IPH Limited
ACN 169 015 838

Appendix 4D – Half Yearly Financial Report

Half Year ended 31 December 2019 (“HY20”)
Results for announcement to the market

Results		Change		HY20 $'000	HY19 $'000
Revenue from ordinary activities	Up	43.9%	to	179,825	124,961
Profit from ordinary activities after tax attributable to members	Up	12.4%	to	27,169	24,170
Profit for the period attributable to members	Up	12.4%	to	27,169	24,170

Dividends	Amount per Share	Franked amount per Share
Half year ended 31 December 2019 - Interim dividend	13.5c	13.5c
Half year ended 31 December 2018 - Interim dividend	12.0c	6.0c
Interim Dividend sourced from Conduit Foreign Income	Nil	
Record date for determining entitlements to the dividend	19 February 2020	

The Dividend Reinvestment Plan will be in operation for the HY20 interim dividend

Other	HY20	HY19
Net tangible asset backing per share	$(0.16)	$0.16

Explanation of Result

Please refer to the commentary in the Directors’ Report included in the Half Year Financial Report for an explanation of the result.

Additional information requiring disclosure under listing rule 4.2A.3 is contained in the Half Year Financial Report.

IPH Limited and its Controlled Entities

Half Year Financial Report

For the Half Year ended 31 December 2019

www.iphltd.com.au

The Directors present their report, together with the financial statements, of the consolidated entity (referred to hereafter as the 'Group') consisting of IPH Limited (referred to hereafter as the 'Company' or 'Parent Entity') and the entities it controlled at the end of, or during, the half year ended 31 December 2019.

IPH is the leading intellectual property ("IP") services group in the Asia-Pacific region offering a wide range of IP services and products to a diverse client base of Fortune Global 500 companies, multinationals, public sector research organisations, SMEs and professional services firms worldwide.

IPH's intellectual property businesses comprise leading IP firms AJ Park, Griffith Hack, Shelston IP, Spruson & Ferguson, Pizzeys and Watermark, which provide services for the protection, commercialisation, enforcement and management of all forms of intellectual property including patents, trade marks and designs. IPH also operates in areas which support our IP businesses, through Glasshouse Advisory and the Practice Insight software businesses.

The IPH group employs approximately 1000 people across the Asia-Pacific region. IPH was the first IP services group to list on the Australian Securities Exchange.

1. Directors

The following persons were Directors of IPH Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Name	Office
Mr Richard Grellman, AM	Non-executive Chairman
Dr Andrew Blattman	Managing Director and Chief Executive Officer
Mr John Atkin	Non-executive Director
Ms Robin Low	Non-executive Director
Ms Jingmin Qian	Non-executive Director

2. Operational and Financial Review

2.1 Operations and Financial performance

The summary financial analysis below shows the results on a statutory and underlying basis.

The HY20 underlying earnings of the Group have been determined by adding back to statutory earnings amounts eliminating the effect of business acquisition costs, including in relation to the acquisition of Xenith acquired on 15 August 2019, restructuring costs and non-cash share based payments expenses.

IPH has adopted the new lease accounting standard, AASB 16 for its HY20 results. 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.

Statutory Results

Revenue increased by 44% to $179.8m, reflecting the impact of the Xenith IP acquisition, organic growth and the impact of a lower Australian dollar than in the prior comparative period.

EBITDA increased by 41% to $57.4m from $40.6m in HY19.

The Group delivered a statutory net profit after tax of $27.2m, an increase of 12% from the prior year's result of $24.2m. Underlying EBITDA of $60.4m increased by 49% from the prior corresponding period.

Acquisition of Xenith

IPH acquired the remaining 80.1% of Xenith that was not already owned on 15 August 2019. The inclusion of Xenith has resulted in an increase in underlying revenue of $48.8m and EBITDA of $11.5m ($9.5m pre-AASB16).

	Revenue HY20	Revenue HY19	Chg%	EBITDA HY20	EBITDA HY19	Chg%
Australian & New Zealand IP	133,828	84,673	58%	46,626	30,119	55%
Asian IP	50,554	42,894	18%	21,625	16,965	27%
	184,382	127,567	45%	68,251	47,084	45%
Adjacent Businesses	1,273	317		(1,146)	(581)	
Corporate Office	899	(1,084)		(6,188)	(6,425)	
Eliminations	(7,240)	(3,958)		(543)	342	
Underlying Revenue / EBITDA	**179,313**	**122,842**	46%	**60,374**	**40,420**	49%
Business acquisition costs				(491)	(186)	
Restructuring expenses[1]	471			(750)	(617)	
Share based payments				(1,690)	(1,058)	
Disposal of Practice Insight businesses		2,072		-	2,072	
Statutory Revenue / EBITDA	**179,784**	**124,914**	44%	**57,443**	**40,630**	41%
Interest Income				41	47	
Interest Expense				(3,512)	(1,092)	
Depreciation and amortisation				(16,226)	(6,261)	
Net Profit Before Tax				37,746	33,324	13%
Tax				(10,577)	(9,154)	
Net Profit After Tax				**27,169**	**24,170**	12%

