

IRESS FULL-YEAR RESULT TO 31 DECEMBER 2017

Financial summary

- **Group revenue:** \$430 million, up 10% on FY16 (3% on a constant currency basis¹), including the positive contribution to earnings from Financial Synergy and INET BFA acquisitions.
- **Reported NPAT:** \$59.8 million, up 1% on FY16.
- **Group Segment Profit²:** \$125.4 million, up 2% on FY16 (3% on a constant currency basis) including the impact of 2016 acquisitions.
- **Final dividend:** 28.0 cents per share, 60% franked. Total 2017 dividend: 44.0 cents per share, in line with 2016.
- **Balance sheet:** At 31 December 2017, net debt balance was \$164.3 million at a leverage ratio of 1.4x Segment Profit. Continues to reflect a conservative balance sheet position.

CEO comment

IRESS chief executive, Andrew Walsh, said: “Our financial results for 2017 are at the higher end of the range of the revised guidance provided to the market in November 2017. We experienced increased business and revenue momentum in the second half, realising the benefit of investments made in prior periods. In particular, second half revenue increased 3% over the first half, with second half segment profit up 11% over the first half.

“We are delivering on our strategy of providing integrated, market-leading products, with critical milestones achieved to existing and new clients.”

Business highlights

During the half IRESS achieved a number of business highlights, including:

- **XPLAN Prime:** During the second half of 2017, our new scaled advice solution, XPLAN Prime, was delivered to three ASX-listed financial services businesses.
- **Integrated solutions:** Critical project milestones were achieved for Tilney Group and Close Brothers Asset Management in the United Kingdom, and Echelon Wealth Partners in Canada.
- **Superannuation:** Delivery of a managed technology service and adoption of Acurity by industry super fund, Statewide Super, significantly automating superannuation administration.
- **Portfolio management:** Increased demand for IRESS’ portfolio management solution to new and existing retail and institutional buy-side clients.
- **Lending:** Major retail bank TSB went live and agreement with an Australian client to deliver our lending solution during the first half of 2018. Recurring revenue increased from 10% to 15% of total revenue, reflecting client deliveries and strategic progress.
- **Client and user experience:** Investments in core products and technology for our clients and users to improve experience and ensuring greater leverage, simplicity, and scale.

¹ Constant currency basis assumes 2017 results are converted at the average foreign exchange rates used for 2016. This allows comparison of group operating performance in Australian dollars before the impact of changes in Australian currency rates.

² 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-recurring items and foreign exchange impact of the revaluation of cash balances.

Segment results

APAC Financial Markets

- Operating revenue was steady, up slightly by 1%, with flat direct contribution reflecting wage growth. Despite resilient revenue during the year supported by recent buy-side client wins, sell-side pressures are still driving cost decisions by clients. Revenue from Asia was up marginally over 2016.

ANZ Wealth Management

- Excluding the positive impact of the first full year of results following the acquisition of IRESS' Superannuation business, operating revenue and direct contribution increased by 7.0% and 8.5% respectively on the previous year, with stronger revenue momentum in the second half. When including the impact of the 2016 acquisition, revenue increased 33% on the previous year.
- During the year, the Superannuation business successfully rolled out the Acurity superannuation platform to Statewide Super, replacing multiple legacy systems and manual processes. IRESS also completed development of its integrated digital advice solution with Acurity for superannuation members. This solution is attracting strong interest from industry superannuation funds in Australia to extend functionality and engagement with members.
- Based on the current sales and project pipeline and timing, IRESS expects continued strong results for wealth management in 2018.

United Kingdom

- In local currency, operating revenue increased 3%. We continue to experience strong demand from existing and new clients for integrated solutions across IRESS' trading and advice product suite.
- Direct contribution was flat on 2016, reflecting investment in delivery capacity for future growth and one-off costs associated with the delivery of a large and strategically important client project in an accelerated time-frame.
- Recurring revenue represents approximately 93% of total UK revenue. XPLAN revenue represents approximately 20% of total UK revenue.
- Exchange portal revenue was up 3% reflecting increased direct take-up, and associated services.

Lending

- In local currency, operating revenue and direct contribution in 2017 remained largely in line with the prior year, with growth in revenue and direct contribution demonstrated between the first and second half.
- The Lending business continues to make solid progress transitioning to a recurring subscription model with recurring license fees contributing approximately 15% of total revenue in 2017, up from 10% in 2016.

South Africa

- In local currency, South Africa achieved revenue and direct contribution growth, of 10% and 13% on 2016, excluding the positive impact of the first full year of reporting of INET. Including INET total revenue growth and direct contribution growth was 40% and 38%.

Canada

- In local currency, operating revenue and direct contribution increased 6% and 16%, reflecting successful client deliveries, client retention and a strong focus on cost control, in a challenging capital markets environment.

Product and Technology

- On a constant currency basis, product and technology costs have increased from \$98.4m to \$111.8m from 2016, remaining at 25% of revenue. The increase is heavily influenced by 2016 acquisitions, remuneration and headcount increases that reflect investment in people and products. Excluding acquisitions, Product & Technology costs increased by 7% from 2016.

Operations

- On a constant currency basis, operational costs increased from \$34.2m to \$39.4m from 2016 due to the impact of 2016 acquisitions, headcount and wage increases. Excluding acquisitions, operational costs were up 3% on 2016. Operational costs remain constant at 9% of revenue.

Corporate

- On a constant currency basis, corporate costs increased from \$28.2m in 2016 to \$33.8m in 2017, reflecting the impact of acquisition of Financial Synergy and INET, increased headcount and wage increases, and one-off costs associated with a series of internal global people conferences. Excluding acquisitions and people conference costs, corporate costs were up 11%. Corporate costs increased by 1% to 8% of revenue.

Outlook

- Period on period revenue and cost remains subject to the timing of client implementations and significant industry change.
- We expect growth weighted to the second half and a decline in Segment Profit in 1H18 (from 2H17), impacted by lower bonus provision in 2H17 not repeated in 1H18.
- We expect 2018 Segment Profit growth to be in the range of 3 - 7% (on a constant 2017 currency basis¹).
- Non operating costs relating to integration, infrastructure investments in scaling our capability and restructuring are expected to be in line with 2017 levels.

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