

2020

Half year profit announcement

Incorporating APPENDIX 4D

For the six months ended
30 June 2020





We are a global team of more than 2,000 people building software that helps the financial services industry perform at its best.



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ASX Appendix 4D

Half year results announcement to the market

Name of entity Iress Limited

ABN reference 47 060 313 359

1. Reporting Periods

Financial half year ended (‘current period’)	Financial half year ended (‘previous corresponding period’)
30 June 2020	30 June 2019

2. Results for announcement to the market

Key information	Current period \$'000	Previous corresponding period \$'000	Percentage change increase	Amount increase \$'000
Revenue from ordinary activities	270,689	241,768	12.0%	28,921
Profit before income tax expense	35,095	41,501	(15.4%)	(6,406)
Net profit attributable to members of parent company	26,322	30,351	(13.3%)	(4,029)

3. Dividends

Dividend	Period	Payment date	Amount per security Cents	Franked amount per security at 30% tax
Interim dividend*	30 June 2020	25 September 2020	16.0	35%
Final dividend	31 December 2019	20 March 2020	30.0	40%
Interim dividend	30 June 2019	27 September 2019	16.0	10%

* The record date for the interim dividend is 3 September 2020.

4. NTA Backing

Net tangible asset backing per ordinary share	Current period Cents	31 December 2019 Cents	Previous corresponding period Cents
Net tangible asset backing per ordinary share	(34.78)	(105.67)	(114.89)

NTA backing for the Group is negative reflecting the nature of a technology company whereby the majority of the assets relate to recognised intangible assets and unrecognised human capital responsible for creating and maintaining Iress. Net tangible assets for the Group include right-of-use assets and lease liabilities arising from property and other leases.

This Half Year Report should be read in conjunction with the Annual Report of Iress Limited as at 31 December 2019 together with any public announcements made by Iress Limited and its controlled entities during the half year ended 30 June 2020 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001 (Cth)*.

Directors' Report

The Directors present their report together with the consolidated financial statements of Iress Limited ("Group"), comprising of the company and its controlled entities, for the half year ended 30 June 2020.

Directors

The Directors of Iress Limited during the half year ended 30 June 2020 and up to the date of this report are set out below:

Name	Tenure
A D'Aloisio	Chair since August 2014 and Independent Non-Executive Director since June 2012
A Walsh	Managing Director and Chief Executive Officer since October 2009
N Beattie	Independent Non-Executive Director since February 2015
J Cameron	Independent Non-Executive Director since March 2010
M Dwyer	Independent Non-Executive Director since February 2020
J Fahey	Independent Non-Executive Director since October 2017 and Chair of the People & Performance Committee since February 2020
J Hayes	Independent Non-Executive Director since June 2011 and Chair of the Audit & Risk Committee since June 2011
J Seabrook	Independent Non-Executive Director since August 2008, third and final term as a Director ended at the AGM in May 2020
G Tomlinson	Independent Non-Executive Director since February 2015
T Vonhoff	Independent Non-Executive Director since February 2020

Principal activities

Iress is a technology company providing software to the financial services industry. We were founded in Australia and the continued strength of our Australian business remains an important component of our strategy. Over time, we have diversified and grown by geography, and a material financial contribution is now from overseas operations. Our revenue is primarily recurring monthly subscriptions.

Our unified technology capability

We partner with and support clients from small retail to large institutional firms across multiple segments of the financial services industry. Our software sits at the centre of our clients' businesses, supporting their core operations, providing end-to-end functionality and connectivity through back, middle and front office operations and to our clients' customers.

	Software	Clients
Trading and market data	Global market data and trading software including: <ul style="list-style-type: none"> – market data, – trading interfaces, – order and execution management, – smart order routing, – FIX services, – portfolio management, – securities lending, – analytical tools, and – connectivity. 	Trading and market data clients: <ul style="list-style-type: none"> – institutional sell-side brokers, – retail brokers, and – online brokers.
Investment management	Global investment management and trading software including: <ul style="list-style-type: none"> – portfolio management, – order and execution management, – FIX services, – analytical tools, and – connectivity. Integrated software solution offering: <ul style="list-style-type: none"> – market data, – order management, – portfolio management, – client relationship management, and – wealth management. 	Investment management clients: <ul style="list-style-type: none"> – investment managers, – investment platforms, – discretionary retail fund managers, – private client advisers, and – wealth managers.
Financial advice	Integrated financial advice software offering: <ul style="list-style-type: none"> – client management, – business automation, – portfolio data, – research, – financial planning tools, – scaled advice journeys, – digital client solutions, and – data-driven compliance and analytics. 	Financial advice clients: <ul style="list-style-type: none"> – institutional advisory, and – independent advisory.

Directors' Report

continued

Principal activities continued

	Software	Clients
Superannuation	Superannuation administration software offering: <ul style="list-style-type: none"> – fund registry, – digital member portal, 	Superannuation clients: <ul style="list-style-type: none"> – superannuation funds.
Mortgages	Multi-channel mortgage sales and origination software including: <ul style="list-style-type: none"> – automated workflow, – application processing, and – connectivity. 	Mortgage clients: <ul style="list-style-type: none"> – mortgage lenders, and – mortgage intermediaries.
Life and pensions	Insurance and pension sourcing software including: <ul style="list-style-type: none"> – quoting, – comparison, and – application processing. 	Life and pensions clients: <ul style="list-style-type: none"> – institutional advisory, – independent advisory, and – insurance intermediaries.

Changes in state of affairs

On 7 January 2020, Iress acquired 100% of the share capital of BC Gateways and on 17 March 2020 Iress acquired 100% of the share capital of O&M Systems (O&M). For details on the BC Gateways and O&M acquisitions refer to Note 3 to the Consolidated Financial Statements on page 19.

On 29 April 2020, Iress refinanced its unsecured bank facilities totalling \$300m that were due to expire in November 2021. The amount of the unsecured bank facilities was increased to \$405m and the expiry date extended to April 2024. The covenant requirements remained unchanged.

On 1 June 2020, Iress announced that it had entered into a Scheme Implementation Agreement to acquire OneVue Holdings Limited, an ASX listed administration platform for managed funds, superannuation and investments. The offer price is c. \$107m. Implementation of the Scheme remains subject to a number of conditions. Subject to these conditions being met, the acquisition is expected to be finalised in October 2020.

On 1 June 2020, Iress announced the proposed issue of 14,395,394 ordinary fully paid shares through an equity placement and 1,919,386 ordinary fully paid shares under a Share Purchase Plan for total gross proceeds of \$170m.

The issuance of the shares under the equity placement was completed on 4 June 2020 and total proceeds, before fees, of \$150m were received.

The Share Purchase Plan closed on 29 June 2020 and was oversubscribed. The issue was increased by 479,844 shares and 2,399,230 shares were issued on 8 July 2020 for total proceeds of \$25m.

Key risks

The material key risks that have the potential to impact Iress are as outlined in the 2019 Annual Report. These risks remain relevant at the interim reporting date.

The Iress Corporate Governance Statement, a link to which is provided on page 6, also contains detailed descriptions of the key risks.

In addition, the success of a company that operates in an industry dominated by the development of intellectual property depends greatly on the recruitment and retention of quality staff. If Iress is unable to attract and retain adequately skilled staff to meet its requirements (including as a result of any COVID-19 impacts described below), it could over time have a material impact on Iress' ability to meet the needs of its clients and compete effectively.

