

ASX Announcement

20 August 2020

Financial Results for the year ended 30 June 2020 (“FY20”)

IPH delivers 28% increase in Underlying EBITDA to \$114.5m¹

Result demonstrates resilience of IPH business in uncertain economic environment

FY20 Highlights

- Statutory NPAT of \$54.8m, up 3%, equating to Diluted EPS of 25.8 cents per share, down 3%
- Underlying EBITDA¹ up 28% to \$114.5 million
 - Solid performance from IPH pre-existing business with continued organic revenue and earnings growth in the Asian business
- Integration of Xenith IP businesses completed; synergies delivered of \$3.5 million, integration of Watermark into Griffith Hack and divestment of Glasshouse Advisory business
- Strong financial position and operating cashflow enables increase in final dividend to 15 cents per share, 100% franked; up 15%
- Balance sheet remains strong – leverage ratio 0.6 times with no refinancing commitments until 2022

Results in the table below reflect the adoption of the Accounting Standard, AASB16. Financial results for the prior corresponding period do not include the adoption of this accounting standard as any transition impact has been taken through retained earnings as permitted by the Accounting Standard. The second table provides for results pre AASB 16.

\$'m	Statutory Results	Statutory Results	Change %	Underlying Results	Underlying Results	Change %
	FY20	FY19		FY20	FY19	
Revenue	\$370.1	\$259.5	43%	\$369.6	\$256.6	44%
EBITDA	\$113.2	\$85.9	32%	\$126.0	\$89.7	41%
EBITDA Margin %	30.6%	33.1%	(8%)	34.1%	34.9%	(2%)
NPAT	\$54.8	\$53.1	3%	\$77.7	\$62.8	24%
Diluted EPS	25.8c	26.7c	(3%)	36.5c	31.7c	15%
Final Dividend	15.0c	13.0c	15%			
Pre- AASB16						
EBITDA (Pre-AASB16)	\$101.7	\$85.9	18%	\$114.5	\$89.7	28%
EBITDA Margin %	27.5%	33.1%	(17%)	31.0%	35.0%	(11%)

¹ Pre adoption of accounting standard AASB16

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IPH Limited (ASX:IPH), the leading intellectual property (IP) services group in the Asia Pacific region, today announced a 3 per cent increase in Statutory Net Profit After Tax (NPAT) to \$54.8 million for the year ended 30 June 2020.

Diluted Earnings Per Share declined by 3 per cent to 25.8 cents.

IPH's result demonstrates the ongoing resilience of the business despite the challenging market conditions caused by the COVID-19 pandemic in the second half of the year. The business remains well placed with continued strong cash generation, a robust balance sheet with enhanced financial flexibility and no refinancing commitments until 2022.

Underlying EBITDA was \$126.0 million compared to \$89.7 million for the prior year. The basis for calculation of underlying earnings is contained in the table at the end of this announcement

Underlying revenue for the year increased by 44 per cent to \$369.6 million while Underlying NPAT lifted by 24 per cent to \$77.7 million.

The Directors declared a final dividend of 15 cents per share, 100 per cent franked, bringing the full year dividend to 28.5 cents per share, up 14 per cent on the prior year.

The full year dividend is in line with the Board's dividend policy to pay 80-90 per cent of cash NPAT as dividends. The record date for determining entitlements to the final dividend is 26 August 2020 with scheduled payment on 18 September 2020.

The IPH Dividend Reinvestment Plan (DRP) will operate in respect of the final dividend. All shareholders who have previously elected to participate will participate in the DRP. Shareholders who wish to change their election or make an election should do so prior to 27 August 2020.

Pre Adoption of AASB16

Underlying Earnings Before Interest, Tax, Depreciation and Amortisation (Underlying EBITDA) increased by 28 per cent to \$114.5 million. This is pre adoption of the accounting standard, AASB16.

Impact and response to COVID-19

IPH disclosed during the final quarter that it was experiencing some disruption to the business as a result of COVID-19.

With the escalation of the pandemic in March the business has implemented comprehensive COVID-19 response plans across all offices with the primary focus on the safety and wellbeing of its people, clients and communities. The Group's robust IT systems have enabled all IPH staff to work remotely.

In the second half of the year, IPH experienced some slowdown in workflow (new filings and instructions on existing matters) due to disruption amongst some clients and the general economic and market uncertainty, as well as the temporary closure of Patent Offices in some of the jurisdictions that IPH group businesses service.

However, the flow-on effect of previous filings and the level of new filings enabled IPH to avoid making any redundancies, stand-downs or pay reductions for its staff as a result of the pandemic itself.

Government assistance was not accessed in Australia or New Zealand; however, approximately A\$1.1 million in government assistance was received in various forms in Singapore, China and Hong Kong Special Administrative Region, China.

The Group continues to adopt a prudent approach to managing the business in the COVID-19 environment with ongoing tight control of discretionary expenditure and most remuneration increase decisions delayed until later in FY21.

