



22 February 2023

ASX Market Announcement - Investor Conference Call Transcript

Integrated Research Limited (ASX: IRI), encloses for release to the market a transcript of the Investor Conference Call held on 16 February 2023.

By Authority of the Board.

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



MARKET ANNOUNCEMENT

Investor Conference Call Transcript

Sydney, 22 February 2023 – Integrated Research Limited (ASX: IRI), advises the following is a transcript (excluding Q&A) of the Investor Conference Call held on 16 February 2023 at 10:30am. The Conference Call was conducted via the Open Briefing format of Orient Capital. References to slides are the slides contained in the Half Year Results Presentation released to the ASX on 16 February 2023.

Start of Transcript

Operator: Good day and welcome to the Integrated Research Limited half year 2023 results investor conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star followed by the number one on your telephone keypad. If you would like to withdraw your question, please press star one again. For operator assistance throughout the call, please press star zero. And finally, I would like to advise all participants, this call is being recorded. Thank you. I'd now like to welcome John Ruthven, Chief Executive Officer, to begin the conference. John, over to you.

John Ruthven: Thanks, Gavin. Good morning, and welcome to the first half FY23 results briefing for Integrated Research. My name is John Ruthven, and I'm the CEO of IR. With me today is Matthew Walton, our CFO. I'll open the presentation, and then hand to Matthew to take us through a detailed financial review. He will then hand back to me to talk through strategy and key priorities for the balance of FY23. At the conclusion of the presentation, we will open the call 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 ASX Announcements section on our website at ir.com.

Moving to *slide 2*. Integrated Research, or IR as we're better known, is a global software company providing performance and experience management solutions for critical business systems. We have three product lines; Collaborate, for unified communications, and UCaaS, or unified communications as a service; Transact, which sits in the payment space; and 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.

Now on *slide 3*. IR is a company with deep domain expertise in two primary market segments; unified communications and payments. These are competitive environments, however, we are well positioned to succeed. The world is evolving fast to meet the requirements of hybrid work environments, and IR is well positioned to help businesses navigate this with our Collaborate suite of products. Our products are specifically designed for troubleshooting complex collaboration technologies, and can be easily customised to meet each organisation's unique requirements. Our expertise in these domains provide our customers with the necessary insight to ensure users have an optimal experience. IR stands out from the competition with a solid ROI, or return on investment, helping our customers avoid the cost and consequences of poor communication and collaboration experiences.

In the Cards and NonStop markets, our success has been built up over many years. This success has enabled IR to expand into adjacent payments sectors. With purpose-built solutions, we differentiate ourselves from competition. Key to this is our expertise in real time data collection and analysis. Very few competitors match our combination of proven product, domain expertise, and outstanding customer service.

Now on slide 4. IR was founded more than 30 years ago. We have over 600 customers across our global enterprise customer base, including more than 25% of the Fortune 500 companies. We serve customers in more than 60 countries through offices in the US, UK, Singapore and Australia, and via a global channel driven distribution network. Our Transact solutions are used by large banks and payment processes to monitor over 600 million transactions per day, and whilst nearly six million users benefit from our Collaborate product line, as it is deployed to manage the performance and user experience of mission critical unified communications infrastructure.

Slide 5 is the money shot for IR. Well known global brands in key industries, including technology, telecommunications, financial services, government, healthcare, higher education, retail, and industrial services. Our customer base has long tenured on long dated non-cancellable contracts, with mission critical requirements.

I'm on slide 6, CEO key messages. We've had a strong start to FY23 with sales measured as total contract value, or TCV, up 22% on the same path in FY22. This result was underpinned by a solid renewals period, driven by improved sales execution. As I reflect on the change in momentum in the business, it's important to understand that there will be a lag between the improvement in TCV and some key proforma metrics. The weak performance in prior periods will take some time to wash through our proforma numbers.

