

**Analyst**

Sam Haddad 612 8224 2819

**Authorisation**

Jonathan Snape 613 9235 1601

## IPH Limited (IPH)

Strong filings growth bodes well for outlook

**Recommendation**

**Buy** (unchanged)

**Price**

**\$9.18**

**Target (12 months)**

**\$10.35** (previously \$9.90)

**GICS Sector**

**Commercial Services and Suppliers**

**Expected Return**

Capital growth	<b>12.8%</b>
Dividend yield	<b>3.2%</b>
Total expected return	<b>16.0%</b>

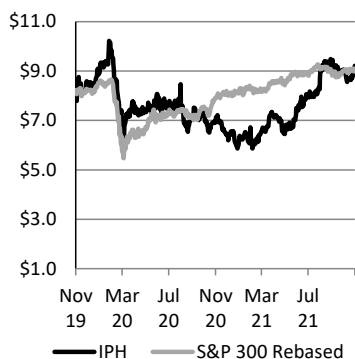
**Company Data & Ratios**

Enterprise value	<b>\$2,092m</b>
Market cap	<b>\$2,004m</b>
Issued capital	<b>218.3m</b>
Free float	<b>100%</b>
Avg. daily val. (52wk)	<b>\$5.2m</b>
12 month price range	<b>\$5.77 - \$9.50</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	9.03	8.20	6.89
Absolute (%)	1.99	12.32	33.67
Rel market (%)	1.61	15.26	17.76

**Absolute Price**



**AGM update: Asia consistent growth continues, ANZ steady**

At its AGM, IPH provided an overall positive trading update for the first four months to 31 October (FYTD). IPH has achieved growth in underlying like-for-like (LFL) EBITDA vs pcp driven by performance in Asia, moderated partially by the short-term impact of the Shelston IP – Spruson & Ferguson integration in Australia. Key highlights include:

- **Asia strong organic like-for-like (LFL) growth continues:** IPH’s Asia business has continued its strong performance and delivered positive FYTD LFL EBITDA growth vs pcp. Patent filings are up strong across the region including: Singapore (CY to end-Aug’21) up 23.1%; Asia ex. Singapore (to end-Sep’21) up 20.2%; and China experiencing “solid growth”. These strong patent filing numbers bode well for Asia’s EBITDA outlook, as filings progress to patent examination work flow.
- **ANZ solid overall, with Griffith Hack achieving a strong recovery:** IPH’s ANZ LFL EBITDA is steady vs pcp, reflecting the short-term impacts of the Shelston IP / Spruson & Ferguson integration. After filings contracted last year (Griffith Hack / Watermark integration + COVID disruptions), Australian 1Q22 filings rebounded +8.7% vs pcp. A key highlight is the recovery in Griffith Hack’s market share, with FYTD filings up +29.7%, confirming integration impacts in the pcp were one-off.
- **Shelston IP / Spruson & Ferguson Australia integration expected to realise \$2.0-\$2.5m in synergies:** Shelston IP combined under the Spruson & Ferguson brand from 1 November with full systems integration to occur in December. IPH estimate synergies of \$2.0-\$2.5m p.a. will be realised, with a further cost savings on rent of ~\$1m assuming the Shelston premises will be subleased. \$1.0-\$1.25m of EBITDA savings & ~\$0.25m of rent costs are expected to be achieved in FY22.

**Earnings changes & Investment view: Retain Buy, PT \$10.35**

The lift in fillings bodes well for IPH’s outlook & accordingly we have strengthened our medium/long-term forecasts (mostly in Asia). No material FY22-FY24 EPS changes, although our longer term EPS est. increase. Including time-creep our PT increases to \$10.35 (previously \$9.90). IPH continues to deliver resilient through-the-cycle growth, underpinned by a quality client base, geographic diversification and a flexible business model. Plus there is upside from potential acquisitions. We retain our Buy rating.

