



## **IRESS LIMITED HALF YEAR RESULTS TO 30 JUNE 2014**

### **Sound progress on strategy**

### **Result positively impacted by full period UK contribution**

IRESS Limited today announced Underlying Group profit of \$A38.2 million for the six months to 30 June 2014, up 47.9% on the prior corresponding period (six months to 30 June 2013)<sup>1</sup>.

#### Highlights included:

- Group Revenue of \$170.2m +61.5%, Group Segment Profit of \$59.3m +44.9%<sup>2</sup>
- Solid, continued performance of Australasian business (Segment Profit +8.0%)
- Strong performance by Wealth Management ex-UK (Segment Profit +25.7%)
- Continued progress with UK strategy following successful acquisition integration
- Reported Group profit of \$30.1m
- Interim dividend of 16 cents per share, 40% franked

IRESS Chief Executive Officer, Andrew Walsh, said the result showed IRESS continues to progress well on its strategy to diversify its earnings with scaled business operations. The result was positively impacted by the full period contribution by the UK, with net revenue for the group increasing 61.5% (AUD) and Segment Profit up 44.9% (AUD).

“Performance during the period has continued to reinforce the strength of our strategy to build leading software and provide quality delivery and support. The success of this strategy over time has underpinned resilient, recurring revenue.

“Highlights included continued performance by our wealth management business and the positive impact on our results of further diversification in geography and business segment. For the six months to 30 June 2014, 48% of revenue was from outside Australasia (21% pcp), and Segment Profit from outside Australasia was 30% (6% pcp).

“In the United Kingdom, we have continued to make progress on delivering to our strategy following successful acquisition integration. We are pleased with the opportunities presented both in the United Kingdom and regionally for IRESS’ integrated product suite and solutions.

“During the period, IRESS’ core Australasian division performed well with Segment Profit increasing by 8.0%. The continued strength of our Australasian business reflects IRESS’ ongoing focus on this market and it being an important component of IRESS’ growth strategy and initiatives across the group.”

<sup>1</sup> All comparisons are comparisons with prior corresponding period (six months to 30 June 2013) unless mentioned otherwise.

<sup>2</sup> IRESS considers inter-period comparability of results is best presented as the underlying operating results of the relevant businesses calculated excluding share based payments, non-core items, and amortisation of intangible assets recognised through acquisition strategic charges) and has presented results in this manner for the past 10 years. Reflecting the introduction of debt into group in September 2013, and its impact on inter-period comparability of results, the underlying group results have been reported on a de-gearred basis, with all financing impact reflected in Treasury in Non-Core.

External factors including regulatory and market changes, equity market volumes, and the resulting financial pressures on clients are providing challenges and opportunities across the group. Mr Walsh said the financial markets business continues to perform well in the context of the external challenges that are effecting the equity broking community globally.

“As clients focus on complying with changes and make strategic decisions for the longer term, technology is increasingly at the centre.

“IRESS’ integrated product suite and our ongoing product investment continue to provide opportunity for cost efficiency and additional value for clients. Our scale and unique capability spanning capital markets, wealth and lending means IRESS is well placed to capitalise on changes in client segments and geographies as opportunities arise.”

## **Dividend**

In respect of first half earnings, directors determined to pay an interim dividend of 16.0c reflecting increased earnings. This represents an increase of 18.5% on the 2013 interim dividend, and is paid on enlarged issued capital.

As a result of non-recurring tax credits processed during the half and larger issued capital, there has been a reduction in franking credits available in the short-term, which results in interim franking of 40% (at a 30% tax rate). Whilst the effect of tax credits to the company are non-recurring in nature, the impact to the franking balance will be evident in 2014 and 2015, after which franking will increasingly reflect the geographic context of the business which indicates a franking level of around 60%.

## **Balance Sheet**

The balance sheet when compared against prior period, reflects strong cash generation after allowing for dividend payments, stable working capital, and a decrease in the net tax balances associated with expected tax refunds. Secured borrowing levels at December remain unchanged at \$180.5m and the cash balance at 30 June 2014 was \$68.2m.

## **BY SEGMENT**

### ***Financial Markets***

Operating Revenue in the financial markets business was \$A72.6m for the period, up 0.2%, and Segment Profit of \$A28.6m, down 2.6%.

Mr Walsh said he was pleased with the revenue resilience of the business, given the persistent, challenging climate for sell-side participants.