1. Included in restructuring expenses is $471k income received in settlement of a legal dispute

Pre-AASB 16 Results

Underlying EBITDA before adoption of the new accounting standard, AASB 16, increased by 36% to $54.9 million. The new accounting standard had the effect of increasing EBITDA by $5.5m (the cash rental paid), by replacing lease expense with depreciation and finance charges of $6.0m.

Impact of Foreign Exchange Movements

The Group's results are impacted by movements in foreign exchange rates in the following ways:

(i) Revaluation of foreign denominated assets and liabilities

Group companies invoice a significant proportion of their revenue in USD reflecting the preference of the client base. Accordingly the Group carries a material amount of USD denominated cash and receivables. As at 31 December 2019 the balance sheet contained US$15.4m in cash and US$36.2m in receivables.

At 31 December, the Group had drawn debt related to the acquisition of AJ Park of US$19.5m.

The net unrealised losses arising from these assets and liabilities totals $279k compared to a loss of $814k in the comparative period.

A strengthening of SGD against the USD resulted in unrealised FX losses at 31 December 2019 being recognised in other income. Upon translation of the Singapore cash and receivables balances, the resultant FX gain on the AUD SGD exchange rate is recognised in the Foreign Currency Translation Reserve rather than profit and loss.

Period end foreign exchange rates used to translate balance sheet accounts were:

	AUD/USD	AUD/EUR	AUD/SGD
31 December 2018	0.7054	0.6163	0.9618
30 June 2019	0.7022	0.6176	0.9500
31 December 2019	0.7013	0.6253	0.9439

(ii) P&L Impact of trading in foreign currencies

Revenue derived by the Group is recorded at the rate of the day of transaction. The Group invoices 52% of its revenue in USD, with a relatively low proportion of USD denominated expenses.

The average exchange rate at which this USD revenue was derived during the six months to 31 December 2019 was 0.6848, while in the comparative period it was 0.7241.

Average foreign exchange rates used to translate earnings throughout the period were:

	AUD/USD	AUD/EUR	AUD/SGD
HY19	0.7241	0.6287	0.9931
HY20	0.6848	0.6171	0.9373
Movement	(5.4%)	(1.8%)	(5.6%)

Australian & New Zealand IP

The Australian & New Zealand IP segment achieved sales revenue growth of 58% to $133.8m which included a contribution of $48.8m from Xenith IP.

Total Australian market patent filings decreased by 1.2 per cent for the period. IPH Group's filings (including Xenith IP on a pro-forma basis) declined by 3.5 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.

EBITDA increased by 55% to $46.6m at a margin of 34.8%. This includes the impact of favourable foreign exchange movements. EBITDA margin declined slightly on the prior corresponding period due to the inclusion of the lower-margin Xenith IP contribution in HY20.

The like-for-like basis excludes the impact of foreign exchange and 4.5 months of Xenith as it traded in FY19. On a like for like basis EBITDA increased by 6% from continued margin accretion and cost efficiencies in the IPH pre-existing business. Also contributing to this was an improved performance from Xenith against the prior corresponding period which included a significant litigation matter. Revenue of this type is of a different nature to the annuity-style revenue from our patent and trade mark business.

Asian IP

The Asian IP segment sales revenue increased by 18% to $50.6m. On a like for like basis revenue has grown by 15%.

EBITDA increased by 27% to $21.6m which includes the impact of favourable foreign exchange movements. On a like for like basis EBITDA has grown by 18%.

On the latest available data the Group has maintained its number one patent market share position (all patent applications filed in Singapore).

Adjacent Businesses

Adjacent businesses include the autonomous time keeping software tool, WiseTime, and Glasshouse Advisory.

Corporate

Excluding the impacts of foreign exchange, corporate costs increased by $800k on the comparative period. The increase in corporate costs reflects increased investment in information technology, insurance costs and increased compensation costs of new executives who were added during FY19. In addition, there were costs of $600k for the Xenith corporate office in the period since ownership, a reduction of $1.3m compared to the prior comparative period as a standalone company.

2.1.1 Adjustments to Statutory Results

Adjustments to the statutory EBITDA have been made for:

- **Business acquisition costs** – costs incurred in the pursuit of acquisitions which have been completed or are currently in progress
- **Restructuring costs** – costs of restructuring across the Group predominately relating to post acquisition activities of Xenith
- **Share based payments** – accounting charges for the share based incentive plans.

