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23 August 2024

ASX Market Announcements Office
FY24 Earnings Conference Call Transcript

Integrated Research Limited (ASX:IRI), encloses for release a transcript of the FY24 Earnings Conference Call held on 20 August 2024.

By authority of the Board

Will Witherow
Company Secretary
Integrated Research Limited
ABN: 76 003 588 449

- ends -

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 largest 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.

Investor Conference Call Transcript

Sydney, August 23, 2024 – Integrated Research Limited ("IR") (**ASX: IRI**) advises the following is a transcript (excluding Q&A) of the Investor Conference Call held on 20 August 2024 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 Presentation released to the ASX on 20 August 2024.

Start of Transcript

Operator: Thank you for standing by and welcome to the Integrated Research Limited FY24 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 John Ruthven, Chief Executive Officer, please go ahead.

John Ruthven: Thanks operator. Good morning and welcome to the Full Year FY24 results briefing for Integrated Research. My name's John Ruthven and I'm the CEO of IR. With my today is Christian Shaw, our CFO. I will open the presentation and then handover to Christian to take us through a detailed financial review. He will then hand back to me to talk through strategy and priorities for FY25. At the conclusion of the presentation, we will open it up for questions. 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 investor relations section of our website at IR.com.

Moving to slide 2, Integrated Research, or IR as we are better known, is a global software Company providing performance and experience monitoring solutions for critical business systems. We have three products lines, Collaborate for unified communications and UCaaS, or unified communications as a service, Transact, which sits in the payment space, and our Infrastructure product, the Hewlett-Packard enterprise or HPE nonstop environment. Common to the customer use cases that we support are complexity, mission criticality and scale.

Slide 3 highlights the underlying strength of IR's business model, our customer base. Our customers are large, global enterprises across a range of industries including technology, telecommunications, financial services, government, healthcare, higher education and retail, key to our business model, a multi-year non-cancellable contracts with mission critical requirements.

I'm now on slide 4, CEO key messages. FY24 provided a critical turning point for IR in restoring the working capital of the business with revenue growth of 19% on the prior year, a very strong NPAT result of $27.1 million and cash generation from operations of $13 million. Foundational to this result was a turnaround performance in the Americas, underpinned by a solid renewal base, notably whilst the prevailing Collaborate churn headwinds continued, they slowed in FY24, and this remains a goal for the Company moving forward.

Balancing the top line result with good costs discipline, further reinforces the opportunity and strategic shift to product led growth. This also paves the way for a CEO transition to leverage experience in driving this change. FY25 will leverage the foundation established in FY24 to prioritise the deployment of capital for growth whilst maintaining a focus on operating efficiencies.

On slide 5 we summarise our statutory results. The Company achieved profit after tax for the year of $27.1 million, statutory revenue for the year was $83.3 million, up 19% over the prior year. The strong performance was a result of continued improvement in sales execution, a solid renewal book and new customer [wins] in the Americas. Cash receipts from customers totalled $72.4 million, down 5% from the prior year, whilst the ending cash position was $31.9 million, up 72%. The Company continues to benefit from turn base non-cancellable licence contracts at a high quality customer base, driving the increase in cash at bank which continues due to a strong focus on cash management to fund growth.

Now, on slide 6 and switching to proforma results. The key sales performance indicator, total contract value was $83.9 million for the year, up 22% on the prior year, reflecting both a strong renewals year but also pleasingly, an increase in win rate for the business, particularly in the Americas. We continue to report revenue on a proforma basis which we believe is more reflective of long-term underlying performance for business. Proforma revenues for the year was $74.8 million, down 1%. Revenue increased from services and testing, partially offsetting the period on period decrease and total proforma subscription revenue, which was the result of softer new business sales and churn in Collaborate.

Proforma EBITDA dropped 5% as a result of lower recurring revenue and currency exchange loses in spite of cost containment. Our cash conversion rate for the year remained high at 97% as a result of strong cash collections.

Slide 7 provides an executive summary of FY24 progress against key priorities. Strong sales performance in the Americas up nearly 50%, and Europe, when adjusted for the [unclear] deal also had good growth. The result was underpinned by a solid renewals book leading to 22% TCV growth for the full year. We won 23 new customers in FY24 which was behind our expectations. We continued to experience customer churn, weighted to smaller Collaborate customers. Good sales execution on renewals continued with NRR or net revenue retention improving 1% to 96%, retention headwinds persist in Collaborate.

Expenses were down $12.9 million for the year on a like for like basis as a result of ongoing vigorous cost management. We maintained our customer centred approach to product development throughout FY24 and launched release 13 in June, one of our most future rich releases for some time. At the same time, we have readied for the next phase of product led growth with the launch of IR labs, a new business incubator. Our working capital position has further improved throughout the year with a net profit of $27.1 million and $31.9 million cash at bank.

