



The Manager  
Company Announcements Office  
Australian Stock Exchange  
Exchange Centre  
20 Bridge Street  
SYDNEY NSW 2000

20 February 2023

Dear Manager,

**IRESS LIMITED – 2022 FULL YEAR RESULTS CONFERENCE CALL - CEO SCRIPT**

Please see attached the script from Iress' 2022 results conference call held today at 9:30am.

Yours sincerely

A handwritten signature in blue ink, appearing to be "P. Ferguson", followed by a long horizontal line.

Peter Ferguson  
Chief Legal Officer & Company Secretary

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# Iress Ltd 2022 Full Year Financial Results

## Conference Call

### CEO & CFO Script

#### Slide 1: Opening slide

- It is a pleasure to address investors on my first Iress results call to present our results for the 2022 financial year.

Before going into the details of our performance, I'd like to talk about:

- My initial observations of Iress, and
- What you can expect over the coming months.

#### Slide 5: CEO observations

- Since commencing as CEO in October, we have been conducting a thorough analysis of the Company, assessing Iress' performance across geographic segments, and the commercial and operating model in place.
- We've brought in some external expertise to fast track this analysis. It is about developing the right model for the business going forward choosing where and how we compete, improving efficiency, resource allocation and increasing ROIC and EPS.
- This review is set to be completed in March. Then we'll evaluate data and make informed decisions before sharing the outcomes at an Investor Day on April 20

It's already clear that:

#### 1. The core of the Iress business is incredibly strong

- The Australian franchise - which comprises financial advice, trading & market data and superannuation Each of them in their own right excellent businesses.

- There is scope for continued organic growth in advice, trading and superannuation in Australia and for our software to continue helping our clients to grow their businesses and deliver operating leverage.
- Iress is critical capital markets and wealth infrastructure:
  - In Australia alone, IOS processes \$2.8trn in trades each month, while we see 20,000 new client accounts added to Xplan each month.
  - Super represents an industry predicted to grow to \$10trn over the next 15 years, with a large number of funds seeking to reassess their platforms over the coming years to drive greater efficiencies. Iress is at the heart of that.
- While the Australian franchise is powerful, there is room for improvement. We need to treat incumbency with respect by improving the experience of our clients. Over the last few years a significant proportion of investment dollars have been focussed offshore and a number of Australian clients have felt underserved. We've already begun addressing this by reallocating resources to address this.
- We need to reinvest in this powerful franchise and strengthen the core to sustain growth and returns.
- We are kicking off a period of reinvention to drive the next generation of platforms in our core markets.

## 2. We need to improve return on capital in offshore markets

- The Australian franchise has historically funded expansion into offshore and adjacent markets, with mixed results.
- Localisation hasn't been as simple as we may have initially thought, and has become capital intensive, materially impacting the Group's EPS and ROIC performance.
- We are assessing the best path for unlocking returns for shareholders from those investments.
- We do see significant opportunities offshore, including in the UK, but need to determine the best structures, operating model and product strategies to deliver performance.
- We have identified some quick wins to support FY23 as well as longer term opportunities.

## 3. Iress has great people and great clients

- Since becoming CEO in October, I've been impressed with the breadth of industry knowledge and technical capability at Iress. We have a great culture and deep subject matter expertise across markets.
- Equally I've been impressed by the strength of Iress' client base. We have exceptional clients which are at the heart of financial services in this country and overseas.
- Focusing on improving our clients' experience is the key to our continued growth. It's how we will unlock significant opportunities for them and the broader industry.

#### **4. Need to drive high performance**

- My goal is to drive a high performance culture at Iress that keeps us focused on our customers. We'll do that in a few ways:
  - Introducing a clear structure with clear accountability
  - Introducing greater clarity in reporting
  - Reviewing our remuneration structure, and ensuring incentives are aligned with outcomes

#### **5. My final point: Iress has tremendous potential.**

- Iress has systemically significant infrastructure in a strong and growing industry.
- We have deep and enduring relationships with many clients across our business. Retention is high. But we need to partner more closely with clients to solve industry-wide pain points.
- The Quality of Advice Review report has highlighted how underserved the advice needs of Australians are - it's critical Iress steps into this and responds for the benefits of advisers and for all Australians, while providing the next generation of advice technology.
- We need contemporary technology - moving to a cloud-based architecture is an important building block in achieving this - and we're well advanced here.
- We also need to evolve to a more product-led approach to the way we innovate, compete and win in our chosen markets.
- Pulling it all together, we will get back to our core software strengths to drive greater operating leverage consistent with leading software and SaaS companies.

