

Friday 1 August 2014
ASX RELEASE – IAW

Update on FY14 and Management Initiatives

Background

As noted previously, including at the November 2013 Annual General Meeting, the ILH legal services strategy has not achieved consistent earnings growth in the period since inception.

Legal firm revenue has proven to be highly cyclical and organic growth has been challenging in a lower growth environment.

Recognising the need for change, over the last 2 years ILH has been undergoing a repositioning and transformation process as the Board has looked to achieve earnings growth and share price appreciation.

In the 2013 calendar year, ILH made changes to its Australian legal business strategy including the implementation of a national branding and marketing strategy which is expected to provide revenue and cost reduction benefits over time.

Additionally, the Board has continued to evolve the business model for the legal firms with initiatives aimed at cost reduction including the merger of the Perth based law firms.

Further, the Board introduced a complementary business strategy, with the acquisition of two Wealth Management businesses and a professional service focussed Corporate Advisory business in September 2013.

This complementary business strategy aims to provide ILH with recurring revenue and diversification of earnings. Additionally, these particular businesses were seen to have strong growth prospects as well as being highly revenue synergistic with the Group's existing legal businesses, providing cross referral opportunities going forward.

First Half FY14

In the first half of FY14, as a result of one-off acquisition costs of approximately \$800k and significant weakness in the Perth legal businesses, the Company reported a net loss of \$1.39m.

The Perth legal businesses experienced weakness in workflow as a result of a downturn in economic conditions in WA and the loss of a number of senior legal professionals.

The ILH Group commenced operations in Perth and the Western Australian businesses have represented about half of ILH revenue in recent years.

The repositioning and diversification strategy that began in the 2012 calendar year has been partly driven by the Board's desire to reduce the business risk associated with this particular market segment.

FY14 Full Year Results

For the second half, the Board anticipated an improved result with the benefits of the transformation starting to emerge, including the Wealth Management and Corporate Advisory businesses being included for the full six months.

Regrettably, the Board advises that the second half will show a worse result than the first half, following underperformance of the legal businesses particularly in Perth, but also in Sydney and Melbourne, and with the newly acquired Corporate Advisory business not meeting the Board's expectations.

Group cash flows were negative for the second half, impacted by the effect of trading losses, offset by improved receivable collections.

Wealth Management

The Board is pleased to report that the Wealth Management business, Capricorn Investment Partners Limited (incorporating The Pentad Group), has exceeded expectations in earnings, synergy opportunities with the legal businesses and in earnings growth potential. Funds under management have grown 7.6% since the acquisition of this business to approximately \$480m. The Board remains excited about the future of this business and the contribution of the Wealth Management division to the complementary business strategy of the Company.

In the medium term, the Board anticipates further Wealth Management acquisitions in line with its complementary business strategy.

Acquisitions and Acquisition Costs

The acquisition of the Wealth Management and Corporate Advisory businesses was a material transaction for the Group and involved extensive due diligence, an Independent Expert's Report, external advice and significant internal resources. The Company incurred significant one-off costs in relation to the acquisition which were expensed in the first half.

During the year the Board had also targeted a second material acquisition which would have significantly expanded the reach of the Group.

This potential acquisition was ultimately unsuccessful, and proved to be a major distraction for the Board and management during the period, as well as incurring significant one-off costs.

Whilst further one-off acquisition costs were anticipated in the second half, these were lower than in the first half.

There will be no material acquisition activity for the Group during FY15.

Bank Covenants

Following the financial performance in FY14, ILH continues to be in breach of the Group's bank funding interest cover ratio ("ICR").

The bank is aware of ILH's strategic and operational transformation process and key initiatives in this regard.

In accordance with the accounting standard requirements, the Group's bank loans will again be classified as current liabilities at 30 June 2014, and the auditor's report is expected to again include an emphasis of matter in relation to going concern considerations.

Challenges

ILH continues to face a number of challenges arising from FY14 trading losses and the breach of the bank's ICR covenant.

In response, management has been undertaking urgent action to return the Group to profitability and positive cash flow, to alleviate pressures on the short term cash position, to restore working capital to an acceptable level, to move away from the ICR breach position and to strengthen the Group's balance sheet more generally.

