



IRESS Market Technology Limited (IRE)

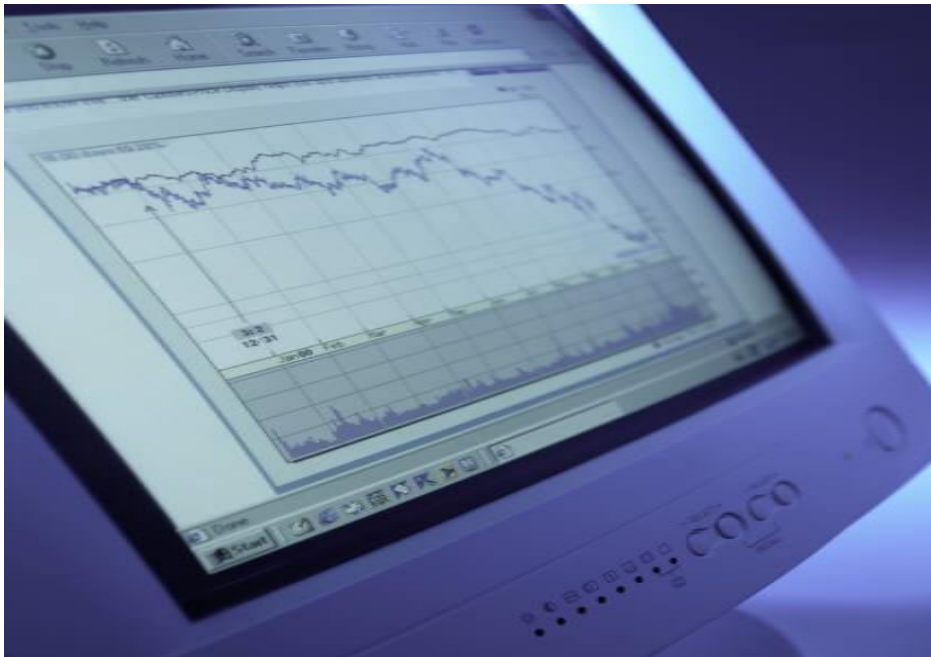
Table 4: IRESS Market Technology Corporate History 1993-2010

| Year | Event |
|------|---|
| 1993 | Founders Peter Dunai, Neil Detering, Hung Do form Dunai Financial Services (DFS) |
| 1995 | DFS launches IRESS (Integrated Real Time Equity System) flagship product in Australia |
| 1997 | Constrained by capital, DFS founders progressively sell 80% to US based Bridge Information Systems, forming BridgeDFS |
| 1997 | IRESS Order System (IOS) launched, enabling brokers to trade online clients to communicate with brokers electronically |
| 2000 | Balance of 20% equity sold by Founders to US based Bridge Information Services (BIS) |
| 2000 | Nov BridgeDFS lists on ASX 100M shares @ \$1.65 per share BIS retaining 55% ASX 15% |
| 2001 | Feb group reports initial public results revenues + 46% to \$32.7M NPAT +61% to \$9.6M |
| 2001 | Feb BridgeDFS major shareholder BIS enters into US Chapter 11 bankruptcy court |
| 2001 | Jul sale of BIS 55M holding in company completed to new shareholders at \$2.05 per share |
| 2001 | Oct name change from BridgeDFS to IRESS Market Technology |
| 2002 | Jul IRESS agrees to purchase IWL provider of desktop software licences for financial planning industry, including VisiPlan market share 35% consideration \$87.8M new shares issued 21.5M |
| 2003 | Announces purchase of financial planning software Xplan Technology for \$5.1M upfront cost. |
| 2004 | Apr enters deal with ITG Canada to establish integrated equities service in Canada similar to IRESS core Australian business by acquiring 50% KTG Technologies from ITG for C\$6.5M |
| 2005 | IRESS deals with global information provider Reuters to facilitate order flow between groups |
| 2006 | Apr IRESS acquires balance of ITG JV interest for C\$9.5M agreement reached with Reuters Canada to switch clients to IRESS Canada product in exchange for commission fee per client move. |
| 2006 | Sep buys leading planning, analytics software provider PlanTech for \$15M with revenues \$8M |
| 2007 | Jan IRESS & Toronto Stock Exchange (TSX) to offer premium integrated gateway access to TSX. |
| 2007 | Jun IRESS expands wealth management business into South Africa acquiring leading planning group Spotlight Interactive for A\$8.4M total payout Spotlight revenue A\$5M EBITDA > A\$1M |
| 2008 | Buys Transactive Systems for \$1.9M leading provider of mortgage qualification analytics |
| 2008 | Buys Dealer Management Systems leading remuneration provider for 1.1M IRESS shares |
| 2008 | Nov IRESS supports access to alternative trading system Alpha in Canada post deregulation |
| 2008 | Dec IRESS supports access to Chi-X Canada alternative trading system post deregulation |
| 2009 | Jun South Africa's largest advisor group Liberty selects IRESS web based advisor platform Xplan for rollout to over 3,000 advisors |
| 2009 | Oct Founding MD Peter Dunai steps down handing reigns to Xplan founder Andrew Walsh |
| 2010 | Jan Buys SENTRYi Pte Ltd in Singapore to initiate wealth management presence in Asia < \$2M |

