

ASX Announcement

18 February 2021

Financial Results for half year ended 31 December 2020 ("HY21")

IPH delivers 3% increase in Underlying Net Profit After Tax to \$37.6m

Like-for-Like EBITDA up 8%; EBITDA growth in Asia and successful transformation of the Xenith IP Group

HY21 Highlights

- Statutory NPAT of \$26.8m, down 1% equating to Diluted EPS of 12.4 cents per share (HY20:12.9 cents)
- Underlying NPAT of \$37.6m, up 3% despite currency headwind of higher A\$ in the first half
- Underlying EBITDA of \$61.7m, up 2%
- Underlying 'like-for-like' EBITDA up 8%
 - Former Xenith IP business' underlying EBITDA margin up 35% to 27%
 - Continued organic earnings growth momentum in Asia with strong result in China/Hong Kong SAR – patent/trade mark referrals from acquired businesses up 39%
- Operating cashflow up 39% enables increase in interim dividend to 14 cents per share, 50% franked; up 4% on prior corresponding period
- Dividend Reinvestment Plan (DRP) will operate in respect of the interim dividend

\$'m	Statutory Results HY21	Statutory Results HY20	Change %	Underlying Results HY21	Underlying Results HY20	Change %
Revenue	\$179.8	\$179.8	0%	\$179.8	\$179.3	0%
EBITDA	\$56.7	\$57.4	(1%)	\$61.7	\$60.4	2%
EBITDA %	31.5%	32.0%	(1%)	34.3%	33.7%	2%
NPAT	\$26.8	\$27.2	(1%)	\$37.6	\$36.3	3%
Diluted EPS	12.4c	12.9c	(4%)	17.4c	17.3c	1%
Interim Dividend	14.0c	13.5c	4%			

Overview of result – Underlying profit growth despite COVID-19 impact and currency headwinds

IPH Limited (ASX:IPH), the leading intellectual property (IP) services group in the Asia Pacific region, today announced a Statutory Net Profit After Tax (NPAT) of \$26.8 million for the half year ended 31 December 2020 compared to \$27.2 million for the prior corresponding period.

Diluted Earnings Per Share (EPS) were 12.4 cents compared to 12.9 cents.

The Statutory result was impacted by an increase in non-cash amortisation of intangible assets related to the Xenith IP acquisition.

Notwithstanding the market disruption caused by the stronger Australian dollar in the first half and the COVID-19 pandemic, IPH delivered underlying profit growth with continued strong cash generation which enabled an increased interim dividend on the prior corresponding period.

Underlying NPAT increased by 3% to \$37.6 million, equating to Underlying Diluted EPS of 17.4 cents per share compared to 17.3 cents in prior corresponding period. The basis for calculation of underlying earnings is contained in the table at the end of this announcement.

The Directors declared an interim dividend of 14 cents per share, 50% franked, compared to 13.5 cents per share for the prior period. The record date for determining entitlements to the final dividend is 24 February 2021 with scheduled payment on 19 March 2021. The IPH Dividend Reinvestment Plan (DRP) will operate in respect of the interim dividend.

Like-for-Like Results commentary – Strong organic growth in Asia and successful synergy capture from acquisitions drives earnings and margin growth

IPH Chief Executive Officer, Dr Andrew Blattman, said: “We are pleased to deliver a solid first half result despite the challenging market conditions.

“As anticipated, these challenges had an impact at the top line, with revenue down 5% on a like-for-like basis. However, IPH’s ability to successfully integrate acquisitions and capture synergies resulted in further margin accretion with an 8% increase in Underlying like-for-like earnings. Group Underlying like-for-like EBITDA margin increased to 38.3% from 33.7% for the prior corresponding period.

“Our **Asian** IP business continues to perform well. While revenue was down slightly on the prior period, we continued to generate margin accretive earnings from leveraging our extensive network across the region, including a 39% increase in client patent and trade mark referrals from acquired companies (AJ Park and former Xenith businesses).

“The business continued to deliver strong organic earnings growth with like-for-like EBITDA up by 6%. EBITDA margin increased from 42.7% to 45.7%.

“Our business in China and Hong Kong SAR performed well in the half with excellent filing growth of 18% and 23% respectively. In Singapore, IPH Group maintained its number one patent market share of 23.2% for the calendar year ended 31 December 2020.

“Like-for-like revenue in our **Australia and New Zealand** IP business declined by 6%.