A key indicator of customer confidence is contract term, and we saw average contract length bounce back to over four years, from a low point of two and a half years in H1 FY22. It's important to understand that customers will only commit to long term contracts when they have confidence in the future and the strength of their partnership with IR.

Key to our strategy are the structural market trends of remote working and cashless payments. These macro trends continue to drive growth across the Collaborate and Transact ecosystems. Our phase (indistinct) strategy remains intact; innovation, execution and scale. We are deep in the execution phase, and this half we've benefited from more disciplined sales, execution and investment in Generation 2 product innovation. Importantly, our balance sheet remains strong, with no debt, and an improving cash balance as at the end of January.

On slide 7, we summarise our statutory results. The company achieved profit after tax for the half of \$3.2 million. Statutory revenue for the period was \$38.4 million, up 19% on the prior year. A stronger performance was the consequence of improved sales execution, a larger renewal book, and healthier external trading conditions. The company built sales momentum through the period with a strong finish to the second quarter. Pleasingly, the benefits of refreshed sales leadership are starting to show, and the licence renewal grew by 10% through price increases and term extensions.

Cash receipts from customers totalled \$31.7 million, down 16% over the prior period. While the company continues to benefit from long term based non-cancellable licence contracts with a high-quality customer base, the \$6 million reduction in cash receipts and \$3 million in cash at bank is a consequence of lower period sales in Q4, FY22, and significant sales towards the end of the current period for collections in the following half.

Now on slide 8, and switching to proforma results. Our lead performance indicator, total contract value, or TCV, was 38.9 for the half, up 22% on the prior corresponding period. We continue to report revenue on a proforma subscription basis, which while a lag measure, we believe is more reflective of the long-term underlying performance of the business. Subscription revenues for the period were \$34.1 million, down 1% as a result of lower sales and lost clients from FY22. The lag impact of clients lost in H2, FY22 resulted in a 7% decline in ARR. Revenue from testing solutions and services contributed to the period-on-period decrease in total proforma revenue, and the half had a large renewal focus. Our cash conversion rate for the half dropped to 83% as a result of the volume of sales and invoicing late in the half, and the strong cash collection in H2, FY22.

Before I hand over to Matthew to provide a more in depth look at our financial performance, I would like to provide a progress update of sorts, that is aligned to the key priorities that I outlined in last August's earning announcement, and again at the AGM in November.

Foundational to turning the business around is returning Europe and the Americas to growth. Pleasingly, Europe was up 19% pcp on a TCV basis, and the Americas steadied under new field leadership. Both regions had a strong renewals half, and APAC again outperformed.

Capturing market momentum with new products is central to our innovation strategy. We've invested significantly in our SaaS platform, and are in the second phase of new product enhancement. We are behind plan in this regard. However, we are seeing good demand for hybrid solutions in our Collaborate portfolio, specifically for Microsoft Teams and Cisco WebEx.

We've also achieved some early wins for our Transact real time and high value products. A strong renewal half provides confidence in the enduring strength of our value proposition. Our Transact portfolio continues to have high customer retention. The Collaborate retention rate is still lower than we would like, but has steadied and is slowly building back. This dynamic is reflective of where customers are on their collaboration platform journey with the ongoing move to UCaaS, (think of) Teams and WebEx.

We previously shared that we made decisions several years ago to launch a new SaaS platform to support our customers as they moved workloads to newer environments. We also placed a bet that hybrid is a critical phase of this. That is where customers run workloads that are both on premises and in cloud. We launched Generation 1 products quickly, and are now in a co-invent phase, where we are collaborating with customers on use cases and enhancements required. This is a critical phase in our innovation strategy.

Our balance sheet remains strong, and we are debt free, and there was no debtor factoring in the period. We continue to focus on improving our cash position through strong operational performance, and disciplined receivables management.

I will now hand over to Matthew to take us through a detailed review of our financial performance.

