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24 November 2021

ASX Market Announcements Office
Australian Securities Exchange Limited

2021 AGM ADDRESSES TO SHAREHOLDERS

The Company will address shareholders today at its Annual General Meeting (AGM), to be held virtually from 10:00am AEDT.

In accordance with ASX Listing Rule 3.13.3, the following documents are provided for release to the market:

- Chief Financial Officer's update
- CEO & Managing Director's address to shareholders.

This release will be followed by a release of the AGM Presentation material.

By authority of the Board

David Purdue
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 payments transactions and collaboration 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

Integrated Research Limited - 2021 Annual General Meeting

Peter Adams, CFO

CFO Annual General Meeting Transcript

FY21 Annual Results Review (Slide 7)

As our Chairman just referenced in his opening address, FY21 was a difficult year with disappointing financial results for IR. Revenues declined by 29% to $78.5 million driven by a shortfall in licence fees that are recognised upfront. Our NPAT result came in at $7.9 million, with virtually all the profit coming in H2 after the near breakeven first half result. The annual result is driven by the fall in revenue and partly shielded by a reduction in operating expenses. The result was negatively impacted by the increase in the Australian to US dollar exchange rate. NPAT in constant currency would have been $11.9 million for the full year.

The cashflow story shown on the right-hand side is down but highlights the fundamental strength of our business model. Our contracts with customers are non-cancellable term-based agreements. Cash receipts from customers was $78.8 million, down 18%. Operating cashflow was $21.1 million - a stark comparison to the $7.9 million of reported profit! The Company remains in a positive net cash position.

2H FY21 Results (Slide 8)

Our CEO, John Ruthven will provide an FY22 trading update in his address. As we reflect on the second half performance of FY21 it is clear we have regained positive momentum in the business. Compared to the first half, both revenue and profit are up 30% and 210% respectively. Cash flow from operations was down 14% compared to the first half and naturally a flow on effect from lower first half revenues. Importantly, the EBITDA margin bounced back to just under 40% and broadly consistent with FY20 performance.

Business model evolution (Slide 9)

Cloud solutions are an important driver in our growth strategy to deliver excellent customer outcomes with high quality recurring revenues. As we transition to SaaS with our new cloud and hybrid solutions, they will represent an increasing proportion of overall revenue mix. Our revenue recognition policies for these two income streams remain consistent with our previous approach and are fully compliant with both Australian Accounting Standards and International Financial Reporting Standards. They are different though. As a reminder, revenue from licence sales are recognised upfront at the commencement of the licence term whereas SaaS based revenue is recognised over time to correspond with the service delivery.

The chart on the Business Evolution slide shows the revenue and cashflow streams comparing a hypothetical on-premise licence contract and a hypothetical SaaS based contract across a six-year period. The assumption for the on-premise example as represented by the bars is a three-year total contract value of $360 that renews for a further three years at the same price. The assumption for the SaaS example as represented by the orange line is a $120 per annum subscription over a six-year period. The chart shows there is a timing difference in revenue recognition but the total cashflow is the same. The sum of the three-year period and the six-year period is the same between each hypothetical example. Of course, this is a simplified example to illustrate the mechanical differences in accounting. In reality, there are other commercial differences that will play out over time.

This slide was shown at last year's AGM. I wanted to re-present it to facilitate your on-going understanding of the business. Management will continue to report proforma subscription revenues and introduce other key metrics as our SaaS business becomes more material.

Geographic & Product Revenue Analysis (Slide 10)

Turning to the slide on Geographic and Product Revenue Analysis. We have continued with our seven-year series of revenue on a statutory basis represented by the line on each chart compared to proforma subscription revenue represented by the bars on each chart.

So, what insights do we glean from these charts? There are a few points to make:

1. FY21 was a difficult trading year. The impact was global and is clearly seen by the downward movement of the lines on the chart. What the charts don't show is that we have seen a positive momentum return in the second half which I explained earlier.
2. Exchange rates have also impacted the reported results. The geographic charts are in natural currency to eliminate this consequence. The product charts show proforma subscription revenue in both Australian dollars and US dollars to provide a view to underlying performance;
3. As I said, there is greater volatility in the upfront revenue model compared to the proforma subscription model. The upfront revenue model is impacted by the time length of contracts. The average deal term in FY21 was approximately three years compared to four years for the preceding year. The proforma subscription model is not impacted by deal length;
4. Revenue from new cloud products released during the year have not come through yet in either the upfront revenue model or the proforma subscription model. The reason is that cloud bookings is not an upfront revenue event, and it takes time for the delivery of those cloud revenues to come to fruition. The good news is we have $5.5 million in cloud bookings to be released as revenue over coming periods. Further, we will continue to build the bank of bookings in coming periods through the addition of new customers and the sale of new products to existing customers. More on that later from John;
5. Lastly, blended upfront and revenues recognised over time from the new and hybrid cloud solutions will increase so we will continue to report proforma subscription revenues to assist you. Further, we will commence reporting total contract values or TCV at each reporting period to provide further insight on performance.