**Earnings Forecast**

Jun Year end	2021a	2022e	2023e	2024e
Sales (A\$m)	363.5	382.7	399.8	415.2
EBITDA (A\$m)	124.3	130.8	137.9	145.3
NPAT (reported) (A\$m)	53.6	82.9	91.2	98.6
NPAT (underlying) (A\$m)	76.3	82.9	91.2	98.6
EPS underlying (cps)	35.3	38.0	41.8	45.2
EPS underlying growth (%)	-4.2%	7.6%	9.9%	8.1%
PER (on underlying EPS) (x)	26.0	24.2	22.0	20.3
EV/EBITDA (x)	16.8	16.0	15.2	14.4
Dividend (¢ps)	29.5	29.8	32.6	35.2
Yield (%)	3.2%	3.2%	3.6%	3.8%
Franking (%)	45%	50%	50%	50%
ROE (%)	18.0%	18.9%	19.8%	20.3%

# IPH Limited

## Company Description

IPH Limited (IPH) wholly owns Spruson & Ferguson (*which includes former Fisher Adams Kelly Callinans and Cullens*), Pizeys, AJ Park and the recently acquired XIP businesses (i.e. Griffith Hack, Shelston IP and Watermark). IPH is the leading Intellectual Property (IP) services group in the Asia-Pacific region, with specialist services spanning the protection, commercialisation, enforcement and management of most types of IP. Key practice areas include: 'Patents & Designs' (*Patent work being IPH's major rev contributor*); 'Trade Marks, Domain & Business Names'; & 'Legal' (*commercial legal advice/IP litigation*).

## Investment Strategy

We rate IPH Buy with a price target of \$10.35. IPH is strategically positioned as the leading **'one-stop gateway' for Asia-Pacific**. In Asia we view IPH's growth prospects as two-fold: 1) growth of the market itself; and 2) market share gains. As the number one IP firm in Singapore, IPH is well placed to leverage off Singapore's emerging role as the IP hub of Asia. We believe this, plus the opportunity to leverage off its clients, positions IPH on strong footing to take share. In Australia, there is opportunity to release material synergies with recently acquire businesses (XIP businesses and AJ Park). Beyond the Asia-Pacific there is also opportunity for IPH to expand into new target secondary markets & ultimately become "the global firm for secondary markets".

## Valuation

Our 12 month valuation is \$10.35 based on DCF. Major assumptions are a WACC of 9.1% & a terminal growth rate of 4%.

## Risk to Investment Thesis

Key downside risks to our valuation include (but are not limited to):

- **Acquisition risks:** Poor due diligence or unsuccessful integration will impact earnings. More specifically, XIP is a relatively large acquisition, therefore unsuccessful integration will have a material impact on earnings and de-rate IPH's valuation metrics.
- **Regulatory reform risk:** Amendments to current legislation or the introduction of new legislation may cause material changes in patent or trademark flow volumes.
- **Competition risk:** This will impact margins and may impinge on IPH's market share
- **Foreign exchange risk:** IPH is exposed to both transactional & translational currency risk. Any adverse FX movements could have an adverse effect on IPH's financials.
- **Macro-economic risks:** Adverse economic conditions may cause IPH's clients to defer /cancel IP spend or exert pricing pressure.
- **Activity levels in key industry sectors:** IPH's client base is spread across numerous sectors. Adverse developments in key sectors may impact demand for IPH's services.
- **Personnel:** The departure of any key personnel would likely have an adverse effect.
- **Brand and reputation risks:** Anything that diminishes IPH's reputation or brand would likely impact the level of enquiries, which in turn may reduce profitability and growth.
- **Patent filing management and IT systems:** Any interruption, loss or delay of IPH's IT facilities/tools, or loss of data/records, may impact IPH financially & with client relations.

# IPH Limited

as at 18 November 2021

Recommendation

Buy

Price

\$9.18

Target (12 months)

