ACN 120 394 194
Level 22, 1 Market Street
Sydney NSW 2000
Phone (02) 8263 6601
www.ilh.com.au

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ASX RELEASE – IAW

ILH Group Limited
2013/14 Full Year Financial Results Announcement

The Directors of ILH Group Limited ("ILH" or the "Company") report that the Company incurred an after tax loss of $8.96m for the 2014 financial year, including impairment charges of $4.1m.

For the first half the Company reported a net loss of $1.4m as a result of significant weakness in the Perth legal businesses and one-off acquisition related costs of approximately $800k.

Regrettably, the second half has provided a much worse result, 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.

As previously advised, during the year the Board had targeted a significant acquisition opportunity (with annual revenues of $20m) which would have significantly expanded the reach and growth potential 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 further one-off costs of approximately $600k which were fully expensed in the second half.

Operating Cash Flow and Dividends

The Company experienced net operating cash outflows of $1.1m for the year, impacted by the effect of the trading losses and acquisition costs, but substantially offset by improved receivable collections.

The Directors advise that the Company has not declared a dividend.

Bank Covenants and Funding Arrangements

As a result of the financial performance in FY14 ILH continued to be in breach of the Group's bank funding interest cover ratio covenant (ICR) at 30 June 2014.

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.

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

The bank has acknowledged the continued breach of the ICR ratio in a letter dated 4 August 2014. In this letter the bank has agreed to continue providing facilities to ILH and to forbear from enforcing its rights under the facilities, guarantees and securities until 19 September 2014 during which period ILH will work with the bank on a review of the facilities.

During this period a limited scope lending review is being undertaken by an appointed accounting firm including, but not limited to, a review of Company's most recent month's historical financial performance (July 2014), FY15 financial forecasts for profitability, working capital and cash flow, as well as for ILH to provide a revised ratio and formula for the calculation of the ICR for the Group which is acceptable to the bank.

The Directors anticipate that revised bank funding arrangements will be agreed by 19 September 2014.

Going Concern

The Group's working capital position (current assets less current liabilities) has declined during the year ended 30 June 2014 from a positive $10.09m position at 30 June 2013 to a negative $11.25m position (excluding assets and liabilities classified as held for sale).

This is a result of current liabilities of $21.96m at 30 June 2014 including the full value of the bank loans of $13.60m. Bank loans of $12.65m have been reclassified from non-current liabilities as they have become due and payable under the terms of the funding facility due to a breach of the ICR covenant on the facility.

Had the bank debt not otherwise repayable within 12 months been treated as a non-current liability, the working capital position of the company would have remained in a positive position at $1.40m.

The consolidated financial statements have been prepared on a going concern basis which contemplates that the Group will continue to meet its commitments and therefore continue to realise its assets and settle its liabilities in the ordinary course of business.

This assumes the continued support of the bank, the ILH Group achieving the successful implementation of the Group's strategy and trading in a manner that generates sufficient cash flow to support the working capital needs of the Group over the next 12 months. ILH is also considering a number of other initiatives to improve the financial position of the company.

Should the above not materialise, there would be significant uncertainty as to whether the Group could continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability or classification of recorded assets' amounts nor to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

Given the above, the auditor's report is expected to include an emphasis of matter in relation to going concern considerations.

FY15 Guidance

The Company has made a number of very significant announcements over the past three months and as a result of these and forthcoming measures the Company expects for FY15 to achieve an EBITDA in the range $2.5m to $3m.

Financial Performance July 2014

The Directors report that the Company has made a solid start to FY15 achieving budget revenue and earnings for the month of July 2014.

Outlook

The Company's very poor performance in FY14 has been the catalyst for significant change.

Over the last several months management has urgently implemented a number of key initiatives aimed at returning the Group to profitability and positive cash flow, alleviating pressures on the short term cash position, restoring working capital to an acceptable level, moving away from the ICR breach position and strengthening the Group's balance sheet.

The Company's Board and management believe that these initiatives will provide the required turnaround in profitability into FY15 and provide a basis for securing revised bank funding arrangements, repairing shareholder and market confidence in the Company and, over time, support share price appreciation.

The Company will advise of anticipated revised banking arrangements as soon as any agreement is reached.