Introducing IRESS

For Australia's leading software supplier of services to the financial markets, IRESS Market Technology has been extraordinarily successful in carving out an important and lucrative niche in such a low key and unassuming manner. Many investors, we would suspect, would not be familiar with its services or its corporate evolution, something we hope to address in the following few pages. As a back drop, the group's introductory comment on its corporate website provides an important insight to its development – an acceptance of change.

“Since our founding in 1993, we have embraced the constantly changing climate of the financial markets. At IRESS Market Technology, we don't just react to change, but welcome it as an opportunity to move forward. This proactive approach and ability to adapt are central to our business and reflected in our progress to date.”



We first covered IRESS in our March 2008 quarterly newsletter, noting its addition to the Fund's portfolio. At that time, financial markets were entering a most difficult period and yet some opportunities were already appearing as we noted.

“The fall in share price from a high of \$9.80 in June 2007 to current levels of \$5.20 goes some way to mitigating the risk to underlying earnings. Rarely do investors get the chance to buy monopoly type assets at attractive valuations but with investor panic the order of the day, such opportunities are becoming far more frequent.”

In fact, while the business continued to take forward steps, the share price continued to drop, hitting its most recent low point in November 2008 at \$3.54. Today, IRESS represents about 4% of the Fund's portfolio, having added to our initial position over the past year.

Table 5. IRESS Market Technology Financial Snapshot

| \$'M | 2000* | 2005 | 2006 | 2007 | 2008 | 2009 | 2010(e) |
|-----------------------------------|-------|--------|--------|--------|--------|---------|---------|
| Revenue | 32.7 | 71.6 | 93.4 | 134.5 | 163.9 | 169.8 | 180.0 |
| Operating Expenses | 15.9 | 34.9 | 48.0 | 71.7 | 85.2 | 87.0 | 92.0 |
| EBIT | 14.6 | 28.2 | 34.4 | 37.8 | 47.8 | 54.2 | 64.5 |
| NPAT ** | 9.6 | 19.6 | 28.0 | 33.9 | 46.0 | 52.5 | 60.5 |
| EBIT Margins (%) | 44.6 | 39.3 | 36.8 | 28.1 | 29.2 | 31.9 | 35.8 |
| Shareholders' Equity | 7.7 | 40.8 | 49.7 | 101.4 | 116.2 | 124.2 | 126.0 |
| Net Debt / (net cash) | (9.5) | (38.2) | (22.9) | (20.0) | (45.7) | (73.2) | (83.0) |
| Market Capitalisation | 241.0 | 491.4 | 784.1 | 932.8 | 627.8 | 1,063.4 | 1,002.8 |
| Enterprise Value | 231.5 | 453.2 | 761.2 | 912.8 | 582.1 | 990.0 | 919.8 |
| Buyout (%) (EBIT/EV) | 6.3 | 6.2 | 4.5 | 4.1 | 8.2 | 5.5 | 7.0 |
| ROCE (%) *** | > 100 | > 100 | > 100 | 77.2 | 65.3 | > 100 | > 100 |
| GOCF / EBITDA (%) | 101 | 112 | 102 | 96 | 116 | 112 | n/a |
| Underlying Earnings per share (¢) | 9.6 | 18.0 | 25.1 | 29.1 | 37.7 | 42.4 | 48.9 |
| PER | 25.1 | 25.0 | 28.0 | 27.5 | 13.7 | 20.3 | 16.6 |
| Dividend per share (¢) | 7.2 | 18.0 | 21.0 | 26.0 | 31.0 | 34.0 | 37.0 |
| Dividend Yield % | 3.0 | 4.0 | 3.0 | 3.3 | 6.0 | 4.7 | 4.6 |
| Share Price 31 Dec (\$) | 2.41 | 4.50 | 7.02 | 8.00 | 5.15 | 8.59 | 8.10^ |
| Issued shares (m) | 100.0 | 109.2 | 111.7 | 116.6 | 121.9 | 123.8 | 123.8 |

