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Iress reports 2023 half year results

Transformation on track; pathway to Rule of 40 in core business affirmed

- Transformation on track for completion in 2024, with clear pathway to core Iress businesses performing at Rule of 40, as well as improved transparency, scalability and improved customer experience:
    - Company reorganisation and separation of Core and Managed Portfolio businesses completed to create a product-led structure with business unit CEO accountability.
    - Binding agreement to sell MFA business for $52 million and Platforms business sale advancing well, reflecting strong progress in non-strategic asset realisation program.
    - $47m in annualised gross cost savings achieved with full benefits in 2024.
- 1H representing point in time and challenging external environment.
- Revenue of $315.3 million and underlying EBITDA of $59.5 million.
- 2023 full-year guidance lowered with 2H23 expectations broadly flat versus 1H23 due to cost headwinds, reduced market trading volumes and broader macro uncertainties.
- Medium-term outlook strengthening with implementation of transformation initiatives:
    - Estimated Underlying EBITDA growth of 5-10% in FY24
    - FY24 exit run-rate Underlying EBITDA 20-30% higher than FY23
    - Pathway to Rule of 40 in core business by end FY25, with fully reset cost base and significantly reduced debt.
- Iress has made the prudent decision to suspend its interim dividend and reduce debt at a time when it is incurring high one-off costs from the Company's transformation plan. New Group CFO to lead full review of the Company's capital management plan, including Iress' approach to debt, dividends and R&D. MFA sale proceeds to be applied to debt reduction.

Iress (ASX:IRE) today announces its financial results for the first half of 2023 and provides an update of the business' transformation progress and guidance for the full year 2023.

Half year financial results 2023

(A$m)	1H23 Reported	vs pcp	1H23 Underlying[1]	vs pcp
Revenue	315.3m	2%	315.3m	2%
EBITDA	29.4	(55%)	59.5m	(17%)
NPAT	(139.8m)	(557%)	24.4m	(31%)
EPS (¢)	(76.5c)	(566%)	13.4c	(29%)

Notes
[1] Underlying represents reported adjusted for non-operating and significant items. Refer to slide 13 of the results presentation for a list of non-operating and significant items.

Iress' CEO Marcus Price, said: "In April we outlined a refreshed strategy to deliver a simpler, more focused Iress with higher returns for shareholders. We laid out six big jobs to reset Iress' cost and asset base, and provide greater transparency and accountability, while refocusing on core businesses and customers and managing non-strategic businesses for value. I'm pleased that four months on, we are executing on our plan at a rapid pace. Key results include $47 million of annualised gross cost savings and the realisation of $52 million from non-strategic assets through the sale of our MFA business."

"Our half-year results represent Iress mid-transformation, with many of the benefits, including the cost reduction program and a review of pricing to be recognised in the full year results for 2023 and in FY24. Despite this, revenue increased in a challenging macro environment while EBITDA was impacted by cost pressures, including a significant uplift in tech infrastructure, market data and inflationary salary costs. Given the current environment and the ongoing transformation process, the Board felt it was prudent to suspend our interim dividend. We will conduct a thorough reassessment of our capital management framework, including a new dividend policy, while we continue to realise assets, reset our cost base and emerge as a leaner Iress.

"While we are making excellent headway with our transformation initiatives, our half-year results don't reflect Iress' long-term earnings potential. We remain acutely focused on completing the next steps with a view to delivering FY24 exit run-rate Underlying EBITDA 20-30% higher than FY23. Then by the end of FY25, our objective is for all core Iress businesses to be operating at Rule of 40, with capital releases from the Managed Portfolio, a fully reset cost base and significant debt reduction."

Transformation progress

Iress appointed a new Group CFO and four new CEOs dedicated to each business segment - ANZ Wealth Management, APAC Trading & Market Data, Superannuation and the Managed Portfolio - to drive business unit performance and accountability. It has now completed a detailed process to create new long-term profit enhancement and growth plans for each of the core businesses aimed at improving customer experience and value. Under a Company-wide reorganisation, Iress has reappointed 2,000 people to a new product-led structure to drive performance.