Total Contract Value and Operating Expenses (Slide 11)

We have introduced the concept of Total Contract Value or TCV as a key driver of underlying performance. TCV facilitates driving performance through the sales organisation as now there is no difference to incentives on selling on-premise or cloud based solutions. To facilitate a benchmark for future performance, we have disclosed on this slide the TCV values by half for FY21 and FY20. On this same slide we have also disclosed the cash operating expenses for FY21 and FY20. Again, moving forward we will be assessing performance based on TCV values relative to expenditure. These concepts a fundamental move away from traditional measures and critical to transition the business.

R&D Investment (Slide 12)

Investment in innovation as measured by capitalised development in the cashflow statement was $12 million for FY21. The quality of the spend was high – 94% attributed to innovation with only 6% attributed to maintenance and currency updates. There were four new cloud solutions released to market, all built from the new cloud platform. These new solutions and on-going investment in development is critical to the growth of the business.

Net Cashflow Analysis (Slide 13)

For FY21, virtually all the cashflow generation from operations was from our established business lines. That should not be a surprise given the relative short time that our cloud solutions have been in the marketplace. As I referenced on the preceding slide investment in innovation is key to the future success and growth of the business. John will now take us through an update on the key markets and our strategy.

Thankyou.

Integrated Research Limited - 2021 Annual General Meeting

John Ruthven, CEO & Managing Director

CEO Annual General Meeting Transcript

Thank you Peter. Good morning to all.

Self-funding a new SaaS product suite to complement established on-prem business (Slide 15)

As I have messaged in previous earnings calls and presentations to the investor community, IR is a company in transition. The simplest way to describe this transition is ***self-funding a new SaaS subscription product suite to complement IRs established on-prem business***. Today I would like to provide you with a detailed insight into to how we are doing this, and the progress being made.

Let me start with providing context to what is driving the change to IR's business model. The two primary market segments that we serve are collaboration and payments. Both of these segments are experiencing significant structural market changes – hybrid working and cashless payments. In both cases, accelerated by the pandemic.

In this customer-led transition, IR has the opportunity to both create and respond to customer demand. Our relevance and competitive strength with large enterprise is enhanced with new products we have and are bringing to market. We continue to refine our way of working across product and development to accelerate time to market and innovate faster. This all builds towards scaling the business to accelerate growth and profitability.

Transition underway (Slide 16)

We are executing a clear plan to move the business to higher quality SaaS subscription revenues. This will take some time and is broadly defined in three phases. In FY21 we brought a number of new products to market – a year of innovation. FY22, is a year of execution – which is about getting these new products into the hands of our existing customers and winning new customers. In doing this, we will earn the right to scale the business in FY23 and beyond and aggressively chase market-share.

At the same time, we are transitioning the company's revenue model as Peter has spoken to – upfront revenue to TCV and ultimately ARR. We are working hard on a project we call 'unit economics' in order to report and provide transparency of the underlying performance of the business. This will take time and we are making good progress.

Increasing leverage to structural market changes – hybrid working (Slide 17)

The 'future of work' is evolving rapidly as organisations set their course for employees' work location and work environment and how they engage and collaborate. Whatever an organisation's strategy, 'hybrid work' is here to stay.

With it, comes even more complexity and challenge in supporting the collaboration environment to provide a reliable and rich user experience. This is even more so in larger enterprise, and IR's average Collaborate customer has more than 25,000 employees.

IR has been in the collaboration market for some years. We started with products that voice and data teams used to monitor and trouble-shoot on-premises environments like Cisco, Avaya and MS Skype for Business. We have recently brought new products to market to provide this same capability for hybrid and cloud environments, like MS Teams, Zoom and Webex. On the roadmap, we will extend into predictive analytics and the digital employee experience.

IR's sweet spot is the big end of town, large enterprises with an average of more than 25,000 employees. These environments are generally globally distributed, multi-vendor, and hybrid (meaning the applications and infrastructure are on-prem and in the cloud). This all adds up to complexity.

