance provided to the ASX in early July. Statutory revenue for the year was $62.9 million, down 20% over the prior year. The decline in performance was the consequence of external trading conditions, market disruption, delays in new product traction and sales execution. Typically, the fourth quarter of the financial year is the Company's strongest period for sales, however, the deteriorating macroeconomic environment caused by geopolitical unrest and inflationary pressures resulted in customers delaying or cancelling purchasing decisions.

Sales executions risk was much higher in FY22 due to the lower renewal volume compared to preceding years. Cash receipts from customers totalled $75.5 million, down 4% over the prior year. The Company continues to benefit from term-based non-cancellable licence contracts with a high-quality customer base. This together with other revenues has yielded and improvement in net cash of $12.3 million, up from $5.5 million in the previous year.

Slide 6: Proforma. As provided in previous investor updates, we continue to report revenue on a proforma subscription basis, which we believe is more reflective of the underlying performance of the Business. Subscription revenues for the year was $68.4 million, down 2% and represent 86% of total proforma revenue, which also includes revenues from testing solutions and services. Our cash conversion rate for the year ended 30 June was 95% and show the close alignment of this revenue series to cash receipts.

Slide 7: FY22 Progress Report. As previously shared, we've been working on an internal [unit] economics project to better inform management on the progress of the Business, as well as provide further insights for investors. The first phase of this was a key performance indicator table that was included in previous earnings presentations. Coming off a difficult year, it shows in the dashboard. Proforma revenue retention was ahead of plan, but by contrast we fell short on customer retention and TCV from new products to existing customers. The customer retention shortfall was more heavily weighted to Collaborate with some customers transitioning off their on-premises platforms.

In Q4, a number of new customer opportunities were deferred, and we came up short on our new customer wins target of 75 with 41 new wins. This has a knock-on effect [of missing] our TCV target for new customers. Despite the difficult trading result we maintained our investment in innovation across our two primary product domains. New product traction is behind plan and changes to [field leadership] and the go to market strategy have been made to address this. Falling short on our TCV objective impacted our ability to grow the cloud deferred revenue backlog. We remain focussed on ensuring that the Company operating model is transitioning to support an annualised subscription business model. I will now hand over to Peter to provide a detailed overview of our FY22 financial performance.

Peter Adams:
Slide 9: Full Year Performance Review. Thanks, John. We are on Slide 9. As communicated at last year's AGM and the half year results release, total contract value, or TCV, is a key measure of IR's performance. TCV represents the total value of a revenue generating contract written in the year. It includes software licence and related maintenance, cloud bookings, testing bookings, and consulting services. TCV for FY22 was $56.7 million, down 25% over the prior year for reasons that John highlighted earlier. You will see that we have reported annual

recurring revenue for the first time. Annual recurring revenue as of 30 June 2022 was $68.1 million, up 3% over the prior year, supported by long dated, non-cancellable contracts.

Net revenue retention was 94%, up 2 basis points. Transact and Infrastructure revenue retention was close to 100%, whilst Collaborate revenue retention was 88%. The lower Collaborate retention rate is driven by customers delaying their renewals as they evaluate their future UC solution requirements as a consequence of the increasing work from home and other hybrid working environment.

Slide 10: Full Year Performance Review: Turning to Slide 10. In FY22 cloud and hybrid solutions represented 13% of TCV, an almost doubling of the contribution from the prior year. As of 30 June 2022, there were 470,000 users on the new platform in either a hybrid or cloud capacity, representing growth of 459% over the prior year. Contract life is relatively stable at 2.6 years. Looking at the TCV renewals and new [charge], there was a [far greater] percentage of new and capacity sales relative to the prior year.

Slide 11: Total Contract Value by Product. Turning to Slide 11, TCV by product. Collaborate TCV for FY22 was $27 million, down 27% over the prior year. The dissection of renewal and new business shows two diametric movements. Renewal business of $10.5 million was down 57%, in part due to there being fewer contracts up for renewal, and in part due to some non-renewals from the UC market disruption mentioned earlier. New and capacity sales of $16.5 million was up 31% over the prior year. The source of new business was broad, including sales across both on-premisses and hybrid solutions. Both Transact and Infrastructure TCV results were down due to the timing of renewal contracts and new solutions taking longer to gain market traction.

Slide 12: Total Contract Value by Geography. We're on Slide 12. Asia-Pacific was the standout region for FY22. APAC achieved TVC of $14 million, up 36% over the prior year with growth experienced across all product lines. Notably, the achievement was across both renewal or existing business and growth in new business. By contrast, both the Americas and Europe experienced declines in TCV. The Americas turnaround plan has taken longer to execute. With Europe, whilst there was growth in the first half, performance fell in the second half. This is likely due to the consequence of regional insecurity together with other negative business sentiment. We've taken action to improve performance across both regions, including change in regional leadership, which John will speak about later.