Matthew Walton: Thanks, John. We're on *slide 11*. Slide 11 shows the linkage between total contract value, statutory revenue, proforma revenue and annual recurring revenue. It's worth unpicking this for a moment. Total contract value, or TCV, the black line, is the total value of a revenue generating contract written in a period of performance. This includes software licence and related maintenance, cloud, testing, and consulting services revenue. TCV is a function of the term of the contract, and the annual value of the contract. For example, client TCV can reduce significantly if the term is reduced, even though the annual value of the licence subscription has increased.

Statutory revenue, the red line, is revenue recognised per the accounting standard. This has strong upfront revenue recognition, with less revenue recognised over the life of the contract. As a consequence, there is a strong alignment with TCV. Proforma subscription revenue, the middle purple bar, is the licence and maintenance revenue from the contract spread over the life of the contract. It is a non-statutory and unaudited view that we believe better represents the recurring nature of the contracted revenue streams.

Proforma revenue, the left grey bar, is proforma subscription revenue, plus other non-recurring revenue streams, typically professional services, and one time through to testing services.

Recurring revenue, the blue bar on the right, is the annualised end of period subscription revenue, and best represents the ongoing recurring value in the revenue stream. This chart highlights that while there is more volatility in TCV and statutory revenue, there is more consistency in the revenue streams over time as represented by proforma and annual recurring revenue.

Two key points to address in this slide are; (1) the convergence of TCV and statutory revenue is driven by the shift to SaaS, with less upfront revenue recognition; and (2) the lag effect of proforma and recurring revenue flowing from lead indicators of TCV and statutory revenue, means the growth of proforma and recurring revenue occurs as new clients and TCV is added to the renewal base, and the renewal base is extended through price increases.

Slide 12 presents our TCV statutory revenue, proforma subscription revenue, and recurring revenue by geographic region and by product set. This slide should be considered in conjunction with more detailed slides in the appendix. Points to highlight include; the Asia Pacific chart clearly shows consistently strong proforma and recurring revenue growth of 10% on a five-year CAGR. The Asia Pacific growth was across all products and new business and renewals. There is strong Collaborate renewal in the period, including a significant growth in contractor. New Transact sales will grow future proforma revenue in ARR, and new leadership in the Americas and Europe is driving licence TCV growth.

We now turn to slide 13. This slide focuses on key metrics underpinning values, namely the level of recurring revenue, the contract length, and the proportion of new business to renewals in the period. Recurring revenue has nominally increased as a proportion over the prior period. Normalising for the same level of non-recurring revenue, such as testing and services revenue, has a recurring revenue consistent at 84% of proforma revenue.

Contract length has improved over the prior period, with the average length of a contract written in the half increasing to 4.1 years, up from 2.5 years in the prior corresponding period. Renewals dominated the half with \$25.3 million in TCV.

Turning to slide 14, titled 'Operating Costs'. IR has continued to manage costs tightly. While costs have increased 5% on the prior period, this is a result of inflationary pressures offset by managing the headcount. Natural attrition continued through the period as the market for technology staff was competitive. Pleasingly, IR was able to replace all critical roles quickly with high calibre candidates.

Our innovation agenda continues as illustrated by the left-hand chart. The jump in product and technology expenditure primarily reflects a lower level of capitalisation and costs associated with the hybrid/cloud offer, as we pursue a balanced and disciplined approach aligned to value drivers.

Our sales and marketing spend pulled back during COVID, with less travel and trade shows. This experience is reversed as customer face-to-face meetings and marketing events have returned. Consequently, while our headcount is lower than FY22, this is offset by increased travel costs and upward pressure on remuneration.

The company's general and administration expense increased with the lift in provision for doubtful debts, and the costs incurred in retaining and recruiting staff in a competitive market.