“Not surprisingly, we experienced some continued disruption from COVID-19 which impacted filings for the period and also from the impact of the integration of Watermark and Griffith Hack.

“However, the successful delivery of cost synergies from this integration and from corporate Xenith IP synergies, resulted in a 2% lift in like-for-like EBITDA.

“Underlying EBITDA margin also increased to 37.9% from 34.8% in the prior corresponding period. The main contribution to this increase was the 35% improvement in Underlying EBITDA margin of the former Xenith IP business to 27% compared to 20% when we acquired the business in 2019.

“Once again this demonstrates IPH’s ability to successfully integrate businesses to deliver margin accretion for the Group.

“Total Australian market patent filings (excluding innovation patents which will no longer be available from August 2021) decreased by 0.5% for the period. IPH Group’s filings (including Baldwins IP on a pro-forma basis and excluding innovation patents) declined by 5.7%. This is an improvement from the figure provided at the IPH Annual General Meeting in November.

“IPH remains the market leader in Australia with combined group patent market share (including Baldwins on a pro-forma basis and excluding innovation patents) of 36.8% in the six months to 31 December 2020.”

Dr Blattman concluded: "I am pleased with the Company's performance this half. We have seen our acquisition and integration strategy deliver enhanced value to the group and increased returns to shareholders, even in a market impacted by a higher Australian dollar and COVID-19.

"This reflects the resilience of our business. Additionally, the initiatives we have implemented to right-size and make the business more efficient means we have increased operational leverage to deliver further margin expansion when markets improve," Dr Blattman said.

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Authorised for release to ASX by:

The Board of Directors of IPH

About IPH Limited

IPH has the largest portfolio of Intellectual Property (IP) services firms in the Asia-Pacific region.

The IPH group employs more than 900 people, working from offices in Australia, China, Hong Kong SAR, Indonesia, Malaysia, New Zealand, Singapore and Thailand and providing IP professional services across 25 countries in Asia-Pacific.

Our group network comprises leading IP firms AJ Park, Griffith Hack, Pizzeys, Shelston IP and Spruson & Ferguson and WiseTime autonomous time-keeping software.

Like-for-Like earnings

The like-for-like basis adjusts for the impact of foreign exchange movements and new business acquisitions, including Xenith IP (acquired on 15 August 2019) and Baldwins IP which was acquired on 16 October 2020.

\$'m	Underlying Revenue Dec 20	New Businesses	Accounting FX Movements	Currency Adjustment	Adjusted Revenue Dec 20	Underlying Revenue Dec 19	Chg%
Australia & NZ	135.6	(16.4)	3.0	3.1	125.3	133.8	(6%)
Asia	47.3		0.8	2.0	50.1	50.6	(1%)
Wisetime	0.2				0.2	0.1	
Glasshouse		(0.5)			(0.5)	1.2	
Corporate	3.3	0.2	(1.8)		1.7	1.3	
Eliminations	(6.6)		(0.5)		(7.1)	(7.7)	
	179.8	(16.7)	1.5	5.1	169.7	179.3	(5%)

\$'m	Underlying EBITDA Dec 20	New Businesses	Accounting FX Movements	Currency Adjustment	Adjusted EBITDA Dec 20	Underlying EBITDA Dec 19	Chg%
Australia & NZ	45.2	(3.6)	3.0	3.0	47.6	46.7	2%
Asia	21.0		0.8	1.1	22.9	21.6	6%
Wisetime	(0.2)				(0.2)	(0.7)	
Glasshouse	0.2	0.2			0.4	(0.4)	
Corporate	(4.4)	1.1	(1.8)		(5.1)	(6.2)	
Eliminations	(0.1)		(0.5)		(0.6)	(0.6)	
	61.7	(2.3)	1.5	4.1	65.0	60.4	8%

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.

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

Underlying / Statutory Results Reconciliations	HY21 \$'m	HY20 \$'m
Underlying Revenue	179.8	179.3
Statutory Revenue	179.8	179.8
Underlying Net Profit after Tax ("NPAT")	37.6	36.4
less: amortisation of intangible assets arising from acquisitions	(10.8)	(9.1)
less: business acquisition costs	(1.1)	(0.5)
less: restructuring expenses	(1.3)	(0.8)
less: share-based payments expenses	(2.7)	(1.7)
add: tax effect of adjustments	5.0	2.9
Statutory NPAT	26.8	27.2