* IRESS floated on exchange in November 2000

** NPAT adjusted for write-back of amortisation of intangibles arising from past acquisitions

*** ROCE = EBIT / (Shareholders Equity + debt – cash)

^ Share price as at April 2010

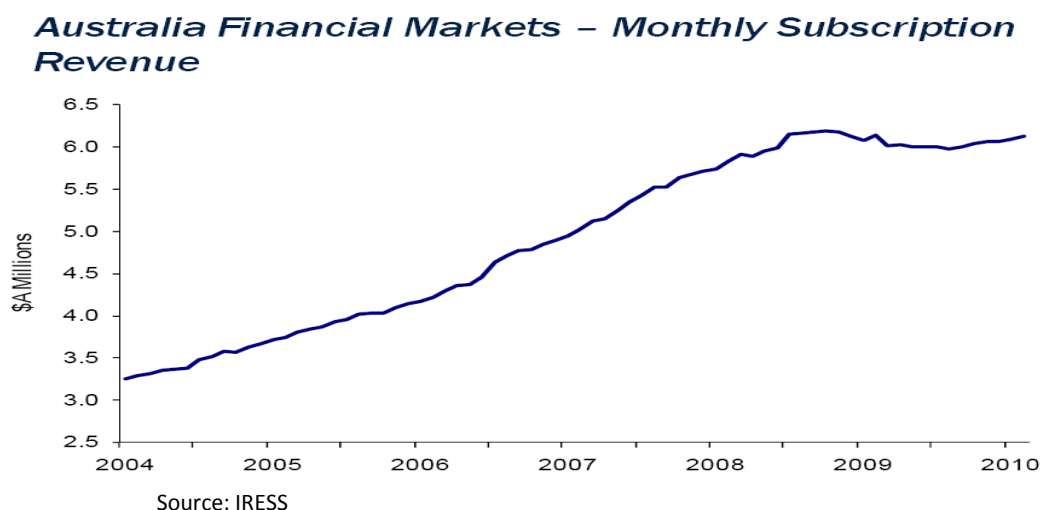
Putting the IRESS pieces together

As you read through the company's timeline in Table 4, the image that emerges is of a company put together in much the same way as one would join the pieces of a jig saw puzzle. Founding managing director Peter Dunai has been there from the start and has been instrumental in developing information systems for financial markets. His prior knowledge of the broking industry and his establishment of the Equinet business as an internal sharemarket information system during the late 1980's became the forerunner of today's Integrated Real Time Equity System (IRESS) – live exchange traded sharemarket data.

However, as is typical of most start up businesses, the group's principals were soon short of capital after founding the IRESS business in 1993. This led to the progressive selling down of their interest to US based Bridge Group, who eventually moved to full ownership in 2000, before floating the company in November the same year at \$1.65 per share, valuing the group at \$165 million. Substantial shareholders included the Bridge Group with 55% and Australian Stock Exchange (ASX) with 15%.

The tech wreck events of 2000 posed considerable problems for many in the information and technology world including Bridge Group, who was forced into US bankruptcy in early 2001, leading to the sell-down of their 55% interest in BridgeDFS to local investors at \$2.05 per share. The sell down by Bridge also led to a new name, IRESS Market Technology.

Despite its rocky start to public life, IRESS has since gone from strength to strength. At its most basic, the IRESS trading platform allows stock brokers, fund managers, financial planners and individual clients to gain access to live price data from the ASX, while the IRESS Order System (IOS) allows for electronic orders to be placed online and delivered directly to brokers. Importantly, the IRESS model is subscription based and benefits from the largely fixed cost nature of the business. In Australia the service is offered for a base fee of about \$1,000 per month while discounts apply for large volumes. As Graph 1 depicts, IRESS has lifted subscription revenues from less than \$3.5 million in 2004 to a current run rate of \$6.0 million per month or \$72.0 million annually. Even during the current financial crisis, the group's annuity based revenue model remained largely intact as clients retained their subscription, highlighting both the barriers to entry and the necessity of the service offering.