Slide 13: Proforma Subscription Revenue. Slide 13 present proforma subscription revenue for both geographic and product [sets]. For simplicity we have combined Transact and Infrastructure in the geographic set and Europe and APAC in the product set. These charts provide more insights than provided in previous presentations. To be clear, these charts are not to be confused with either the TCV charts on prior slides or the statutory revenue shown in the financial report. Proforma revenue is a trailing measure of performance and the result of historic TCV achieved. The numbers represent recurring revenue based on [amortised] licence fees, maintenance, and SaaS revenue for the year.

What do we glean from these charts? For each region, we can see the makeup of product and whether the product set is growing or declining. For instance, APAC has higher subscription revenue from Transact and Infrastructure compared to Collaborate. It is also showing growth across both product sets, with Collaborate growing at a faster rate. If we take Transact from the bottom row, we see that it has an equal distribution between the Americas and the rest of the world, with the Americas growing more strongly.

Slide 14: Operating Leverage. Turning to Slide 14, titled operating leverage. We finished the financial year with 202 staff compared to 240 staff at the start of the year. The decline in staff numbers reflects the realignment of the Business to the changing market environment. Our innovation agenda remains unchanged as illustrated by the lefthand chart. The jump in R&D expenditure primarily reflects the amortization of the new cloud platform and release of new products to market. John will later provide further insight into the nature of the development spend and new solutions to market. Our sales and marketing spend pulled back during COVID with less travel and trade shows. This trend will slightly reverse as customer face-to-face meetings and marketing events return. FY22 represents the first year where we have incentivised the sales team on TCV. It will continue into the FY23 financial year.

Slide 15: Net Cashflow Analysis. Cashflow from operations, shown on Slide 15, was $16.9 million for the year with a cash conversion rate of 95%. The Company continues to benefit from non-cancellable term-based licence contracts. This cash generation continues to support ongoing development and [fund] future growth.

Slide 16: Balance Sheet. The balance sheet shown on Slide 16 shows a significant improvement in net cash, for reasons shown from the previous slide. The Company is free of debt and has $12.3 million of cash. Trade receivables of $68.8 million is a strong source of future cashflow. I will now pass back to John for the rest of the presentation.

<u>John Ruthven:</u>
Slide 17: The Opportunity.

Thanks, Peter. I'm on Slide 18.

Slide 18: Collaborate – The Opportunity. IR's target market is for 600 million unified communication users, whereas our true sweet spot is the nearly 180 million sophisticated conferencing users. Today we have 5.8 million users or around 3% share. The addressable market is growing at over 7% CACR. [Finding] the requirement for specialised tools to manage these complex environments is the proliferation of remote working and the user expectation that they should be able to do their work seamlessly. The CIO's challenge is balancing user experience and expectations with the increasing complexity of managing these environments and the proliferation of devices. We expect that there will be a [long tail] to on-premises, based on the large enterprise market that we serve. [This year] is supported by our customer engagement and recent wins.

Slide 19: Collaborate – Key Growth Drivers. Moving to Slide 19. The uptake of remote working was accelerated by the pandemic and [unclear], it's here to stay. At the time, the conferencing and unified communications market is moving rapidly to the cloud, led by Microsoft Teams. The mix of cloud, on-premises and hybrid solutions increases complexity, and managing this complexity is core to IR's value proposition. We support existing on-premises solutions as well as hybrid and cloud solutions, effectively supporting our customer's digital transformation journey. User experience is key, which comes with the expectation that their collaboration and UC environment just works. When they don't, support staff are under pressure to quickly identify and resolve the source of the issue.

Slide 20: Transact – The Opportunity. As I move to Slide 20. The opportunity for Transact is significant with IR currently monitoring approximately 600 million transactions a day and a global payment CAGR of 18.6% forecast in FY23. This growth has been brought about by the rapid rate change in the payment sector over the last couple of years and the overwhelming shift to cashless payments.

Slide 21: Transact – Key Growth Drivers. Now on Slide 21. We continue to see a massive shift in consumers and businesses moving to non-cash payment methods. In support of this is the expansion of payment types and channels, increasing use of debit and credit cards, as well as real-time payments, displacing legacy batch systems. With all of this comes increase in complexity, additional systems, applications and a greater risk of issues and failures. In response to this we've launched new products and continue to enhance existing ones to upsell to existing customers and win new ones. User expectations continue to increase around this seamless experience, at the same time, payments providers are looking to monetize their data in order to acquire new customers, grow revenues, and optimise costs.

Slide 22: Strategy & Product.

Slide 23: Strategy. Moving to Slide 23, strategy. Our strategy remains focused on the three core product lines, Collaborate, Transact, and Infrastructure. Consistent and core to these pillars the strategy is to leverage the structural market changes of remote working and cashless payments, support our customers in their evolving journey as they transition from on-premises to hybrid and cloud. Leverage our existing customers base and market position to move into adjacent and higher value segments. Continue to build long-term recurring revenues as we transition the business model away from upfront revenue recognition. Finally, organically drive this change through self-funding development of new SaaS products.

