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25 November 2020

ASX Market Announcements Office
Australian Securities Exchange Limited

2020 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 - 2020 Annual General Meeting

Peter Adams, CFO

Performance Review

As our Chairman just referenced in his opening address, the 2020 annual results set another record for IR. Revenue for the year was $110.9M, up 10% over the prior year. NPAT was also up 10% over the prior year to $24.1M and was a strong result given the deterioration in the macro-economic environment in the fourth quarter. This result was driven by good growth in licence sales of $72.1M, up 15% over the prior year together with a solid performance from professional services attaining $8.6M in revenue, up 17%.

Within the profit result there were plus and minus factors, but importantly the result delivered growth on a consistent profit margin compared to previous years. The Company benefited from a lower effective tax rate but was somewhat offset by unrealised exchange losses captured in other losses on the face of the P&L.

We have been proactive in managing the business through the pandemic through the second half of FY20 and continuing into the new financial year. Our objectives include maintaining our investment in development and protecting jobs but also remaining prudent with opex spend. The increase in remote working and cashless transactions are positive tailwinds for us, and as a result we have maintained a consistent approach to development.

Return on equity for the year was 29%, down 2 points on the prior year. Operating cashflow was up 14% on a reported basis or 5% on a like for like basis over the prior year. As the Chairman referenced, total dividends of 7.25 cents per share was consistent with the prior year and maintains our strong track record of returns to shareholders.

Revenue Analysis - Geographic

Turning now to the slide on revenue by geography.

Asia Pacific revenues grew 17% over the prior year to $17.7 million and represents seven years of consecutive growth with a compound annual growth rate of 13% across this period. The region achieved growth across all product lines with a combination of renewals, capacity sales and new business.

Europe revenues were broadly flat with the prior year at £9.2 million. The region achieved licence sales growth over the prior year in Unified Communications which was offset by cyclical falls in Payments and Infrastructure. The region continues to develop their sales capabilities under new leadership.

The Americas achieved revenue of US$50.3 million for the year. Momentum improved in the second half with licence fees up 35% and growth across all product lines. The region continued to drive revenue in the fourth quarter despite the difficult macro-economic environment caused by the pandemic.

Revenue Analysis - Product

Turning now to the slide on revenue by product.

Unified Communications (UC) revenue grew 17% over the prior year to $59.8 million with growth sourced through a strong renewal cycle attached with additional capacity sales on both the Cisco and Avaya platforms. New business licence sales of $5.8 million was achieved for the year with 29 new customers added to the fold. Licence sales to Microsoft Skype for business customers was down against the prior year with further customer migration to Microsoft Teams.

Payments revenue decreased by 14% over the prior year to $13.8 million, however the compound annual growth rate across the last five years remains high at 22% demonstrating the underlying trend remains on a growth trajectory. There were nine new customers added over the year facilitating an increase in the baseline for future growth. Existing customers who renewed their Prognosis solution typically added capacity and additional modules demonstrating their commitment to the product.

Infrastructure revenues increased by 9% to $28.7 million and was underpinned by the large JP Morgan transaction closed in March.

Proforma Subscription Revenue

Let's now turn to the slide on subscription revenue.

Currently, a large proportion of our business is reported on term licence sales with upfront revenue recognition. As the business transitions to a subscription revenue model with the launch of our new cloud products this proforma presentation provides an alternate view of our overall financial performance using a subscription basis.

The calculation of these numbers is based on amortising the licence fees over the term of the contract and adding recurring maintenance. Whilst these numbers do not form part of our statutory reporting, the proforma subscription equivalent revenue shows Unified Communications growth of 11% over the prior year and Payments growth of 27%. We anticipate this analysis will become increasingly important as the business model continues to evolve as I will now explain.

Business Model Evolution

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.

I wanted to take the time today to keep you up to speed with these changes. To facilitate your understanding of underlying performance, management will continue to report proforma subscription revenues and introduce other key metrics as our SaaS business becomes more material.

Trading Update

Now turning to the trading update slide.

Although we are at an early stage in the new financial year, our revenues for the first four months of FY21are behind the prior corresponding period. With the ongoing global uncertainty around Covid and the election in the US, we are seeing our typical sales cycle lengthen and some customers deferring purchasing decisions. While we do not provide guidance, I did want to help investors to understand our short term outlook and the factors that influence our financial results.

Our first half and full year FY21 results will be influenced by the timing of deal closure and movement in currency exchange rates.