Additionally, the direction and impact of trends relating to workplace productivity and the future of work following the COVID-19 pandemic are unknown, and there may be adverse impacts over time to all businesses including Iress. Further, an outbreak of COVID-19 within Iress' workforce, or any sustained absences from key staff due to health reasons or regional conditions, may adversely impact Iress' performance.

Directors' Report

continued

Impact of COVID-19 on the Group

Subsequent to 31 December 2019, there was a global outbreak of a novel strain of coronavirus (COVID-19), and on 11 March 2020, the World Health Organisation declared the coronavirus outbreak a pandemic. The global and domestic responses, including mandates from federal, state, and/or local authorities, to mitigate the spread of the virus continues to evolve rapidly and has impacted global commercial activity and contributed to significant volatility in financial markets.

Iress' key focus during this time has been the health and wellbeing of its people, and ensuring that they have been able to work safely and effectively on a remote basis, as well as providing service continuity for clients and users. Whilst some people and teams in certain locations have started returning to the office as Government restrictions have lifted, the majority of Iress' people continue to work from home. For those offices that have reopened, Iress' focus has been on ensuring that workplaces are safe.

Operations have not been interrupted by COVID-19 and Iress continues to deliver all services and support to clients and users. Iress' teams, including business-critical teams, have been working well remotely and the business can continue to operate effectively in this manner for an extended period of time if required. Regular updates regarding business continuity are published on Iress' website.

Iress operates a subscription model and most of Iress' revenue is recurring in nature. Iress has a history of strong cash conversion and low debtor defaults. These features of Iress' commercial model have continued throughout the COVID-19 pandemic and, as a result, the financial impact of the pandemic to date has not been material. COVID-19 has resulted in a significantly lower amount of annual leave being taken by Iress' people which has in turn resulted in a higher annual leave accrual and higher employment costs.

The majority of client implementation projects and tender processes for new sales have continued since the onset of the COVID-19 pandemic, notwithstanding a short period of adjustment to the new environment. However, some projects, particularly in the UK mortgages business, were temporarily delayed. Iress has also experienced some slowing in the conversion of sales opportunities to contracted client wins in June and July. This may impact revenue growth in the second half, particularly in the UK where the timing of new client sales is a key driver of revenue growth.

In addition, the Group is exposed to the broader economic uncertainty evident in all of Iress' markets as a result of COVID-19. This makes it difficult to forecast short-term financial performance.

At the date of this report, due to the resilience of Iress' business, Iress has not been eligible for, nor applied for, significant Government COVID-19 related support other than the deferral of certain VAT and payroll tax payments in the UK and Australia respectively. Iress expects to settle these liabilities within the next twelve months and as such they remain presented in the financial statements as current liabilities.

Key risk areas identified by Management and the Board where COVID-19 may impact financial reporting for the Group are:

- The impact of COVID-19 on Iress' clients and, as a result, on Iress' revenue;
- The carrying value of non-financial assets (primarily Goodwill) and the forward looking assumptions made about future performance in the models used to test for impairment;
- The assumptions utilised in determining the level of the Group's credit loss provisioning including expectations of future credit losses from client default; and
- The assumptions around future performance used to determine the fair value of contingent consideration relating to the QuantHouse and BC Gateways acquisitions that are recorded as provisions on the Group's balance sheet as at 30 June 2020.

Corporate governance

The Corporate Governance Statement is located on the Iress website: <https://www.iress.com/trust/corporate-governance/corporate-governance-statement/>.

Directors' Report

continued

Review of operations and outlook

Operating and Financial Review

		1H19 \$m	2H19 \$m	1H20 \$m	1H20 v 1H19	1H20 v 2H19
Operating revenue	Reported	241.8	267.2	270.7	12%	1%
	Constant Currency Basis ⁽¹⁾	242.5	267.0	268.7	11%	1%
Segment profit	Reported	74.1	78.0	71.9	(3%)	(8%)
	Constant Currency Basis ⁽¹⁾	74.2	77.8	72.1	(3%)	(7%)
Segment profit after share-based payments		65.9	68.4	61.5	(7%)	(10%)
EBITDA		63.7	70.1	59.0	(7%)	(16%)
Reported NPAT		30.4	34.7	26.3	(14%)	(24%)

(1) Constant currency basis assumes the 2020 financial results are converted at the same average foreign exchange rates used in 2H19.

Iress' financial performance is underpinned by a focus on client service and support, ongoing investment in products and technology, increasing product and geographical diversification and a recurring subscription revenue model.

Operating Revenue

On a reported basis, revenue from ordinary activities grew 12% from 1H19 to 1H20 and 1% from 2H19 to 1H20 reflecting underlying growth in Australia, combined with a positive contribution from the recent acquisitions of QuantHouse and O&M.

Segment Profit

Iress uses Segment Profit as a measure of underlying earnings to aid inter-period comparability of results, as disclosed in Note 2 to the Consolidated Financial Statements.

On a reported basis, Segment Profit declined 3% from 1H19 to 1H20, and 8% from 2H19 to 1H20 which reflects ongoing investment in staff and product capability, inflation linked pay increases and the timing of client projects.

In 1H20, Segment Profit was adversely impacted by a temporary elevation in annual leave costs of approximately \$3.7m⁽¹⁾ that was caused by a sharp decline in annual leave taken following the onset of COVID-19, and a Segment Loss of \$1.1m reported by recently acquired blockchain business BC Gateways.

In January 2020, Iress completed the acquisition of BC Gateways, the first Australian financial services blockchain to go live. In March 2020, Iress completed the acquisition of O&M, a small UK-based provider of pension and investment data and comparison tools to financial advisers. The financial contribution of this business to 1H20 results was minor.

	Operating Revenue					Direct Contribution				
	1H19 \$m	2H19 \$m	1H20 \$m	1H20 v 1H19	1H20 v 2H19	1H19 \$m	2H19 \$m	1H20 \$m	1H20 v 1H19	1H20 v 2H19
APAC	128.2	136.2	142.3	11%	4%	92.3	98.8	102.1	11%	3%
UK & Europe	65.1	77.6	79.1	21%	2%	43.3	48.7	47.1	9%	(3%)
Mortgages	14.6	14.4	11.8	(19%)	(18%)	9.7	9.5	7.0	(28%)	(26%)
South Africa	24.2	24.1	22.8	(6%)	(5%)	18.9	18.6	18.1	(4%)	(3%)
North America	9.6	14.9	14.7	53%	(1%)	4.3	6.1	5.6	32%	(8%)
Client Contribution	241.8	267.2	270.7	12%	1%	168.4	181.7	179.9	7%	(1%)
Product and Technology						(57.0)	(61.7)	(68.1)	(19%)	(10%)
Operations						(19.5)	(23.1)	(22.0)	(13%)	5%
Corporate						(17.8)	(19.0)	(17.9)	0%	6%
Segment profit						74.1	78.0	71.9	(3%)	(8%)

(1) Calculated as the difference between the 1H20 Group annual leave expense and the 1H19 Group annual leave expense.

Directors' Report

continued

Segment Profit continued

APAC

APAC revenue increased 11% from 1H19, and 4% from 2H19.

Financial Advice & Superannuation revenue increased 15% from 1H19 and 7% from 2H19, reflecting strong ongoing demand for Iress' Financial Advice software (Xplan) as the migration of advice firms from institutional to independent licencing continued and the focus on risk, data and compliance following the Royal Commission into financial services in Australia remained high.