“Growth in our financial markets business remains challenging in the context of a continued tough sell-side broking environment, which is the combination of lower than normal volumes, ongoing regulatory burdens, and a subsequent strong focus on cost by clients. We are providing solutions that enable clients greater cost efficiency, and continue to work with strategic client initiatives where relief from the burden of regulatory change allows clients to focus sufficiently on these.

“Our own business costs are a key focus and continue to be closely assessed to ensure they are appropriate in light of our global activities and people requirements.”

### ***Wealth Management***

Operating Revenue in the wealth management business was \$A75.3m for the period, up 128.8%, and Segment Profit of \$A24.3m, up 109.1%. Excluding the contribution made by the United Kingdom business, Operating Revenue in wealth management was up 17.1% and Segment Profit was up 25.7%.

Mr Walsh said: “Underlying performance in our wealth management business remains very strong, and with results positively impacted by the contribution from the UK over the whole period. Regulatory change in recent years has stimulated direct and related investment by advice and wealth management businesses in systems automation, supervision, and retail client engagement. Our position as an

independent vendor of scale with a leading product suite uniquely positions us in each of our markets to support the strategic objectives of our clients.”

The maturity and implementation of advice reforms globally are at different stages and each market has its local characteristics. However, the overall trend and the opportunity for IRESS to anticipate opportunities is positive.

“We continue to see opportunities that will benefit from our experience and integrated product suite. This includes current and prospective clients looking to take advantage of structural change and dislocation within the wealth management and advice landscape. We anticipate ongoing regulatory and strategic stimulus for technology in each market globally.”

### **Enterprise**

This half represents the first full period contribution by the Enterprise business, which within the group has unique financial characteristics of less predictable license, maintenance and service-based revenue. Operating Revenue in the half was £12.0m compared to £7.5m in the previous half (over four months). Segment Profit was £3.4m, from £0.4m in the previous half.

Despite significant demand driven by regulatory change and heightened lending volumes, some client decisions to postpone projects have impacted expected levels of revenue and profit in 2014. In response, active cost reductions have been made while also balancing our strategic product initiatives and new opportunities.

“The Mortgage Sales & Origination (MSO) platform is a highly differentiated and leading solution in the United Kingdom and we are positive about the opportunities in this market and elsewhere supported by IRESS’ overall product strategy,” Mr Walsh said.

## **BY GEOGRAPHY**

**Australia & New Zealand.** Operating Revenue in Australasia was up 6.3%, with an increase in Segment Profit of 8.0%. Australia and New Zealand remain a core focus for the group.

“We have a positive outlook for the Australasian market with continuing growth opportunities. We continue to maintain and grow our strong franchise, with clients seeking opportunities from IRESS as a scaled strategic partner. Retail advisory clients are increasingly seeking strategic solutions, which are able to be met by our integrated product suite.”

**United Kingdom.** IRESS’ operations in the United Kingdom represent a material contribution to the group result and an important regional platform from which to grow through organic and inorganic opportunities. In the half, the United Kingdom represented approximately 35% of group operating revenue and 24% of group segment profit in Australian dollars.

“Our strategy to leverage experience, scale and the IRESS product suite is proving a strength as wealth management participants respond to regulatory and structural changes. We are confident we have laid strong groundwork in the United Kingdom for success in this market.

“IRESS’ investment and strategy to productise MSO is progressing very well with clients positively engaged. The outlook for this division in the medium to long-term continues to be positive, however, we do see continued volatility into 2015 as a result of the challenging environment for retail banks in the UK,” Mr Walsh said

**South Africa.** Operating Revenue in South Africa was up 8.3%, due to change in the product revenue mix (gross profit movement of 4.8%). Segment Profit decreased by 12.3% in local currency, which included impact of Australian dollar cost allocation (ZAR4.1M), local cost increase for premises (ZAR1.1m), and an increase in bad debt provision (ZAR1.7m). Recurring subscription revenue in South Africa continues to reflect the strong franchise held, which is important to IRESS for opportunities in the region as a scaled strategic partner.

**Canada.** Operating Revenue in Canada was down 10.5%, with an increase in Segment Profit of 7.8% in local currency, impacted by cost allocation in 2013 H2. Revenue experience in Canada has been stabilising over recent halves with some positive signs in market volumes during the half despite year on year volumes being down. Against the previous half, revenue was down 2.2% (CAD) and Segment Profit was up 3.3% (CAD).

