ASX Announcement

22 February 2024

Financial Results for the half year ended 31 December 2023 (“HY24”)

IPH delivers 13% increase in Underlying EBITDA to $90.4m

Australia/NZ returns to growth with strong Group cash conversion

HY24 Summary

- Revenue[1] $274.4m, up 21%
- Statutory NPAT $21.0m, down 26%; equating to Diluted EPS of 8.8 cents per share (HY23: 12.6 cents)
- Underlying NPAT $50.8m, up 5%; equating to Underlying Diluted EPS of 21.2 cents (HY23: 21.4 cents)
- Underlying EBITDA $90.4m, up 13%; assisted by Canada acquisitions partially offset by currency impact
- Underlying ‘like-for-like’ EBITDA down 2%; strong improvement as Australia/NZ returns to growth and increase in Canada offset by market decline in Asia
- Operating cashflow up 51% with cash conversion of 128% - continue to expect return to target gearing range during CY24
- Interim dividend 16.0 cents per share, 35% franked, (HY23 15.5c)

$'m	Statutory Results HY24	Statutory Results HY23	Change %	Underlying Results HY24	Underlying Results HY23	Change %
Revenue[1]	$274.4	$226.9	20.9%	$274.4	$226.6	21.1%
EBITDA	$74.8	$71.3	4.9%	$90.4	$80.4	12.5%
EBITDA %	27.3%	31.4%	(13.3%)	33.0%	35.5%	(7.0%)
NPAT	$21.0	$28.5	(26.3%)	$50.8	$48.6	4.5%
Diluted EPS	8.8c	12.6c	(30.0%)	21.2c	21.4c	(0.8)%
Interim Dividend	16.0c	15.5c	3.2%			

1) Revenue and other income excluding interest

Underlying EBITDA up 13% – strong turnaround in Australia/NZ, partially offset by currency impact

IPH Limited (ASX:IPH), a leading international intellectual property (IP) services group, today announced an 5% increase in Group Underlying Net Profit After Tax (NPAT) to $50.8 million for the half year ended 31 December 2023.

Statutory NPAT declined by 26% to $21.0 million equating to Diluted Earnings Per Share (EPS) of 8.8 cents compared to 12.6 cents in HY23.

The HY24 results reflect the acquisitions in Canada of Ridout & Maybee (29 September 2023) and ROBIC (15 December 2023) during the period. Accordingly, the statutory result reflects an increase in amortisation charges relating to intangible assets recognised on acquisitions, increased finance costs associated with the acquisitions, together with one off acquisition and restructuring expenses. Given the timing of these acquisitions, the full year benefit of earnings will be realised in FY25 and beyond. Refer to appendix 2 for reconciliation of Statutory to Underlying results.

Group Underlying results reflect the strong turnaround in the Australian/NZ business as this segment returned to growth.

Underlying results in Canada included six months' EBITDA contribution of Smart & Biggar (acquired on 6 October 2022) (HY23: ~3 months), three months' EBITDA from Ridout & Maybee (HY23: nil); and two weeks' contribution from ROBIC (HY23: nil).

Group Underlying EBITDA increased by 13% to $90.4 million (HY23: $80.4 million).

Group Underlying earnings were partially supported by an average AUD/USD exchange rate over the period of 65.3 cents in HY24 compared to 67.1 cents in HY23.

However, there was a P&L impact resulting from the strengthening of the AUD at 31 December 2023 and the revaluation of USD denominated cash and receivables resulting in a net foreign exchange loss of $1.1 million in HY24 compared to a gain of $0.3 million in the prior corresponding period.

Capital management and dividend – operating cashflow up 51%; cashflow conversion 128%

The Group continues to generate strong cashflow with cashflow from operations up 51% to $72.7 million. Meanwhile cashflow generation was 128% which also reflected the expected increase in collections which had been delayed due to the cyber incident experienced in March 2023.

While the quantum of receivables and related provisioning has increased as a result of the acquisitions, the ageing of receivables has improved as a result of the collections referenced above.

The Company declared an interim dividend of 16.0 cents per share, (35% franked), compared to 15.5 cents per share for the prior corresponding period.