Revenue from Superannuation grew 20% and 11% from 1H19 and 2H19 respectively, reflecting a substantial increase in client project activity, in particular the deployment of automated super administration solutions to recently won clients. These projects progressed well during the half, reflecting a successful transition by both Iress and client project teams to remote working following the onset of COVID-19.

Trading & Market Data revenue in 1H20 grew 6% from 1H19 and 1% from 2H19 reflecting underlying growth in Australia and Asia, and the contribution from recently acquired business, QuantHouse. Australian revenue increased approximately 2% from 1H19 to 1H20, underpinned by stable recurring subscription revenue and the successful transition to offsite working amidst high transaction volumes, combined with increased client project activity, including a project to deploy Iress' Private Wealth Solution to one of Australia's leading private wealth management businesses. This project progressed well throughout 1H20, reflecting the successful transition by both Iress and client project teams to remote working following the onset of COVID-19.

APAC Direct Contribution increased 11% from 1H19, reflecting revenue growth and largely stable costs.

UK & Europe

On a reported basis, revenue increased 21% from 1H19 and 2% from 2H19.

In local currency, revenue increased 16% from 1H19 and was down 2% compared to 2H19. Growth from 1H19 to 1H20 reflects the contribution from recently acquired businesses QuantHouse and O&M as well as new and ongoing projects with key clients to deliver Private Wealth software. Significant client milestones include the successful completion of a proof of concept with a significant new Private Wealth client and the delivery of key project milestones at a large enterprise wealth management client. Project work at large existing Private Wealth clients continued, as did the migration of AO users to Xplan.

On a reported basis, Direct Contribution increased 9% from 1H19 and declined 3% from 2H19. In local currency, Direct Contribution was up 4% from 1H19 and declined 7% from 2H19 to 1H20 which reflects the timing of key client projects and margins from recently acquired businesses.

Mortgages

On a reported basis, revenue declined 19% and 18% from 1H19 and 2H19 respectively, while Direct Contribution decreased 28% and 26% respectively over the same periods.

In local currency, revenue declined 22% and 20%, from 1H19 and 2H19 respectively, while Direct Contribution decreased 31% and 28% respectively over the same periods.

An element of revenue decline was expected in 1H20, based on Managements' expectations around the timing of key client projects. However, revenue was also adversely impacted by the delay in a number of key client projects following the onset of COVID-19 which significantly interrupted mortgage lending by financial institutions in the UK.

The Mortgages business continues to make good progress transitioning to a subscription revenue model with recurring licence fees from v2 of the MSO software increasing 7% from 2H19 to 1H20 reflecting Yorkshire Building Society going live late in 2019. Recurring revenue contributed approximately 46% of total revenue in 1H20, up from 31% in 2019.

In May 2020, Iress announced the withdrawal from the Australian mortgage market following a strategic review. The impact on 2020 financial results of this closure is minimal.

South Africa

On a reported basis, revenue declined 6% and 5% from 1H19 and 2H19 to 1H20 respectively, while Direct Contribution declined 4% and 3% over the same periods respectively.

In local currency, revenue grew 2% on both previous halves and Direct Contribution increased 3% and 5% over the same periods. Revenue growth in 1H20 was underpinned by the completion of several important client projects including the roll out of Private Wealth software to a tier one financial services client, and retail trading software to several large online brokers, but was adversely impacted by the recent withdrawal of two global financial services firms from the South African market.

North America

On a reported basis, revenue increased 53% from 1H19 and declined 1% from 2H19, while Direct Contribution increased 32% and declined 8% during the same periods.

In local currency, revenue increased 45% from 1H19, which largely reflects the revenue contribution from recently acquired QuantHouse, combined with stable underlying revenue.

In local currency, Direct Contribution increased 25% from 1H19 reflecting revenue growth, margin impact of the QuantHouse acquisition and ongoing cost discipline.

Product and Technology

The scale of investment in product and technology is at the heart of Iress' success and market position, supporting client retention and future recurring revenue growth. Product and Technology (P&T) cost is primarily made up of people costs and reflects Iress' ongoing investment in existing and new technology.

On a reported basis, P&T costs increased 19% from \$57m in 1H19 to \$68m in 1H20, and increased 10% from 2H19 to 1H20.

Impacting P&T costs in 1H20 were recent acquisitions (QuantHouse, BC Gateways and O&M), currency fluctuations, a temporary increase in annual leave costs following the onset of COVID-19 (the result of a sharp reduction in leave taken by staff), and an internal team restructure that resulted in costs of approximately \$2.5m previously reported across various other operating segments now being reported within P&T. Other cost increases reflect ongoing investment in people and products (new roles and remuneration increases) to capitalise on emerging revenue opportunities and continue to improve the way Iress designs, engineers and deploys software to increase efficiency, enhance customer experience and improve operating leverage over time.

Operations

Operational costs include core business infrastructure and people, such as internal and external communications technology, information security, operating hardware and software, and help desk.

On a reported basis, Operations costs increased 13% from 1H19 to 1H20, and declined 5% from 2H19 to 1H20.

Operations costs in 1H20 were impacted by recent acquisitions, currency fluctuations, a spike in annual leave costs following the onset of COVID-19 and internal staff transfers.

Directors' Report

continued

Segment Profit continued

Corporate

Corporate costs include Iress' central business functions including human resources, finance, communications and marketing, legal and other general corporate costs.

On a reported basis, costs in 1H20 remained in line with 1H19, and reduced 6% from 2H19.

Corporate costs in 1H20 were impacted by recent acquisitions, currency fluctuations and a spike in annual leave costs as a result of staff taking less leave following the onset of COVID-19. The decline in costs from 2H19 to 1H20 reflects ongoing cost focus and discipline, in addition to a reduction in some costs, including travel, facilities, recruiting and external consulting costs as a result of reduced business activity and the move to remote working following the onset of COVID-19.

Net profit after tax (NPAT)

	1H19 \$m	2H19 \$m	1H20 \$m	1H20 v 1H19	1H20 v 2H19
Segment profit	74.1	78.0	71.9	(3%)	(8%)
Share-based payment expense	(8.2)	(9.5)	(10.4)	28%	9%
Segment profit after share-based payments	65.9	68.4	61.5	(7%)	(10%)
Other non-operating expenses	(2.2)	1.7	(2.5)	14%	(248%)
Profit before interest and tax, depreciation and amortisation	63.7	70.1	59.0	(7%)	(16%)
Depreciation and amortisation	(17.9)	(19.4)	(19.1)	7%	(1%)
Profit before interest and tax	45.8	50.8	39.9	(13%)	(21%)
Net interest and financing costs	(4.3)	(3.9)	(4.8)	12%	22%
Tax expense	(11.2)	(12.2)	(8.8)	(21%)	(28%)
Reported NPAT	30.4	34.7	26.3	(14%)	(24%)

Iress' reported NPAT decreased 14% from 1H19 and 24% from 2H19. The decline in NPAT from 1H19 to 1H20 reflects a reduction in underlying Segment Profit, losses generated by recent acquisitions QuantHouse and BC Gateways that were not in 1H19, higher share-based payment charges following previously announced changes to executive and non-executive remuneration structures, higher amortisation charges (driven by recent acquisitions) and higher interest costs following the re-negotiation of debt facilities in April 2020.

