

# ASX Appendix 4D

## Half Year Results for Announcement to the Market

Name of entity	ABN reference
IRESS Limited (IRE)	47 060 313 359

### 1. REPORTING PERIODS

Financial half year ended (‘current period’)	Financial half year ended (‘previous corresponding period’)
30 June 2017	30 June 2016

### 2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

Key Information	June 2017 \$'000	June 2016 \$'000	Chg \$'000	Chg %
Revenue from ordinary activities	211,826	194,342	17,484	9%
Profit before income tax expense	37,141	41,886	(4,745)	(11%)
Net profit attributable to the members of the parent entity	29,530	32,745	(3,215)	(10%)

### 3. DIVIDENDS

Dividend	Period	Payment date	Amount per security Cents	Franked amount per security at 30% tax
Interim dividend*	30 June 2017	29 September 2017	16.0	60%
Final dividend	31 December 2016	24 March 2017	28.0	60%
Interim dividend	30 June 2016	29 September 2016	16.0	50%

\* The record date for the interim dividend is 7 September 2017.

### 4. NTA BACKING

Net tangible asset backing per ordinary share	Current period Cents	31 December 2016 Cents	Previous Corresponding Period Cents
Net tangible asset backing per ordinary share	(89.1)	(92.9)	(102.1)

NTA backing for the Group is negative reflecting the nature of a software company whereby the majority of the assets relate to recognised intangible assets and unrecognised human capital responsible for creating and maintaining IRESS products.

This Half Year Report should be read in conjunction with the Annual Report of IRESS Limited as at 31 December 2016 together with any public announcements made by IRESS Limited and its controlled entities during the half year ended 30 June 2017 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

## Highlights of the 2017 half-year result

**Group revenue was \$211.8 million, up 8% on 2H16 and up 9% on 1H16 (up 14% on a constant currency basis<sup>(1)</sup> against 1H16).**

**Reported NPAT was \$29.5 million, up 10% on 2H16. As a result of FX and acquisition-related amortisation, NPAT was down 10% on 1H16.**

**Group Segment Profit was \$59.6 million, down 1% on 2H16 and down 6% on 1H16 (down 3% and 2% on a constant currency basis against 1H16 and 2H16 respectively). Excluding the impact of one-off client and internal people activity, Segment Profit grew 3% on 2H16.**

**Achievement of critical milestones for strategic product goals in UK and Australia.**

**Positive contribution to earnings from Financial Synergy and INET BFA acquisitions.**

IRESS Limited (IRE.ASX) today announced a statutory net profit after tax for the six months to 30 June 2017 of \$29.5 million, up 10% over the previous half (six months to 31 December 2016) and down 10% over the prior corresponding period (six months to 30 June 2016).

NPAT performance between recent halves reflects the impact of non-recurring items, movements in currency, amortisation charges on recently-acquired business and movements in interest and tax charges.

Operating revenue increased to \$211.8 million, up 8% on 2H16 and 9% on 1H16. As a result of one off costs associated with client and internal people activities, Segment Profit<sup>(2)</sup>, a measure of IRESS' core underlying performance, declined marginally to \$59.6 million, down 1% on 2H16 (down 2% on a constant currency basis against 2H16) and down 6% on 1H16 (down 3% on a constant currency basis against 1H16). Excluding these one-off costs, Segment Profit would have been up 3% on the previous half. Cashflow conversion<sup>(3)</sup> remained high at 91%, in line with the previous half.

The impact of currency movements on revenue and Segment Profit over the previous period was not material. However, the impact over the prior corresponding period was more visible.

IRESS Chief Executive Officer, Andrew Walsh, said: "The first half has seen the successful delivery of critical milestones for several benchmark client, product and technology projects, particularly in the United Kingdom and Australia. I am pleased with the investment decisions we have made in the first half to set up for continued success."

"Milestones recently achieved include deployment to the Commonwealth Bank of Australia (CBA), Close Brothers Asset Management and expansion to Tilney Group."

"Our financial results for the first half of 2017 reflect our investment in these critical client projects, the financial benefit of which will be realised during the second half and in future periods."

"I am particularly pleased with the continued strong progress against our strategy, notably the increase in recurring revenue we are experiencing in key markets, including growth in recurring intermediary software revenue in the United Kingdom, and the demand for our integrated solutions."

"We are well positioned to support clients in a changing industry, including through the introduction of significant new regulatory requirements and demands. This includes during a period of the heightened focus on regulatory changes by clients in the short-term. Based on our view of current client and project timings, we are confident of strong revenue and Segment Profit growth in the second half on a constant currency basis."