Firstly, timing of deal closure. Historically, a significant proportion of licence sales close within the last few weeks of an interim or annual reporting period. The short term timing issues around contract signings, taken together with current year to date trading performance pose a degree of risk to our earnings in the first half. It should also be noted that the licence renewal cycle is typically weighted to the second half and with deferrals in purchasing decisions we are currently seeing, we expect the second half revenues to be larger than the first half.

Now turning to currency exchange rates. With over 95% of IR's revenues derived outside of Australia, the volatility of currency exchange rates can significantly impact our results. For example, a one cent movement in the AUD/US exchange rate can affect revenue by over one million dollars on an annualised basis. Year to date currency trends represent a headwind.

In summary, the combination of temporary sales deferrals and adverse fx movements means there is some risk that both revenue and profit for the first half may be below the prior corresponding period. We will have a more definitive view in January.

Beyond this we have a positive outlook. The recent release of new SaaS products is a key driver to future growth. We anticipate that SaaS bookings will build progressively over the remainder of FY21and will lead to meaningful revenue contributions in FY22 and beyond. These new solutions come at a time when where we see market trends moving in our favour. This includes the increase in remote working and the increase in cashless transactions. Our CEO, John Ruthven, will now provide more detail on how IR will benefit from these trends and expand on our key success drivers.

Thankyou.

Integrated Research Limited - 2020 Annual General Meeting

John Ruthven, CEO & Managing Director

CEO Annual General Meeting Transcript

Good morning ladies and gentlemen, I am pleased to be able to speak to you today albeit virtually and share with you some insights of the company we are building.

As I reflect on my first year as CEO of Integrated Research, I am pleased with what we have achieved for our customers, our employees and for you as our shareholders. I am also excited about the future, as we look to capitalise on the current market opportunities through accelerated innovation and improved execution across the business.

Building the IR of the future

Both Paul and Peter have covered the performance of the business through the last fiscal year. I would like to focus on what we are building – the IR of the future. The key strategy that underpins our aspirations is one of accelerating innovation and driving long-term recurring revenues. There are three salient points of context in executing our strategy;

- First, the structural changes in the market that we have all experienced because of the pandemic; **the overnight shift to remote working** – with a strengthening view that this will have a permanent and lasting effect on the future of work, and **the acceleration of cashless or digital payments** as consumers increase on-line purchasing and many vendors refuse to accept cash.
- Secondly, an acceleration in the shift of enterprise workloads to cloud infrastructures – with a direct effect on both unified communications and payments. Critical to our strategy is the understanding that enterprises will not be on-premise or cloud, they will be both. Meaning 'hybrid' environments, in which workloads run in both environments will be the norm for some time to come. In this space, IR has a unique competitive advantage.
- Third, increasing our share-of-wallet and winning new customers through expanding into adjacent areas in both collaboration and payments. In simple terms, this is bringing new products and capabilities to market to satisfy new and emerging customer requirements, as well as extending our reach within our addressable market.

We are coming from a position of strength, as the leading global provider of experience and performance management solutions in the unified communications, payments, and infrastructure domains. For over 30 years we have built an enviable enterprise customer base that includes more than 25% of Fortune 500 companies and an extensive ecosystem of partners and service providers. This has been achieved by a team of people who have deep domain expertise, are loyal to the cause, led by a diverse and globally experienced leadership team.

Three Market Dynamics

We are not naïve about the challenges and uncertainties that the current market presents. In fact, we summarise this into the phrase of **short-term volatility and long-term growth**. Understanding the market dynamics and flexing our innovation agenda to take advantage of three major structural changes is critical to our success.

At our recent virtual global customer event, IR Connect 2020, we launched the re-brand of our key product lines;

- Collaborate, our former UC suite of products
- Transact, our former payments suite of products
- Infrastructure, remained as it was

This was to reflect the growth and relevance of our products and capabilities outside of those historic domains.

In the Collaborate product line, the major market dynamic is the shift to remote working. It is estimated that over 500 million workers globally will be working remotely in calendar year 2021, representing about 25% of the global workforce, but most importantly 40% of global knowledge workers. The real story here is not about an increase in overall UC end points, it is about the significant growth of conferencing users – which is up 48% in 2020 according to Gartner. Conferencing is most highly used by large organizations (>1,000 staff) and is now mission critical. It is complex because of the increase in multi-vendor solutions. These users are higher value - a sweet spot in the market for IR due to their sophisticated requirements.

Cash was already in decline; the current market dynamic has accelerated this with a resultant jump in digital payments. Recently, Visa reported that their annual US transaction volumes are up 30% for online transactions excluding travel, whilst in-store is down 5%. Overall, whilst transaction volumes for 2020 are 8% higher than 2019, they are marginally lower than pre-pandemic forecasts, with Capgemini revising their forecasts out to CY23 down from 14% to 11.5% - still very healthy organic growth.