As noted above, costs in 1H20 were adversely impacted by a sharp decline in annual leave taken by staff following the onset of COVID-19, and from the losses reported by recently acquired business BC Gateways. Excluding the impact of these items, NPAT in 1H20 remained in line with 1H19 and declined 13% from 2H19.

Share-based payments increased from \$8.2m in 1H19 to \$10.4m in 1H20 as a result of the previously announced changes in both executive and non-executive remuneration structures which increased the total value of grant awards, reduced cash remuneration and brought forward accounting expense recognition. These changes in remuneration structures are described in the Remuneration Reports included in the 2017 and 2018 Annual Reports.

Other non-operating expenses increased marginally from \$2.2m in 1H19 to \$2.5m in 1H20. Non-operating costs in 1H20 primarily represents costs in relation to:

- Integration costs in relation to the acquisition of QuantHouse;
- Costs in relation to the acquisition of BC Gateways, O&M and to date on the proposed acquisition of OneVue;
- The migration of some server infrastructure to Amazon Web Services; and
- Uplift of corporate core infrastructure including information security and restructuring activities, including the closure of the Australian Mortgages business announced in May 2020.

Net interest and financing costs increased from \$4.3m in 1H19 to \$4.8m in 1H20 which reflects higher amortisation charges associated with costs of securing a new debt facility.

The Group's effective tax rate of 25% in 1H20 is a function of the tax rates in the jurisdictions in which the business operates.

Directors' Report

continued

Statement of Financial Position

Net debt (measured as borrowings excluding capitalised borrowing costs, net of derivatives, and less cash and cash equivalents) decreased by \$146.2m during the period to 30 June 2020 mainly due to the share placement in June 2020 which raised net proceeds after fees of \$146.4m.

As a result, the leverage ratio (defined in these financial statements as the ratio of net debt to last twelve months Segment Profit) decreased significantly to 0.32x at the end of the period. Iress expects the net debt position and the leverage ratio to revert to higher levels if the OneVue acquisition successfully completes in 2H20.

The debt facilities were refinanced during the period ended 30 June 2020 extending the facility limit to \$405m from \$300m and extending the maturity to April 2024 from November 2021.

Current liabilities increased by \$19.7m during the period primarily as a result of the impact of deferral of the payment of VAT and other tax liabilities announced by Governments in the UK and Australia as part of their COVID-19 business support packages as well as increased employee leave liabilities as a result of employees taking less leave during the period due to COVID-19 restrictions. Iress expects to settle the tax liabilities subject to payment deferral within the next 12 months.

In addition, there was an increase in current provisions primarily due to current acquisition deferred consideration liabilities of \$2m being recognised from the BC Gateways acquisition and a portion of the acquisition deferred consideration relating to the QuantHouse acquisition moving to current liabilities during the period ended 30 June 2020. Payment of these amounts is expected to be made within the next 12 months from the end of the period.

Dividends

Iress' dividend policy is to maintain a payout ratio of not less than 80% of underlying earnings⁽¹⁾ on an annualised basis, subject to accounting limitations. The dividend policy may be modified by the Board in the future, where it is felt appropriate. Dividends continue to be franked at to the greatest extent possible, while reflecting the geographical context of the business and timing of tax payments.

In respect of 1H20 earnings, the Directors determined to pay an interim dividend of 16.0 cents per share franked to 35% at a 30% corporate tax rate.

Events subsequent to the Statement of Financial Position date

On 8 July 2020, Iress issued 2,399,230 ordinary fully paid shares as a result of the Share Purchase Plan referred to previously for total proceeds of \$25m.

Other than the declaration of the interim dividend and the share issue noted above, there has been no other matter nor circumstance which has arisen since the end of the financial period which has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent years.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001 (Cth)*, is set out on page 11.

Rounding of amounts

The amounts shown in this report and in the half year financial statements have been rounded off, except where otherwise stated, to the nearest thousand dollars, the Company being in a class specified in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission.

Signed in accordance with a resolution of the Directors made pursuant to section 306(3) of the *Corporations Act 2001 (Cth)*.

On behalf of the Directors

Tony D'Aloisio
Chair

Andrew Walsh
Managing Director and
Chief Executive Officer

Melbourne
19 August 2020



Tony D'Aloisio

Andrew Walsh

(1) Segment Profit less operating depreciation and amortisation and tax at 30%.

Auditor's Independence Declaration

Deloitte.

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The Board of Directors
IRESS Limited
Level 16, 385 Bourke Street
MELBOURNE VIC 3000

19 August 2020

Dear Board Members,

IRESS Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of IRESS Limited.

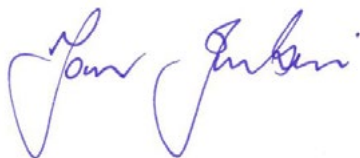
As lead audit partner for the review of the financial statements of IRESS Limited for the half year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Tom Imbesi
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte Network.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 30 June 2020

	Notes	Half year ended 30 June	
		2020 \$'000	2019 \$'000
Revenue from contracts with customers		270,689	241,768
Customer data fees		(24,398)	(19,302)
Communication and other technology expenses		(27,277)	(18,338)
Employee benefit expenses		(147,463)	(129,070)
Net other expenses	4	(12,567)	(11,433)
Profit before depreciation, amortisation, interest and income tax expense		58,984	63,625
Depreciation and amortisation expense		(19,124)	(17,873)
Profit before interest and income tax expense		39,860	45,752
Interest income		147	467
Interest expense		(4,912)	(4,718)
Net interest and financing costs		(4,765)	(4,251)
Profit before income tax expense		35,095	41,501
Income tax expense		(8,773)	(11,150)
Profit after income tax expense		26,322	30,351
Other comprehensive income			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		(17,405)	1,594
Tax related to exchange differences recognised directly in foreign currency translation reserve ⁽¹⁾		(17)	(42)
Total other comprehensive (loss)/income for the period		(17,422)	1,552
Total comprehensive income for the period		8,900	31,903
		Cents per share	Cents per share
Earnings per share			
Basic earnings per share		15.0	17.7
Diluted earnings per share		14.9	17.5

The consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

(1) Relates to the tax effect on exchange differences arising from intercompany monetary items that are treated as part of a net investment in a foreign operation. Under accounting standards, the foreign exchange gain or loss on these monetary items is recognised directly in other comprehensive income rather than the profit or loss.