Cost Savings Initiatives

The ASX release on 2 June 2014 announced \$2.4 million in cost savings which would be progressively generated in the period to 1 January 2015.

The Company is on track in delivering these reductions, which include cost savings from the Perth merger and reductions in remuneration of the Managing Director and the Board.

Fundamental Shift in Strategy and Business Model

The ILH strategy has been an aggregation or portfolio model, where acquired businesses have operated largely independently within Group strategic boundaries.

The prime strategic focus of the Group was revenue growth, with cost consolidation a secondary consideration and the realisation of synergies between firms on a best efforts collaboration basis.

This strategy and business model has not been successful and has to change.

In that respect, management have commenced implementing a fundamental shift in strategy and business model from one of aggregation to integration.

Under the integration model, ILH will operate as one business rather than a portfolio of independent businesses, with a focus on maximising Group client relationship opportunities and with an integrated back office targeting operational efficiencies.

Rockwell Olivier Melbourne, as a 49% subsidiary, will continue to operate as a stand-alone business unit.

Management Restructure

As a key and integral part of this strategy and business model change and of the Group's future growth plans, the Company announced on 25 June 2014 the appointment of **David French** as **Group Head of Wealth Management and Business Consulting** and **John Ridgway** as **Group Head of Legal Services**.

Besides direct responsibility for their respective business units, David and John will also look to ensure that revenue synergy opportunities are maximised between the business units.

To facilitate the back office integration, current Group Chief Financial Officer (CFO) **Jean-Marie Rudd** has been appointed to the newly created position of **Chief Operating Officer (COO)**, responsible for the day to day management of the legal operations and maximising the operational efficiency and cost effectiveness of this aspect of the business.

All back office operations of the legal business will report to Jean-Marie who will work closely with John Ridgway as Group Head of Legal Services to ensure the delivery of productivity, revenue, billing, cash collection, and profit and growth targets for legal services.

The COO role will also work closely with Wealth Management to identify and realise cross business unit operational efficiencies.

Reena Minhas has been appointed **Group CFO** and will commence 7 August 2014.

Reena has over 10 years accounting experience in the corporate sector and in professional services in both Australia and the UK. She has previously worked as CFO of Energy One Limited, as well as with KPMG, PricewaterhouseCoopers and Xerox.

Management anticipate that over time these senior management changes will drive revenue growth and that further cost savings will eventuate during FY15 and beyond as a result of the back office integration.

Cash Flow/Debtor Initiatives

In recent months, management has prioritised improvements to billing and debtor processes as well as implementing enhancements to other client engagement processes.

Full Year Results Release

The Board anticipates the FY14 full year results will be released towards the end of August, and further commentary on the business operations, restructuring initiatives, business strategy and financial outlook will be provided at that time.

Graeme Fowler
Managing Director
1 August 2014

ABOUT ILH GROUP LIMITED

ILH Group Limited (ASX: IAW) seeks to be a leading provider of integrated professional services for private, SME and corporate clients within our chosen markets. The Group strategy is to integrate complementary professional service businesses to maximise client relationship synergies and operational efficiencies with a focus on profitable niche markets.

ILH has four complementary business units: Legal Services (Rockwell Olivier), On-line legal services (Law Central), Wealth Management (Capricorn Investment Partners and The Pentad Group) and Corporate Advisory (Eaton Capital Partners).

Rockwell Oliver provides a range of corporate and commercial legal services to companies and businesses in Australia, across the Pacific region (Pacific Legal Network) and internationally, as well as private client or personal legal services in the form of advice on superannuation, estate planning, family law, trusts, taxation, property and employment (Argyle Private).

Law Central provides standard legal documents on the internet for use predominantly by accountants and financial planners. Law Central also provides a legal information service as well as training and education products.

Capricorn Investment Partners and The Pentad Group provide advice to individuals and small business in areas including financial planning, life insurance, and share trading and managed funds.

Eaton Capital Partners provides business strategy, merger and acquisition and other advice to professional services businesses in Australia and internationally including to legal, engineering and financial services businesses.

For more information please visit: www.ilh.com.au