In the hybrid working world, the collaboration environment is the workplace – it is mission critical. Now, if we take the complexity we have described and the mission critical nature of the environment – if you are responsible for the uptime and performance of this environment you need tools to monitor, troubleshoot, proactively identify pending issues, resolve issues, predict problems and resolve before they occur and ultimately enhance the employee experience. That is what IR does.

Enabling enterprises to deliver hybrid working (Slide 18)

Over the last 12-18 months we have experienced the rapid acceleration of hybrid working. IR serves large enterprises with significant existing investments in technology infrastructure. They have robust selection and procurement processes.

In February / March last year enterprises had to react very quickly to their organisation working remotely, almost overnight. They did whatever it took to make it work, with existing tools, processes and workarounds. We are now in a phase where enterprises are evaluating and implementing management tools to bring order to their environments, deal with new challenges and demands and enhance their employee's experience. In many cases, they are adding Teams or Zoom or Webex to their environment, so effectively have a hybrid environment.

In this phase, it is natural to evaluate the vendor tools. But these have their limitations – generally they are designed to manage the vendors own tools and are focused on the 'application'. They don't account for many enterprises having up to three different collaboration tools – I have Teams, Zoom and Webex on my laptop. They don't account for all the infrastructure between your laptop and mine – maybe a dozen potential failure points – network, routers, the telephony provider, etc.

Gartner captured it well, these tools are helpful – but when your customers have thousands of employees – you need specialist tools.

Collaborate market and opportunity (Slide 19)

Gartner sizes the Unified Communications market as 550 million users of which 185 million are the higher value more sophisticated conferencing users. This segment is projected to grow 7% CAGR out to 2025.

We have a strong on-premises market position, supporting Cisco and Avaya, where our average users per customer is in excess of 25,000. There will be a long tail to this business due to the nature of our large enterprise customer base. As a proof point, we recently did a media release announcing over 200,000 users added since July – the vast majority were on-premises and 'net new' customers.

With new products launched in FY21, we have coverage of up to 60 per cent of the market, Microsoft, Cisco & Zoom. Further innovation is underway to support enterprises and carriers to integrate existing telephony solutions with new UCaaS applications. Our first such solution will be in market next half, initially supporting MS Teams Direct Routing through a wide range of telephony systems from AudioCodes, Ribbon, Oracle, Avaya, and Cisco.

Through new products we have the opportunity to cross-sell and up-sell existing customers as well as win net new customers.

We have announced integration with ServiceNow, to extend our relevance in the enterprise. We are also actively pursuing partnerships to expand our TAM to address new requirements and use case that hybrid working presents. For example, rooms and collaboration spaces have become part of the expanded workplace boundary. These are sophisticated and complex environments, particularly when done at scale.

Increasing leverage to structural market changes – cashless payments (Slide 20)

Let me start with a definition. Cashless payments is effectively the digitisation of payments, which has given rise to a plethora of new payment methods.

IR started in this business monitoring the infrastructure that banks and payment processors use to facilitate payments and we still do. We then moved into monitoring and trouble-shooting card payments or transactions. We further extended into card payment analytics, and we have just launched solutions for Real-Time and High-Value payments environments. Our future roadmap will take us into predictive analytics leveraging machine-learning and AI.

To bring this to life, I will briefly talk to four payments use cases.

1. Monitor the availability and throughput of your payment channels and partners. The objective is for our customer to have a full end-to-end view of a transaction and the Payment Hub to ensure everything is working. This allows users to anticipate funding requirements, manage counterparty banks and other system integrations, and identify issues in the processing chain.

2. Provide insights into payment transactions to maximise business value. The objective is that users can see trends and patterns to enable better business decision-making and understand their customers. These insights can maximise business value by increasing revenue, reducing attrition and lowering operational expense.

3. Ensure rapid detection of blockages in High-Value payment processing. The objective is to be able to investigate and action any payments that require attention, see build-ups in queues that could indicate processing problems or bottlenecks, and monitor the overall health of payment flows. Without this, errors and delays in high-value processing could result in SLA penalties, regulatory action, and decreased customer trust and retention.

4. Actionable dashboards for next generation payment types. The objective is to be able to view the detail and action required within an operational dashboard. This streamlines processes by highlighting exactly what the user is expecting to view and monitor. Without targeted insights, users will not be able to make good business decisions and manage the different payment types that are being introduced.

Transact market and opportunity (Slide 21)

Cashless payments has been accelerated by the pandemic and the resultant growth in ecommerce. New regulatory standards are driving the requirement for financial institutions to upgrade their real-time and high-value payments environments, with a move away from traditional clearance methods. This plays well into IR's position and value proposition – monitoring and analytics of card transactions and expanding support for real-time and high-value payments.

