

# ASX Announcement

18 August 2022

## Smart & Biggar to join IPH – Investor Presentation

Attached is a copy of a Presentation providing details of Smart & Biggar joining the IPH Group.

An analyst/shareholder briefing covering both this topic and FY22 Results will be held at 10.30am (AEST). The briefing will be webcast and accessible on the IPH website at [www.iphltd.com.au](http://www.iphltd.com.au)

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**Authorised for release to ASX by:**

The Board of Directors

**About IPH Limited**

IPH is the Asia Pacific's leading intellectual property services group, comprising a network of member firms working in eight IP jurisdictions and servicing more than 25 countries. The group includes leading IP firms AJ Park, Griffith Hack, Pizeys and Spruson & Ferguson and online IP services provider Applied Marks. IPH employs more than 900 people working in Australia, China, Hong Kong SAR, Indonesia, Malaysia, New Zealand, Singapore and Thailand.



# Smart & Biggar to join IPH

18 August 2022

Presented by:

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Financial information contained in this presentation relating to Smart & Biggar is unaudited and not prepared in accordance with accounting standards.

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# Transaction summary

IPH has reached agreement to acquire the IP agency practice of Smart & Biggar, which will hold an interest in the legal practice of Smart & Biggar, as permitted by Canadian regulation.

## Highlights

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Smart & Biggar, Canada's leading Intellectual Property (IP) agency firm will join the IPH group for consideration of CAD 348m (AUD 387m<sup>1</sup>)

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A significant strategic transaction for IPH, further delivering on its vision to be the leading IP services group in secondary IP markets

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Highly complementary, Smart & Biggar has a leading market position in Canada, high quality professionals, exceptional reputation and rich heritage

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The first IP agency firm in Canada to join a publicly listed IP group

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The Canadian IP market is very similar to Australia in terms of size, governance and legal system

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Expected underlying<sup>2</sup> EPS accretion of approximately 10% in the first full year of ownership

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Provides a platform for IPH to participate in further growth opportunities

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The transaction is expected to complete in September 2022

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1) AUD:CAD as at 17 August 2022  
2) Consistent with the IPH group calculation of underlying EBITDA which excludes costs incurred in pursuit of acquisitions, restructuring, accounting charges for share-based payments, impairment and IT SaaS implementation costs



# Transaction summary (continued)

A compelling transaction for IPH, its clients, employees and shareholders

## Smart & Biggar

- Smart & Biggar is Canada's leading IP firm by number of patent filings, filing over 6,200 patents and over 1,800 trade marks in 2021<sup>1</sup>
- Smart & Biggar is a full service IP firm servicing large multinational corporations, universities, start-up companies and Canadian entrepreneurs
- Smart & Biggar recorded revenue of CAD 88.4m (AUD 96.3m) for the 12 months to June 2022<sup>2, 3</sup>
- IPH will undertake the transaction by acquiring a new Quebec limited partnership that will conduct the business of the IP agency of Smart & Biggar and will own an interest in a new Quebec limited liability partnership formed by former Smart & Biggar partners that will acquire the legal practice of Smart & Biggar, in compliance with Quebec regulation

<b>Year founded</b>	1890
<b>Core services</b>	<ul style="list-style-type: none"><li>• Patent</li><li>• Trade mark</li><li>• Industrial design</li><li>• IP legal services</li></ul>
<b>Patent filings (CY21)</b>	>6,200 <sup>1</sup>
<b>Patent filing market share (local market) (CY21)</b>	>16% Canada #1 market position <sup>4</sup>

1) Management estimate based on Smart & Biggar internal filing data.

2) Average AUD:CAD for the 12 months to June 2022

3) Smart & Biggar currently records disbursement income and expense (ie the payment of patent office fees and third party lodgement fees) on a "net" basis, whereas IPH group reporting practices presents these amounts on a "gross" basis (ie separate amounts in revenue and expenses). Post transaction Smart & Biggar will adopt the IPH group reporting practice.

4) Management estimate of market share based on Smart & Biggar internal filing data and CIPO published production statistics.