\$10.35

Table 1 - Financial summary

Jun Year end	2019	2020	2021	2022e	2023e	2024e
<b>Profit &amp; Loss (A\$m)</b>						
Sales revenue	256.6	369.6	363.5	382.7	399.8	415.2
... Change	13.6%	44.0%	-1.7%	5.3%	4.5%	3.8%
EBITDA	89.7	126.0	124.3	130.8	137.9	145.3
... Change	21.2%	40.5%	-1.4%	5.2%	5.5%	5.4%
Deprec. & amort.	(3.4)	(5.3)	(7.3)	(6.9)	(3.7)	(2.6)
EBIT	86.3	111.1	108.6	115.8	125.9	134.2
Net Interest	(2.6)	(7.0)	(6.0)	(4.7)	(3.7)	(2.1)
Pre-tax profit	83.7	104.1	102.6	111.0	122.2	132.1
Tax expense	(20.8)	(26.4)	(26.3)	(28.2)	(31.0)	(33.6)
... tax rate	25%	25%	26%	25%	25%	25%
Associates	-	-	-	-	-	-
Minorities/Prefs	-	-	-	-	-	-
<b>Underlying Net Profit</b>	<b>62.9</b>	<b>77.7</b>	<b>76.3</b>	<b>82.9</b>	<b>91.2</b>	<b>98.6</b>
... Change	21.2%	23.6%	-1.8%	8.5%	10.1%	8.1%
Abs. & extras.	(9.8)	(23.0)	(22.7)	-	-	-
<b>Reported Profit</b>	<b>53.1</b>	<b>54.8</b>	<b>53.6</b>	<b>82.9</b>	<b>91.2</b>	<b>98.6</b>
Assumed AASB16 adjustment to Underlying EBITC	(11.5)	(13.0)	(14.1)	(14.4)	(14.8)	(14.8)
Underlying EBITDA (Pre-AASB16)	114.5	111.3	116.7	123.5	130.6	
<b>Cashflow (A\$m)</b>						
EBITDA	89.7	126.0	124.3	130.8	137.9	145.3
Working capital changes	(4.1)	(19.9)	5.1	(2.5)	(2.3)	(2.5)
Net Interest Expense	(2.6)	(4.8)	(5.9)	(4.7)	(3.7)	(2.1)
Tax	(17.3)	(30.4)	(20.4)	(21.7)	(29.8)	(32.4)
Other operating items	(4.1)	18.9	(10.3)	(1.2)	12.2	13.1
<b>Operating Cash Flow</b>	<b>61.6</b>	<b>69.8</b>	<b>92.6</b>	<b>100.7</b>	<b>114.4</b>	<b>121.5</b>
Capex	(2.3)	(2.1)	(1.8)	(1.9)	(2.0)	(2.1)
<b>Free Cash Flow</b>	<b>59.3</b>	<b>67.7</b>	<b>90.8</b>	<b>98.8</b>	<b>112.4</b>	<b>119.4</b>
Acquisitions	(32.8)	(43.4)	(9.0)	(5.0)	(0.4)	-
Disposals	10.2	-	-	-	-	-
Payment of leases	-	(11.9)	(11.2)	(9.2)	(9.2)	(9.2)
Dividends paid	(44.8)	(47.9)	(49.9)	(64.5)	(68.4)	(74.3)
Other investing items	(3.6)	-	-	-	-	-
Equity	-	-	-	-	-	-
<b>Core debt increase/(reduction)</b>	<b>23.6</b>	<b>64.1</b>	<b>(32.4)</b>	<b>(20.0)</b>	<b>(34.4)</b>	<b>(36.0)</b>
<b>Balance Sheet (A\$m)</b>						
Cash	35.3	82.9	71.2	45.0	45.0	9.5
Receivables	63.4	89.1	83.4	87.0	90.3	93.8
Inventories & WIP	-	-	-	-	-	-
Other current assets	46.5	9.0	10.4	10.4	10.4	10.4
<b>Current Assets</b>	<b>145.2</b>	<b>181.1</b>	<b>164.9</b>	<b>142.4</b>	<b>145.7</b>	<b>113.7</b>
Receivables	-	-	-	-	-	-
Assoc & investments	-	-	-	-	-	-
Fixed Assets (PP&E)	6.7	13.3	10.2	5.2	3.5	2.9
Right-of-use Assets	-	38.8	30.6	31.4	32.2	33.0
Intangibles	255.1	483.3	468.1	473.1	473.5	473.5
Other non-curr assets	8.0	22.7	0.9	0.9	0.9	0.9
<b>Non Current Assets</b>	<b>269.7</b>	<b>558.0</b>	<b>509.8</b>	<b>510.6</b>	<b>510.1</b>	<b>510.3</b>
<b>Total Assets</b>	<b>414.9</b>	<b>739.1</b>	<b>674.7</b>	<b>653.0</b>	<b>655.7</b>	<b>624.0</b>
Short term debt	-	-	-	-	-	-
Creditors	18.9	24.7	24.0	25.1	26.1	27.1
Provisions	18.3	22.4	24.5	22.0	22.7	23.5
Other curr liabilities	0.4	13.1	12.2	12.4	12.7	13.0
<b>Current Liabilities</b>	<b>37.6</b>	<b>60.2</b>	<b>60.7</b>	<b>59.6</b>	<b>61.5</b>	<b>63.5</b>
LT debt (incl. leases)	65.5	193.8	149.4	104.0	70.5	-
Creditors	-	-	-	-	-	-
Provisions	27.1	61.6	37.4	38.7	50.2	62.5
Other non curr liabilities	-	0.8	0.5	0.5	0.5	0.5
<b>Non Current Liabilities</b>	<b>92.6</b>	<b>256.2</b>	<b>187.2</b>	<b>143.2</b>	<b>121.2</b>	<b>63.0</b>
<b>Total Liabilities</b>	<b>130.1</b>	<b>316.4</b>	<b>247.9</b>	<b>202.8</b>	<b>182.7</b>	<b>126.5</b>
<b>Net Assets</b>	<b>284.8</b>	<b>422.7</b>	<b>426.8</b>	<b>450.2</b>	<b>473.0</b>	<b>497.5</b>
Share Capital	262.8	402.1	417.1	417.1	417.1	417.1
Reserves	(2.0)	0.5	(1.5)	(1.5)	(1.5)	(1.5)
Retained Earnings	24.0	20.0	11.2	34.6	57.5	81.9
<b>Shareholders Equity</b>	<b>284.8</b>	<b>422.7</b>	<b>426.8</b>	<b>450.2</b>	<b>473.0</b>	<b>497.5</b>
Outside Equity Interests	-	-	-	-	-	-
<b>Total Equity</b>	<b>284.8</b>	<b>422.7</b>	<b>426.8</b>	<b>450.2</b>	<b>473.0</b>	<b>497.5</b>
Core Net debt/(cash) \$m	30.2	68.3	45.0	25.0	(9.4)	(45.3)
Net debt/(cash) [incl. leases] \$m	30.2	122.0	88.2	69.3	36.1	1.2