KEY DEVELOPMENTS

- **Cost savings initiatives**
  - **The ASX release dated 3 June 2014 announced $2.4 million in annualised cost savings which will be generated in the period to January 2015. Management is on track in delivering these reductions.**
- **Fundamental shift in Strategy and Business Model**
  - **The ASX release dated 1 August 2014 announced a 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. A number of senior management appointments were announced as a key element of this change. Management is on track with implementation.**
  - **There will be no material acquisition activity for the Group during FY15 whilst integrated Legal Services and Wealth Management platforms are developed and finalised. Future acquisitions will be fully integrated on these platforms to achieve available revenue and cost synergies.**
- **Wealth Management continues to meet expectations**
  - **The Wealth Management business, Capricorn Investment Partners Limited (incorporating The Pentad Group), has met expectations in earnings and synergy opportunities with the legal businesses.**
  - **Funds under management have grown 7.6% since the acquisition of this business to approximately $480m, enhancing earnings growth potential.**
  - **Recurring revenues have continued to grow with $3.6m anticipated in FY15.**
  - **The Board remains confident 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 management anticipate further Wealth Management acquisitions in line with its complementary business strategy.**
- **Rockwell Olivier growth has continued**
  - **The ASX release dated 12 June 2014 announced a number of business developments for Rockwell Olivier legal services including the expansion of the national legal taxation services practice and the addition of a financial services legal capability.**
- **Law Central**
  - **The ASX release dated 18 June 2014 announced a new joint venture arrangement with PantherCorp to enhance the reach of the two businesses by offering cross referral opportunities to the different client bases.**
- **Sale of Eaton Capital Partners**
  - **The ASX release dated 15 August 2014 announced that an agreement has been signed for the sale of the Eaton Capital Partners corporate advisory business (Eaton), conditional on shareholder approval. The Eaton business was acquired in September 2013 and has not delivered on the Board's or Eaton's expectations.**

Analysis of Financial Results

	FY14 $000's	FY13 $000's	% Change	2H14 $000's	2H13 $000's	% Change	1H14* $000's	1H13 $000's	% Change
Revenue									
Legal Services Fee Income	24,063	31,719	(24%)	10,712	15,454	(31%)	13,350	16,266	(18%)
Wealth Management	3,304	-		2,014	-		1,290	-	
Business Consulting	109	-		30	-		79	-	
Share of profit of an associate	124	301	(59%)	8	207	(96%)	116	94	23%
Movement in fair value of financial liabilities	575	231	149%	409	234	75%	166	(3)	
Other Revenue	82	58	42%	53	(14)	(471%)	29	72	(60%)
Total Revenue	**28,257**	**32,309**	**(12%)**	**13,226**	**15,881**	**(17%)**	**15,030**	**16,429**	**(8%)**
Expenses									
Occupancy	3,023	2,812	7%	1,461	1,420	3%	1,562	1,392	12%
Salaries and employee benefits	22,346	21,642	3%	10,844	10,536	3%	11,501	11,106	4%
Bad and doubtful debts	1,642	464	254%	1,327	261	408%	315	203	55%
Advertising and marketing	531	577	(8%)	316	242	31%	215	336	(36%)
Other expenses	5,523	4,352	27%	2,777	2,114	31%	2,745	2,238	23%
Total Expenses	**33,065**	**29,847**	**11%**	**16,725**	**14,573**	**15%**	**16,338**	**15,275**	**7%**
EBITDA	**(4,808)**	**2,462**	**(295%)**	**(3,499)**	**1,308**	**(367%)**	**(1,308)**	**1,154**	**(213%)**
Less: Depreciation	503	524	(4%)	274	259	5%	229	265	(14%)
EBITA	**(5,311)**	**1,938**	**(374%)**	**(3,773)**	**1,049**	**(460%)**	**(1,537)**	**889**	**(273%)**
Less: Amortisation	212	85	150%	118	66	78%	95	18	410%
EBIT	**(5,523)**	**1,853**	**(398%)**	**(3,891)**	**983**	**(496%)**	**(1,632)**	**871**	**(287%)**
Less: Interest	838	507	65%	464	266	75%	373	241	55%
Less: Interest Accretion on Deferred Consideration	264	16	1517%	90	14	558%	175	3	6349%
Net Profit / (Loss) before Tax	**(6,625)**	**1,330**	**(598%)**	**(4,445)**	**703**	**(732%)**	**(2,180)**	**627**	**(448%)**
Less: Tax Benefit / (Expense)	2,129	(309)	(789%)	1,426	(96)	(1582%)	703	(213)	(430%)
Net Profit / (Loss) after Tax	**(4,496)**	**1,021**	**(540%)**	**(3,019)**	**607**	**(598%)**	**(1,477)**	**414**	**(456%)**
Discontinued operations (incl. impairment charge)	(4,459)	-		(4,542)	-		83	-	
Net Profit / (loss) for the Year	**(8,955)**	**1,021**	**(977%)**	**(7,561)**	**607**	**(1346%)**	**(1,394)**	**414**	**(436%)**

**Restated for net profit from discontinued operations*

Analysis of Financial Results (continued)

Legal Services Fee Income

The legal services business performed poorly in FY14.

Legal services fee income reduced by 24% against FY13.

Each of the Company's legal services businesses and investments underperformed against expectations as a result of reduced workflow during the year.

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

The ILH Group commenced operations in Perth in 2007 and the Western Australian businesses have represented about half of ILH revenue in recent years meaning the Perth downturn has had a significant impact on earnings.

More generally, the ILH legal services strategy has not achieved consistent revenue and earnings growth in the period since inception. ILH legal firm revenue has proven to be highly cyclical and organic growth has been challenging in a lower growth and an over-supply environment.

Recognising the need for change, the ILH 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.

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.

The $2.4m annualised cost savings previously announced are predominantly from these legal services initiatives.

Wealth Management

Given the inherent earnings cyclicality of the legal services businesses, 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.