The Company successfully delivered on a cost-efficiency program, which saw $47 million in annualised gross cost removed from the business. These cost reductions will offset inflation, with the full benefits recognised in FY24. Further cost optimisation is expected to be gained through additional programs of work across the organisation.

The team has also commenced work to separate and sell Iress' portfolio of non-strategic assets, which are being managed for value and potential releases of capital. Today, Iress announced the sale of its MFA business to SS&C, for a total cash consideration of $52 million. The sales process for the Platforms business is also underway with a goal of achieving divestment by year end. Proceeds from both sales will be used to retire debt.

First half result representative of mid-point of transformation and challenging business environment

Iress revenue in the half year was $315.3 million and 2% higher than pcp. In Iress' core businesses, APAC Trading & Market Data and ANZ Wealth, revenues were flat to down on pcp, at +0.4% and -1.7% respectively. The Superannuation business continues to show signs of growth, with revenue up 20% due to new clients going live as well as increased client project activity.

The cost savings program is helping to manage the impact of higher input costs as well as providing capacity to self-fund reinvestment in Iress' core software. Of the $47 million of cost savings, just $2 million has been realised in 1H23 with a further $17 million of additional benefit to be reflected in 2H23. The full annualised $47 million benefit will be visible in 2024.

Mixed results in offshore businesses; Mortgages the standout

Outside Australia, Iress' Mortgages business delivered 9% growth in revenue. The remainder of the UK & Europe region saw revenue decline 3%, with growth in Private Wealth & Trading offset by churn in Retail Wealth. The refreshed organisational structure and approach to sales in this segment has not yet flowed through to improved financial results. Sourcing revenue increased, reflecting increased volume following a new distribution client win.

South Africa revenue decreased by 6% impacted by a softer Rand (up 5% on a constant currency basis). While North America grew modestly on pcp at 2%.

Iress continues to maintain a keen eye on improving returns across the Managed Portfolio. It has adopted a private equity mindset to empower local management teams and explore alternate funding and ownership models to increase value and release capital.

Dividend and capital management plan

Iress has made the prudent decision to suspend its interim dividend to reduce debt at a time when it is incurring high one-off costs from the Company's transformation plan. During 2H23, new Group CFO, Cameron Williamson will lead a full review of our capital management plan, including Iress' approach to debt, dividend and R&D. The outcomes of this review will be shared with investors in February.

Remuneration

After taking independent advice, Iress has restructured its remuneration program to drive business unit accountability and improved performance. Equity Rights have been discontinued and will be replaced with performance-driven STIs from FY23. Performance Rights will be replaced with Share Appreciation Rights (SARs) from FY24. SARs will be granted annually with pricing based on post-result Volume Weighted Average Pricing. Vesting hurdles will be finalised during 2H23 and key terms will be disclosed in the Notice of Meeting for the Company's FY23 AGM, to be held in May 2024. At this time, shareholder approval for the new scheme will be sought.

Outlook

In the second half of 2023, Iress expects to see softening revenue growth and cost pressures mitigated by the full-year effect of cost measures and transformation initiatives yet to be realised. Underlying EBITDA expectations have been lowered to be broadly flat in 2H23 vs 1H23.

Over the medium term, Iress expects FY24 Underlying EBITDA growth of 5-10% with exit run-rate 2024 Underlying EBITDA 20-30% higher than FY23 as transformation initiatives are implemented.

Iress' objective by the end of FY25 is for all core Iress businesses to be operating at Rule of 40, with capital releases from the Managed Portfolio, a fully reset cost base and significant debt reduction.

Investor conference call

Investors who wish to participate in the teleconference should register here.

Alternatively, if you would like to listen to the audio webcast, please pre-register here.

If you are unable to listen to the webcast live, a recording of the call will be provided in the Investor section of the Iress website from Tuesday 22 August 2023.

Ends

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About Iress

Iress (IRE.ASX) is a technology company providing software to the financial services industry.

We provide software and services for trading & market data, financial advice, investment management, mortgages, superannuation, life & pensions and data intelligence.

Our software is used by more than 10,000 businesses and 500,000 users globally. We have over 2,000 people based in Asia-Pacific, North America, Africa, the UK and Europe.

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