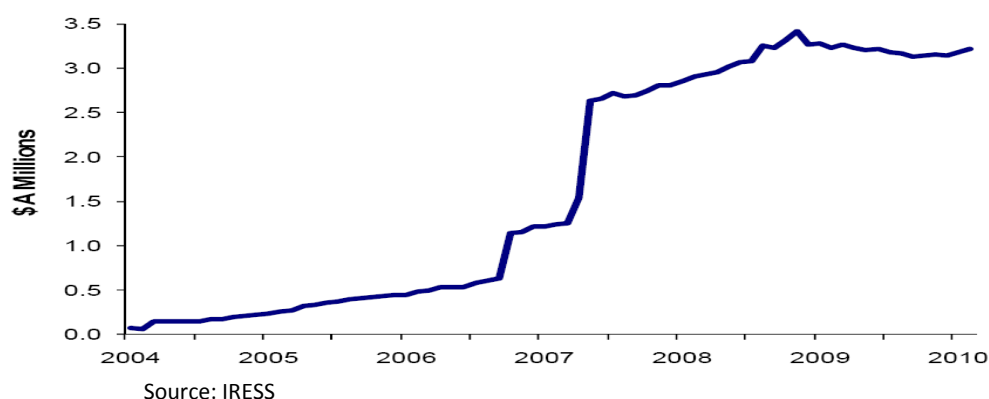
Graph 1: IRESS - Australian Monthly Subscription Revenue

From a standing start, the IRESS market data offering now dominates the local market with a 90% plus market share while the group's IOS has been integrated into 40 of the top 50 broking houses. Success has come despite competition from the global giants of market data including Bloomberg and Reuters. While price is a differentiating point, IRESS has focused on an integrated solutions offering that provides live market data activity and individual client order documentation. In short, IRESS has embedded itself into the daily operations of its customers, thereby making it difficult for others to compete on price alone.

Acquisitions gone right

Since 2002, IRESS has grown in a low key manner by expanding the group's offerings both in terms of new customers and new regions. Typically, new markets are only entered through joint ventures with existing players or where key customers provide commitments to underwrite product and service offerings.

In 2002 IRESS expanded into the financial planning market with the \$88 million acquisition of IWL - provider of desktop software for the planning industry with a 35% market share. In subsequent years, additional bolt-on acquisitions including Xplan Technology and PlanTech, have been incorporated into the IRESS offering, cementing the group's market dominance and leading to monthly subscription revenues rising strongly as shown in Graph 2. Xplan's founder Andrew Walsh, who joined the IRESS operations in 2003 following its acquisition, took the reins from founding MD, Peter Dunai, in October 2009.

Graph 2: IRESS – Australian | NZ Wealth Management monthly Revenue***Wealth Management – Aust & NZ Mthly Subscription Rev***

IRESS also sought expansion into new regions, entering a joint-venture deal with ITG Canada in 2004 to supply the Canadian market with terminals and a real time equities service similar to the core Australian offering. In typical IRESS fashion, the upfront capital was small, local expertise was secured and gains were made incrementally. The group secured full ownership from their joint venture partners in 2006 and now operates an expanding and very profitable operation.

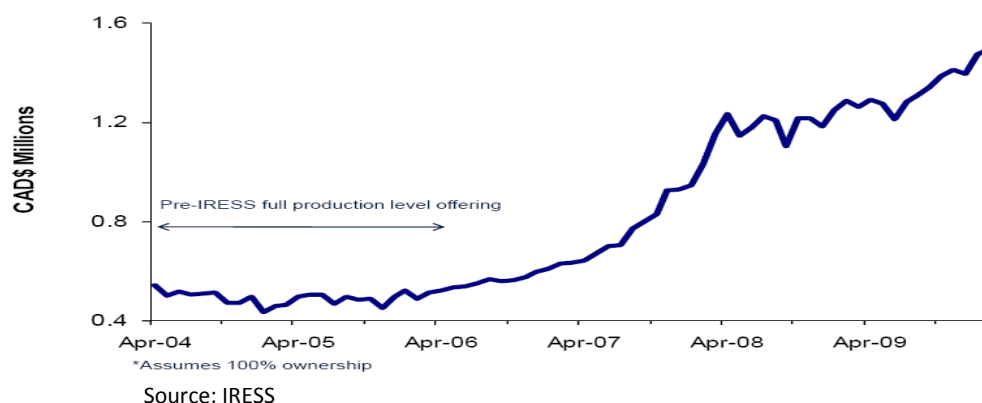
As Graph 3 highlights, the business is now ramping up strongly with monthly subscription revenues averaging C\$1.5 million per month. At this point, IRESS only supplies the broking side of the market but this is set to change with the group taking steps to expand the service to retail customers, similar to how the market developed in Australia. The Canadian market is one and a half times larger than our local market and the opportunity set available to the group is large.

