

ASX Announcement

18 August 2022

Smart & Biggar – Canada’s leading IP agency firm to join IPH Strategic transaction extends IPH’s international network beyond the Asia Pacific

Transaction highlights

- Smart & Biggar, Canada’s leading intellectual property (IP) agency firm will join the IPH group for consideration of CAD 348m (AUD 387m)¹
- A significant strategic transaction for IPH, further delivering on its vision to be the leading IP services group in secondary IP markets
- Expected underlying EPS accretion of approximately 10% in the first full year of ownership
- Highly complementary, Smart & Biggar has a leading market position in Canada, high quality professionals, an exceptional reputation and rich heritage
- The first IP agency firm in Canada to join a publicly listed IP group

IPH Limited (IPH) has reached agreement to acquire the IP agency practice of Smart & Biggar, which will hold an interest in the legal practice of Smart & Biggar as permitted by Canadian regulation.

Smart & Biggar joining IPH will significantly extend the group’s international secondary markets network, for the first time beyond the Asia Pacific region. This is consistent with IPH’s vision to be the leading IP services group in secondary IP markets and provides a platform for IPH to participate in further growth opportunities.

Transaction summary

IPH will undertake the transaction by acquiring a new Quebec limited partnership that will conduct the business of the IP agency of Smart & Biggar and will own an interest in a new Quebec limited liability partnership formed by former Smart & Biggar partners that will acquire the legal practice of Smart & Biggar, in compliance with Quebec regulation.

The consideration for the acquisition is CAD 348m (AUD 387m)¹ and represents a multiple of approximately 10x pro forma adjusted Smart & Biggar EBITDA for the 12 months to June 2022².

The consideration comprises:

- Upfront cash consideration of CAD 241m;
- Initial issue of 5.3m new IPH shares with a value of CAD 41m (escrowed for two years) (representing 2.4% of existing shares on issue)³; and
- Deferred issue of new IPH shares (earn-out consideration) up to a value of CAD 66m (escrowed for two years)⁴.

¹ AUD:CAD as at 17 August 2022

² Enterprise value includes consideration of CAD 348m (AUD 387m as at 17 August 2022). Pro forma adjusted EBITDA is calculated as Smart & Biggar’s reported earnings before interest, depreciation and amortisation before partner draws, (on a pre-IFRS-16 basis), adjusted for estimated pro forma partner base salaries (excluding any incentive payments) (to date partners receive profit drawings rather than salaries) and the estimated impact of IFRS-16.

The deferred earn-out consideration, capped at CAD 66m of new IPH shares, is payable dependent on the extent that Smart & Biggar's earnings in CY2022 or CY2023 outperform agreed thresholds broadly in-line with its pre-COVID earnings levels in CY2019³. The earn-out could be achieved in full or part in either of those years and any deferred earn-out consideration is payable by issue of new IPH shares within 30 days following determination of the earn-out. The earn-out will be payable at an amount of 11x the excess earnings (Smart & Biggar EBITDA as it currently reports adjusted for pro forma partner salaries), up to the cap of CAD 66m.

In addition to the earn-out, there is potential for a further share based payment of CAD 2.4m to certain non-vendors, contingent upon the same conditions as the earn-out and including continued employment.

Smart & Biggar partners will continue in the business as Principals and will generally enter into four year minimum term employment agreements as a part of the transaction. The continuing partners and eligible professional staff will, following completion, be invited to participate in the IPH group employee incentive plan providing opportunities to earn incentives in the form of cash and performance rights, and share in the success of the group.

Significant strategic acquisition for IPH

IPH Chief Executive Officer, Dr Andrew Blattman said, "Smart & Biggar's employees are of the highest quality and the firm has an outstanding international reputation. The Australian and Canadian IP markets are very similar, and together the combined group will be well positioned to provide our clients with a comprehensive IP service offering with an international reach in key secondary markets, while offering strong career development opportunities for our people.

This is a significant strategic transaction that extends IPH's international network beyond Asia Pacific and into an additional significant secondary market. We look forward to welcoming Smart & Biggar's employees and clients to the group."

Managing Partner, Smart & Biggar, Matthew Zischka said "Joining the IPH group will supercharge our service offering and enable future investment in our Canadian business. We look forward to continuing to help clients in Canada and around the world safeguard and leverage their IP and technological assets."

Smart & Biggar

Established in 1890, Smart & Biggar (formerly known as Fetherstonhaugh & Co.) is one of Canada's preeminent IP services firms, with more than 300 employees, including more than 100 patent agents, trade mark agents and lawyers, located in multiple offices across Canada. Smart & Biggar is a full service IP services firm with a client base including Fortune 500 companies and large multinational corporations, research institutions, SMEs, start-ups and Canadian entrepreneurs.

Smart & Biggar is Canada's leading IP services firm by number of patent filings, filing over 6,200 patents and over 1,800 trade marks in 2021⁵. Smart & Biggar provides IP services across patent, trade mark and industrial design agency services and IP legal services, including IP litigation and commercial IP legal advice. A distinction between the Smart & Biggar practice and those of the IPH group, is the greater proportion of revenue derived through IP legal services, as opposed to agency services. Smart & Biggar has consistently been recognised as Canada's premier IP services firm⁶.