### DIVIDEND

In respect of first half earnings, the Directors determined to pay an interim dividend of 16.0 cents per share franked to 60% at a 30% corporate tax rate.

### BALANCE SHEET

IRESS' net debt balance at 30 June 2017 was \$175 million at a leverage ratio of 1.47x Segment Profit, and continues to reflect a conservative balance sheet position.

(1) Constant currency basis assumes 1H16 and 1H17 results are converted at the average foreign exchange rate used for 2H16. This allows comparison of Group operating performance in Australian Dollars before the impact of changes in foreign 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 the foreign exchange impact on the revaluation of cash balances.

(3) Cashflow conversion is calculated as (Operating cashflow + net interest paid + tax paid) / Segment Profit.

# Media Release (continued)

Iress Half Year Result to 30 June 2017

## BUSINESS HIGHLIGHTS

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

- **XPLAN Prime:** Deployment of the first phase of our scaled-advice solution to CBA, and agreement reached with additional Australian financial services providers including ASX-listed advice, superannuation and insurance group, ClearView.
- **Private Wealth Management:** Delivering on our strategy of integrated solutions including successful achievement of project milestones for Tilney Group and Close Brothers Asset Management in the United Kingdom, and Echelon Wealth Partners in Canada.
- **ViewPoint:** Strong take-up of our active trading platform to replace Trader, with rollout completed to nabtrade and to a number of clients in South Africa.
- **Asia:** Online equities trading solution for Maybank Kim Eng on track for delivery in 2017.
- **Superannuation:** Deploying an IRESS-hosted and managed Acurity platform to Statewide Super.

## SEGMENT RESULTS

### Change in segment reporting

As previously outlined, IRESS has changed its approach to segment reporting to provide greater insight into its financial performance, reduce the complexity of cost allocations, and to better reflect IRESS' strategy to develop and deploy technology on a global basis.

IRESS previously outlined segment profit for each reportable segment, that included the allocation of all group functional costs and on a basis that more reflected the relative size of the segment than the benefit obtained. IRESS now discloses direct attributable revenue and costs for each reportable geographical or strategic segment.

### Asia-Pacific

#### APAC FINANCIAL MARKETS

Operating revenue for APAC Financial Markets was in line with 2H16 and up 3% on 1H16. This reflects continued core demand, and growth in demand for portfolio management solutions. Continued investment in our financial markets solutions plays an important role in our integrated product strategy and offering, where market data and trading are immediately leveraged in our integrated wealth solutions.

"Despite resilient revenue during the half supported by recent buy-side client wins, sell-side pressures are driving cost decisions by clients. We expect this to continue through the second half and into FY18 and have a visible, but not material, impact on revenue."

"During the half we successfully deployed ViewPoint to nabtrade. Implementation of an online equities trading solution for Maybank Kim Eng continues to be a key focus in Asia and is on track for delivery in 2017."

#### AUSTRALIA & NEW ZEALAND WEALTH MANAGEMENT

Operating revenue and direct contribution increased 22% and 15% on the previous half, reflecting organic strength and contribution from Financial Synergy, which was acquired in November 2016 as well as a strong focus on product and client deliveries.

"We continue to see strong opportunity in wealth management reflecting our position and ongoing investment. IRESS recently delivered the first phase of the Prime scaled-advice solution to CBA. Deployment of Prime to CBA is in addition to the migration of over 2,000 users from a competing product to XPLAN. We expect to deploy our Prime product more broadly in the second half of 2017, with agreements to date reached with two financial services providers, including ClearView, which was announced this week."

"During the half we successfully implemented our Acurity managed superannuation platform to Statewide Super, replacing the fund's multiple legacy systems. The technology and IRESS-managed service allows funds to focus on the needs of their members and provides a predictable, transparent cost structure for funds. We also recently completed development of integrated digital advice bringing together the capabilities of Acurity Online and XPLAN, which we expect will create client opportunities in the second half of the year. During the half we signed an agreement to divest the non-core superannuation administration business for customer-owned banks."

"Based on the current sales and project pipeline and timing, IRESS expects continued strong results for wealth management in 2017."

### United Kingdom

Strategically important recurring intermediary software revenue grew by 6% in the half. Our success in winning and delivering to new clients, particularly with our integrated wealth and trading solution, is reinforcing our strategy and growth ambition. Based on current clients and the pipeline of future projects, IRESS expects strong growth in United Kingdom revenue and earnings in the second half.