Before I hand over to Christian, I'd like to highlight some key customer wins for the year starting with our Collaborate portfolio. A major US government agency with 135,000 seats came on board as a new customer. A catalyst being the end of life for the Cisco PCA product. This coupled with a technology refresh, an increase in demands from an ease of use and reporting standpoint, led to the adoption of the full suite of IR's Collaborate solution. We added another state government as a new customer, continuing our success with the US public sector. A large Cisco environment with complex requirements, an increase in demands to do more with less led to the adoption of a rich sweep of our products in our Collaborate portfolio.

Rounding out a good new business performance in the Americas, we won a newly established MSP or managed service provider, we've able to leverage out Collaborate solutions to administer and monitor their UC or unified communication customers.

On slide 9 we profile a couple of Transact and Infrastructure wins in FY24. In Chile, we were successful in a strategic customer win back where several years ago, the customer had not renewed our Transact and Infrastructure contract. During this period, the criticality of our solutions used to monitor credit card processing, and ATM networks became clear, and the customer resigned with IR through a partner. A signature win in India where a major commercial bank is now leveraging our solution to monitor their high volume payment transaction environment by placing a complex set of third party tools and scripts, they now have a modern, easy to use solution that we've rapidly deployed.

I would now like to hand over to Christian to take us through a detailed financial review.

Christian Shaw: Thanks John. Slide 11 shows the linkage between statutory revenue, proforma revenue and annual recurring revenue, it's worth discussing this for a moment. Statutory revenue, the dark blue bar is revenue recognised per the accounting standard. This has a strong upfront revenue recognition, with less revenue recognised over the life of the contract. This reflects the prominence of IR's term software licence component and the fact that this is required to be recognised at the point in time that IR delivers the software licence key to a client. As a consequence, there's a strong alignment with TCV.

Proforma revenue, the middle purple bar, provide the non-statutory alternative view of underlying performance by restating term licence fee revenue to be on a recurring subscription basis, that is over time rather than upfront at the commencement of a contract per the statutory view. Other recurring revenues such as maintenance fees and cloud services as well as other non-recurring revenue streams such as perpetual licence fees, professional services and one time testing services are treated consistently as part of proforma and statutory revenue views.

Annual recurring revenue, the light blue bar is the end of period recurring revenue multiplied by 12 and best represents the ongoing recurring value in the revenue stream. This chart highlights that whilst there – while there is more volatility in statutory revenue and by extension, no unshown TCV, there is more consistency in the revenue streams over time as represented by proforma and recurring revenue. Furthermore, while statutory revenue may grow, proforma and recurring revenue can be flat or even decline as renewals and new business are more than offset by churn and downsell.

The key point to note from this slide is the ongoing recent relative stability of proforma and ARR compared to the volatility of statutory revenue highlighting that the growth of proforma ARR occurs as new clients added to the renewal base and the renewal base is extended through price increase, offsetting any lost revenue through client exits and down sell adjusted for foreign exchange movement.

Slide 12 presents our statutory revenue, proforma revenue and annual recurring revenue by geographic region and by product set. Points to highlight include the Americas chart relating to IR's largest region shows ongoing stabilisation in proforma and ARR results against an uplifted statutory revenue driven by a higher renewals period. Collaborate head winds continue on both lead and lag measures. Large Transact renewals in Americas and APAC were driven by upsell and capacity and Europe's new business outcomes disappointed.

We're on slide 13. This slide focuses on the key metric underpinning value, namely the change in the components that annual recurring revenue. Total ARR declined by 1% to $66.6 million, albeit, this was impacted by adverse foreign currency movement. On a constant currency basis, new logos in Collaborate, upselling Collaborate and Transact and Infrastructure from new capacity and price increases modestly outperformed at the loss of clients and downsell through price reductions in Collaborate and Transact. Collaborate continues experiencing headwinds in all geographies.

Turning to slide 14, total operating costs. IR has continued to manage costs tightly. Costs have decreased 18% on the prior period continuing the trend in recent years. This is a result of ongoing headcount and active costs management reflecting a disciplined approach to product and technology investments particularly. Natural attrition continued through the period as the market for technology staff remained competitive, albeit IR continues to fill critical roles quickly with high calibre candidates.

We're on slide 15. This slide focuses on additional metrics underpinning value, namely the level of recurring revenue, the contract length and the proportion of new business to renewals in the period. Recurring revenue has remained almost constant as a proportion over the prior period. Contract length has remained steady, year on year with an average length of contract written in the periods slightly increasing to 3.1 years. Renewals dominated the year with circa $61 million in renewal TCV, up from $41 million in the prior year.