Consolidated Statement of Financial Position

As at 30 June 2020

	Notes	30 June 2020 \$'000	31 December 2019 \$'000
Assets			
Current assets			
Cash and cash equivalents		99,964	33,386
Receivables and other assets		67,166	81,710
Current taxation receivables		7,642	200
Total current assets		174,772	115,296
Non-current assets			
Intangible assets	5	617,677	619,748
Plant and equipment		33,246	27,547
Right-of-use assets		58,005	51,901
Deferred tax assets		22,238	22,479
Derivative assets		953	-
Total non-current assets		732,119	721,675
Total assets		906,891	836,971
Liabilities			
Current liabilities			
Payables and other liabilities		80,522	64,525
Lease liabilities		10,026	9,179
Provisions		14,012	6,669
Current taxation payables		717	5,253
Total current liabilities		105,277	85,626
Non-current liabilities			
Lease liabilities		53,916	48,356
Provisions		37,904	30,560
Borrowings	6	147,725	225,914
Deferred tax liabilities		10,762	9,789
Derivative liabilities		-	1,820
Total non-current liabilities		250,307	316,439
Total liabilities		355,584	402,065
Net assets			
Equity			
Issued capital	7	532,313	383,083
Share-based payments reserve		27,845	30,990
Foreign currency translation reserve		(3,289)	14,133
Retained earnings		(5,562)	6,700
Total equity		551,307	434,906

The consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the half year ended 30 June 2020

	Issued capital \$'000	Share-based payments reserve \$'000	Foreign currency translation reserve \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 January 2019	378,577	24,683	3,319	12,852	419,431
Impact of change in accounting policy ⁽²⁾	-	-	-	(2,110)	(2,110)
Adjusted balance at 1 January 2019	378,577	24,683	3,319	10,742	417,321
Profit for the period	-	-	-	30,351	30,351
Other comprehensive income	-	-	1,552	-	1,552
Total comprehensive income	-	-	1,552	30,351	31,903
<i>Transactions with owners in their capacity as owners:</i>					
Dividends declared or paid ⁽³⁾	2,441	-	-	(51,915)	(49,474)
Share-based payment expense, net of tax ⁽⁴⁾	-	7,473	-	-	7,473
Transfer of share-based payments reserve ⁽⁵⁾	-	(10,448)	-	10,448	-
	2,441	(2,975)	-	(41,467)	(42,001)
Balance at 30 June 2019	381,018	21,708	4,871	(374)	407,223

	Issued capital ⁽¹⁾ \$'000	Share-based payments reserve \$'000	Foreign currency translation reserve \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 January 2020	383,083	30,990	14,133	6,700	434,906
Profit for the period	-	-	-	26,322	26,322
Other comprehensive loss	-	-	(17,422)	-	(17,422)
Total comprehensive (loss)/income	-	-	(17,422)	26,322	8,900
<i>Transactions with owners in their capacity as owners:</i>					
Shares issued during the year ⁽⁶⁾	150,000	-	-	-	150,000
Share raising costs ⁽⁷⁾	(2,600)	-	-	-	(2,600)
Dividends declared or paid ⁽³⁾	1,830	-	-	(52,476)	(50,646)
Share-based payment expense, net of tax ⁽⁴⁾	-	10,747	-	-	10,747
Transfer of share-based payments reserve ⁽⁵⁾	-	(13,892)	-	13,892	-
	149,230	(3,145)	-	(38,584)	107,501
Balance at 30 June 2020	532,313	27,845	(3,289)	(5,562)	551,307

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

[1] During the period, the total number of ordinary shares in issue increased from 174,923,447 to 190,844,630. Of this increase 14,395,394 related to the share placement referred to in Note 7 with the remainder relating to issues of shares in relation to the Dividend Reinvestment Plan component of the 2019 final dividend and the issuance of shares relating to employee deferred share and performance rights awards.

The deferred share and performance rights issues do not adjust the total value of Issued Capital as they relate to equity-settled share-based payments.

The number of treasury shares outstanding as at 30 June 2020 is 2,562,634 (31 December 2019: 2,442,166). The movement is attributable to the issuance of shares to the employee share trust and the trust delivering vested shares to employees under the employee share plans.

[2] Impact of adopting AASB 16's modified retrospective approach under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019.

[3] Shares issued under the Dividend Reinvestment Plan.

[4] The share-based payment expense includes the tax impact of \$0.34 million (2019: \$0.68 million) on vesting of employee share-based payments.

[5] The movement from share-based payment reserves to retained earnings represents the grant date fair value of share-based payments that have vested or lapsed during the half year. The amount has been recognised as a share-based payment expense over the vesting period.

[6] Shares issued during the year from the share placement (Refer to Note 7).

[7] Capitalised share raising costs incurred during the year from the share placement.

Consolidated Statement of Cash Flows

For the half year ended 30 June 2020

	Notes	Half year ended 30 June	
		2020 \$'000	2019 \$'000
Cash flows from operating activities			
Cash generated from operating activities		96,265	73,781
Interest received		147	467
Interest and borrowing costs paid		(5,274)	(4,960)
Interest on lease liabilities ⁽¹⁾		(1,043)	(1,022)
Income tax paid ⁽²⁾		(18,982)	(6,933)
Net cash generated from operating activities		71,113	61,333
Cash flows from investing activities			
Payments for purchase of intangible assets		(2,154)	(898)
Payments for purchase of plant and equipment		(11,976)	(5,082)
Payment for deferred consideration ⁽³⁾		(1,599)	-
Payments for acquisition of subsidiaries & businesses, net of cash acquired		(6,121)	(20,112)
Net cash utilised by investing activities		(21,850)	(26,092)
Cash flows from financing activities			
Proceeds from issue of share capital		150,000	-
Share issue costs paid		(3,620)	-
Payment of lease liabilities ⁽¹⁾		(4,904)	(3,674)
Dividends paid		(50,654)	(49,240)
Proceeds from borrowings		93,868	75,657
Repayment of borrowings		(166,358)	(58,725)
Net cash generated from/(utilised by) financing activities		18,332	(35,982)
Net increase/(decrease) in cash and cash equivalents		67,595	(741)
Cash and cash equivalents at the beginning of the financial year		33,386	30,190
Effects of exchange rate changes on cash and cash equivalents		(1,017)	(288)
Cash and cash equivalents at end of the half year		99,964	29,161

The consolidated statement of cash flows should be read in conjunction with the accompanying notes.

- (1) In the prior period interest on lease liabilities were previously disclosed within cash flows from financing activities. To be consistent with other types of interest, the interest on lease liabilities is now disclosed within cash flows from operating activities.
- (2) The increase in income tax paid during the current period compared to the corresponding prior period is as a result of changes in the timing of income tax instalment payments primarily in the UK and Australia.
- (3) Deferred consideration paid in the current year in relation to the 2019 acquisition of QuantHouse as the required conditions were fulfilled.

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2020

1. Basis of preparation

Iress Limited (the 'Company') is a for profit company domiciled in Australia. The half year financial report is a general purpose financial report comprising the Company and its subsidiaries (collectively referred to as the 'Group' or 'Iress') for the period ended 30 June 2020. The half year financial statements:

- were prepared in accordance with the *Corporations Act 2001 (Cth)*, Australian Accounting Standards and Interpretations, and International Financial Reporting Standards (IFRS) including *AASB 134 Interim Financial Reporting*;
- were authorised for issue by the Directors on 19 August 2020;
- were prepared on a historical cost basis, except for derivative financial instruments and investments in financial assets which have been measured at fair value;
- all amounts are presented in Australian dollars, unless otherwise stated; and
- the amounts in this report have been rounded off to the nearest thousand dollars, unless otherwise stated, as allowed under ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191 dated 24 March 2016 (ASIC guidance).

The half year financial report does not include all notes of the type normally included within the annual financial report. Accordingly, it should be read in conjunction with the annual financial report of Iress for the year ended 31 December 2019 and any public announcements made by Iress during the half year ended 30 June 2020 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001 (Cth)*.