Despite the sustained difficult environment, IRESS remains committed to building from its established base in Canada. IRESS remains focused on leveraging its integrated product suite as the market prepares for regulatory change similar to that seen in Australia and the United Kingdom. IRESS is making good progress on PWM solutions in Canada and is continuing to invest for growth while actively managing costs.

**Asia.** IRESS continues to make strategic progress in Singapore, which represents a long-term opportunity for the group. Mr Walsh said Asia was a market requiring both persistence and patience and he considered it appropriate progress against other activities in the group.

### **Outlook**

Early trading in the second half has commenced with positive activity. Software implementation activities in retail business segments has continued in all regions, and covers client transitions from existing products, new implementations from competitive wins, and strategic client initiatives.

Our Enterprise lending business is a potential source of high growth but is more difficult to predict due to heavy dependence on client-driven timetables and long lead times. At this stage, therefore, results of this business should not be extrapolated based on a single prior half. In the current circumstances, contribution from the second half is not expected to be significant.

Assuming foreign exchange at constant levels, we expect Segment Profit in 2014 to exceed 2013 by between 20% and 25%.

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### **ABOUT IRESS LIMITED**

IRESS is a principal supplier of capital markets, wealth management, and lending systems in Australia, New Zealand, Singapore, Canada, South Africa and the United Kingdom. IRESS employs over 1,300 staff in 14 offices worldwide. IRESS' leading core product capabilities are: IRESS (market information and trading platform), XPLAN (wealth management and advice platform), and MSO (lending automation and processing platform). IRESS' strategy is based upon building leading software with quality delivery and support. The success of this strategy over time has underpinned resilient, recurring revenue.

IRESS' origins are Australian and continued strength of our Australasian businesses remains an important component of our growth strategy and initiatives to broaden geographic reach. Over time, IRESS' business and geographic diversity has grown such that today, a material financial contribution is made from outside Australia.



More commentary on operating results, share based payment (“SBP”) expenses, non-recurring items and strategic charges are included in the accompanying slide presentation.

(a) IRESS considers inter-period comparability of results is best presented as the underlying operating results of the relevant businesses calculated excluding share based payments, non-core items, and amortisation of intangible assets recognised through acquisition strategic charges) and has presented results in this manner for the past 10 years. Reflecting the introduction of debt into group in September 2013, and its impact on inter-period comparability of results, the underlying group results have been reported on a de-g geared basis, with all financing impact reflected in Treasury in Non-Core

(b) These segment results are inclusive of the Group’s investments in the emerging business in Asia and Financial Markets in the United Kingdom.

(c) This figure is derived from segment profit before tax, after depreciation and amortisation from operations (excludes amortisation of intangible assets recognised through acquisition (strategic charges)). In prior years, this line item also included net interest.

(d) Reflecting the introduction of debt into group in September 2013, a separate Treasury line has been introduced. This incorporates all costs associated with the Group’s debt funding, and includes interest income.

		Fin Mkts	Wealth	Consol							
		Aust	Mngt	Aust							
		(A\$m)	Aust	(A\$m)							
		(A\$m)	(A\$m)	(A\$m)	Australia	RSA	Canada	WM UK	E’prise	FM UK	Asia
		(A\$m)	(A\$m)	(A\$m)	(A\$m)	(Rm) <sup>°</sup>	(C\$m) <sup>°</sup>	(GBPm) <sup>°</sup>	(GBPm) <sup>°</sup>	(GBPm) <sup>°</sup>	(A\$m)
<b>Recurring Operational<sup>a</sup></b>											
<b>Operating Revenue</b>	<b>H1 2014</b>	53.830	34.547	-	88.377	107.311	9.385	20.421	11.987	0.323	0.899
	<b>H2 2013</b>	53.497	33.375	-	86.872	100.809	9.592	13.406	7.470	0.165	0.893
	<b>H1 2013</b>	53.521	29.598	-	83.119	99.062	10.481	0.413	-	0.140	0.712
<b>Segment Profit</b>	<b>H1 2014</b>	25.231	16.363	-	41.594	27.521	2.825	4.378	3.419	(0.268)	(1.939)
	<b>H2 2013</b>	26.132	14.644	(0.054)	40.722	27.485	2.736	1.684	0.335	(0.360)	(2.096)
	<b>H1 2013</b>	25.435	13.084	-	38.520	31.395	2.620	(0.867)	-	(0.186)	(1.854)

(e) Please note figures in this column are reported in the underlying natural currency for this business segment.