Slide 16. Cash flow is illustrated on slide 16 with cash at bank increasing $13.3 million or 72% over the year. Significant focus was paid in FY24 to the continued build-up of a strong foundation for future growth through a combination of a reduced cost base, discipline cost control and a stringent receivables collection to below 60 days. Income tax payments were low.

We're on slide 17. While the Company has statutory EBITDA of $24.6 million, $13 million of cash was generated from operations. The primary drivers of this difference are over-time revenue cash conversions compared to statutory upfront recognition combined with historic debtor factoring of $2.1 million, which is now concluded.

Working capital and income taxes paid, we should emphasise that the Company is not factoring any receivables, and the current factoring completed in December 2023. The key point here being that proforma EBITDA, the blue bar, is a reasonable proxy for operating cash generation. Albeit, that in future years, payments for income tax are expected to grow as we've utilised the accumulated carry forward R&D tax credits to reduce our effective tax rate.

Slide 18. The balance sheet shown on slide 18 shows the strong 48% lift in net assets to $88.4 million. Cash and trade receivables increased $23.3 million on the prior year, receivables remain a strong source of cashflow in the current and future years and the Company remains free of debt. I will now pass back to John.

John Ruthven: Thanks Christian. Coming into FY25 there are four key elements to our strategy reset. Firstly, accelerate and refocus of our go-to-market to the sweet spot for our solutions, high value, complex customer environments. This is expected to deliver both growth and reduce churn. Secondly, the same time, focus of product and engineering teams on fewer high yield product enhancements to our existing Collaborate and Transact customers. Thirdly, continue to optimisation of the organisation to support the effort outlined in one and two with the objective of generating cash to fund growth. Finally, implement a capital management plan to balance investment for growth with shareholder returns including assessment of both organic and inorganic growth opportunities.

Now on slide 21. As has been emphasised already, IR now stands on a solid capital platform in mature low growth markets. We require innovation and investment across the existing platform and product set as well as in new revenue streams outside of our product lines today that address specific customer needs. As such, our capital allocation priorities will include organic growth and targeted M&A.

In the medium term, we’re committed to reinvesting additional R&D capital for organic growth of up to 10% of the Company’s annual TCV. This will increase our product offering and competitive positioning markets with our target of a three to five year payback. This has in fact commenced with the recent establishment and seeding of IR Labs in the US where the focus will be on next generation product advancement.

Our M&A targeting efforts are ongoing as we continue working with retained advisors, we’re targeting right-sized synergistic opportunities to enter adjacent growth markets. Given IR doesn’t have a strong M&A track record to draw from, we are treading somewhat cautiously with gaining momentum. Acknowledging our shareholders' ongoing support and with an objective of being balanced in our capital allocation priorities, a fully franked dividend of $0.02 per share has been declared. Further details are available on the Australian Securities Exchange website.

Moving to the final section and slide 23, FY25 is a significant transitional year for IR. Under new leadership and direction, the Company embarks on its next phase of growth to execute the product led growth strategy four priorities are front and centre. Firstly, refocusing the field organisation and go-to-market to the sweet spot of larger complex customers where our value proposition and price point is most relevant. Secondly, aligning our product and engineering teams to fewer, high yield product extensions to exploit product led growth opportunities in our existing markets. Thirdly, optimising our sales, product and engineering themes to best support the go-to-market focus of our market sweet spot whilst delivering high yield product innovations to service this market segment. Part of this has been the move from a regional sales structure to a single global structure. And last, the introduction of a capital management plan to most effectively and efficiently deploy our cash for growth both organic and inorganic as well as returns to shareholders.

Moving to the final slide of today’s presentation we make several observations about FY25. Key to our business model is the renewals book, which is lighter than the prior year and weighted towards the second half. On a product basis, the renewals are skewed towards Transact and Infrastructure customers. Second, we anticipate that the churn in Collaborate will persist as customers migrate to a UCaaS environment and is more likely in smaller customers. Third, when reviewing our pipeline coming into FY25, new business and upsell pipeline is up on the prior year and is weighted to Collaborate. As reference in our priority session, our increase focus on larger enterprise customers is expected to improve pipeline conversion. Last, we also note that the effective tax rate is expected to normalise in FY25 given cessation of unused brought forward R&D tax credits.

This will be my final earnings presentation for IR and I'd like to thank our customers, employees, the Board and shareholders for their support over my time at IR. I wish you all the very best of success in the future. Operator, that concludes the presentation.

End of Transcript