2.2 Statement of Financial Position

$'m	Balance Sheet as at 31 Dec 2019	Balance Sheet as at 30 Jun 2019
Cash and cash equivalents	43.7	35.3
Trade and other receivables	82.9	63.4
Investment in financial assets	-	39.2
Other current assets	17.4	7.3
Total current assets	**144.0**	**145.2**
PP&E	15.8	6.7
Right of use assets	48.3	-
Acquisition intangibles & goodwill	494.0	255.1
Deferred tax asset	26.8	7.8
Other non-current assets	0.5	0.2
Total assets	**729.4**	**414.9**
Trade and other payables	24.3	18.9
Tax provisions	6.6	10.2
Deferred tax liability	67.0	22.4
Provisions	18.0	12.8
Interest bearing lease liabilities	60.0	-
Borrowings	130.7	65.5
Other liabilities	2.3	0.4
Total liabilities	**308.9**	**130.1**
Net assets	**420.5**	**284.8**
Equity		
Issued capital	396.3	262.8
Reserves	1.5	(2.0)
Retained profits	22.7	24.0
Total equity	**420.5**	**284.8**

From an overall perspective, the balance sheet has increased significantly due to the acquisition of Xenith. A summary of specific key movements are as follows:

Cash & cash equivalents

- The Group generated positive cash flows from operating activities of $37.4m.
- As at 31 December 2019 the cash balance was denominated in AUD (20%), USD (54%), SGD (8%), other (18%).

Investment in Financial Assets

- At 30 June this balance represented the investment in 19.9% of Xenith from February 2019. Following the acquisition of the remaining shares in Xenith, this amount has been transferred to the cost of acquisition.

Right of Use Asset & Interest bearing lease liabilities

- This is the recognition of lease assets and liabilities in accordance with AASB16 from 1 July 2019.

Acquisition intangibles & goodwill

- The increase in intangible assets arises from the recognition of goodwill ($112m, customer relationships $120m and trade marks $15m) following the acquisition of Xenith, less amortisation costs during the period.
- Identifiable intangible assets, net of amortisation, consist of: customer relationships $174m; trademarks $19m and internally developed software $4m.
- Goodwill resulting from current year and historic acquisitions is $297m.

Deferred tax assets

- The increase in deferred tax assets is primarily driven by the tax treatment upon implementation of AASB16 and the acquisition of Xenith.

Liabilities

- Group borrowings of $130.7m have increased from the comparative period due to the drawdown of debt for the acquisition of Xenith ($46.1m) and repayment of its existing debt ($21m), less repayment of an additional $5m during the period.
- Deferred tax liabilities have increased significantly due to the recognition of deferred taxes on customer relationships and trade marks from the acquisition of Xenith and the tax treatment upon implementation of AASB 16.

Equity

- 15.6m new shares ($130.7m) were issued during the period to partially fund the acquisition of Xenith.

3. Dividends

Since the end of the half year, the Directors have declared the payment of an interim ordinary dividend of 13.5 cents per share, franked at 100%. This represents 83% of cash adjusted NPAT (this is NPAT adjusted for net acquisition intangibles amortisation, net share-based payment expense and cash rent paid). The Group expects dividends at year end to be franked at 100%.

4. Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

Dr Andrew Blattman
Managing Director

13 February 2020
Sydney

Deloitte Touche Tohmatsu
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The Board of Directors
IPH Limited
Level 24, Tower 2 Darling Park
201 Sussex Street,
Sydney NSW 2000

13 February 2020

Dear Board Members

IPH Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of IPH Limited.

As lead audit partner for the review of the financial statements of IPH Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

H Fortescue
Partner
Chartered Accountants

IPH LIMITED

ABN 49 169 015 838

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 31 DECEMBER 2019

	Note	Consolidated 31 Dec 2019 $'000	31 Dec 2018 $'000
Revenue	3	178,040	121,544
Other income	4	1,785	3,417
Expenses			
Agent fee expenses		(51,497)	(35,714)
Employee benefits expense	5	(55,801)	(34,863)
Depreciation and amortisation expenses	5	(16,226)	(6,261)
Occupancy expenses		(770)	(4,147)
Insurance expenses		(1,407)	(1,002)
Travel expenses		(1,580)	(1,172)
Other expenses	5	(11,285)	(7,386)
Finance costs	5	(3,513)	(1,092)
Profit before income tax expense		**37,746**	**33,324**
Income tax expense		(10,577)	(9,154)
Profit after income tax expense for the year		**27,169**	**24,170**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		977	3,780
Items that will not be reclassified subsequently to profit or loss			
Fair value gain on investment in equity instruments		855	-
Other comprehensive income for the year, net of tax		1,832	3,780
Total comprehensive income for the year		**29,001**	**27,950**
Profit for the year is attributable to:			
Owners of IPH Limited		27,169	24,170
		27,169	**24,170**
Total comprehensive income for the year is attributable to:			
Owners of IPH Limited		29,001	27,950
		29,001	**27,950**
Earnings per share			
From continuing operations			
Basic earnings (cents per share)	8	12.97	12.26
Diluted earnings (cents per share)	8	12.91	12.16