# Overview of Smart & Biggar

Smart & Biggar is one of Canada's preeminent IP services firms

## History

- Established in 1890, Smart & Biggar has a similar rich history to IPH's existing member firms

## Offering

- Smart & Biggar is a full service IP firm
- Core services include patent, trademark, industrial design services and IP legal services, including IP litigation and legal advice
- Top tier client base servicing large multinational corporations, universities, start-up companies and Canadian entrepreneurs

## Employees

- Smart & Biggar employs in excess of 300 staff including more than 100 professional staff

## Awards

- Smart & Biggar has been recognised by many awards as Canada's premier IP firm
- Canadian IP Boutique Firm of the Year 2011, 2012, 2014, 2016, 2018, 2020, 2021 & 2022 (*Managing IP Americas Awards*)
- Canadian Patent Prosecution Firm of the Year 2019, 2021 & 2022 (*Managing IP Americas Awards*)
- IP Boutique Law Firm of the Year 2020-2022 (*Canadian Law Awards*)
- IP Litigation Firm of the Year 2015-2022 (*Benchmark Canada Awards*)

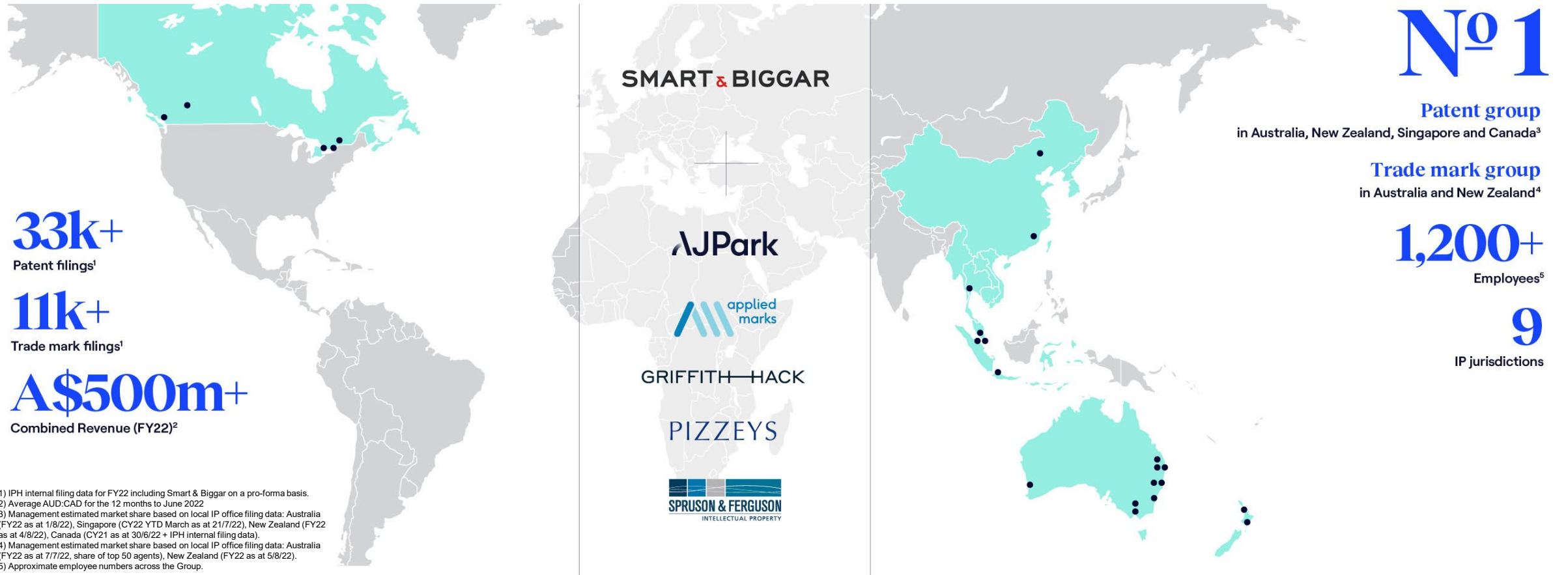
## Offices

- Smart & Biggar operates from five offices across Canada including Ottawa, Montreal, Toronto, Vancouver and Calgary



# Realising our vision

A significant strategic transaction for IPH, further delivering on its vision to be the leading IP services group in secondary IP markets



# Transaction consideration

## Consideration

- The consideration for the acquisition is CAD 348m (AUD 387<sup>1</sup>)
- Represents a multiple of approximately 10x pro forma adjusted Smart & Biggar EBITDA for the 12 months to June 2022<sup>2</sup>