Slide 24: Phased Strategy. Now on Slide 24. To deliver on this strategy we're executing a multiphase transition, innovation, execution, and scale. In the innovation phase we've brought to market our new SaaS platform as the foundation for a range of new products. This innovation is ongoing as the launch of new and enhanced products will continue in order to meet current and emerging customer use cases. The execution phase is taking longer than we anticipated as we move to selling a much higher percentage of new business. We're confident that the go to market design is right and investments in our demand generation capability will pay off. We're also iterating our [Generation I] new product with our customers and partners to better position and grow. As we transition to scale in the future, we will move from contracting upfront revenues to better quality SaaS subscription revenues with higher levels of annual recurring revenues.

Slide 25: Innovation – Investment Over Last 2 Years. As Peter referenced earlier, Slide 25 highlights that our innovation agenda remains firm. Across the last two years we've enhanced our cloud platform and brought new solutions to market for both Collaborate and Transact. We've continued our investment in our on-premises solutions. The combination of all these investments has facilitated a capability to serve on-premises, hybrid, and pure cloud environments. This means we can flex with the market and support customers on their individual journeys.

Slide 26: Innovation – New Products and Future Development. Moving to Slide 26. Core to our strategy in investment and innovation is supporting our customers on their journey, whether they require on-premises, cloud, or hybrid solutions. This is a balancing act between the two primary product portfolios of Collaborate and Transact. In the last year we launched space managing for conferencing rooms and monitoring connections between session border controllers, or SBCs, and direct routing. What this essentially means is that we can monitor audio calls for organisations who connect external phone lines and use Microsoft Teams as an office phone assistant. The SBCs help us monitor these audio calls on carrier networks such as Telstra, for example.

On the Transact side, we are active in the market with a SaaS based payment analytics product, which enables payment providers and merchant acquirers to provide their merchants with richer data and greater insights. Supporting our existing customer base, we continue to innovate our on-premises solutions. In Collaborate this is very much about supporting their hybrid journey. For example, to have an existing Cisco customer integrate the management of their Teams environment into a single payment [class], rather than sifting through multiple dashboards and reports to make sense of the performance and user experience in their environment. In Transact we delivered new products to market for high value and real-time payments.

As we look into the future for Collaborate, we'll [add] support for additional devices, like headsets, as well as increase the richness of our analytics and insights. For Transact we've completed feasibility on a private cloud deployment to address data governance concerns for some large payment providers. We've also expanded our service provider analytics capability. Foundational to this is the ongoing evolution and enhancement of our platform, both in SaaS and on-premises environments. [These teams here] are third-party integrations, security, and service provider support.

Slide 27: Collaborate Dashboards. Moving to Slide 27, let's actually take a look at the product. This is a Collaborate use case which demonstrates how IT operations can drill down to root cause identification, moving away from a simple [traffic light table] to a modern instrumented dashboard that provides a [rich set] of information for analysis and troubleshooting to inform resolution. For those interested in seeing a visual demonstration, I would like to direct you to our website, which provides numerous videos of our team members demonstrating the dashboards.

Slide 28: Collaborate Case Study. On Slide 28 we've summarised the customer case study with GlaxoSmithKline or GSK. Their challenge was the complexity brought about by numerous systems, platforms, and geographies and being able to troubleshoot and resolve issues in a timely manner. Critical to IR solution is our real-time capability that resulted in GSK reducing resolution times from an average 16 hours to under 5 minutes.

Slide 29: Transact Dashboards. Now on Slide 29. Similar to the previous Collaborate slide, the Transact user journey is one of making the complex simple. We bring out the hidden meanings of your processing data in a single view.

Slide 30: Transact Case Study. Moving to Slide 30. This scenario of Rabobank highlights a typical use case for many IR Transact customers. They are continually upgrading their systems to support new payment types, however, when doing this they need to maintain a common set of monitoring and analytics tools to support their changing environment and regulatory obligations. This is why we have introduced support for new payment types such as real-time payments, while still supporting a consistent look and feel as for existing card payments.

Slide 31: FY23 Key Priorities.

Slide 32: FY23 Key Priorities. Moving to the final slide, Slide 32. We're in the execution phase of our strategy. We have a firm foundation from which to grow and have clear priorities for the year ahead. Critical to our return to growth is the Americas and Europe. We have made leadership changes, enhanced our go to market model [to balance] the requirements of retention, upsell, and winning new business. Getting the new products, we have launched into the hands of our customers and prospects is a critical focus. We've invested in our sales engineering function to improve our demonstration capability as well as opportunity qualification and getting the technical win.

We have clear line of sight to our customer renewals where they may be at risk, as well as our customer plans for their unified communications and payment platforms. Whilst we can't influence their migration decisions, we've optimised our go to market to maximise our retention opportunity. Our [phased] strategy kicked off with bringing the SaaS platform and product to market. In modern software development, this implies moving quickly to get Generation I product in market. Both this work is ongoing with customers to bring Generation II products to enhance performance, add new capabilities, and reduce the cost of running the platform. We've realigned the Company to be more efficient and retain a strong balance sheet to support our self-funding model of innovation and growth. Whilst we're not providing specific guidance, IR is well-positioned for self-funded innovation and long-term growth.

Operator: That concludes the presentation.

End of Transcript

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