The accompanying notes form part of these financial statements

IPH LIMITED

ABN 49 169 015 838

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

		Consolidated	
	Note	**31 Dec 2019**	**30 Jun 2019**
		$'000	**$'000**
Current assets			
Cash and cash equivalents		43,713	35,263
Trade and other receivables		82,921	63,406
Investment in financial assets		-	39,194
Other		17,418	7,317
Total current assets		**144,052**	**145,180**
Non-current assets			
Property, plant and equipment		15,760	6,693
Right of use assets	1	48,306	-
Intangibles	6	494,033	255,054
Other financial assets		513	176
Deferred tax		26,785	7,793
Total non-current assets		**585,397**	**269,716**
Total assets		**729,449**	**414,896**
Current liabilities			
Trade and other payables		24,322	18,874
Income tax payable		6,563	10,222
Provisions		14,723	8,110
Interest bearing lease liabilities	1	10,868	-
Other financial liabilities		200	200
Contract liabilities		2,163	179
Total current liabilities		**58,839**	**37,585**
Non-current liabilities			
Borrowings	10	130,688	65,470
Deferred tax		66,952	22,368
Interest bearing lease liabilities	1	49,091	-
Provisions		3,337	4,723
Total non-current liabilities		**250,068**	**92,561**
Total liabilities		**308,907**	**130,146**
Net assets		**420,542**	**284,750**
Equity			
Issued capital	11	396,373	262,763
Reserves		1,498	(2,025)
Retained profits		22,671	24,012
Total equity attributable to the owners of IPH Limited		**420,542**	**284,750**

The accompanying notes form part of these financial statements

IPH LIMITED

ABN 49 169 015 838

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2019

	Issued Capital	Foreign Currency Translation Reserve	Minority Interest Reserve	Equity Settled Employee Benefits Reserve	Other Reserve	Retained Profits	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2018	**262,763**	**1**	**(14,814)**	**3,352**	**-**	**16,286**	**267,588**
Profit for the period	-	-	-	-	-	24,170	24,170
Effect of foreign exchange differences	-	3,780	-	-	-	-	3,780
Total comprehensive income for the period	**-**	**3,780**	**-**	**-**	**-**	**24,170**	**27,950**
Transactions with owners in their capacity as owners:							
Share-based payments charge	-	-	-	1,059	-	-	1,059
Share-based payments vested	-	-	-	(1,095)	-	-	(1,095)
Dividends paid	-	-	-	-	-	(21,708)	(21,708)
Balance at 31 December 2018	**262,763**	**3,781**	**(14,814)**	**3,316**	**-**	**18,748**	**273,794**
Balance at 1 July 2019	**262,763**	**3,858**	**(14,814)**	**4,453**	**4,478**	**24,012**	**284,750**
Profit for the period	-	-	-	-	-	27,169	27,169
Fair value gain on investment in equity instruments	-	-	-	-	855	-	855
Effect of foreign exchange differences	-	977	-	-	-	-	977
Total comprehensive income for the period	**-**	**977**	**-**	**-**	**855**	**27,169**	**29,001**
Transactions with owners in their capacity as owners:							
Issue of ordinary shares as consideration for a business combination, net of transaction costs (Note 9)	130,730	-	-	-	-	-	130,730
Dividend Reinvestment plan (Note 7)	2,879	-	-	-	-	-	2,879
Share-based payments charge	-	-	-	1,691	-	-	1,691
AASB 16 transitional impact on Retained Earnings (Note 1)	-	-	-	-	-	(830)	(830)
Dividends paid (Note 7)	-	-	-	-	-	(27,680)	(27,680)
Balance at 31 December 2019	**396,373**	**4,835**	**(14,814)**	**6,144**	**5,333**	**22,671**	**420,542**

The accompanying notes form part of these financial statements

IPH LIMITED

ABN 49 169 015 838

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE HALF YEAR ENDED 31 DECEMBER 2019