Likewise, IRESS undertook to enter the South African wealth management arena with the acquisition of leading player Spotlight in 2007 and followed this up in 2010 with its first foray into the Asian market, buying SENTRYi based in Singapore.

Financially, as Table 6 shows, the group has successfully seeded and is now harvesting a growing annuity stream of subscription based revenues from a market that is both increasing in its complexity and hungry for real time financial data. As the table illustrates, all operations are now profitable with Canada in particular starting to deliver significant gains.

Graph 3: IRESS - Canadian Monthly Subscription Revenue

*Canada – Monthly Subscription Revenue**



For shareholders the financial metrics of this business are superb. As we show in Table 5, since listing in 2000 the group has consistently delivered top line growth, maintained EBIT margins above 30%, achieved returns on capital employed exceeding 100%, never sought additional equity from shareholders to undertake acquisitions and ended the 2009 financial year with over \$70 million in the bank and no debt.

Management’s focus on building strong market leading positions in niche product offerings is paying big dividends and under new MD Andrew Walsh we expect this trend to continue. In fact, the strength of IRESS’s product offerings lies in its ability to add more product features to the group’s existing financial markets offering while remaining independent.

The company’s share registry includes an assortment of institutional investors and notably the ASX, with a holding sitting just shy of the 20% takeover threshold. This investment carries even greater weight following the Government’s recent decision to deregulate the local stock exchange, placing IRESS in an ideal position to benefit from increased market activity.

There is a lot to like about the IRESS business but none more so than management’s sensible and steady manner in putting the pieces of a much larger puzzle together. To have done so without spending excessive amounts of capital and without taking unnecessary risks should keep even the most hardnosed investor happy with the results.

Table 6: IRESS – Divisional Contribution

| A\$M | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---------------------------|--------------|-------------|-------------|--------------|--------------|--------------|
| Financial Markets revenue | | | | | | |
| Aus NZ | 57.8 | 65.7 | 75.8 | 89.6 | 99.7 | 99.1 |
| Canada | 2.5 | 3.6 | 7.9 | 12.0 | 19.2 | 22.1 |
| Group | 60.3 | 69.3 | 83.7 | 101.6 | 118.9 | 121.2 |
| EBITDA | | | | | | |
| Aus NZ | 30.5 | 35.0 | 41.5 | 49.1 | 55.2 | 56.6 |
| Canada | 0.5 | 0.2 | -0.3 | -0.7 | 4.6 | 7.0 |
| Group | 31.0 | 35.2 | 41.2 | 48.4 | 59.8 | 63.7 |
| EBITDA Margins % | | | | | | |
| Aus NZ | 52.8 | 53.3 | 54.7 | 54.8 | 55.3 | 57.2 |
| Canada | 20.9 | 4.7 | -4.2 | -6.4 | 23.9 | 31.7 |
| Group | 51.4 | 50.8 | 49.2 | 47.6 | 50.3 | 52.6 |
| Wealth Management Revenue | | | | | | |
| Aus NZ | 2.2 | 4.9 | 10.0 | 28.8 | 39.3 | 41.3 |
| South Africa | - | - | - | 4.1 | 5.7 | 6.8 |
| Group | 2.2 | 4.9 | 10.0 | 32.9 | 45.0 | 48.1 |
| EBITDA | | | | | | |
| Aus NZ | -0.5 | 1.1 | 3.2 | 10.9 | 15.3 | 16.9 |
| South Africa | - | - | - | 1.8 | 1.5 | 2.2 |
| Group | -0.5 | 1.1 | 3.2 | 12.7 | 16.8 | 19.1 |
| EBITDA Margins % | | | | | | |
| Aus NZ | -21.7 | 22.5 | 32.0 | 37.8 | 38.8 | 41.0 |
| South Africa | - | - | - | 43.9 | 26.2 | 32.9 |
| Group | -21.7 | 22.5 | 32.0 | 38.6 | 37.2 | 39.9 |