<b>Cash consideration</b>	<ul style="list-style-type: none"><li>• Upfront cash consideration of CAD 241m;</li></ul>
<b>IPH share issuance</b>	<ul style="list-style-type: none"><li>• Initial issue of 5.3m new IPH shares with a value of CAD 41m (escrowed for two years) (representing 2.4% of existing shares on issue)<sup>3</sup>; and</li><li>• Deferred issue of new IPH shares (earn-out consideration) up to a value of CAD 66m (escrowed for two years)<sup>4</sup></li><li>• The deferred earn-out consideration, capped at CAD 66m of new IPH shares, is payable dependent on the extent that Smart &amp; Biggar's earnings in CY2022 or CY2023 outperform agreed thresholds broadly in-line with its pre-COVID earnings levels in CY2019<sup>4</sup>. The earn-out could be achieved in full or part in either of those years and any deferred earn-out consideration is payable by issue of new IPH shares within 30 days following determination of the earn-out. The earn-out will be payable at an amount of 11x the excess earnings (Smart &amp; Biggar EBITDA as it currently reports adjusted for pro forma partner salaries), up to the cap of CAD 66m</li><li>• In addition to the earn-out, there is potential for a further share based payment of CAD 2.4m to certain non-vendors, contingent upon the same conditions as the earn-out and continuing employment</li></ul>

1. AUD:CAD as at 17 August 2022
2. Pro forma adjusted EBITDA is calculated as Smart & Biggar's reported earnings before interest, depreciation and amortisation before partner draws, (on a pre-IFRS-16 basis), adjusted for estimated pro forma partner base salaries (excluding any incentive payments) (to date partners receive profit drawings rather than salaries) and the estimated impact of IFRS-16
3. IPH shares issued as a part of the upfront consideration will be escrowed for two years from completion subject to certain exceptions. These shares will be issued at a price of AUD8.51 per share, being the 20 day VWAP to 17 August 2022
4. IPH shares issued as a part of the potential earn-out will be escrowed for two years from the start of the calendar year following the calendar year in which the relevant earn-out was achieved, subject to certain exceptions. Any such shares will be issued at a price equal to the 20 day VWAP of IPH shares ending on the last trading day of the year in which the relevant earn-out was achieved





# Financial impact and funding

## Compelling financial benefits for IPH shareholders

### Financial impact

<b>Earnings</b>	<ul style="list-style-type: none"><li>• Expected underlying<sup>1</sup> EPS accretion of approximately 10% in the first full year of ownership</li></ul>
<b>Synergies</b>	<ul style="list-style-type: none"><li>• Cost savings of approximately \$4-6m expected to be achieved over the first three years post acquisition</li><li>• Platform established for future consolidation opportunities</li></ul>
<b>Funding</b>	<ul style="list-style-type: none"><li>• Acquisition consideration will be funded with debt facilities, cash reserves and the issuance of IPH shares</li><li>• IPH has agreed amended debt facilities with its existing bank financiers as a part of the transaction. IPH's pro forma total drawn debt post transaction will be approximately AUD 390m</li><li>• Following the transaction IPH's pro forma group leverage ratio will be 1.8x<sup>2</sup></li><li>• At completion of the transaction IPH intends to enter into interest rate hedging for the equivalent of AUD 350m. These interest rate hedges will have varying maturity profiles. The interest rate hedging will provide greater certainty for the Group's interest rate expense in the near term</li><li>• 5.3m new IPH shares will be issued upon the transaction, representing 2.4% of existing shares on issue (escrowed for 2 years)<sup>3</sup></li><li>• Additional new IPH shares are expected to be issued in the first quarter of calendar year 2023 or the first quarter of calendar year 2024 if earn-out consideration is achieved (escrowed for 2 years)<sup>4</sup></li></ul>

1) Consistent with the IPH group calculation of underlying EBITDA which excludes costs incurred in pursuit of acquisitions, restructuring, accounting charges for share-based payments, impairment and IT SaaS implementation costs

2) Calculated as IPH drawn debt net of cash as at June 2022 plus estimated additional debt drawn at acquisition as at completion divided by underlying EBITDA for IPH for the 12 months to June 2022 and pro forma adjusted EBITDA for Smart & Biggar for the last twelve months to June 2022. Pro forma adjusted EBITDA is calculated as Smart & Biggar's reported earnings before interest, depreciation and amortisation before partner draws, (on a pre-IFRS-16 basis), adjusted for estimated pro forma partner base salaries (excluding any incentive payments) (to date partners receive profit drawings rather than salaries) and the estimated impact of IFRS-16

3) IPH shares issued as a part of the upfront consideration will be escrowed for two years from completion subject to certain exceptions. These shares will be issued at a price of AUD8.51 per share, being the 20 day VWAP to 17 August 2022

4) IPH shares issued as a part of the potential earn-out will be escrowed for two years from the start of the calendar year following the calendar year in which the relevant earn-out was achieved, subject to certain exceptions. Any such shares will be issued at a price equal to the 20 day VWAP of IPH shares ending on the last trading day of the year in which the relevant earn-out was achieved



# Smart & Biggar financial performance

## Significant contribution of legal revenue

### Financial summary

The financial summary below is based on Smart & Biggar management's unaudited financial accounts for the 12 months to June 2022. Pro forma adjustments have been estimated by IPH for illustrative purposes and have not been audited or reviewed in accordance with Australian Accounting Standards.