Funding

The transaction consideration will be funded by debt facilities, cash reserves and the issuance of IPH shares to the vendors.

IPH has agreed amended debt facilities with its existing bank financiers as a part of the transaction. IPH's pro forma total drawn debt post transaction will be approximately A\$390m.

³ IPH shares issued as a part of the upfront consideration will be escrowed for two years from completion (expected in September 2022) subject to certain exceptions. These shares will be issued at a price of AUD 8.51 per share, being the 20 day VWAP to 17 August 2022.

⁴ IPH shares issued as a part of the potential earn-out will be escrowed for two years from the start of the calendar year following the calendar year in which the relevant earn-out was achieved, subject to certain exceptions. Any such shares will be issued at a price equal to the 20 day VWAP of IPH shares ending on the last trading day of the year in which the relevant earn-out was achieved.

⁵ Management estimate based on Smart & Biggar internal filing data.

⁶ Smart & Biggar awards include Canadian IP Boutique Firm of the Year 2011, 2012, 2014, 2016, 2018, 2020, 2021 & 2022 (Managing IP Americas Awards) and IP Boutique Law Firm of the Year 2020-2022 (Canadian Law Awards).



Following the transaction, IPH's pro forma group leverage ratio will be 1.8x⁷.

At completion of the transaction IPH intends to enter into interest rate hedging for the equivalent of A\$350m. These interest rate hedges will have varying maturity profiles. The interest rate hedging will provide greater certainty for the group's interest rate expense in the near term.

5.3m new IPH shares will be issued upon the transaction, representing 2.4% of existing shares on issue (escrowed for 2 years)². Additional new IPH shares are expected to be issued in the first quarter of calendar year 2023 or the first quarter of calendar year 2024 if earn-out consideration is achieved (escrowed for 2 years)³.

Conditions

Completion of the transaction is subject to satisfaction or waiver of a number of conditions, including achievement / receipt of agreed regulatory registrations and third party approvals, there being no order or proceeding for the purpose of preventing completion, no material adverse change affecting Smart & Biggar or IPH occurring, no new laws that may have a material adverse effect on Smart & Biggar or IPH being enacted, minimum employment offer acceptances and other standard conditions. The transaction can be terminated if any of these conditions are not satisfied or waived and can also be terminated in certain other circumstances.

The transaction is expected to complete in September 2022.

Advisers

Aquasia is acting as financial adviser and Watson Mangioni, Cassels Brock & Blackwell, and Lapointe Rosenstein Marchand Melançon are acting as legal advisers to IPH.

Further Information

Further details of the transaction are set out in the Investor Presentation also lodged on the ASX today 18 August 2022.

For more information, please contact:

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Authorised for release to ASX by: The Board of Directors

7 Calculated as IPH drawn debt net of cash as at June 2022 plus estimated additional debt drawn at acquisition as at completion divided by underlying EBITDA for IPH for the 12 months to June 2022 and pro forma adjusted EBITDA for Smart & Biggar for the last twelve months to June 2022. Pro forma adjusted EBITDA is calculated as Smart & Biggar's reported earnings before interest, depreciation and amortisation before partner draws, (on a pre-IFRS-16 basis), adjusted for estimated pro forma partner base salaries (excluding any incentive payments) (to date partners receive profit drawings rather than salaries) and the estimated impact of IFRS-16



About IPH Limited

IPH is the Asia Pacific's leading intellectual property services group, comprising a network of member firms working in eight IP jurisdictions and servicing more than 25 countries. The group includes leading IP firms AJ Park, Griffith Hack, Pizeys and Spruson & Ferguson and online IP services provider Applied Marks. IPH employs more than 900 people working in Australia, China, Hong Kong SAR, Indonesia, Malaysia, New Zealand, Singapore and Thailand.

Forward-Looking Statements

This announcement contains certain forward-looking statements that involve risks and uncertainties. IPH can give no assurance that these expectations will prove to be correct. You are cautioned not to place undue reliance on any forward-looking statements. Actual results may differ materially from those anticipated in these forward-looking statements due to many important factors, risks and uncertainties including, without limitation, risks associated with regulatory requirements and general economic uncertainty. IPH does not undertake any obligation to release any revisions to any "forward-looking statement" to reflect events or circumstances after the date of this presentation, except as may be required under applicable laws.

IPH uses certain measures to manage and report on its business that are not recognised under Australian Accounting Standards or International Financial Reporting Standards (IFRS).

These measures are collectively referred to in this presentation as 'non-IFRS financial measures' under Regulatory Guide 230 'Disclosing non-IFRS financial information' published by the Australian Securities and Investments Commission (ASIC). Management uses these non-IFRS financial measures to evaluate the performance and profitability of the overall business. Although IPH believes that these measures provide useful information about the financial performance of IPH, they should be considered as supplements to the income statement measures that have been presented in accordance with the Australian Accounting Standards and IFRS in IPH's audited financial statements released on the ASX and not as a replacement for them.

Financial information contained in this presentation relating to Smart & Biggar is unaudited and not prepared in accordance with accounting standards.