Strong balance sheet position

As a prudent measure the Company drew \$20 million from existing facilities in March 2020 and as a result had cash on hand of \$82.9 million at year end of which, \$12.7 million was subsequently repaid in August 2020.

Net debt at 30 June 2020 was \$68.3 million with a leverage ratio (Net Debt / Underlying EBITDA) of 0.6 times.

Operating cashflow for FY20 increased with a cash conversion ratio of 106 per cent, which includes the cash receipts of the strong end to FY19.

The Group has no refinancing commitments until February 2022.

Commentary on 'like-for-like' revenue and earnings pre AASB16

The 'like-for-like' basis is before adoption of the accounting standard, AASB16, and adjusts for the impact of foreign exchange movements and also for the acquisition of the Xenith IP businesses, which was effective 15 August 2019. The "new business" column reflects the 10.5 months of FY19 Xenith results acquired by the Group. Any increment or decrement to this result in the 10.5 months under IPH ownership in FY20 is included in underlying movements.

Like-for-like revenue decreased by 3 per cent with like-for-like EBITDA declining by 1 per cent.

	Underlying Revenue June 20	New Businesses	Accounting FX Movements	Currency Adjustment	Adjusted Revenue June 20	Underlying Revenue June 19	Chg%
Australia & NZ IP	277.7	(107.5)	0.1	(6.8)	163.5	171.6	(5%)
Asian IP	102.7		0.7	(4.8)	98.6	93.5	6%
Wisetime	0.4				0.4	0.5	
Glasshouse	2.3	(3.9)			(1.6)		
Corporate	1.2	1.0	(0.7)		1.4	(0.0)	
Eliminations	(14.6)		1.2		(13.5)	(8.9)	
	369.5	(110.4)	1.2	(11.6)	248.9	256.6	(3%)

	Underlying EBITDA June 20	New Businesses	Accounting FX Movements	Currency Adjustment	Adjusted EBITDA June 20	Underlying EBITDA June 19	Chg%
Australia & NZ IP	86.9	(23.6)	0.1	(6.6)	56.9	61.8	(8%)
Asian IP	43.6		0.7	(2.7)	41.6	38.6	8%
Wisetime	(1.2)				(1.2)	(1.4)	
Glasshouse	(1.1)	1.2			0.1		
Corporate	(13.3)	4.6	(0.7)		(9.4)	(10.0)	
Eliminations	(0.6)		1.1		0.6	0.7	
	114.5	(17.8)	1.2	(9.3)	88.5	89.7	(1%)

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Results commentary

IPH Chief Executive Officer, Dr Andrew Blattman, said:

“We are pleased to deliver a solid result in FY20 despite some disruption to our business caused by COVID-19 and the integration of the Xenith businesses into the IPH group.

“Our **Asian IP** business continues to be the growth engine for the group, delivering top line growth at an increased margin as we continue to leverage our extensive network across the region.

“The business continued to deliver strong organic growth with like-for-like revenue increasing by 6 per cent and like-for-like EBITDA up by 8 per cent. EBITDA margin increased from 41.3 per cent to 42.2 per cent.

“Our strategy to leverage our network across the region continues to result in increased client referrals from our Australian/NZ businesses. For example, AJ Park is now the number one client by revenue in our trade mark business in Beijing and Hong Kong while Griffith Hack is now one of the top ten clients by revenue of our patent business in Beijing and Hong Kong. Patent filings in China increased by almost 7 per cent on the prior year.

Removing the effect of one significant client filing across several jurisdictions, filing activity across other key Asian jurisdictions, excluding Singapore, moderated in the second half compared to a very strong 2HFY19.

In Singapore, IPH Group patent filings for the calendar year ended 31 December 2019 increased by 22.2 per cent compared to the prior corresponding period, with the IPH Group maintaining its number one patent market share of 23.3 per cent.

“In our **Australia and NZ IP** business like-for-like revenue declined by 5 per cent.

“Despite the weaker market conditions in the second half, the pre-existing IPH business delivered a solid result with revenue declining by 1 per cent and EBITDA down 2 per cent on the prior year. This reflected a reduction in client filings (reflective of the broader market) and fewer Spruson & Ferguson legal cases compared to the prior period.

Our continued cost discipline delivered like-for-like EBITDA margin of 35.8 per cent, consistent with the prior year (FY19: 36 per cent) in the pre-existing business.

We made considerable progress with the integration of the Xenith IP businesses into the IPH Group.

Net cost and revenue synergies of \$3.5 million were delivered in FY20, in line with the guidance provided at the time of the acquisition.

The integration of Watermark into Griffith Hack to create one firm operating under the Griffith Hack brand has been successfully completed. We continue to expect financial benefits of approximately \$2 million from FY21 onwards, primarily through the consolidation of leased office space and corporate, administrative and operational efficiencies and improvements.

Additionally, after a strategic review, we divested the R & D tax and Export Market Development Grants practice of the Glasshouse Advisory business to Grant Thornton and ceased to operate the balance of the business in June 2020.