The record date for determining entitlements to the interim dividend is 28 February 2024 with scheduled payment on 22 March 2024.

The IPH Dividend Reinvestment Plan (DRP) will operate in respect of the final dividend with a 1.5% discount.

Results commentary

Chief Executive Officer, Dr Andrew Blattman, said: "IPH delivered a strong turnaround in our Australian/NZ business with a return to growth at both the top and bottom line. We mentioned previously that a key objective was for our patent filing performance to track the overall market and we made good progress during the period with IPH continuing to narrow the gap between our filings and the Australian patent market.

"We are also pleased to report underlying earnings growth in our Canadian business with the acquisitions we completed during the period consolidating our market-leading position and creating a strong platform for future growth. We continued the integration of these businesses into the IPH group with our recent focus including the integration of Ridout & Maybee into Smart & Biggar. ROBIC will continue as a stand-alone brand in the Canadian market. While like-for-like revenue has declined slightly, our ability to successfully integrate acquisitions into the Group has resulted in improved like-for-like earnings at increased margin. Cost synergies from these acquisitions remain on track which have helped to deliver an improved performance during the half and momentum for FY24 and subsequent years.

"We previously reported that one of our larger clients exited the China market, which together with lower Singapore and Asian patent filings reflecting the overall market decline, impacted performance in our Asian business during the half. Notwithstanding this short term impact, we remain convinced of the significant opportunity across the region and we are well-placed to continue to leverage that growth potential.

"IPH remains in a strong financial position and continues to generate strong cashflow with a cash conversion ratio of 128%. Consistent with our recent commentary, we continue to expect to return to our target gearing range during CY24."

Segment Like-for-Like performance

Performance on a like-for-like basis excludes the impact of foreign exchange movements and new business acquisitions.

Australia/NZ

The Australia/NZ business reported a significant improvement in financial performance.

Like-for-like revenue increased by 4% with an improvement in margin delivering a 6% increase in like-for-like EBITDA. Revenue was assisted by increased pricing and improved filings.

Australian patent filings (excluding innovation patents) declined by 0.8% for HY24 compared to the prior corresponding period. IPH Group Filings declined by 2.8% for the same period. This is an improvement from the FY23 results where IPH patent filings declined by 7.8% compared to a market decline of 3.3% as IPH continues to narrow the gap in patent filings.

The decline in market patent filings in HY24 was due to a drop in US applicants' filings, with nearly three-quarters of the market decline caused by one significant US applicant (an IPH client). Adjusting for this one client, the market declined by 0.2% and IPH declined by 1.1%.

IPH remains the market leader in Australia with combined group patent market share (excluding innovation patents) of 31.6% for the HY24 period.

Canada

In a period of approximately 18 months, IPH has built the market-leading IP services group in Canada following the successful acquisitions of Smart & Biggar, Ridout & Maybee and ROBIC since October 2022. The Canadian business performed to expectations during the period, continuing to create further earnings resilience and diversity for the IPH Group.

Revenue in Canada declined by 1%. Growth in IP agency revenue was partially offset by a decline in Legal revenue in Smart & Biggar. Legal revenue is typically related to case flow which can fluctuate.

The integration of Smart & Biggar and the more recent acquisitions of Ridout & Maybee and ROBIC continue to progress well with the cost synergies remaining on track. As a result, like-for-like EBITDA increased by 5% with an uplift in EBITDA margin.

Asia

The result in Asia reflects a decline in industry filings across the region, particularly in December 2023. Singapore patent filings for CY23 YTD October declined by 5.5% with US applicants accounting for two thirds of the market decline. For the same period, IPH filings declined by 6.6%. The one IPH US client (as mentioned above) which decreased filings in Australia, similarly decreased filings in Singapore during the period. Adjusting for this client, IPH filings were ahead of the market.

Lower Singapore filings would also indicate that filings were lower across other Asian jurisdictions.

As reported in the FY23 results, a large IPH client exited operations in China in October 2022 reflecting industry supply chain de-risking as some corporates seek alternative manufacturing locations to China. HY24 results were impacted from cycling the prior corresponding period which included contribution from this client.