The accounting policies used are consistent with those applied in the 2019 annual report except as noted below:

(a) Adoption of new accounting standards

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for annual reporting periods commencing on or after 1 January 2020 including the following:

- **AASB 3 Business combinations (amendments)**
Definition of a business
- **AASB 101 and AASB 108 (amendments)**
Definition of material
- **Conceptual Framework for Financial Reporting (updated 2018)**
Amendments to and reference to the Conceptual Framework in IFRS Standards
- **AASB 2019-3 Amendments to Australian Accounting Standards**
Interest rate benchmark reform
- **AASB 2019-5 Amendments to Australian Accounting Standards**
Disclosure of the Effect of New IFRS Standards not yet issued in Australia
- **AASB 2020-4 Amendments to Australian Accounting Standards**
COVID-19 related rent concessions

None of these standards have had a material impact on the Group in the current period and are not expected to have a material impact in future reporting periods or on foreseeable future transactions.

(b) Standards in issue but not yet effective

At the date of authorisation of the financial report, the following new accounting standards, amendments and interpretations have been published that are not mandatory for 30 June 2020 reporting periods and have not yet been applied by Iress within this financial report:

- **AASB 10 and AASB 128 (amendments)**
Sale or contribution of assets between an investor and its associate or joint venture
- **AASB 17 Insurance contracts**
Measurement of insurance liabilities
- **AASB 2020-1 Amendments to Australian Accounting Standards**
Classification of liabilities as current or non-current
- **AASB 2020-3 Amendments to Australian Accounting Standards**
Annual improvements 2018-2020 and other amendments

Iress does not believe these new accounting standards, amendments and interpretations will have a material impact on the financial statements of the Group in future periods.

The impact of the COVID-19 pandemic on these financial statements

Subsequent to 31 December 2019, there was a global outbreak of a novel strain of coronavirus (COVID-19), and on 11 March 2020, the World Health Organisation declared the coronavirus outbreak a pandemic. The global and domestic responses, including mandates from federal, state, and/or local authorities, to mitigate the spread of the virus continues to evolve rapidly and has impacted global commercial activity and contributed to significant volatility in financial markets.

Iress' key focus during this time has been the health and wellbeing of its people, and ensuring that they have been able to work safely and effectively on a remote basis, as well as providing service continuity for clients and users. Whilst some people and teams in certain locations have started returning to the office as Government restrictions have lifted, the majority of Iress' people continue to work from home. For those offices that have reopened, Iress' focus has been on ensuring that workplaces are safe.

Operations have not been interrupted by COVID-19 and Iress continues to deliver all services and support to clients and users. Iress' teams, including business-critical teams, have been working well remotely and the business can continue to operate effectively in this manner for an extended period of time if required. Regular updates regarding business continuity are published on Iress' website.

Iress operates a subscription model and most of Iress' revenue is recurring in nature. Iress has a history of strong cash conversion and low debtor defaults. These features of Iress' commercial model have continued throughout the COVID-19 pandemic and, as a result, the financial impact of the pandemic to date has not been material. COVID-19 has resulted in a significantly lower amount of annual leave being taken by Iress' people which has in turn resulted in a higher annual leave accrual and higher employment costs.

The majority of client implementation projects and tender processes for new sales have continued since the onset of the COVID-19 pandemic, notwithstanding a short period of adjustment to the new environment. However, some projects, particularly in the UK mortgages business, were temporarily delayed. Iress has also experienced some slowing in the conversion of sales opportunities to contracted client wins in June and July. This may impact revenue growth in the second half, particularly in the UK where the timing of new client sales is a key driver of revenue growth.

Notes to the Consolidated Financial Statements

continued

1. Basis of preparation continued

In addition, the Group is exposed to the broader economic uncertainty evident in all of Iress' markets as a result of COVID-19. This makes it difficult to forecast short-term financial performance.

At the date of this report, due to the resilience of Iress' business, Iress has not been eligible for, nor applied for, significant Government COVID-19 related support other than the deferral of certain VAT and payroll tax payments in the UK and Australia respectively. Iress expects to settle these liabilities within the next twelve months and as such they remain presented in the financial statements as current liabilities.

Significant sources of estimation uncertainty

The following assets and liabilities recognised in the Consolidated Statement of Financial Position as at 30 June 2020 are subject to estimates made about future performance and as such require significant judgment:

(a) Goodwill

Significant judgment is required in the assumptions used in the value-in-use models used in impairment testing. Refer to Note 5 on page 21 for more detailed information.

(b) Credit Loss Allowance

The Group's credit loss allowance is recognised within "Receivables and other assets" in the Consolidated Statement of Financial Position.

The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

Expected credit losses are measured by grouping trade receivables and contract assets based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts.

A provision matrix is then determined based on the historic credit loss rate for each group of clients, adjusted for any material expected changes to the future credit risk for that client group.

The adjustment for material expected changes to credit risk for each client group requires judgment about future events and as such a significant increase in actual credit losses from that expected would lead to a significant impact on financial performance. To date, COVID-19 has not had a material impact on the credit risk profile of Iress' clients. However, the broader economic uncertainty as a result of COVID-19 could lead to a deterioration in the credit profile within the client base. Iress continues to monitor credit exposures closely and carefully.

(c) Provision for deferred consideration

The Group's provision for deferred consideration is recognised within "Provisions" in the Consolidated Statement of Financial Position.

Deferred consideration represents purchase consideration payable for acquisitions once certain conditions are met as stipulated in the contracts. These are measured at the discounted value of the best estimate of the cash payable based on conditions existing at the balance date.

As at 30 June 2020, current provisions contain \$7.8 million and non-current provisions contain \$35.0 million of deferred consideration in total. These are in relation to the acquisitions of QuantHouse (\$26.6 million in total) and BC Gateways (\$16.2 million in total) during 2019 and 2020.

The measurement of deferred consideration at fair value at each reporting date requires estimates to be made about expected revenue and expenses over the measurement period to which the deferred consideration relates. In respect of the deferred consideration arising from the QuantHouse acquisition, estimates have been established for expected revenue and certain costs in the 2020 financial year and revenue in the 2021 financial year. If actual revenue and costs differ from these estimates, including future disruption from the COVID-19 pandemic, the amounts of deferred consideration payable will change. The minimum and maximum amounts payable under these arrangements are \$0 and \$32.5 million respectively.

In respect of the deferred consideration arising from the BC Gateways acquisition, estimates have been established for expected client acquisitions and revenue in the 2020, 2021 and 2022 financial years. If actual client acquisitions and revenue differ from these estimates, including as a result of future disruption from the COVID-19 pandemic on prospective clients, the amounts of deferred consideration payable will change. The fair value of acquisition deferred consideration recorded at 30 June 2020 was \$16.2 million based on a probability weighted assessment of likely revenue outcomes for the periods in question. The estimated potential range of likely outcomes of amounts payable under these arrangements is between \$0 and \$20 million.

2. Segment information

The Chief Operating Decision Maker measures the performance of the segments based on comparison to the previous half (in this case 2H19) and the previous corresponding half (1H19). As such, both the previous half (2H19) and the previous corresponding period (1H19) segment results have been presented.

Iress segments comprise:

(a) Client segments

Client segments which include the revenue less the direct costs of customer facing teams that oversee this revenue generation, are:

APAC

Consists of:

- The Trading & Market Data business which provides market data, trading, compliance, order management, portfolio systems and related tools to financial markets participants in Australia, New Zealand and Asia; and
- The Financial Advice & Superannuation business which provides financial planning systems and related tools to wealth management professionals located in Australia and New Zealand, and fund administration software to the superannuation and wealth management industries.

