

Integrated Research Ltd

New integrations: aims to regain momentum in '23

Integrated Research Ltd (ASX:IRI) is a software company providing performance management and analytics for business-critical systems globally. It has three product lines: (1) 'Collaborate' for unified communications, collaboration and contact centre environments; (2) 'Transact' for payment transactions; and (3) 'Infrastructure' for IT network infrastructure. IRI's ~600 clients include >25% of the Fortune 500 and many are long-standing (>15 years). Historically, IRI's communications products served 'on-premises' environments (e.g. supporting Cisco, Avaya and Skype systems), while its payments services focused on bank and payments processor infrastructure as well as transactions data and analytics for card payments. Since FY20, IRI has been in a period of strategic transition reflecting material investment in new product development to meet customer needs and capitalise upon market trends. Its new offerings encompass: (1) Cloud solutions; (2) Hybrid (on-premise/cloud) solutions (e.g. monitoring and troubleshooting for remote working environments using Microsoft Teams, Zoom); (3) Software-as-a-Service ('SaaS') subscriptions (to reduce on-premise product skew); and (4) Payments solutions for real-time and high-value payments (given the increased volume of cashless payments). This new product development has been 'self-funded' via cashflows. However, IRI's FY22 operating and financial performance (in North America and Europe) fell below its original expectations and KPIs due to delayed or cancelled customer purchasing decisions and some internal sales execution issues in H2. It has recently appointed new key personnel in North America and Europe and "remains confident that over the longer-term, its business-critical products and solutions will return the Company to growth."

Business model

The majority of IRI's revenue is generated from its Collaborate offering which serves 5.8m users (55% in FY22) with the remainder from Transact (13%), Infrastructure (21%) and professional services (11%). Geographically, FY22 revenue was derived from Americas (61%), Europe (15%), and APAC (24%). Traditionally, IRI's software has been deployed at client premises under a private infrastructure model and, in turn, licence revenue has been recognised upfront (at commencement of ~three-four year non-cancellable contracts) leading to somewhat 'lumpy' reported revenue even though clients make annual licence fee payments throughout the term, while the attached maintenance fees have been recognised and paid annually. Given IRI has started to derive SaaS revenue (recognised over subscription period), it now discloses additional metrics of: (1) Pro-forma ('underlying') revenue which is closely aligned to cash receipts (\$79.8m vs. \$75.5m in FY22); and (2) Total Contract Value of 'in year' contract signings for new and renewal business.

Solid FY22 cashflows despite lower-than-expected revenue

IRI recently disclosed the following FY22 financial information: (1) \$62.9m reported (statutory) revenue (down 20% on pcp); (2) \$79.8m pro-forma revenue (down 4% on pcp) of which 85% is recurring; (3) \$56.7m Total Contract Value (down 25% yoy); (4) \$8.5m reported EBITDA and \$24.5m pro-forma EBITDA; (5) \$1.5m net profit (including \$4.0m tax benefit); (6) \$16.9m operating cashflows and \$5.1m free cashflows (after \$11.5m capitalised development spend); and (7) \$12.3m net cash (no debt), up from \$5.5m at 30 June 2021.

Trading at sizeable discount to Splunk and ASX All Tech Index

IRI is trading at 0.9x EV/Revenue and 5.5x EV/EBITDA for FY23f (Source: Refinitiv). Whilst it is significantly larger (US\$2.7b revenue), Splunk (NASDAQ:SPLK) provides an indicative valuation yardstick given it has competing products. IRI is trading at a sizeable discount to SPLK's forward EV/Revenue of 4.2x and EV/EBITDA of 31x. The ASX All Tech Index (XTX) provides another valuation metric – with IRI also trading at a significant discount to XTX's 12-month mean forward EV/Revenue of 3.3x and EV/EBITDA of 17x.

Historical earnings and ratios (in A\$m unless otherwise stated)

Year end	Reported Revenue	Pro-forma Revenue*	EBITDA rep.	NPAT rep.	EPS rep. (c)	EV/Pro-forma	EV/EBITDA (x)	PER (x)
06/19a	100.8	89.1	40.2	21.9	12.7	0.7	1.6	3.5
06/20a	110.9	99.8	42.9	24.1	14.0	0.7	1.7	3.1
06/21a	78.5	83.5	21.9	7.9	4.6	0.8	3.3	9.5
06/22a	62.9	79.8	8.5	1.5	0.9	0.8	7.5	48.9

Source: Company data *Amortises upfront licence revenue over contract term

Software & Services

9th September 2022

Share Details

ASX code	IRI
Share price (8-Sept)	\$0.445
Market capitalisation	\$76.9M
Shares on issue	172.7M
Net cash at 30-Jun-2022	\$12.3M
Free float	~62%

Share Performance (12 months)



Upside Case

- Stronger-than-expected revenue growth
- Evidence of improved revenue and cashflow from uptake of new products/SaaS
- Profit/cashflow allows resumption of partly franked dividends/capital management

Downside Case

- Loss of major client(s) and/or continuation of lower-than-expected revenue
- Lower-than-anticipated new product uptake
- Exchange rate risk (global operations)

Catalysts

- Meeting or exceeding FY23 KPIs
- Improved earnings → dividends/capital mgmt

Comparable Companies

Splunk Inc. (NASDAQ: SPLK); Firstwave Cloud Technology Ltd (ASX: FCT); Objective (ASX: OCL)

Board and Management

Peter Lloyd	Non-Exec. Chair
John Ruthven	MD/CEO
Cathy Aston	Non-Exec. Director
Allan Brackin	Non-Exec. Director
Anne Myers	Non-Exec. Director
James Scott	Non-Exec. Director

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FINANCIAL SERVICES GUIDE

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