		Consolidated	
	Note	31 Dec 2019	31 Dec 2018
		$'000	$'000
Cash flows from operating activities			
Receipts from customers		206,068	151,592
Payments to suppliers and employees		(149,713)	(113,309)
Interest received		41	47
Interest and other finance costs paid		(2,420)	(1,092)
Income taxes paid		(16,559)	(10,473)
Net cash from operating activities		**37,417**	**26,765**
Cash flows from investing activities			
Payments for purchase of subsidiaries, net of cash acquired (note 9)		(40,324)	-
Proceeds from sale of Practice Insight businesses		-	10,000
Payments for property, plant and equipment		(730)	(653)
Payments for internally developed software		(1,515)	(1,334)
Net cash (used in)/from investing activities		**(42,569)**	**8,013**
Cash flows from financing activities			
Dividends paid		(24,801)	(21,708)
Proceeds of borrowings		70,183	-
Repayment of borrowings		(26,107)	(9,095)
Payment of lease liabilities		(5,459)	-
Net cash provided by/(used in) financing activities		**13,816**	**(30,803)**
Net increase/(decrease) in cash and cash equivalents		8,664	3,975
Cash and cash equivalents at the beginning of the financial period		35,263	26,213
Effects of exchange rate changes on cash and cash equivalents		(214)	(834)
Cash and cash equivalents at the end of the financial period		**43,713**	**29,354**

The accompanying notes form part of these financial statements

1. Significant accounting policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 ‘Interim Financial Reporting’. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 ‘Interim Financial Reporting’. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

It is also recommended that the half-year financial report be considered together with any public announcements made by IPH Limited and its controlled entities during the half-year ended 31 December 2019 in accordance with the continuous disclosure obligations under the Corporations Act 2001.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors Reports) Instrument dated 24 March 2016, and

in accordance with that Instrument amounts in the half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company’s 2019 annual financial report for the financial year ended 30 June 2019, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Changes to Accounting Standards for the current reporting period

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to their operations and effective for the current half-year.

AASB 16 'Leases'

The Group initially adopted AASB 16 Leases from 1 July 2019. As a result the Group, as a lessee, has recognised right of use assets and lease liabilities representing its obligation to make lease payments. The Group has applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly comparative information has not been restated.

Transition

Upon transition the standard allows companies to utilise a number of practical expedients. The Group has utilised the following:
(i) All contracts which have previously been classified as a lease will continue to be treated as a lease
(ii) The same discount rate (the Group's incremental borrowing rate) has been applied to leases with similar characteristics (eg. similar lease terms). For older long term leases, the comparable government bond rates at time of inception of the lease have been used as the discount rate.

The Group leases office space in each location in which it operates. At transition, for leases classified as operating leases under AASB 117, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's relevant incremental borrowing rate as at 1 July 2019. Right of use assets were measured at their carrying amount as if AASB 16 had been applied since the commencement of the lease, discounted using the Group's incremental borrowing rate at the date of initial application.

The Group presents right of use assets within its own line in non-current assets and presents lease liabilities as interest bearing lease liabilities in the Statement of Financial Position.

Accounting Policy

The Group recogises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of the lease liability. The right of use asset is depreciated over the lease term using the straight-line method.

The lease liability is intially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsquently increased by the interest cost on the lease liability (recognised in Finance Costs in the Statement of Profit or Loss) and decreased by lease payments made. It is remeasured when there is a change in the rate or changes in the assessment of whether an extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset, or is recorded in profit or loss if the carrying amount of the right to use asset has been reduced to zero.

Impacts on the Financial Statements at Transition

On transition to AASB 16 , the Group recognised additional right of use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below:

	1 July 2019
	$'000
Right of use assets	32,089
Deferred tax asset	882
Lease liabilities	(33,843)
Retained profits	830
Reduction in provisions	42

Acquistion of Xenith IP Limited

On 15 August 2019 IPH acquired the remaining interest in Xenith IP Limited (XIP) which it did not already own. XIP had implemented AASB 16 prior to acquisition and as a result right of use assets of $20,222,000 and lease liabilities of $28,344,000 were recognised in IPH at the date of acquisition (refer note 9).

Impacts on the Financial Statements at 31 December 2019

At 31 December 2019, the Group recognised right of use lease assets of $48,306,000 and lease liabities of $59,959,000 as a result of applying AASB 16. Depreciation relating to AASB16 leases was $4,877,000 and additional interest expense was $1,092,000.

Accounting Standards and Interpretations in issue not yet adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the period ended 31 December 2019.

Comparatives

Other than for AASB 16, where necessary, the comparatives have been amended to align with the current period presentation.