The Cloud or SaaS trend has accelerated, as evidenced by spend in this area forecast to increase nearly 19% CAGR out to 2024. It is projected that close to half of IT spending out to 2024 will move to the Cloud. By way of example, a recent Ovum survey projects that 84% of banks are planning to move mission-critical systems to the cloud, and this sector is inherently conservative for obvious reasons.

Product Strategy

Against this backdrop, IR is ideally placed to accelerate our innovation agenda and reduce the time to market for new products. We will continue to spend around 20% of revenue on product and development over the next strategic planning horizon. Over the last year, we have done a lot of work to increase our fitness in both product management and development – focusing on value, velocity and quality.

We have embedded an end-to-end innovation process – from ideation to product release and ultimately customer feedback called IRIS. We also revamped our internal business case model, to better prioritise spend in bringing new products to market. Our development shop has further embraced agile delivery and productivity continues to improve – even whilst working remotely. Product quality, which is critical when supplying mission-critical software to some of the biggest global brands, continues to improve from an already high standard.

Product Futures

During the first half of FY21, we will deliver one of the richest sets of product releases in the company's history. We launched MS Teams – Cloud and hybrid at our recent customer event, IR Connect 2020, as well as Prognosis Server 11.9 and the latest release of our Cloud Transact product-line, Payments Analytics. Still to come before the end of December is Zoom and Simpler Switch Integration, part of our agent infrastructure that is critical to extending our addressable market.

In the pipe for the second half is Cisco WebEx, which will round out three of the biggest names in Cloud collaboration platforms – Microsoft, Zoom and Cisco. In Transact, we will expand beyond card payments, to Real-Time Payments. There will also be enhancements in advanced troubleshooting for Collaborate, expansion of data sources for Payments Analytics and the ability for the platform to handle hybrid data in the Cloud.

Going further into the future, we will continue to expand the number of UCaaS vendors we support, increase the richness of our analytics capability, deeper insights in the payments business, leverage Machine Learning at a platform level and create a Cloud marketplace on our platform.

This is a very exciting time, and validation of the acceleration of our innovation agenda.

Customer Mix

Core to IR's value proposition is the simple phrase, **mission critical software – sold to Tier 1 customers**. This is what makes us sticky and what drives the high levels of recurring revenue – greater than 87% term recurring.

As already referenced, over 25% of Fortune 500 companies are customers, and as you can see with brands like ANZ Bank, JP Morgan and Westpac – they are customers in two of our product lines. This speaks to the opportunity for cross sell and upsell.

Critical to our go to market, are partners and service providers. As the slide shows, some of the biggest names are included here – companies like NTT (formerly Dimension Data) embed our solutions in a managed service, that they on-sell to their customers. This is a one-to-many model and creates 'reach' in our go-to-market.

Customer Demographic

Across our three product lines, the market size is significant. It is also important to restate in simple terms IR's 'sweet spot', summarised as; real-time – high-volume – high complexity. What this means is that that the more complex customer use cases are, the more relevant or compelling our value proposition. We think of it as '**complexity simplified'**.

The UC market size has traditionally been defined by end points, which is a useful proxy for users. This is becoming somewhat outdated, as we address the higher value segments within the nearly 500M users – **the sub-segment of conferencing users**. They have more sophisticated requirements around the user experience, many of them now working remotely. We target enterprise customers, telco's and managed service providers.

The payments market for us is defined as non-cash transactions, which is forecast to be over 750 billion for calendar year 2020. The sheer volume creates complexity and IR provides banks, acquirers, processers, merchants and retailers the ability to manage transactions down to a root-cause level, to either take proactive or remedial action to maintain the integrity of payment networks globally.

IR's history goes back to the NonStop servers, which are used in a range of industries – banks, health providers, telcos; as high-availability platforms. There is a significant deployment of NonStop servers globally and our ability to optimise and support some of the world's most mission critical applications running on these servers, continues to be the cornerstone of our business.

Customer Case Studies

Going one level deeper into what IR does, I would like to share three cases studies – across our product-lines.

In the first half of last year, we signed an initial deal with GlaxoSmithKline, the large pharmaceutical company, to support and manage their video conferencing environment. In real-time, we manage the user experience by providing real-time metrics for call quality. In what was a classic 'land-and-expand' engagement, we extended the initial deal in the second half of last year with an enterprise deal – providing GSK with a single pane of glass, as part of their video transformation project.