The Wealth Management business, Capricorn Investment Partners Limited (incorporating The Pentad Group), has met expectations in earnings and synergy opportunities with the legal businesses.

Funds under management have grown 7.6% since the acquisition of this business to approximately $480m, enhancing earnings growth potential.

Recurring revenues have continued to grow with $3.6m anticipated in FY15.

Analysis of Financial Results (continued)

Fundamental Shift in Strategy and Business Model

The ILH strategy was previously 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 been changed.

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 has commenced operating 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% owned investment, continues to operate as a stand-alone business unit.

Further, management has continued to position the legal services business to focus on a number of profitable niche markets. These include Pacific Legal Network, Argyle Private (private client services), local government and a national tax offering.

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.

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

Reena Minhas has been appointed **Group CFO** and commenced in her role on 7 August 2014.

Ms Minhas is a Chartered Accountant with over 10 years' 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 Corporate Finance.

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

Analysis of Financial Results (continued)

Share of Profit from an Associate

The Company has a 49% investment in the legal services firm Rockwell Olivier Melbourne.

This investment underperformed against expectations in FY14.

This investment has been equity accounted and included as share of profit from an associate.

Movement in Fair Value of Liabilities

The movement in fair value of financial liabilities represents non-cash accounting adjustments arising from acquisition transactions, being deferred consideration liabilities which ultimately were not payable.

Occupancy Costs

As a result of the merger of the two Perth law firms the lease on one office was not renewed when it expired on 31 May 2014. This consolidation will result in a reduction in occupancy costs in FY15.

Bad and Doubtful Debts

Management has adopted a conservative approach to receivables and a number of debtor balances were written off or provided for at 30 June 2014.

Advertising and Marketing

Implementation of the single Rockwell Olivier brand including consolidation of multiple websites resulted in an 8% reduction in advertising and marketing costs compared with the prior year.

Acquisition Costs

Acquisition related activity during the year incurred significant costs including extensive due diligence, an Independent Expert's Report, legal advice, external advice and significant internal resources. These costs of approximately $1.4m are predominantly included in Other Expenses and Salaries and Employment Costs.

Amortisation

Amortisation increased as a result of the acquisition of Capricorn Investment Partners Ltd (CIPL). CIPL had developed in-house a Portfolio Administration System and this was recognised as an intangible asset on acquisition and is being amortised using the straight line method over five years. In addition the increase includes amortisation of software development costs for the Law Central online platform.

Interest Expense

Interest expense increased for the period as a result of increased bank debt.

Interest Accretion on Deferred Consideration

Contingent consideration payable on the acquisition of CIPL and The Pentad Group (Pentad) was discounted to present value at the date of acquisition. At balance date the contingent liability is revalued to present value and the difference is recorded as interest accretion.

Sale of Eaton Capital Partners

An agreement has been signed for the sale of the Eaton Capital Partners corporate advisory business (Eaton), conditional on shareholder approval.

The Eaton business was acquired in September 2013 and has not met the Board's or Eaton's expectations.

Agreement has been reached with Symon Capital Pty Ltd (a company related to ILH executive director Stephen Moss) to buy the business. It has been agreed that the risk to and benefit of the business will pass to the buyer effective 15 May 2014, with title passing to the buyer only upon shareholder approval being obtained.

Consideration for the sale will consist of the selective buy-back (cancellation) of 13,710,821 ILH shares and $164,175 cash.

As a related party transaction and a substantial asset, the proposed sale is subject to shareholder approval of an ordinary resolution under ASX listing rules 10.1 and 10.2. The transaction requires an Independent Expert's Report to be provided to shareholders.

The selective buy-back (cancellation) of shares is subject to approval by shareholders of a special resolution under section 257D of the Australian Corporation and Securities Legislation.

The Company will seek to have the transaction approved at an Extraordinary General Meeting intended to be held in October 2014.

Stephen Moss resigned as a director of ILH effective 15 August 2014.

The 30 June 2014 financial statements record the transaction in the statement of comprehensive income and show the operating results of the business as loss after tax for the year from discontinued operations of $4.5m, including an impairment charge of $4.1m. In addition the assets and liabilities associated with Eaton have been recorded in the balance sheet as asset classified as held for sale and liabilities directly associated with assets classified as held for sale.

The asset classified as held for sale recorded in the balance sheet includes the value of the business according to the agreed sale consideration. The shares have been valued based on the closing share price at balance date. Movement between the share price at balance date and on the date of selective buy-back (cancellation) will be recorded as a gain or loss on sale in the FY15 financial year.

Liability for Deferred Consideration

The 30 June 2014 balance sheet liabilities include deferred consideration payable to the vendors of CIPL and Pentad.

The Board advises that negotiations are advanced in revising these deferred consideration arrangements from cash based payments to share based payments.

Graeme Fowler
Managing Director
29 August 2014
Mobile: 0419 746 618
Office: (02) 8263 6601
Email: graeme@ilh.com.au

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 three complementary business units: Legal Services (Rockwell Olivier), On-line legal services (Law Central), Wealth Management and Business Advisory (Capricorn Investment Partners and The Pentad Group).

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, and business consulting services.

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