Price	\$9.18
Recommendation	Buy
Diluted issued capital (m)	218.3
Market cap (\$m)	2,003.6
Target Price (A\$m)	\$ 10.35

Jun Year end	2019	2020	2021	2022e	2023e	2024e
<b>Valuation Ratios</b>						
Underlying EPS (eps)	31.6	36.9	35.3	38.0	41.8	45.2
... % change	20.0%	16.5%	-4.2%	7.6%	9.9%	8.1%
PE (on underlying EPS) (x)	29.0	24.9	26.0	24.2	22.0	20.3
EV/EBITDA (x)	16.60	16.83	16.00	15.17	14.39	
EV/EBIT (x)	18.82	19.27	18.07	16.62	15.59	
NTA (\$ps)	0.15	(0.28)	(0.19)	(0.10)	(0.00)	0.11
Book Value (\$ps)	1.43	1.97	1.96	2.06	2.17	2.28
Price/Book (x)	6.41	4.67	4.67	4.45	4.24	4.03
DPS (eps)	25.0	28.5	29.5	29.8	32.6	35.2
... % pay-out	78.8%	78.5%	83.8%	78.4%	78.0%	78.0%
Yield (%)	2.7%	3.1%	3.2%	3.2%	3.6%	3.8%
Franking (%)	55%	100%	45%	50%	50%	50%