Woolworths, the large Australian grocery retailer has over 45,000 lanes or checkouts across their network of stores. They have been an IR customer for over 10 years and last year extended the partnership for another 5 years. Our Transact product-line is deployed to manage payment failures and declines, as part of their customer's overall experience. We provide real-time performance metrics, visibility and tracking for the Woolworths operations team to manage their payment network from point-of-sale back to the switch.

Our largest deal in FY20 was with the large global financial services company, JP Morgan Chase. They have been a customer for over 25 years, and we extended the relationship for a further 5 years. Our solutions are deployed in an environment where they are processing thousands of transactions a second, across their ATM's, merchant services, cards and retail. We manage the hardware and payment applications that support these transactions, providing thresholds for 'standard operating', and sending alerts when these thresholds are breached.

We are a Tribe

As part of our ongoing transformation, and our objective of being #FitterFasterStronger, we are very focused on the people that make it happen every day – the IR Tribe. To modernise and make our values more relevant we launched our Tribe Behaviours – which are values in action, to **Create Great**.

We were careful to express them in everyday terms, so that they resonate. As we embed them, as the core of our innovation culture, we want people to identify with them and personalise them. We used words and symbols, to appeal to the different ways that people make sense of things. Ultimately, we used a language that people would adopt in their everyday interactions;

- Team up - cooperate
- Be human – have a little empathy
- Own it – be accountable
- Crush it – ambition
- Have a laugh – don't take yourself too seriously

As Paul already referenced, employee engagement and Leadership trust are critical elements of our talent journey. We operate in highly competitive markets and the war for talent is real. Over the last year, we have re-framed our approach to the people aspect of the company we want to be – by beginning the journey of moving from engagement to culture. We believe that culture trumps any measure of a high-performance organisation.

We are clear and purposeful on both our approach and the journey ahead.

Key Success Drivers

Core to our growth is the simple phrase; **maintain the base, grow the base and add net new customers**. In order to execute on this, there are six key success drivers;

1. **Market growth** – we need to ride the organic growth in our respective markets. In Collaborate, it is the 48% growth in conferencing as a sub-segment of the overall UC space, as per Gartner. In Transact, it is the 11.5% growth in non-cash payments projected by Capgemini. In Infrastructure, we maintain our view that the market is broadly flat, and we need to hold our position and maximise margin.
2. **Expand addressable market** – this is to effectively compete for more of the addressable market in both UC and payments.

   In Collaborate, this has two vectors;
   - New products for additional vendors – e.g., WebEx in H2
   - New functionality for existing vendors – e.g., direct routing

   In Transact, further enhancing our 'agent technology', to integrate to additional payment environments, with the potential to more than double our market opportunity. The release of simpler switch integration later this half is the first step.

3. **Move to Cloud** – as more enterprises move parts of their communications and payments workloads to Cloud, with Gartner projecting an acceleration in North America and Western Europe, we need to be successful on two fronts;

   - Protect the revenue base coming off on-premise (Cisco & Avaya), and
   - Leverage our hybrid competitive advantage to increase our share-of-wallet; hybrid and multi-vendor plays to IR's strength

4. **New Products** – we need to gain early traction with new products, to increase share-of-wallet and acquire new customers. We also need to manage the revenue transition from upfront to subscription over the next 2-3 years as already covered by Peter. The changes to the way we develop and sell SaaS products should not be under-estimated, through the transition period. That said, we are well advanced in our planning for this phase.

5. **New Customers** – over the past couple of years, new customer acquisition has been trending up with 38 added in FY20. The structural market changes of remote working and cashless payments are tailwinds to drive new customer adds, as is the increasing complexity of hybrid and multi-vendor customer environments.

6. **Increasing Sales Capacity** - as part of our ongoing transformation we are re-engineering the sales front-end of our business. Already this year, we have assigned more field headcount to 'new business', added SDR's (sales development reps) and moved our demand engine to 100% digital – partly in response to the pandemic. Managed services providers are an increasingly important part of our overall revenue mix, reaching a part of the market that we do not have the resources to cover. Importantly, our new Cloud products are being developed from the ground-up with suitability to this segment.

In closing, I would like to again highlight our focus on driving sustainable long-term growth underpinned by recurring revenues. Our fundamental value proposition is sound;

- mission critical software sold to an enterprise Tier 1 customer base
- 87% of revenues 'term-recurring', and
- future growth leveraged to structural growth tailwinds

I would now like to pass back to our Chairman, Paul Brandling.