Note 2. Operating Segments

Identification of reportable operating segments

The Group is organised into three segments: Intellectual Property Services Australia & New Zealand; Intellectual Property Services Asia; and Adjacent Businesses. Adjacent Businesses at 31 December 2019 includes the operations of Practice Insight (formerly presented as Data Analytics) and Glasshouse Advisory (acquired as a subsidiary of XIP) These operating segments are based on the internal reports that are reviewed and used by the senior executive team and Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews profit before interest, tax and adjustments to the statutory reported results. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements. The information is reported to the CODM on at least a monthly basis.

Intersegment transactions

There are varying levels of integration between the segments. The integration includes provision of professional services, shared technology and management services. Intersegment transactions were made at market rates. Intersegment transactions are eliminated on consolidation.

Note 2. Operating Segments (Continued)

	Intellectual Property Services											
Consolidated	**Australia & New Zealand**		**Asia**		**Adjacent Businesses**		**Corporate**		**Intersegment eliminations / unallocated**		**Total**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Revenue												
Sales to external customers	128,407	80,148	48,900	41,395	1,212	-	-	-	-	-	178,519	121,545
Intersegment sales	963	403	2,489	1,669	-	-	-	-	(3,453)	(2,072)	-	-
Total sales revenue	129,370	80,551	51,389	43,065	1,212	-	-	-	(3,453)	(2,072)	178,519	121,545
Other revenue	4,458	4,123	(835)	(171)	61	317	899	(1,084)	(3,788)	(1,886)	795	1,297
Total revenue	**133,828**	**84,674**	**50,554**	**42,894**	**1,273**	**317**	**899**	**(1,084)**	**(7,240)**	**(3,958)**	**179,313**	**122,842**
Less: Overheads	(87,202)	(54,555)	(28,929)	(25,930)	(2,420)	(897)	(7,086)	(5,341)	6,697	4,300	(118,940)	(82,422)
Earnings before interest, tax, depreciation and amortisation (EBITDA), before adjustments	**46,626**	**30,119**	**21,625**	**16,965**	**(1,146)**	**(581)**	**(6,188)**	**(6,425)**	**(543)**	**342**	**60,374**	**40,420**
Less: Depreciation	(4,777)	(533)	(1,144)	(148)	(167)	(13)	(112)	(33)	-	-	(6,200)	(727)
Less: Amortisation	(8,863)	(4,252)	(636)	(565)	(42)	(312)	(496)	(416)	12	11	(10,026)	(5,534)
Less: Management Charges	62	969	(3,805)	(1,929)	-	-	3,733	960	9	-	-	-
Segment result: (Profit before interest, tax and adjustments)	**33,048**	**26,303**	**16,040**	**14,322**	**(1,356)**	**(906)**	**(3,063)**	**(5,913)**	**(522)**	**353**	**44,148**	**34,159**

Reconciliation of segment result		
Segment result	44,148	34,159
Adjustments to statutory result:		
Business acquisition costs	(491)	(186)
Restructuring expenses	(750)	(617)
Disposal of Practice Insight businesses	-	2,072
Share based payments	(1,690)	(1,058)
Total adjustments	(2,931)	210
Interest income	41	47
Finance Costs	(3,512)	(1,092)
Profit for the period before income tax expense	**37,746**	**33,325**

Reconciliation of segment revenue		
Segment revenue	179,313	122,842
Revenue items excluded from segment result	471	2,072
Interest income	41	47
Total revenue	**179,825**	**124,961**

Note 3. Revenue

	Consolidated	
	31 Dec 2019	**31 Dec 2018**
	$'000	**$'000**
Revenue from the rendering of services	178,040	121,544
	178,040	**121,544**

Note 4. Other Income

	Consolidated	
	31 Dec 2019	**31 Dec 2018**
	$'000	**$'000**
Net Realised foreign exchange (loss)/gain	(289)	1,023
Net Unrealised foreign exchange (loss)/gain	(279)	(814)
Other income	1,031	387
Profit on sale of Practice Insight businesses	-	2,072
Commission	1,281	702
Interest	41	47
	1,785	**3,417**

Note 5. Expenses

Profit before income tax includes the following specific expenses:

	Consolidated	
	31 Dec 2019	**31 Dec 2018**
	$'000	**$'000**
Depreciation and amortisation		
Depreciation of property, plant and equipment	1,322	727
Depreciation of right of use assets	4,877	-
Amortisation - Acquired Intangibles	9,116	4,706
Amortisation - Software Development	911	828
	16,226	6,261
Employee benefits expense		
Included in Employee benefits expense is:		
Share based payments	1,691	1,058
Other expenses		
Professional Fees	2,431	1,507
IT & Communication	2,555	1,494
Staff Costs	1,870	715
Office Expenses	998	766
Other expenses	3,431	2,904
	11,285	7,386
Finance costs		
Interest on bank facilities	1,785	826
Bank facility fees	636	266
Other interest expense - Lease liability	1,092	-
	3,513	1,092