#### **Slide 6: What you can expect from here**

- As previously outlined, we have kicked off a significant piece of analysis. As part of this analysis we are reviewing our longer term targets and I will present my view of Iress' longer term financial potential at the investor day in April after this analysis has been completed. To be clear this includes the 2025 targets which we will review and update as part of this exercise.
- Let me be clear: I do believe there are significant tailwinds and opportunities for this business, which will generate upside on both ROIC and EPS.
- I want to complete the review and make informed decisions based on good data.
- We've moved forward on a number of immediate priorities already.
- We're progressing plans to reinforce the strong Australian core - improving our clients' experience by reallocating resources away from low-return initiatives to invest in our core trading and advice software.
- We've launched investment infrastructure connectivity in advice, with new mobile apps to come for advice and trading.
- We're well advanced on moving to a cloud-based architecture - increasing our speed, scale and agility.
- And we've launched a new sales incentive scheme to fuel growth in Australia and around the world.
- We are evaluating opportunities to improve returns in the UK
- At Investor Day on 20 April we will specifically address all of this in more detail.

Let's now turn to the FY22 results.

## Slide 8

- In 2022, we delivered results in line with revised expectations
- Revenue in constant currency was up 5%, Underlying NPAT was up 6% while underlying EPS increased by 10%.
- In constant currency, segment profit was \$166.8m, which is flat on last year. NPAT in constant currency was \$54m. Both are within the revised guidance range.

- We've been navigating a changing economic climate. Historically we have performed well in tough markets and you can see that here once again
- As previously outlined, I can see significant opportunities for us to be more efficient.
- The APAC business continued to perform well with strong revenue growth and high levels of recurring revenue. Superannuation is a clear highlight where we are seeing significant industry growth. Funds want greater efficiency and digital member engagement. The execution of our strategy here has delivered 15% revenue growth - driven by making progress in onboarding clients and winning new ones.
- Our UK business had a disappointing result with revenue growth below expectations. There are variations across segments, with recurring revenue growth in Trading and Private Wealth both offsetting churn in Retail Wealth where the loss of a major client and user rationalisation drove revenue down. It's clear we need to find better pathways to success here.
- We have invested heavily in modernising our technology to a cloud-based architecture, spending \$11m this year. This work is well advanced - we have now successfully migrated 99% of client sites in wealth management to the cloud. 85% of clients are now on a weekly auto update schedule. We also decommissioned 11 pieces of legacy software last year, reducing complexity and costs.
- We launched aspects of investment infrastructure in November. Affinity connects Xplan and third party investment platforms and insurers to deliver on one of the biggest pain points for advisers which is the execution of advice. Colonial First State, MetLife, MLC Life and Praemium have all signed MOU's to collaborate on its design. We will continue to innovate and build functionality in 2023.
- I'll now hand over to John to take you through the financials in more detail and then finish with the outlook.

## Slide 16: Financial performance

**JOHN HARRIS, CFO**

Thanks Marcus.

I'll start on page 16 which summarises the key drivers of 2022 financial performance:

- As Marcus has said, revenue in constant currency grew by 5% underpinned by strong performances in APAC and Mortgages
- Revenue growth was offset by inflationary pressure in the cost base, in particular technology vendor costs which grew 20% year on year
- As a result, and in line with our revised September guidance, Segment Profit was flat for the year
- Iress' financial performance continues to be characterised by very high levels of recurring revenue and very low levels of customer churn reflecting the critical importance of our software to our clients' businesses.
- Although we are not immune from inflationary pressure on our cost base we were able to offset this with recurring revenue growth including pricing.
- Our Segment Profit margin in 2022 declined from 27.9% to 26.8%. In setting our own price rises we took the deliberate decision to absorb some of the increase in input costs. We have a loyal and long term customer base and we felt this was the right thing to do. We will address this margin decline through a focus on the efficiency of our own business which will be a key priority for 2023

I'll now drill into these themes in more detail

Turning to slide 18 which shows each segment's contribution to revenue growth in 2022:

- APAC delivered another strong performance contributing 80% of the group's revenue growth in 2022 driven by new client wins, organic growth with existing clients and pricing.
  - APAC Financial advice revenue grew by 4% with pricing and organic growth partially offset by some institutional contract resizing as a result of structural changes in the industry.
  - We are pleased with the stability and strength that the financial advice business has shown in a rapidly changing industry over the last couple of years and we remain positive on the outlook for advice in Australia. Indeed, we continue to see opportunities for the industry to grow, and deliver this important service to a greater number of Australians, through a combination of technology led efficiency gains and regulatory support.
  - APAC Trading and Market Data also had a good year with revenue growing by 7%. We saw strong growth in recurring revenue driven by

price increases, new client wins in the year and the full year benefit of clients won in the previous year.

