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Integrated Research (IRI)

Strong turnaround

Recommendation
Buy (unchanged)
Price
$0.90
Target (12 months)
$1.05 (previously $0.95)

Sector

Software and Services

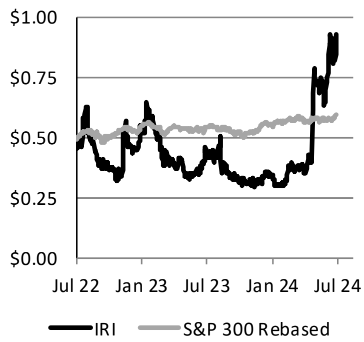
Expected Return	
Capital growth	**16.7%**
Dividend yield	**0.5%**
Total expected return	**17.2%**

Company Data & Ratios	
Enterprise value	**$125.3m**
Market cap	**$157.1m**
Issued capital	**174.6m**
Free float	**95%**
Avg. daily val. (52wk)	**$134,570**
12 month price range	**$0.28 - $0.98**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.65	0.39	0.45
Absolute (%)	44.19	138.46	106.67
Rel market (%)	40.45	136.63	94.70

Absolute Price



SOURCE: IRESS

Top end of guidance

Integrated Research (IR) provided an FY24 trading update and effectively narrowed the previously provided guidance ranges to the top end: Revenue up 17% to b/w $82-84m (vs previous $76-85m and BPe $78.2m); EBITDA up 90-107% to b/w $23-25m (vs previous $18-25m and BPe $18.8m); and Total contract value up 20-23% to $82-84m (vs previous $75-84m). The company also said cash at 30 June was $31.9m which was ahead of our forecast of $29.4m. IR also provided some outlook commentary for FY25 and said: Renewals are expected to be weighted to the second half; The full year will rely more on new business than in FY24; and The company will review its resourcing and capital plans mindful of the need to invest in new products for incremental growth but also the strength of the Balance Sheet. The company also announced John Ruthven will step down as CEO but no replacement was announced.

Upgrades in FY24 but little change thereafter

We have upgraded our FY24 revenue and EBITDA forecasts by 5% and 23% to be within the updated guidance ranges albeit towards the lower end. There is very little change in our FY25 and FY26 forecasts and we wait for further clarity on the outlook to be provided at the release of the FY24 result next month. At this stage our revenue forecasts are relatively flat in FY25 and FY26 which is in part due to the flagged greater reliance on new business in FY25 relative to FY24. Our EBITDA forecasts are lower, however, than FY24 due to assumed increased investment in products.

Investment view: PT up 11% to $1.05, Maintain BUY

We have updated each valuation used in the determination of our price target for the forecast changes and also rolled forward the DCF by a year. We have also increased the multiples we apply in the PE ratio and EV/EBITDA valuations from 9.5x and 7.25x to 10.5x and 7.75x and also reduced the WACC we apply in the DCF from 10.2% to 9.7% due to the strong FY24 result and relatively positive outlook. The net result is an 11% increase in our PT to $1.05 which is >15% premium to the share price so we maintain our BUY recommendation.

Earnings Forecast

Year end 30 June	2023	2024e	2025e	2026e
Total revenue (A$m)	69.8	82.4	82.8	83.9
EBITDA (A$m)	-19.7	23.2	19.3	19.0
NPAT (A$m)	-29.2	21.6	17.4	15.5
EPS (diluted) (cps)	-16.9	12.4	9.9	8.8
EPS growth (%)	NM	NM	-20%	-11%
PER (x)	NM	7.3	9.1	10.2
Price/CF (x)	11.3	12.1	17.3	12.3
EV/EBITDA (x)	NM	5.4	6.5	6.6
Dividend (¢ps)	0.0	0.5	1.5	2.5
Yield (%)	0.0%	0.6%	1.7%	2.8%
ROE (%)	NM	26.5%	17.9%	14.3%
Franking (%)	0%	0%	0%	100%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Earnings and Valuation Changes

Upgrades in FY24 but Little Change Thereafter

We have upgraded our FY24 revenue and EBITDA forecasts by 5% and 23% to be within the updated guidance ranges albeit towards the lower end. There is very little change in our FY25 and FY26 forecasts and we wait for further clarity on the outlook to be provided at the release of the FY24 result next month. At this stage our revenue forecasts are relatively flat in FY25 and FY26 which is in part due to the flagged greater reliance on new business in FY25 relative to FY24. Our EBITDA forecasts are lower, however, than FY24 due to assumed increased investment in products.

A summary of the changes in our key forecasts is below. Note we still assume the resumption of dividends with a final forecast for FY24.