Turning to slide 15. Cash flow from operations shown on slide 15 was \$1 million for the period, with a cash conversion rate of 83%. The company experienced the flow on effect to cash collections from customers of low sales in the fourth quarter of FY22, together with strong sales late in the current period, which will be collected in future periods. The company's cash position has improved significantly since balance date, with a cash conversion rate of 93% in January, and the cash balance increasing to over \$12 million by the end of January.

Slide 16. While the company had statutory EBITDA of \$8.5 million, only \$1 million of cash was generated from operations. The primary drivers of this difference are historic debtor factoring of \$2.5 million, and working capital of \$3.9 million in the form of trade receivables as sales late in the period await client payment. We should note the company is not factoring any receivables, and the current factoring around debt in December 2023.

Slide 17, the balance sheet. This shows a 4% improvement in net assets, and a 4% improvement in tangible assets. The decrease in cash is more than offset by the lift in receivables from sales at the end of the period. Receivables remain a strong source of cash flow in current and future periods, and the company remains debt-free.

I'll now pass back to John.

John Ruthven: Thank you, Matthew. Moving to strategy. I'm on slide 19. Our strategy remains focused on three core product lines; Collaborate, Transact and Infrastructure. The core pillars to this strategy are; leverage the structural market changes of remote and hybrid working and cashless payments. Support our customers in their evolving journey as they transition from on-premises through hybrid and cloud. Leverage our existing customer 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. Leverage success in key verticals like healthcare, higher education, law enforcement, manage service providers and large banks and payment processes.

Slide 20 details are our multi-year phased transition; innovation, execution and scale. The innovation phase kicked off with the launch of our SaaS platform as the foundation for a range of new products. This innovation is ongoing, and the launch of new and enhanced products will continue to meet current and emerging customer use cases.

We are deep in the execution phase, and whilst it's taking longer than we anticipated, we are confident that our go-to-market strategy is right, and the return to face-to-face engagements, including trade shows, will assist our

demand generation. We're also now engaging more closely with our customers and partners, to evolve our first generation products with enhanced use cases and accelerated time to market.

As we transition to scale in the future, we'll move our focus in reporting to subscription type metrics, to better inform the underlying performance of the business. We will also leverage our success in key verticals like healthcare, higher education, financial services, to drive our product and innovation agenda.

On [slide 21](#) we now look at some customer wins from the prior period. Through the first half, we closed around 200 individual transactions, large and small. The largest deal closed was just shy of AU\$5 million, measured as TCV. Approximately half of our TCV in the period came from seven figure deals, with our high quality enterprise customer base, renewals and new business are critical to our growth. We were pleased that our renewal yield was up around 10%, providing a solid foundation on which to grow.

A significant portion of our business was concluded in November in December, and with large enterprise customers, it takes time to get their approval to use their name and logo. That said, it is important that we provide some colour on the type of customer wins that we achieved in the half.

We won a new commercial banking customer in Africa through our long-standing partnership with ACI. Leveraging a strong inside supporter who had used our products at another bank, we were able to conclude a contract close to \$1 million to help this customer monitor their card payments and ATMs whilst they were going through a merger.

In the UK, we renewed and expanded the current agreement with a large financial institution, who's been a customer of ours since 2015, in a deal worth close to AU\$4 million. They operate in over 40 countries, and have a complex environment of merchant acquirers. We provide real time monitoring of transactions of their customers.

Moving to [slide 22](#), and our Collaborate product portfolio, our largest deal of the half was a new customer win with LANcom in Taiwan, a major service provider in this market. The contract is for 120,000 users supporting their Cisco on-premises as customers. Our solution is critical to their operations teams monitoring their customer environments. At a nuts and bolts level, this is alerting and troubleshooting issues to ensure that they meet their service levels with their customers. This win also sets apart the foundation for a follow on opportunity to support their MS Teams, or Microsoft Teams, and Cisco WebEx customers.