In local currency, operating revenue and direct contribution increased 5% and 3% from 1H16 respectively reflecting client demand and delivery. Growth in recurring intermediary software revenue was offset by declines in one-off and Exchange Portal revenue when compared to 2H16. As a result, operating revenue and direct contribution declined 2% and 7% respectively from 2H16.

"In the first half, focus on and successful delivery of key milestones of significant and strategic client projects had a visible impact on revenue and earnings growth as internal and external resources were deployed to ensure successful delivery. While this has impacted short-term opportunities, accelerated revenue and earnings growth is expected in the second half."

### UK Lending

In local currency, operating revenue and direct contribution increased 9% and 8% respectively when compared to the previous half, reflecting increased client activity to support growth in subscription revenue. In local currency, operating revenue and direct contribution was down 22% and 28% respectively on 1H16, reflecting the ongoing transition to a recurring revenue model.

"We are on track with our latest implementation to leading retail bank, TSB, and have a positive pipeline of opportunities. We remain confident in the opportunity for our lending platform in the United Kingdom, and observe promising opportunities outside the United Kingdom."

# Media Release (continued)

Iress Half Year Result to 30 June 2017

## South Africa

In local currency, South Africa achieved strong revenue and Segment Profit growth, up 30% and 27% on the previous half respectively.

“Earnings growth in South Africa reflects the contribution from the recently acquired INET, in addition to continued demand across IRESS’ suite of products despite reduced market trading volumes in South Africa and subsequent impact on volume-based fees during the half.”

“There was substantial focus on several key client deliveries involving trading, portfolio management and advice activity during the half that are either completed or nearing completion. The integration of INET BFA, which was acquired in November 2016, is progressing well and the ability to offer clients a broader product suite with deeper data content is strengthening IRESS’ position in South Africa.”

## Canada

In local currency, operating revenue and direct contribution increased 4% and 10% respectively from the previous half, reflecting client retention and client project deliveries.

“In addition to strengthening our presence in financial markets through ongoing product investment and delivery, we have also maintained our focus on opportunities to build revenue diversity and momentum within our Canadian business. We recently announced deployment of our integrated wealth platform for Echelon Wealth Partners. This demonstrates IRESS’ end-to-end integrated wealth offering in Canada bringing together portfolio management, trade execution and post-trade data.”

## Product and Technology

The scale of ongoing investment in product and technology is at the heart of IRESS’ success and market position, supporting client retention and future growth.

Product and technology investment is made up of people and related costs. IRESS doesn’t separate research and development, and expenses all product and technology costs, and therefore considers this the primary indicator of investment for current and future revenue.

On a constant currency basis, these costs increased approximately 8% from \$49.7 million in the previous half to \$53.9 million in 1H17. The increase is heavily influenced by 2016 acquisitions, remuneration and headcount increase that reflect investment in people and products.

Product and technology costs have remained at a consistent percentage of revenue over time, and specifically from the previous half and prior corresponding half.

## Operations

Operational costs include core business infrastructure and people, such as internal and external communications technology, information security, hardware, and software and help desk. Operational costs in 1H17 were largely in line with 2H16.

## Corporate

Corporate costs include IRESS’ central business functions including finance, people, communications & marketing, and legal. IRESS continues to focus on ensuring a scalable corporate model to support efficiency and regional differences.

On a constant currency basis, corporate costs increased 26% from \$14.0 million in the prior half to \$17.6 million in 1H17, reflecting the impact of acquisitions of Financial Synergy and INET, and one-off costs associated with a series of internal people conferences bringing continued focus on investing and developing our people and aligning to our strategic direction and priorities. Excluding these acquisitions and one-off items, Corporate costs would have been up 5% on the previous half.

## Current trading

“While period on period revenue and cost remains subject to the timing of client implementations and significant regulatory change, we remain confident of our strategy and make investment decisions for the medium-long term.”

“We expect that ongoing successful client delivery and an environment of technology demand will translate to strong revenue and Segment Profit growth in the second half on a constant currency basis.”

“With regard to the full year view, we continue to expect strong revenue and Segment Profit growth in 2017 on a constant currency basis including the full year impact of, and opportunities from, recent acquisitions.”

## INVESTOR ENQUIRIES

### Andrew Walsh

Chief Executive Officer

Telephone: +61 2 8273 7000

### John Harris

Chief Financial Officer

Telephone: +61 3 9018 5800

## MEDIA ENQUIRIES

### Coran Lill

Group Executive – Communications & Marketing

Telephone: +61 468 963 068