Figure 1 - Change in key forecasts

Year end 30 June	2024e			2025e			2026e		
	Old	New	*Change*	Old	New	*Change*	Old	New	*Change*
Total revenue (A$m)	78.2	82.4	*5.5%*	82.9	82.8	*-0.1%*	83.6	83.9	*0.4%*
EBITDA	18.8	23.2	*22.9%*	19.4	19.3	*-0.1%*	18.9	19.0	*0.4%*
NPAT	17.9	21.6	*20.5%*	17.4	17.4	*-0.1%*	15.5	15.5	*0.4%*
Diluted EPS (Ac)	**10.3c**	**12.4c**	***20.5%***	**9.9c**	**9.9c**	***-0.1%***	**8.8c**	**8.8c**	***0.4%***
DPS (Ac)	0.5c	0.5c	*0.0%*	1.5c	1.5c	*0.0%*	2.5c	2.5c	*0.0%*

SOURCE: BELL POTTER SECURITIES ESTIMATES

11% Increase in PT to $1.05

We have updated each valuation used in the determination of our price target for the forecast changes and also rolled forward the DCF by a year. We have also increased the multiples we apply in the PE ratio and EV/EBITDA valuations from 9.5x and 7.25x to 10.5x and 7.75x and also reduced the WACC we apply in the DCF from 10.2% to 9.7% due to the strong FY24 result and relatively positive outlook.

The change in each valuation and the impact on our PT calculation is below.

Figure 2 - Change in valuations and impact on PT

	Old (as at 17-Jun-24)			New (as at 16-Jul-24)		
	Valuation per share	% weighting	Price target	Valuation per share	% weighting	Price target
Methodology						
PE ratio	$0.94	33%	$0.31	$1.04	33%	$0.35
EV/EBITDA	$0.92	33%	$0.31	$1.05	33%	$0.35
DCF	$1.00	33%	$0.33	$1.06	33%	$0.35
Total			**$0.95**			**$1.05**

SOURCE: BELL POTTER SECURITIES ESTIMATES

The figure shows a double digit percentage increase in the relative valuations and a more modest mid single digit percentage increase in the DCF. The net result is an 11% increase in our PT to $1.05 which is >15% premium to the share price so we maintain our BUY recommendation.

Integrated Research

Company Description

Integrated Research (IR) is a leading global provider of experience management solutions for business-critical technology environments. The company offers three key solution suites - Collaborate, Transact and Infrastructure - that are powered by the hybrid-cloud Prognosis platform. Their solutions enable performance management, analytics, and business insights, and are used by many of the world's largest organisations including major stock exchanges, banks and telecommunication companies.

Investment Thesis

We maintain our BUY recommendation on IR. Our investment thesis is based on:

- **Valuation**: Our 12 month price target for IR is $1.05. The price target is generated from a blend of three valuation methodologies we apply to the company: PE ratio, EV/EBITDA and DCF. The price target is a 17% premium to the current share price and the total expected return (including the forecast dividend yield) is the same.
- **High level of recurring revenue**: IR generates most of its revenue through licence and maintenance fees which combined represent c.85% or more of total revenue. The maintenance fees (b/w 20-25% of total revenue) are by nature highly recurring but the licence fees (b/w 60-65% of total revenue) are also highly recurring as the licences are typically sold on a fixed term and the company has a very high renewal rate (>95%).
- **Tier one global customers**: IR is a truly global company (>95% of total revenue is generated outside of Australia) and has a tier one customer base including many of the world's largest organisations. Companies that use IR's software include seven of the top ten US banks, eight of the top ten US telcos, and ten of the top 25 Fortune 500 companies.

Key Risks

Key downside risks to our estimates and valuation include (but are not limited to):

- **Technology risk**: IR is a technology company that designs, develops and distributes software. The risk with any such company is that the software does not perform to the clients' expectations or is flawed in some way. Such an occurrence would negatively impact the company's reputation and provide downside risk to our estimates.
- **Competition risk**: IR operates in a competitive market and there is the risk of aggressive or irrational behaviour from one or more competitors who could force down prices and reduce operating margins across the entire market. There is also the risk that a competitor comes out with a superior product to the rest of the market and increases its market share at the expense of IR and other participants.
- **Key product risk**: IR has one key product – Prognosis – and so has key product risk if demand or the outlook for that product changes or, worse, the product becomes superseded or obsolete. IR aims to mitigate this risk by regularly updating the product and adding new functionality and features to the software (e.g. mobile access and interface, cloud-based delivery, etc.) as well as developing various versions for different platforms, vendors and applications. There is still, however, only one core product that drives the future performance and viability of the company.