The part of the overall payments market that IR addresses is the 737 billion non-cash payment transactions, defined as non-cash transactions – excluding cheques. Per the Capgemini World Payments Report, these volumes are growing at 18.6% CAGR.

The average transactions under management per Transact customer is 2.5B per annum. IR's growth opportunity can be simplified to three vectors.

Firstly, we have a significant customer base of financial institutions and card processors like Fiserv, FIS, JPMC, and Barclaycard. As transaction volumes increase our revenue from these customers will continue to grow based on volume metrics in contracts.

Secondly, new products – like payment analytics, give us the opportunity to upsell existing customers as well as win new ones. Further enhancements to the Prognosis Edge also provides the opportunity to expand the existing customer base, by integrating to a broader range of payment switches and environments.

Thirdly, Real-Time payments continues to gain traction globally, with growth projected to be 23.4% CAGR out to 2024. It is the simplification of the payment process from initiation to reconciliation. As these new segments develop, new and sophisticated customer use cases are emerging. The architecture of our platform allows us to quickly respond and in doing so, increase our TAM or target addressable market.

Product strategy (Slide 22)

IR's target addressable market is $1.2B and growing. We offer solutions that deliver deep domain data, to a broad set of customers, with increasing intelligence in the products.

- **Deep** is about domain data, leveraging our know-how for extracting meaningful information from critical systems and surfacing it, and extending our reach using the Prognosis Intelligent Edge
- **Smart** is about evolving our platforms to leverage newer technology like ML and AI, to solve higher value problems and emerging complex use cases
- **Wide** is about extending the platform with an open API interface, surfacing more data, and expanding beyond traditional IT Operations. It opens up the platform to democratize value creation in the medium term.

Quality customer base (Slide 23)

We have a significant global blue-chip enterprise customer base, across diverse segments. Our innovation strategy is to map our solutions to the customer journey – whether they are on-premises, hybrid or pure cloud.

We establish and maintain long-term relationships as can be seen by the customer tenure – many of them more than 15 years.

The average weighted life of our contracts has typically been greater than 4 years. However, we have seen a shortening of this in FY21 driven by more cautious buying behaviour and in some cases less certainty by customers on their own strategy for on-premises and cloud.

Service Providers account for nearly 20% of annual revenue and are an important part of IR's go-to-market. In many cases, these are large global companies that extend our market reach by bundling our products into their services and on-selling to their customers, effectively a one-to-many model.

We added a number of new customers year-to-date – many being well known organisations and brands. These new customers are across all environments – on-premises, hybrid and SaaS.

FY22 customer wins validate enhanced value proposition (Slide 24)

On this slide is a sample of wins this year, that both validate our strategy and the strength of our value proposition. A few key themes emerge;

- Existing customers are bundling in SaaS products to support their hybrid environment, e.g., University of Utah
- Large enterprises – are working with service providers to provide a managed service across a hybrid environment, e.g., HCL
- We are getting traction with larger PCA customers, e.g., NYPD
- Existing Infrastructure and Transact customers continue to grow and extend their footprint with IR, e.g., Westpac

FY22 key performance indicators update (Slide 25)

Last earnings call we introduced this performance indicator table and advised we would keep the market updated on our performance. Through Q1 we have performed well on the customer and revenue retention front. We also did well in winning new business TCV and new customers. Strategically we made good progress on extending partnerships (like ServiceNow) as well as the work being done on unit economics.

We still have work to do in getting newly released products into the hands of both our customers and prospects. We expect that new to existing and capacity will be back to plan by the end of the half.

Trading update & summary (Slide 26)

As Peter covered earlier, we have moved to running the business on a TCV and cash flow basis, whilst still reporting statutory results. On a year-to-date basis, TCV is up on pcp, with early traction of new products being licensed in hybrid environments.

Reported revenue and NPAT year to date are broadly in line with pcp, with some impact of a change in revenue mix as SaaS contracts are recognised over time. Cash flow is positive, and the balance sheet is solid to support the ongoing development of our future roadmap.

Our strategy is clear and targeted to leverage the structural market changes of hybrid working and cashless payments. In line with this, we continue to transition the business – effectively self-funding a new SaaS business to complement our established on-prem business.

In doing this, we remain confident that our market relevance increases, we can expand our TAM, accelerate delivery of new products to market and drive revenue growth and profitability.

We remain focused on our FY22 priorities as we execute the plan to win new customers, launch new products and grow our SaaS business.