Total like-for-like revenue in Asia declined by 3% while like-for-like EBITDA decreased by 9%.

FY24 priorities

Dr Blattman said IPH's focus for FY24 was continued organic growth in Australia/NZ, integrating Canadian acquisitions into the Group and restoring growth in Asia.

"Our domestic focus is to build on our positive first half performance in Australia/NZ in terms of further narrowing the gap in market filings while continuing to implement our initiatives targeting organic growth.

"In Canada we will continue the integration of Ridout & Maybee into Smart & Biggar while harnessing the growth potential of our most recent acquisition, ROBIC as we build the earnings platform of our Canadian business.

"Our focus in Asia is to restore organic growth, leveraging our market leading presence across the region.

"Our focus on capital management remains as we continue to generate strong cashflow with an expected return to our target gearing range during CY24.

"We have undertaken a review of our overall operating model and are now implementing a refreshed design with a regional focus and a new operating rhythm that reflects IPH Group's expanding global footprint and ensures our future state capability," Dr Blattman said.

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Authorised for release to ASX by: The Board of Directors

About IPH Limited

IPH is an international intellectual property services group, comprising a network of member firms working in ten IP jurisdictions and servicing more than 25 countries. The group includes leading IP firms AJ Park, Griffith Hack, Pizzeys, ROBIC, Smart & Biggar, Spruson & Ferguson and online IP services provider Applied Marks. IPH employs more than 1,600 people working in Australia, Canada, China, Hong Kong SAR, Indonesia, Malaysia, New Zealand, Philippines, Singapore and Thailand.

Appendix 1 - Like-for-Like earnings

This like-for-like basis adjusts for the impact of foreign exchange movements and new business acquisitions.

	Underlying Revenue Dec 23	New Businesses & Disposals	Accounting FX Movements	Currency Adjustment	Adjusted Revenue Dec 23	Underlying Revenue Dec 22	Chg %
Australia & NZ IP	148.6		2.0	(1.6)	149.0	142.8	4%
Asian IP	60.4		(0.4)	(2.2)	57.8	59.6	(3%)
Canada IP	71.3	(41.2)	(0.0)	(0.2)	29.9	30.3	(1%)
Corporate	8.4		1.9		10.3	8.8	
Eliminations[1]	(14.3)		(2.1)		(16.4)	(14.9)	
	274.4	**(41.2)**	**1.5**	**(4.0)**	**230.6**	**226.6**	**2%**

	Underlying EBITDA Dec 23	New Businesses & Disposals	Accounting FX Movements	Currency Adjustment	Adjusted EBITDA Dec 23	Underlying EBITDA Dec 22[2]	Chg %
Australia & NZ IP	53.0		2.0	(1.3)	53.7	50.8	6%
Asian IP	26.4		(0.4)	(0.9)	25.2	27.8	(9%)
Canada IP	22.4	(10.9)	(0.0)	(0.3)	11.2	10.6	5%
Corporate	(10.3)		1.9		(8.4)	(5.7)	
Eliminations[1]	(1.1)		(2.1)		(3.2)	(3.1)	
	90.4	**(10.9)**	**1.5**	**(2.5)**	**78.5**	**80.4**	**(2%)**

1) Eliminations include Wisetime 1H FY23 result in the comparative figure. Wisetime was divested in Jul 22.

2) Underlying EBITDA for Dec 22 period has been restated to include share-based payments in each of the segments consistent with the current period.

3) Balances may not total due to rounding

Appendix 2 - 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 Reconciliation	HY24 $'m	HY23 $'m
Underlying Revenue	274.4	226.6
Statutory Revenue[1]	274.4	226.9
Underlying Net Profit after Tax ("NPAT")	50.8	48.6
less: amortisation of intangible assets arising from acquisitions	(22.3)	(16.0)
less: business acquisition costs	(10.7)	(7.8)
less: restructuring expenses	(3.8)	(0.8)
less: impairment of ROU assets	(1.1)	-
less: IT implementation costs	-	(0.5)
add: tax effect of adjustments	8.1	5.0
Statutory NPAT	21.0	28.5

1) Revenue and other income excluding interest