<b>Performance Ratios</b>						
Revenue growth (%)	13.6%	44.0%	-1.7%	5.3%	4.5%	3.8%
EBITDA growth (%)	21.2%	40.5%	-1.4%	5.2%	5.5%	5.4%
EBITDA/sales margin (%)	34.9%	34.1%	34.2%	34.2%	34.5%	35.0%
EBIT/sales margin (%)	33.6%	30.1%	29.9%	30.2%	31.5%	32.3%
Gross cash conversion (%)	90.8%	99.2%	95.7%	97.2%	107.2%	107.3%
Free cash-flow yield (%)	3.2%	4.5%	4.6%	4.9%	5.6%	6.0%
ROE (%)	22.8%	20.7%	18.0%	18.9%	19.8%	20.3%
ROIC (%)	23.0%	19.0%	17.6%	18.9%	20.9%	22.8%
Capex/Depn (x)	0.7	0.4	0.2	0.3	0.5	0.8
Net interest cover (x)	33.2	15.9	18.1	24.5	34.5	65.1
Core Net Debt/EBITDA (pre-AASB16) (x)	0.3	0.6	0.4	0.2	n/a	n/a
Net debt/equity (%)	10.6%	28.9%	20.7%	15.4%	7.6%	0.3%
Net debt/net debt + equity (%)	9.6%	22.4%	17.1%	13.3%	7.1%	0.2%

Half yearly (A\$m)	2H19	1H20	2H20	1H21	2H21	1H22e
Sales revenue	133.8	178.8	190.8	179.8	183.7	189.2
EBITDA	49.3	60.4	65.7	61.7	62.6	64.1
Deprec. & amort.	(1.8)	(2.2)	(3.1)	(3.6)	(3.7)	(4.1)
EBIT	47.5	53.3	57.9	53.7	54.9	56.0
Interest expense	(1.5)	(3.5)	(3.5)	(2.8)	(3.2)	(2.5)
Pre-tax profit	46.0	49.8	54.4	50.9	51.7	53.5
Tax expense	(11.0)	(13.5)	(12.9)	(13.3)	(13.0)	(13.5)
... tax rate	24%	27%	24%	26%	25%	25%
Associates	-	-	-	-	-	-
Minorities	-	-	-	-	-	-
<b>Underlying Net Profit</b>	<b>35.0</b>	<b>36.3</b>	<b>41.5</b>	<b>37.6</b>	<b>38.7</b>	<b>40.0</b>
Abs. & extras.	(6.0)	(9.1)	(13.9)	(10.8)	(11.9)	-
<b>Reported Profit</b>	<b>29.0</b>	<b>27.2</b>	<b>27.6</b>	<b>26.8</b>	<b>26.8</b>	<b>40.0</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

**Research Team**

Staff Member	Title/Sector	Phone	@bellpotter.com.au
Chris Savage	Head of Research/Industrials	612 8224 2835	csavage
<b>Analysts</b>			
TS Lim	Banks	612 8224 2810	tslim
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare	612 8224 2849	tnjain
Steven Anastasiou	Industrials	613 9235 1952	sanastasiou
Marcus Barnard	Industrials	618 9326 7673	mbarnard
Sam Brandwood	Industrials	612 8224 2850	sbrandwood
James Filius	Industrials	613 9235 1612	jfilius
Sam Haddad	Industrials	612 8224 2819	shaddad
Hamish Murray	Industrials	613 9235 1813	hmurray
Jonathan Snape	Industrials	613 9235 1601	jsnape
Olivia Hagglund	Industrials	612 8224 2813	ohagglund
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe
Brad Watson	Resources	618 9326 7672	bwatson
Regan Burrows	Resources	618 9326 7677	rburrows
Joseph House	Resources	613 9235 1624	jhouse
<b>Associates</b>			
Michael Ardrey	Associate Analyst	613 9256 8782	mardrey
Daniel Laing	Associate Analyst	612 8224 2886	dlaing

**Bell Potter Securities Limited**  
 ABN 25 006 390 772  
 Level 29, 101 Collins Street  
 Melbourne, Victoria, 3000  
 Telephone +61 3 9256 8700  
[www.bellpotter.com.au](http://www.bellpotter.com.au)

**Bell Potter Securities (HK) Limited**  
 Room 1701, 17/F  
 Prosperity Tower, 39 Queens Road  
 Central, Hong Kong, 0000  
 Telephone +852 3750 8400

**Bell Potter Securities (US) LLC**  
 Floor 39  
 444 Madison Avenue, New York  
 NY 10022, U.S.A  
 Telephone +1 917 819 1410

**Bell Potter Securities (UK) Limited**  
 16 Berkeley Street  
 London, England  
 W1J 8DZ, United Kingdom  
 Telephone +44 7734 2929

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