UK & Europe

Incorporates the financial markets business which provides information, trading, compliance, order management, portfolio systems and related tools to cash equity participants; and the wealth management business which provides financial planning systems and related tools to wealth management professionals located in the United Kingdom. In addition, market data services are provided to customers throughout the UK & Europe.

Notes to the Consolidated Financial Statements

continued

2. Segment information continued

Mortgages

The Mortgages segment operates in the United Kingdom to provide mortgage origination software and associated consulting services to banks.

South Africa

Provides information, trading, compliance, order management, portfolio systems and related tools to financial markets participants and provides financial planning systems and related tools to wealth management professionals located in South Africa.

North America

Provides information, trading, compliance, order management, portfolio systems and related tools to financial markets and wealth management participants in Canada. In addition, market data services are provided to customers in the United States of America.

(b) Cost segments

Product and Technology

All costs associated with product and technology will be reported under this segment giving a clear view of the quantum of investment made by Iress in maintaining and enhancing its products.

Operations

Includes costs to run client facing and corporate operations activity, including hosting and networks, information security, client help desks and property infrastructure.

Corporate

All other corporate functions including legal, strategy, finance and administration, human resources, communications and marketing, board of directors and Chief Executive Officer.

Any transactions directly between segments are charged on an arm's length basis.

		Operating Revenue ⁽¹⁾			Direct Contribution		
		1H20 \$'000	2H19 \$'000	1H19 \$'000	1H20 \$'000	2H19 \$'000	1H19 \$'000
Client Segments	APAC	142,312	136,245	128,230	102,109	98,808	92,305
	UK & Europe	79,082	77,558	65,128	47,108	48,684	43,265
	Mortgages	11,825	14,382	14,644	6,983	9,469	9,682
	South Africa	22,812	24,120	24,184	18,078	18,608	18,895
	North America	14,658	14,870	9,582	5,598	6,093	4,271
	Total Group	270,689	267,175	241,768	179,876	181,662	168,418
Cost Segments	Product and Technology				(68,071)	(61,588)	(57,047)
	Operations				(22,010)	(23,211)	(19,496)
	Corporate				(17,864)	(18,856)	(17,820)
	Total indirect costs				(107,945)	(103,655)	(94,363)
	Group Segment Profit				71,931	78,007	74,055
	Share-based payment expense				(10,407)	(9,541)	(8,160)
	Segment Profit after share-based payment expense				61,524	68,466	65,895
	Other non-operating expenses ⁽²⁾				(2,540)	1,773	(2,270)
Group Results	Profit before interest and tax, depreciation and amortisation				58,984	70,239	63,625
	Depreciation and amortisation				(19,124)	(19,371)	(17,873)
	Profit before interest and tax				39,860	50,868	45,752
	Net interest and financing costs				(4,765)	(3,918)	(4,251)
	Tax expense				(8,773)	(12,173)	(11,150)
	Net profit after tax				26,322	34,777	30,351

(1) Operating revenue is recognised 'over time' in accordance with AASB 15.

(2) Predominately relates to office move costs, business acquisition and integration expenses and realised and unrealised foreign exchange gains and losses (Refer to Note 4).

Notes to the Consolidated Financial Statements

continued

3. Acquisition of subsidiaries

(a) BC Gateways

On 7 January 2020, Iress acquired a 100% interest in BC Gateways Limited, a blockchain communication platform provider based in Hong Kong and Australia.

Iress acquired the holding company, BC Gateways Limited via Iress International Holding Pty Ltd which is a company incorporated in Australia and ultimately 100% owned by Iress Limited.

The acquisition of BC Gateways will assist Iress in meeting the demand from financial institutions for cost-effective, automated and compliant technology.

Initial cash consideration of \$1.525 million was paid with further milestone and earnout payments to be made to the sellers on the achievement of specific customer and revenue targets in the 2020, 2021 and 2022 financial years. The range of estimated possible outcomes for the milestone and earnout payments in total are \$0 to \$20 million.

The milestone payments and earnouts have been individually measured at the acquisition date based on the discounted present value of the expected payment achieved under the respective milestone and earnout formulae. In order to assess the expected outcome, Management made assumptions as to the probability of achieving the specific targets and the range of possible outcomes. These probability assumptions were made on the basis of financial forecasts available at the date of the acquisition.

The following table summarises consideration paid and payable and the fair value of net assets acquired at the date of acquisition:

	7 January 2020 \$'000
Consideration	
Cash consideration	1,525
Fair value of contingent consideration ('the milestone payments and earnouts')	16,158
Total fair value of consideration	17,683
Assets acquired	
Cash and cash equivalents	1
Trade and other receivables	1
Intangible assets	2,929
Fair value of assets acquired	2,931
Goodwill recorded on acquisition	14,752

The value of goodwill remains subject to the finalisation of the tax acquisition accounting.

Acquisition costs of \$0.167 million are included in 'Business acquisition, integration and restructuring expenses' (Refer to Note 4).

The financial results of BC Gateways for the period since the acquisition date and included in the Group's Consolidated Statement of Profit or Loss for the half year ended 30 June 2020 are not material to the Group's revenue and profit after tax.

(b) O&M Systems

On 17 March 2020, Iress completed the acquisition of 100% of the share capital of O&M Systems Limited (O&M).

O&M provides pension and investment data and comparison tools to financial advisers in the UK. Established in 1992, O&M has over 2,000 clients comprising pension and platform providers and advice businesses.

O&M software will further strengthen Iress' already comprehensive advice offering in the UK. It will integrate directly into Iress' Xplan software and is immediately available to Iress' clients, as well as continuing as a stand alone research service.

The following table summarises consideration paid and payable and the fair value of net assets acquired at the date of acquisition:

	17 March 2020 \$'000
Consideration	
Cash consideration	6,757
Total fair value of consideration	6,757
Assets acquired	
Cash and cash equivalents	2,161
Trade and other receivables	229
Intangible assets	3,770
Plant and equipment	21
Right-of-use assets	512
Payables and other liabilities	(1,623)
Lease liabilities	(552)
Deferred tax liabilities	(725)
Fair value of assets acquired	3,793
Goodwill recorded on acquisition	2,964

Notes to the Consolidated Financial Statements

continued

3. Acquisition of subsidiaries continued

The financial results of O&M for the period since the acquisition date and included in the Group's Consolidated Statement of Profit or Loss for the half year ended 30 June 2020 are not material to the Group's revenue and profit after tax for the half year ended 30 June 2020. In addition, the financial results of O&M for the period from 1 January 2020 to the acquisition date would not be material to the Group's revenue and profit after tax for the half year ended 30 June 2020 if they had been consolidated into the results of the Group.

(c) OneVue

On 1 June 2020, Iress announced that it had entered into a Scheme Implementation Agreement to acquire OneVue Holdings Limited (OneVue), an ASX listed administration platform for managed funds, superannuation and investments. The offer price is c. \$107 million. Implementation of the Scheme remains subject to a number of conditions. Subject to these conditions being met, the acquisition is expected to be finalised in October 2020.

Iress has not applied the accounting and disclosures required by AASB 3 *Business Combinations* in respect of the proposed OneVue acquisition in these financial statements as Iress has assessed that it did not gain control of OneVue as at the balance date. If the acquisition is successfully concluded in the second half of 2020, Iress will consolidate OneVue into its financial statements from the date that control is achieved.