Note 6. Intangible Assets

	Consolidated	
	31 Dec 2019	30 Jun 2019
	$'000	$'000
Goodwill - at cost	297,439	184,648
Patents and trade marks - at cost	18,818	4,189
	316,257	**188,838**
Capitalised software development - at cost	9,288	7,999
Less: Accumulated amortisation	(5,231)	(4,518)
	4,057	**3,481**
Customer Relationships	211,050	90,950
Less: Accumulated amortisation	(37,331)	(28,215)
	173,719	**62,735**
	494,033	**255,054**

Reconciliation of carrying amount

Consolidated	Goodwill	Trade marks	Customer relationships	Capitalised software	Software acquired	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2018	185,223	4,237	71,830	4,223	790	266,303
Additions	-	33	-	3,584	-	3,616
Disposals	(3,834)	(80)	-	(2,432)	(671)	(7,017)
Exchange differences	3,259	-	1	(3)	-	3,256
Amortisation expense	-	-	(9,095)	(1,891)	(119)	(11,105)
Balance at 30 June 2019	**184,648**	**4,189**	**62,735**	**3,481**	**-**	**255,054**
Additions	-	29	-	1,486	-	1,515
Additions through business combinations (Note 9)	112,545	14,600	120,100	-	-	247,245
Exchange differences	246	-	-	1	-	247
Amortisation expense	-	-	(9,116)	(911)	-	(10,027)
Balance at 31 December 2019	**297,439**	**18,818**	**173,719**	**4,057**	**-**	**494,033**

Pizzeys

At 31 December 2019 total intangibles of $83.4m are allocated to the Pizzeys cash generating unit ("CGU") and have been tested for impairment this period. The recoverable amount of the CGU has been determined using a value-in-use calculation using cash flow projections based on financial budgets prepared by management and approved by the Board. Cash flows for future years are extrapolated using the estimated growth rates stated below. After five years a terminal growth rate is assumed and terminal value-in-use calculated.

The key assumptions used for the value-in-use calculation at 31 December 2019 are as follows:

	5 yr EBITDA CAGR		Terminal growth rates	Discount rates Pre-Tax	Discount rates Post-Tax
	31 Dec 2019	30 Jun 2019	31 Dec 2019 & 30 Jun 2019		
	%	%	%	%	%
Pizzeys	5.6	7.1	2.5	15.0	10.5

Sensitivity Analysis
Sensitivity analysis has been conducted on the assumptions above to assess the effect on the recoverable amount of changes in the key assumptions. A decrease of the EBITDA CAGR by 1.9% or an increase in the post tax discount rate of 0.8% would result in the carrying value of the Pizzeys CGU to equal the recoverable amount.

Note 7. Dividends

During the half-year, IPH Limited made the following dividend payments:

		Consolidated	
	Cents per share	**31 Dec 2019 $'000**	**31 Dec 2018 $'000**
Final dividend			
June 2018 - paid 13 September 2018	10.5	-	21,708
June 2019 - paid 18 September 2019	13.0	27,680	-

On 13 February 2020, the Company declared an interim dividend of 13.5 cents per share (100% franked) to be paid on 13 March 2020. The dividend value is $28,855,000. No provision for this dividend has been recognised in the Statement of Financial Position as at 31 December 2019, as it was declared after the end of the financial period.

Dividend Reinvestment Plan

The Dividend Reinvestment Plan was active for the final dividend paid on 18 September 2019. 307,613 shares were issued to participants at $9.36 per share totalling $2,879,258.

Note 8. Earnings per share

	Consolidated	
	31 Dec 2019 $'000	**31 Dec 2018 $'000**
Profit after income tax	27,169	24,170
Profit after income tax attributable to the owners of IPH Limited	**27,169**	**24,170**

	Number	**Number**
Basic earnings per share - Weighted average number of ordinary shares	209,548,381	197,177,367
Options over ordinary shares	846,085	1,546,302
Diluted earnings per share - Weighted average number of ordinary shares	210,394,466	198,723,669

	Cents	**Cents**
Basic earnings per share	12.97	12.26
Diluted earnings per share	12.91	12.16

Note 9. Business combinations

Xenith IP Group Limited

On 15 August 2019, the Group acquired the remaining 80.1% of the ordinary shares of Xenith IP Group Limited (XIP) which it did not already own unde the terms of a Scheme of Arrangement valued at $2.15 per Xenith share. At the date of acquisition the carrying value of the initial investment in XIP was $38,129,622. The Group acquired the remaining shares for $176,806,120. The consideration was settled by way of issue of 15,581,683 IPH shares and cash facilities of $46,075,800, funded by a drawdown on IPH's existing debt facility.