Integrated Research
as at 16 July 2024

Recommendation	Buy
Price	$0.90
Target (12 months)	$1.05

Table 1 - Financial summary

Integrated Research (IRI)

Share price:	**$0.90**	**Target price:**	**$1.05**
No. of issued shares:	**174.6m**	**Market cap:**	**$157.1m**

Profit & Loss (A$m)					
Year end 30 Jun	**2022**	**2023**	**2024e**	**2025e**	**2026e**
Total revenue	**62.9**	**69.8**	**82.4**	**82.8**	**83.9**
Change	*-20%*	*11%*	*18%*	*0%*	*1%*
Expenses (excl. D&A, int.)	**70.1**	**102.7**	**59.4**	**63.6**	**65.1**
% of revenue	*111.6%*	*147.0%*	*72.0%*	*76.8%*	*77.5%*
Other income (fx gains/losses)	3.0	1.4	0.0	0.0	0.0
EBITDA	**8.5**	**-19.7**	**23.2**	**19.3**	**19.0**
Depreciation	-0.6	-0.3	-0.1	-0.1	-0.1
Amortisation	-12.1	-11.4	0.0	0.0	0.0
EBIT	**-4.3**	**-31.5**	**23.1**	**19.3**	**18.9**
Net interest (expense)/revenue	1.8	2.2	2.3	2.5	1.8
Pre-tax profit	**-2.4**	**-29.3**	**25.4**	**21.7**	**20.7**
Income tax expense	4.0	0.1	-3.8	-4.3	-5.2
NPAT	**1.5**	**-29.2**	**21.6**	**17.4**	**15.5**
Change	*-81%*	*NM*	*NM*	*-19%*	*-11%*

Cash Flow (A$m)					
Year end 30 Jun	**2022**	**2023**	**2024e**	**2025e**	**2026e**
EBITDA	8.5	-19.7	23.2	19.3	19.0
Change in working capital	9.1	35.2	-6.5	-5.9	-0.9
Gross cash flow	**17.6**	**15.5**	**16.7**	**13.5**	**18.1**
Tax paid	-0.7	-1.7	-3.8	-4.3	-5.2
Operating cash flow	**16.9**	**13.8**	**12.9**	**9.1**	**12.9**
Payments for capitalised R&D	-11.5	-7.5	0.0	0.0	0.0
Payments for PPE	-0.3	-0.3	-0.1	-0.3	-0.5
Payments for intangibles	0.0	0.0	0.0	0.0	0.0
Divestment of assets	0.0	0.0	0.0	0.0	0.0
Interest received	2.0	2.2	2.3	2.5	1.8
Investing cash flow	**-9.7**	**-6.7**	**2.2**	**2.2**	**1.3**
Proceeds from borrowings	0.0	0.0	0.0	0.0	0.0
Repayment of borrowings	-5.3	0.0	0.0	0.0	0.0
Payment of lease liabilities	-1.7	-1.6	-1.8	-2.0	-2.0
Dividends paid	0.0	0.0	0.0	-1.8	-3.5
Financing cash flows	**-7.2**	**-1.7**	**-1.8**	**-3.8**	**-5.5**
Net change in cash	**0.0**	**5.5**	**13.3**	**7.6**	**8.8**
Cash at start of period	12.1	12.3	18.6	31.9	39.4
Exchange rate impact	0.2	0.8	0.0	0.0	0.0
Cash at end of period	**12.3**	**18.6**	**31.9**	**39.4**	**48.2**

Balance Sheet (A$m)					
Year end 30 Jun	**2022**	**2023**	**2024e**	**2025e**	**2026e**
Cash	12.3	18.6	31.9	39.4	48.2
Current receivables	46.8	40.9	46.4	53.8	56.7
Other current assets	4.2	3.6	3.6	3.6	3.6
Non-current receivables	22.0	22.5	28.4	29.0	29.4
Financial assets	0.2	1.4	1.4	1.4	1.4
PPE	5.2	0.0	0.0	0.2	0.6
Deferred tax assets	1.3	1.5	1.5	1.5	1.5
Intangibles - Goodwill	3.6	0.0	0.0	0.0	0.0
Intangibles - Other	27.7	0.0	0.0	0.0	0.0
Total assets	**124.4**	**89.7**	**114.4**	**130.2**	**142.5**
Payables	10.1	7.9	8.2	8.3	8.4
Current borrowings	0.0	0.0	0.0	0.0	0.0
Current provisions	3.7	3.5	3.5	3.5	3.5
Current tax liabilities	0.0	0.4	0.4	0.4	0.4
Current deferred revenue	14.1	13.9	16.5	16.6	16.8
Deferred tax liabilities	2.5	0.0	0.0	0.0	0.0
Non-current borrowings	0.0	0.0	0.0	0.0	0.0
Non-current provisions	0.9	0.9	0.9	0.9	0.9
Non-current deferred revenue	0.5	0.2	0.4	0.4	0.4
Total liabilities	**37.3**	**29.8**	**33.0**	**33.1**	**33.5**
Issued capital	1.7	1.7	1.7	1.7	1.7
Reserves	6.6	8.6	8.6	8.6	8.6
Retained earnings/(losses)	78.8	49.6	71.1	86.8	98.8
Total shareholders' equity	**87.1**	**59.9**	**81.4**	**97.1**	**109.1**