There is a contingent liability in relation to the OneVue acquisition in the form of an advisory fee payable to the Group's advisor in the event that the acquisition is completed. In accordance with accounting standards, as the payment of this fee is contingent on a future event i.e. the successful completion of the acquisition, the liability has not been recognised in the Group's Consolidated Financial Statements in the period to 30 June 2020 and instead will be recognised once the conditions required for payment are met.

4. Profit before income tax expense

The profit before income tax includes the following:

	Notes	Half year ended 30 June	
		2020 \$'000	2019 \$'000
Other operating income/(expenses)			
Fees to auditors		(344)	(341)
Irrecoverable trade debtors written off		(323)	(468)
Reversal of credit loss allowances		333	552
Rental expense relating to operating leases		(121)	(97)
Other operating expenses		(9,572)	(8,809)
		(10,027)	(9,163)
Other non-operating income/(expenses)			
Realised/unrealised losses on foreign balances		(759)	(173)
Non-operating income		833	914
Business acquisition, integration and restructuring expenses ⁽¹⁾		(2,226)	(2,586)
Remeasurement of deferred acquisition consideration		828	-
Other non-operating expenses		(1,216)	(425)
		(2,540)	(2,270)
Net other expenses		(12,567)	(11,433)

(1) Includes \$0.167 million of BC Gateway acquisition costs (Refer to Note 3(a)).

Notes to the Consolidated Financial Statements

continued

5. Goodwill

In accordance with the accounting standard AASB 136 *Impairment of Assets*, the Group has conducted a review of indicators of impairment during the half year for each of the cash generating units (CGUs) to which goodwill has been allocated.

During the half year, and at the date of this report, no indicators were identified that would require a reassessment of the recoverable amount of goodwill for the ANZ Wealth Management, APAC Financial Markets and South Africa Cash Generating Units (CGUs).

For the Canada, International Market Data, UK and UK Mortgages CGUs, Iress identified indicators including CGU performance for the half year that was below that previously assumed in the impairment model. As a result the goodwill allocated to these CGUs was tested for impairment at the half year end date.

For each CGU tested, the recoverable amount has been calculated based on the value in use, using a discounted cash flow (DCF) approach. The DCF uses post-tax cash flow projections that are based on the most recent five-year financial plan updated for current performance and is discounted at an appropriate after-tax discount rate taking into account the Group's weighted average cost of capital adjusted for any risks specific to the CGU.

Terminal growth rates applied in the DCF are based on estimates of long term inflation and GDP growth in the country in which the CGU primarily operates.

The allocation of goodwill to each CGU tested for impairment in the half year ended 30 June 2020 and the assumptions applied in calculating the recoverable amounts of the goodwill in testing for impairment are as follows:

Cash generating unit tested	Allocated Goodwill		Post-Tax Discount Rates		Long Term Growth Rates	
	2020 \$'000	2019 \$'000	2020 %	2019 %	2020 %	2019 %
International Market Data	5,512	5,448	11.78	11.77	2.0	2.0
UK	321,811	333,154	9.32	9.30	2.7	2.7
UK Mortgages	79,014	82,608	9.32	9.30	2.7	2.7
Canada	15,306	15,228	9.56	9.19	2.0	2.0
	421,643	436,438				

The post-tax discount rate applied to the Canada CGU has increased by 0.4% in 2020 due to a significant increase in the observed Canadian equity risk premium during 2020. The calculated post-tax discount rates for the other CGUs were largely consistent with the rates used for the annual impairment test in December 2019.

No impairments of goodwill have been recognised in the half year to 30 June 2020 (2019: nil).

Significant estimates made

The cash flow projections included in the value in use models for each CGU assume that any delays in revenue as a result of COVID-19 are recovered in future periods. This assumption is based on the impact of COVID-19 observed during the 2020 year to date which has been limited to project delays. If COVID-19 does have a longer term material impact on revenue within a CGU, then it will result in reduced headroom or impairment of the goodwill allocated to that CGU.

The continued profitability and growth of the Canada business is dependent on retaining existing client revenue. Loss of existing client revenue would result in reduced headroom or impairment of the goodwill allocated to the Canada CGU.

The UK Mortgages cash flow projections included in the value in use model have been adjusted for client projects that have been delayed as a result of COVID-19 and assumes that this revenue is recovered in future periods. The cash flow projections also assume an increased number of clients using the software provided by the business over the forecast period. If the business is not able to achieve the increased revenue from new client sales then it will result in reduced headroom or impairment of the goodwill allocated to the UK Mortgages CGU.

Notes to the Consolidated Financial Statements

continued

6. Borrowings

On 29 April 2020, Iress refinanced its unsecured bank facilities totalling \$300 million that were due to expire in November 2021. The amount of the unsecured bank facilities was increased to \$405 million and the expiry date extended to April 2024. The covenant requirements remained unchanged.

7. Share capital

On 1 June 2020, Iress announced the proposed issue of 14,395,394 ordinary fully paid shares through an equity placement and 1,919,386 ordinary fully paid shares under a Share Purchase Plan for total gross proceeds of \$170 million.

The issuance of the shares under the equity placement was completed on 4 June and total proceeds, before fees, of \$150 million were received.

The Share Purchase Plan closed on 29 June 2020 and was oversubscribed. The issue was increased by 479,844 shares and 2,399,230 shares were issued on 8 July 2020 for total proceeds of \$25 million.

8. Dividends

	Half year ended 30 June	
	2020 \$'000	2019 \$'000
Dividends recognised and paid during the half year		
Final dividend for 2019: 30.0 cents per share franked to 40% (2018: 30.0 cents per share franked to 40%)	52,476	51,915
Dividends declared after balance date		
Interim dividend for 2020: 16.0 cents per share franked to 35% (2019: 16.0 cents per share franked to 10%)	30,535	27,960
Franking credit balance		
Franking credits available for subsequent reporting periods based on a tax rate of 30% (2019: 30%)	2,780	(6,303)

9. Events subsequent to the Statement of Financial Position date

On 8 July 2020, Iress issued 2,399,230 ordinary fully paid shares as a result of the Share Purchase Plan referred to previously for total proceeds of \$25 million.

Other than the declaration of the interim dividend and share issue noted above, there has been no other matter nor circumstance which has arisen since the end of the financial period which has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent years.

Directors' Declaration

For the half year ended 30 June 2020

The Directors declare that in the Directors' opinion:

- (a) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (b) the attached half year financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including:
 - i) giving a true and fair view of the financial position as at 30 June 2020 and the performance of the Group for the half year ended on that date; and
 - ii) compliance with Accounting Standards AASB 134 *Interim Financial Reporting* and the *Corporation Regulations 2001*.

Signed in accordance with a resolution of the Directors made pursuant to section 303(5) of the *Corporations Act 2001*.

On behalf of the Directors.



Tony D'Aloisio
Chair



Andrew Walsh
Managing Director and
Chief Executive Officer

Melbourne
19 August 2020

Independent Auditor's Review Report



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Independent Auditor's Review Report to the members of IRESS Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of IRESS Limited, which comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year set out on pages 12 to 23.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of IRESS Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of IRESS Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte Network.

Independent Auditor's Review Report

Deloitte.

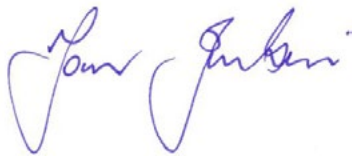
Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of IRESS Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



Tom Imbesi
Partner
Chartered Accountants
Melbourne, 19 August 2020