The initial accounting for the acquisition has only been provisionally determined at the end of the reporting period.

The acquired business contributed revenues of $49.3m and profit after tax of $4.8m to the Group for the period from 15 August 2019 to 31 December 2019. For the period prior to ownership from 1 July to 14 August 2019, the acquired business generated revenues of $13.4m and a loss after tax of $3.6m. The loss after tax is due to costs and adjustments associated with the acquisition by IPH and is not representative of ongoing business.

Consideration transferred

The following table summarises the acquisition date fair value of each major class of consideration transferred.

	$'000
Cash	46,076
Equity instruments (15,581,683 ordinary shares)	130,730
Total consideration transferred on acquisition date	**176,806**
Recognition of existing investment in XIP as part of acquisition value	38,130
Total acquisition value	**214,936**

The Group incurred acquisition related costs in the half-year of $360,000. These costs have been included in business acquisition expenses.

Equity instruments issued

$130,730,320 of the purchase price was settled by way of the issue of 15,581,683 ordinary shares in IPH to the vendors of XIP. The shares issued hav been recorded in the financial statements at the acquisition date fair value of $8.39 per share.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

	Fair value $'000
Cash and cash equivalents	5,752
Trade and other receivables	25,071
Other assets	7,899
Property, plant and equipment	9,657
Right of Use assets	20,222
Intangible assets - customer relationships	120,100
Intangible assets - trademarks	14,600
Current tax liabilities	(115)
Deferred tax liabilities	(30,159)
Trade and other payables	(11,042)
Provisions	(8,474)
Borrowings	(21,100)
Interest bearing lease liabilities	(28,344)
Other creditors	(1,676)
Net assets acquired	102,391
Goodwill	112,545
Acquisition-date fair value of total consideration transferred	**214,936**
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of total consideration transferred	214,936
Less: shares issued by company as part of consideration	(130,730)
Less: existing investment in XIP	(38,130)
Less: cash and cash equivalents acquired	(5,752)
Net cash used	**40,324**

Note 10. Borrowings

	Consolidated	
	31 Dec 2019	30 Jun 2019
Non Current	$'000	$'000
Multi-option facility	130,688	65,470
	130,688	**65,470**

The Group has a facilities agreement ('Agreement') with HSBC and Westpac. The facilities under the Agreement comprise:

- A $90m multicurrency revolving loan facility;
- A $100m acquisition term loan facility; and
- A $20m revolving credit facility for the general corporate purposes of the Group

The Agreement has a term of 3 years maturing on 11th February 2022

Note 11. Equity - Issued Capital

	Consolidated		Consolidated	
	31 Dec 2019	30 Jun 2019	31 Dec 2019	30 Jun 2019
	Shares	Shares	$'000	$'000
Ordinary Class shares - fully paid	213,741,182	197,341,566	396,373	262,763
	213,741,182	**197,341,566**	**396,373**	**262,763**

Movements in ordinary share capital

	Date	Shares	$'000
Opening balance	1 July 2018	197,341,566	262,763
Balance at 30 June 2019		**197,341,566**	**262,763**
Acquisition of Xenith IP Group Ltd (Note 9)	15 August 2019	15,581,683	130,730
Retention rights exercised	28 August 2019	510,320	-
Dividend reinvestment - final dividend (Note 7)	18 September 2019	307,613	2,879
Balance at 31 December 2019		**213,741,182**	**396,373**

Ordinary Shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Employee Share Trust

On 1 July 2017, IPH established the Employee Share Trust for the purpose of acquiring and allocating shares granted through the IPH Employee Incentive Plan. As at 31 December 2019, the number of shares held by the trust was 595,030 (30 June 2019: 175,917)

Note 12. Events Subsequent to Reporting Date

There were no significant events post 31 December 2019 that have impacted on the Group.

IPH LIMITED
ABN 49 169 015 838
DIRECTORS DECLARATION

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

In the directors' opinion, there are reasonable grounds to believe that the company and the companies to which the ASIC Class Order applies, will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the *Corporations Act 2001*.

Dr Andrew Blattman
Managing Director
13 February 2020
Sydney

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Independent Auditor's Review Report to the Members of IPH Limited

We have reviewed the accompanying half-year financial report of IPH Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2019, and the condensed consolidated statement of profit and loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 9 to 21.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of IPH Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of IPH Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Deloitte.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of IPH Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

DELOITTE TOUCHE TOHMATSU

H Fortescue
Partner
Chartered Accountants
Sydney, 13 February 2020