Proving out the longevity of Cisco on-premises, we closed a three year renewal in the US for a 32,000 user environment with a not-for-profit healthcare provider. Our solution provides end-to-end monitoring of operations teams, across their core unified communications, rooms, and contact centre environments. We provide a critical set of tools to help them deliver a better patient experience.

As Matthew referenced earlier, [slide 23](#) highlights that our innovation agenda remains firm. Across the last few 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, and the combination of all these investments has facilitated the capability to serve on-premises hybrid and pure cloud environments. This means we can flex with the market, and respond to new and emerging use cases.

Moving to [slide 24](#). Innovation continues in our Transact product line as Generation 2 product comes to market. In close collaboration with our customers, their inputs and business needs are driving our product roadmap, priority and decisions. Two central themes stand out. First, product enhancements for existing customers that ensure strong renewals and increased usage. Simpler integration and user interface improvements are key. Second, new capabilities focused on providing greater data insights and value added services. This is evident across all three payment product segments, and builds upon a well-established monitoring and troubleshooting capability. This approach to innovation has good momentum, with 18 renewals and three new customer wins in the last year.

We're also gaining traction with new products into targeted global markets. These markets have solid growth projections, using a combination of direct and indirect sales channels. This is evidenced through a growing presence in the Middle East, with multiple countries now on the cusp of deploying real time payment schemes, and multiple banks in the US who are just completing long running Swift related projects, and now looking to deploy new high value related services.

Now on slide 25. The unified communications and contact centre markets continue to undergo significant change in both the vendor landscape and solution delivery models. The vendors we have traditionally supported are transitioning their solutions to cloud technologies as demand increases among their larger customers. As they adopt our solutions to provide both migration and service assurance of these newer technologies, we're engaging them to refine our solutions to support their hybrid technology investments.

We now have customers adding cloud technologies to large on-premises environments, and others moving to newer cloud native solutions, and creating a need for solutions like ours. Reducing mean time to repair is a major customer benefit of Collaborate. Significant effort went into capturing ways customers were using the newer solutions and streamlining access to the data needed to identify and resolve user reported issues.

Large enterprises and service providers often use ServiceNow to provide service desk functionality, and we continue to evolve that cloud integration with our early adopters. Our contact centre customers have been exploring moves to Genesys cloud, and we are working closely with a large customer to provide a hybrid solution that meets their initial set of needs, and that can be built out further as adoption grows. At the same time, we're broadening the supported vendors of our newer capabilities, to drive adoption with our service provider customer base. Ribbon SBC, or session border controllers support is coming out soon, and will continue to evolve as the service providers gain traction with that solution to Microsoft Teams direct routing.

Moving to the final slide, slide 27. We have a clear and consistent set of priorities as we work hard to return the business to growth. Firstly, we're pleased with the first half results in Europe and the Americas. Our field leadership changes have delivered in improved field discipline, renewal yield and new business pipeline. We're confident that this improved cadence will continue in the second half and beyond.

Second, the first half was underwritten by strong renewals. At the same time, we built a growing pipeline of new business opportunities. In the second half, we're focused on converting this pipeline, and achieving a greater TCv contribution from our new products.

Third, in the first half renewal yield was good, as was customer retention in our Transact and Infrastructure product lines. The increase in contract length to over four years was also a positive. In the second half, we're focused on understanding the customer dynamics in our Collaborate portfolio to maximise retention. We have a solid renewable book for our Collaborate customers this half.

Fourth, leveraging the significant investment in innovation and new products over the last couple of years, we're now collaborating with customers and prospects to refine and extend the value proposition of our products. We've moved product and engineering closer to the field, and redefined our development priorities to support this.

Last, our balance sheet remains solid, and our cash position is strengthening. We will continue to focus on improving the company's working capital position to fund innovation and growth. We do not provide specific guidance or specific future guidance, however, the transition of our business is gaining momentum.

Operator, that concludes the presentation.

End of Transcript

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About Integrated Research Limited (ASX: IRI). Integrated Research (IR) is a 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.