- Superannuation revenues increased by 15%, with 84% of revenue now recurring. This growth was driven by making solid progress with the onboarding of new clients, as well as work commencing on the client win announced in '22. We are seeing a lot of pipeline activity in the superannuation business including material near term opportunity.
- The UK and Europe's revenue performance was disappointing with constant currency growth of 1%. Recurring revenue grew 3% but non recurring revenue, driven by the timing of client project work, fell by 22%.
  - Performance was mixed across the UK product lines with trading & market data and private wealth recurring revenue growing by 7% and 21% respectively but retail wealth declined by 7%.
  - The retail wealth decline was the result of the loss of one client and the rationalisation of users at another. Both of these events were covered in the first half results.
- Mortgages delivered a second year of high single digit constant currency revenue growth of 9%. We had a full year benefit of a new client going live late in 2021 as well as price gains. Two more client implementations are underway and we are pleased with the way this business is performing.

Turning briefly to slide 19, I would call out two points:

- Operations costs increased by \$7.1m as a result of ongoing investment in the cyber security team as well as additional operational resources added in support of the MFA & Platform businesses.
- The increase in corporate costs was largely driven by insurance premiums. Pleasingly this market looks to have stabilised in 2023.
- As noted above, we were able to offset cost increases with revenue growth resulting in a flat segment profit outcome on a constant currency basis

Slide 20 bridges our cost growth from 2021 to 2022

- Technology costs were the main driver of increases in Cost of Sales and Opex
- Transitioning to the cloud increased the Cost of Sales by \$11.7m (13%). Prior to cloud, much of the cost of providing compute power to our team and our



clients was reflected in depreciation of physical servers. These costs are now above the line.

- Opex increased by \$8.1m (15%) driven by vendor price rises and the FX impact on USD pricing.
- Employee costs increased by a modest 2% (\$6.3m) with headcount increases focused on Super and Mortgages client implementations as well as the cyber security & compliance teams and MFA & Platforms.

Turning to Slide 21, the big movers here are:

- The \$6.3m reduction in depreciation and amortisation was the result of a rationalisation of our office footprint in 2021 and the full amortisation of acquisition related intangibles.
- Net Interest and financing costs were \$3.7m higher than 2021 as a result of the buyback increasing drawn debt and changes in the interest rate environment.

And finally, a couple of comments on slides 22 and 23:

- Iress continues to be a highly cash generative business as can be seen on slide 22
- As you can see on slide 23, net debt now sits at \$326m with leverage at 2.2x segment profit. This is above our neutral setting of 2x as a result of the 2022 profit downgrade announced in September last year.
- We also fixed approximately 28% of our lending in May 2022 with the issuance of a £60.5m seven year fixed rate note.

I'll hand back to Marcus to take you through the outlook and conclusions.

### **Outlook - Slide 25**

- Thank you John.
- I'll briefly cover 2023 guidance and some conclusions. Then we can open the line for questions.
- I am very positive about the strength of the Iress core business and the opportunities to deliver greater returns for shareholders
- In 2023, we expect our Segment Profit to be at least at the levels of 2022. I would also hope that we can do better than that as an outcome of the analysis currently underway.

- Given the scope of this work and the impact this is likely to have on both near and longer term performance, we will update guidance on April 20 at our Investor Day.
- What really matters to me and the team at Iress is ensuring we finalise the review at pace, evaluate the findings in a considered way, and execute the changes needed to deliver against the enormous potential I see for Iress, our shareholders, clients and people.

### **Closing remarks after Q&A (Marcus)**

- Thank you all for dialing in
- I'm looking forward to meeting many of you on the roadshow
- I'd like to recap on three key points from today's presentation:
  - The strength of our Australian franchise
  - The data driven analysis process we are going through to improve returns for shareholders
  - My genuine excitement about the opportunity ahead of us as the industry evolves.
- I look forward to giving you a detailed update on where we are going and what we are capable of on April 20.