

ASX Announcement

Half Year Financial Results to 31 December 2017 (“HY18”)

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Asian Growth Dampened by Foreign Exchange

\$'m	Statutory Results	Statutory Results	Change %	Underlying Results	Underlying Results	Change %
	HY18	HY17		HY18	HY17	
Revenue	\$101.2	\$93.1	9%	\$101.2	\$93.1	9%
EBITDA	\$31.8	\$35.1	(9%)	\$33.2	\$36.4	(9%)
EBITDA %	31.4%	37.7%	(17%)	32.8%	39.1%	(16%)
NPAT	\$19.7	\$22.1	(11%)	\$24.3	\$26.6	(9%)
Diluted EPS	10.1c	11.5c	(13%)	12.4c	13.9c	(11%)
Interim Dividend	11.5c	11.5c	-			

The Directors of IPH Limited announce the half year financial results for the six months ended 31 December 2017. The Company’s Statutory Net Profit after Tax (“NPAT”) for the half year was \$19.7m, which equates to diluted earnings of 10.1c/share and compares to \$22.1m in the previous corresponding period. The Underlying NPAT for the half year was \$24.3m, being a 9% decrease compared to the previous corresponding period. Group revenue increased 9% from the previous corresponding period.

On a ‘like-for-like’ comparison, revenue for the half year was \$91.1m, a 2% decrease on the comparative period. Underlying EBITDA was \$35.1m, being a 3% decrease on the comparative period. The like-for-like comparison takes into account the impact of new acquisitions during the year and foreign exchange.

Revenue \$'m	Underlying Revenue HY18	New Businesses ¹	FX	Adjusted Revenue HY18	Revenue HY17	Chg%
Australia & NZ IP	67.7	(9.0)	2.2	60.9	64.0	(5%)
Asian IP	35.7	(4.4)	1.8	33.1	31.8	4%
Other	(2.2)		(0.7)	(2.9)	(2.7)	
	101.2	(13.4)	3.3	91.1	93.1	(2%)

EBITDA \$'m	Underlying EBITDA HY18	New Businesses ¹	FX	Adjusted EBITDA HY18	EBITDA HY17	Chg%
Australia & NZ IP	24.2	(0.5)	2.2	25.9	26.6	(2%)
Asian IP	13.6	(0.7)	1.6	14.5	14.0	3%
Other	(4.6)		(0.7)	(5.3)	(4.2)	
	33.2	(1.2)	3.1	35.1	36.4	(3%)

1. Excludes 2 months of AJ Park acquired 31 Oct 2017 and 4 months of SF Hong Kong pre-acquisition on 31 Oct 2016

Impact of Foreign Exchange

A significant impact on the half year result in comparison to the prior period has been the movement in foreign exchange rates, in particular the AUD strengthening against the USD by an average of 2.5c. In addition, all of the above comparatives were impacted by the recording of a large unrealised foreign exchange gain on the revaluation of USD denominated balances at 31 December 2016. As explained at last year's results announcement, this gain reversed in January 2017. The combination of these factors negatively impacted the comparative by approximately \$3.1m.

Operational Review

Commenting on the results Chief Executive Officer, Dr Andrew Blattman said "the highlight of these results has been the return to growth (both in terms of our filings and like-for-like-earnings) of our Asian business post the America Invents Act (AIA) highs of FY16 and subsequent pullback in FY17. On a like-for-like basis Asian revenue has grown by 4% while EBITDA has grown by 3%.

In Australia, patent filings across the IPH group have tracked to the slight decline in the overall market, while the like-for-like revenue decline of 5% is slightly higher due to a further, less material, cycling of the AIA Impact. Pleasingly, the like for like EBITDA decline is only 2% reflecting our continued focus on margin enhancement.

The AIA led a further revenue spike relating to the initiation of patent examination (albeit smaller due to the lower fees involved and the potential for filings to be abandoned in the meantime) in the first half of FY17. Eliminating this impact would reduce period on period revenue decrease to 3%, and lead to EBITDA growth of 2%. The effect in Asia (which had a higher proportion of AIA related filings) is not as profound as the filings were across various jurisdictions where the process and timeframes can vary.

Growth Opportunities & S&F Merger

Dr Blattman added "we are very pleased to welcome New Zealand's leading patent attorney firm AJ Park to the IPH Group and they have traded to expectations since their acquisition. We have begun working with management on initiatives for margin improvement. The Group will receive a full six months contribution from this business in the second half."

"The Company continues to evaluate acquisition and expansion opportunities in the Asia Pacific region. Our immediate focus will be the integration of the AJ Park acquisition and ensuring the success of the recently announced merger of Spruson & Ferguson (S&F), Cullens and Fisher Adams Kelly Callinans to trade under the S&F brand."

The businesses will begin operating under the Spruson & Ferguson brand from April 2018 with full integration expected to be completed in early financial year 2019. The combined firm will have the largest Australian patent market share of 16% and employ more than 400 people, including 152 IP professional staff, with primary offices in 10 locations across the Asia-Pacific region.

IPH was the first IP services group to list on the ASX in 2014 and the first to further evolve its service offering in Australia by combining multiple brands. This announcement further reinforces its industry leading approach and commitment to ensuring its group businesses have the capability, resources and systems to deliver the highest quality service to clients and provide strong career paths for its people.

It is anticipated that this merger will provide annualised net financial benefits of between \$1m and \$2m from FY19 onwards, primarily through the consolidation of leased office space and efficiencies in administrative processes and operations. These savings take into account the cost of extending participation in the IPH Equity Incentive Plan to eligible FAKC and Cullens staff in FY19. One-off restructuring costs of approximately \$1m will be incurred in the FY18 year in order to achieve these savings.

Dividends

The Directors have declared an interim dividend of 11.5 cents per share, of which 40% will be franked, and 60% distributed as Conduit Foreign Income. The record date for determining entitlements to the dividend, is 21 February 2018 and the dividend will be payable on 14 March 2018. The IPH Dividend Reinvestment Plan will operate in respect of the 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 to participate should do so prior to 22 February 2018.

Further Commentary

Underlying earnings

The HY18 underlying earnings of the Group have been determined by adding back to statutory earnings amounts eliminating the effect of business acquisition adjustments, business acquisition costs, new business establishment costs and non-cash share based payments expenses. The adjustments are summarised in the following table:

Underlying / Statutory Results Reconciliations	HY18	HY17
	\$'m	\$'m
Underlying Revenue	101.2	93.1
Statutory Revenue	101.2	93.1
Underlying Net Profit after Tax ("NPAT")	24.3	26.6
less: business acquisition adjustments (net)	0.6	1.1
less: amortisation of intangible assets arising from acquisitions	(4.4)	(4.4)
less: new business establishment costs	(0.2)	(0.1)
less: business acquisition costs	(0.9)	(1.8)
less: restructuring expenses	(0.2)	0.0
less: share based payments expenses	(0.7)	(0.6)
add: tax effect of adjustments	1.1	1.3
Statutory NPAT	19.7	22.1

The Appendix 4D, the HY18 Financial Statements and results presentation have been lodged with the ASX and can also be found on IPH's website – www.iphltd.com.au

For more information, please contact:

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About IPH Limited

IPH Limited ("IPH", ASX:IPH), the holding company of Spruson & Ferguson, Practice Insight, Fisher Adams Kelly Callinans, Pizeys, Cullens and AJ Park, 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, Auckland, Wellington, Singapore, Kuala Lumpur, Jakarta, Shanghai, Beijing, Hong Kong and Bangkok. The group comprises a multidisciplinary team of approximately 635 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 is the first IP services group to list on the Australian Securities Exchange.