Valuation data					
Year end 30 Jun	**2022**	**2023**	**2024e**	**2025e**	**2026e**
NPAT (A$m)	1.5	-29.2	21.6	17.4	15.5
Diluted EPS (cps)	**0.9**	**-16.9**	**12.4**	**9.9**	**8.8**
Change		*NM*	*NM*	*-20%*	*-11%*
P/E ratio (x)	**100.7**	**NM**	**7.3**	**9.1**	**10.2**
CFPS (cps)	9.8	8.0	7.4	5.2	7.3
Price/CF (x)	**9.2**	**11.3**	**12.1**	**17.3**	**12.3**
DPS (cps)	0.0	0.0	0.5	1.5	2.5
Yield	**0.0%**	**0.0%**	**0.6%**	**1.7%**	**2.8%**
Franking	0%	0%	0%	0%	100%
EV/Revenue (x)	2.0	1.8	1.5	1.5	1.5
EV/EBITDA (x)	**14.7**	**NM**	**5.4**	**6.5**	**6.6**
NTA per share (cps)	32.4	34.6	46.6	55.3	61.8
Price/NTA (x)	**2.8**	**2.6**	**1.9**	**1.6**	**1.5**

Performance ratios					
Year end 30 Jun	**2022**	**2023**	**2024e**	**2025e**	**2026e**
EBITDA margin	**13.6%**	**-28.2%**	**28.1%**	**23.4%**	**22.6%**
Return on equity	1.8%	NM	26.5%	17.9%	14.3%
ROIC		NM	50.8%	35.9%	31.9%
Payout ratio	0.0%	0.0%	4.0%	15.1%	28.3%
Effective tax rate	-163.2%	-0.2%	-15.0%	-20.0%	-25.0%

Leverage ratios					
Year end 30 Jun	**2022**	**2023**	**2024e**	**2025e**	**2026e**
Net debt/(cash) (A$m)	-12.3	-18.6	-31.9	-39.4	-48.2
Net debt/equity	**NM**	**NM**	**NM**	**NM**	**NM**
Net debt/EBITDA (x)	NM	NM	NM	NM	NM
Net interest cover (x)	NM	NM	NM	NM	NM

Segmentals (A$m)					
Year end 30 Jun	**2022**	**2023**	**2024e**	**2025e**	**2026e**
Revenue by product					
Collaborate	34.3	39.4	41.3	40.8	41.8
Infrastructure	13.2	14.7	18.3	17.4	14.8
Transact	8.2	12.1	18.2	19.6	22.0
Professional Services	7.1	3.7	4.6	5.0	5.3
Total revenue	**62.9**	**69.8**	**82.4**	**82.8**	**83.9**
Revenue by fees					
Licence fees	35.5	45.6	56.2	57.1	55.6
Maintenance fees	15.2	14.7	14.4	12.4	12.6
Subscription fees	1.3	2.5	3.1	4.1	6.3
Professional services	7.1	3.7	4.6	5.0	5.3
Testing solution services	3.8	3.3	4.1	4.1	4.2
Total revenue	**62.9**	**69.8**	**82.4**	**82.8**	**83.9**
% breakdown by fees					
Licence fees	*56%*	*65%*	*68%*	*69%*	*66%*
Maintenance fees	*24%*	*21%*	*18%*	*15%*	*15%*
Subscription fees	*2%*	*4%*	*4%*	*5%*	*8%*
Professional services	*11%*	*5%*	*6%*	*6%*	*6%*
Testing solution services	*6%*	*5%*	*5%*	*5%*	*5%*
Total	***100%***	***100%***	***100%***	***100%***	***100%***

Interims (A$m)				
Year end 30 Jun	**1HFY23**	**2HFY23**	**1HFY24**	**2HFY24e**
Total revenue (A$m)	**38.4**	**31.4**	**40.8**	**41.6**
EBITDA	**8.5**	**-28.2**	**11.0**	**12.2**
Depreciation	-0.2	-0.2	0.0	0.0
Amortisation	-6.1	-5.3	0.0	0.0
EBIT	**2.2**	**-33.6**	**10.9**	**12.2**
Net interest (expense)/revenue	1.0	1.1	1.1	1.2
Pre-tax profit	**3.2**	**-32.5**	**12.0**	**13.4**
Income tax expense	0.0	0.1	-0.8	-3.0
NPAT	**3.2**	**-32.4**	**11.2**	**10.4**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

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Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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