As anticipated in an integration programme of this size, the level of merger activity caused some disruption to the Xenith businesses during the second half of the year. Griffith Hack (including the former Watermark business) is also predominantly Melbourne-based and is also more impacted by the COVID-19 restrictions. Together with reduced client filing activity, Xenith like-for-like revenue declined by 5 per cent. However, the delivery of corporate cost synergies resulted in like-for-like EBITDA increasing by 7 per cent.

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Total Australian market patent filings were generally steady for the first nine months of 2020 but declined by 2.6 per cent in the final quarter as a result of COVID-19. Total Australian market patent filings decreased by 0.6 per cent for the year or, if Innovation Patents (to be phased out 25 August 2021) are removed, the market declined 1.5 per cent. IPH Group's filings (including Xenith on a pro-forma basis) in Australia declined by 5.3 per cent. The reduction in filings reflect IPH's group client mix and filing activity compared to the prior period. There were no major client losses during the period.

IPH remains the market leader in Australia with combined group patent market share (including Xenith on a pro-forma basis) of 36.5 per cent to 30 June 2020.

Proposed acquisition of Baldwins Intellectual Property

On 10 June 2020, AJ Park announced it had reached an agreement to acquire the New Zealand intellectual property firm, Baldwins Intellectual Property (Baldwins). The total purchase consideration for the acquisition is approximately NZ\$7.9m including deferred consideration of NZ\$0.4m. The initial purchase consideration is to be settled approximately 65% in cash and approximately 35% in new IPH shares. Deferred consideration is to be settled in cash.

The transaction is subject to a number of conditions including clearance of the proposed acquisition by the New Zealand Commerce Commission. Baldwins is a highly regarded firm in the New Zealand market and the acquisition will give the merged businesses greater depth and provide clients with access to a complementary team of experienced IP professionals.

Strategic Priorities

IPH's strategic priorities include maintaining its leading market positions in Australia/New Zealand and Singapore, and seeking to expand in other secondary jurisdictions.

Dr Blattman concluded: "With the integration of Watermark into Griffith Hack and divestment of the Glasshouse Advisory business complete, a continued focus in FY21 is to harness the growth potential of the remaining Xenith IP brands within IPH. In New Zealand, the restructuring of management in AJ Park and the proposed acquisition of Baldwins provides us with a strong opportunity to leverage our position in that market.

"The company will continue to build on its positive momentum in leveraging our Asian network to expand organic revenue opportunities and grow market share in high growth markets across the region.

"We continue to evaluate potential international acquisition opportunities in secondary core IP services markets," Dr Blattman said.

Underlying earnings

The internal reporting that is regularly provided to the chief operating decision makers includes financial information prepared on both a statutory and underlying basis. It is considered important to include the financial information on an underlying basis as this reflects the ongoing or underlying activities of the Group and excludes items that are not expected to occur frequently and do not form part of the core activities of the Group.

In addition to previously established captions of items excluded from underlying results, there is also an "impairment" charge of \$5.3 million related to the write-off of the Watermark brand as a result of its merger with Griffith Hack (\$1.6m) and the creation of onerous lease provisions for excess premises and asset write offs as a result of the merger (\$3.7m).

The adjustments to statutory earnings in order to calculate underlying earnings are summarised in the following table:

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Underlying / Statutory Results Reconciliations	FY20 \$'m	FY19 \$'m
Underlying Revenue	369.6	256.6
Statutory Revenue	370.1	256.6
Underlying Net Profit after Tax ("NPAT")	77.7	62.8
less: amortisation of intangible assets arising from acquisitions	(19.6)	(9.2)
less: business acquisition costs	(1.2)	(3.5)
less: restructuring expenses	(4.1)	(1.0)
less: share based payments expenses	(2.2)	(2.2)
less: onerous lease provisions and asset write-offs	(3.7)	0.0
less: Impairment	(1.6)	0.0
add: disposal of Practice Insight products	0.0	2.9
add: tax effect of adjustments	9.5	3.3
Statutory NPAT	54.8	53.1

For more information, please contact:

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Authorised for release to ASX by The Board of Directors of IPH

About IPH Limited

IPH Limited ("IPH", ASX:IPH), the holding company of AJ Park, Griffith Hack, Pizzeys, Practice Insight, Shelston IP and Spruson & Ferguson, is the leading intellectual property ("IP") services group in the Asia-Pacific region offering a wide range of IP services and products. These services are provided across Australia, New Zealand, Papua New Guinea, the Pacific Islands and Asia from offices in Sydney, Brisbane, Melbourne, Canberra, Perth, Auckland, Wellington, Singapore, Kuala Lumpur, Jakarta, Beijing, Hong Kong and Bangkok. The group comprises a multidisciplinary team of approximately 900 people, including some of the most highly regarded IP professionals in the Asia-Pacific region. The team services a diverse client base of Fortune Global 500 companies and other multinationals, public sector research organisations, foreign associates and local clients.

IPH was the first IP services group to list on the Australian Securities Exchange

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