

19 February 2021

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Iress Limited

Software & Services

BUY

IRE A\$10.40

TARGET PRICE A\$11.82

IRESS Limited (IRE) is a leading technology company, providing software to the financial services industry. They provide software and services for trading & market data, financial advice, investment management, mortgages, superannuation, life & pensions and data intelligence. Their software is used by more than 9,000 businesses and 500,000 users globally. IRE have over 2,000 people based in Asia-Pacific, North America, Africa, the UK and Europe.

Company Data

Number of shares	193.3 M
Market Capitalisation	\$1,894.6 M
Free float (%)	84.9
12-month high/low	\$13.58/\$8.76
Average Daily Turnover (\$m)	4.93
% S&P/ASX200	0.10%
DDM Ranking	176
% All Ordinaries	0.08%
GICS Industry Group	Software & Services

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end December	2020A	2021F	2022F	2023F
Revenue (\$M)	542.6	621.7	656.7	674.1
EBITDA (\$M)	127.9	141.9	155.1	169.9
Reported NPAT (\$M)	59.1	66.4	78.8	91.5
Adjusted NPAT (\$M)	67.6	76.2	87.0	92.6
Reported EPS (c)	32.3	33.1	39.1	41.4
Adjusted EPS (c - FD)	33.2	39.9	45.8	49.2
Adjusted EPS growth (%)	-1.9	7.3	14.9	7.4
Adjusted P/E (x)	31.3	24.6	21.4	19.9
Dividend (c/sh)	46.0	46.7	48.7	52.0
Gross yield (%)	6.5	6.6	6.9	7.4
Net yield (%)	4.7	4.8	5.0	5.3
ROIC (%)	9.1	10.4	12.0	-

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195, Capital IQ and Bloomberg.

Share price performance.



Source: FactSet, Barclay Pearce Capital

2020 full-year results

On 18th February, Iress Limited (IRE) announced its full-year results for 2020 with the following highlights:

Full-year results

- Pro forma revenue \$535.5m +2%;
- Pro forma Segment Profit \$155.6m +5%;
- Cash conversion 108% (87% Pcp);
- Pro forma ROIC 10% (11% Pcp);
- Pro forma EPS 35.1 Cents (35.0 Cents Pcp) ; and
- DPS 46.0 Cents (46.0 Pcp) .

IRE CEO, Andrew Walsh, said: "We are pleased to report 2020 results ahead of reinstated guidance, aided by good momentum in the fourth quarter. 2020 pro forma Segment Profit was \$155.6m, 5% ahead of 2019. A year into the pandemic, these results highlight the strength of the Iress business and the improving returns on our growth investments.

"To help investors assess our underlying performance and growth, we are providing additional disclosures to highlight pro forma results. Pro forma assumes we owned QuantHouse for the full year 2019 and excludes the 2020 acquisitions of BC Gateways, O&M and OneVue. A full reconciliation to statutory results is provided in the accompanying results presentation.

"Recurring revenue, which underpins our group, increased by 8%, making up over 90% of total revenue. Cash conversion moved up to 108% (87% in pcp) and pro forma return on invested capital remains strong at 10% (11% in pcp), marginally impacted by the capital raise. The group generated \$114m of free cash flow allowing us to continue to invest in growth, scale and new product development. Including the successful capital raise in May, net debt fell by 36%."

The final dividend is 30 cents per share, franked to 40%, bringing the full year 2020 dividend to 46.0 cents per share, franked to 38% on an average-weighted basis.

Outlook

- Positive outlook – FY21 has started well;
- Guidance (7% - 10% constant currency Segment Profit & 9 – 10% ROIC) assumes organic growth investments, underpinned by recurring revenues; and
- Additional disclosures and reporting to help investors assess business performance.

Earnings changes

IRE's FY20 reported NPAT was \$59.1m which is in line with market expectations. The guidance is also consistent with existing market expectations. Hence, we do not expect any significant earnings revisions.

Valuation

We are initiating on IRE with a price target of \$11.82 and a BUY recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Hold – Describes stocks that are neither a buy nor underperform.

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NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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Valuation Methodology

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Buy	40.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	(0.0% of stocks with recommendations are Barclay Pearce clients)