CAD m	12M to June 2022
IP agency revenue	60.3
IP legal revenue	28.1
Service charge disbursements <sup>1</sup>	22.5
<b>Total revenue<sup>1</sup></b>	<b>110.9</b>
Operating expenses <sup>1</sup>	(67.9)
<b>Reported EBITDA before partner draws<sup>2</sup></b>	<b>43.0</b>
<b>Pro forma adjustments<sup>2</sup></b>	
Less: Partner salaries <sup>3</sup>	(11.4)
Add: Lease costs (IFRS 16)	2.8
<b>Pro forma adjusted EBITDA</b>	<b>34.4</b>

1) Smart & Biggar currently records disbursement income and expense (ie the payment of patent office fees and third party lodgement fees) on a "net" basis, whereas IPH group reporting practices presents these amounts on a "gross" basis (ie separate amounts in revenue and expenses). Post transaction Smart & Biggar will adopt the IPH group reporting practice.

2) Pro forma adjustments to Smart & Biggar financials provided in this presentation are based on IPH estimates at the date of the presentation, are unaudited, and are provided for illustrative purposes only and is not representative of IPH's future financial performance post ownership of Smart & Biggar and do not include the detailed adjustments required to present Smart & Biggar's financial information in accordance with IPH's accounting and reporting practices. The financial information in this presentation is an abbreviated format and does not represent detailed financial statement reporting as required by the Australian Accounting Standards and the majority of professional reporting requirements applicable to special purpose financial reports prepared in accordance with the Corporations Act

3) Adjusted for estimated pro forma partner base salaries (excluding any incentive payments) Currently Smart & Biggar partners receive profit drawings rather than salaries

### Basis of Smart & Biggar financial reporting

Smart & Biggar currently reports on a calendar year basis

Smart & Biggar reports EBITDA before partner draws pre IFRS 16 lease treatment (i.e. pre AASB-16 basis)

Post transaction, Smart & Biggar revenue and EBITDA will be impacted by a number of adjustments including but not limited to:

- Additional expenses including partner salaries (estimated to be approximately CAD 11.4m base salary costs, excluding any potential employee incentive plan costs)
- The accounting impact of the application of IFRS 16 (reduced operating expenses to adjust for lease costs in accordance with IFRS 16, estimated to be approximately CAD 2.8m)
- IP agency revenue represents patent filing, trade mark filing and other IP agency revenue and was approximately 68% of total revenue in the 12 months to June 2022

IP legal revenue represents IP legal advice and IP litigation revenue and was approximately 32% of total revenue in the 12 months to June 2022. This revenue is subject to greater variability based on case load

The Canadian IP services market has experienced similar growth to Australia and is a mature IP market. Accordingly, Smart & Biggar's revenue is expected to grow at similar rates to IPH's Australian revenue for the coming financial year



# Management and vendor alignment

IPH has a strong track record of successfully integrating IP services firms into its network

## Management

- Smart & Biggar's leadership team has an outstanding international reputation and is well known to IPH
- A Smart & Biggar representative will join the IPH Group Leadership Team
- Smart & Biggar's eligible principals and professional staff will join the IPH group incentive plan providing opportunities for IPH equity ownership and alignment with Smart & Biggar's professional staff on an ongoing basis

## Integration to the IPH Group network

- IPH will leverage its existing international network to expand the offering available to Smart & Biggar clients

## Vendor alignment

- The transaction structure and consideration achieves ongoing alignment between vendor partners and the group
- Vendor partners may be entitled to earn-out consideration, payable to the extent Smart & Biggar's adjusted earnings for CY2022 and CY2023 outperform agreed thresholds broadly in-line with its pre-COVID earnings levels in CY2019<sup>1</sup>
- Partners will receive IPH shares as a part of the upfront and potential earn-out consideration
- IPH shares issued as a part of the transaction will be escrowed for two years subject to certain exceptions
- Smart & Biggar vendor equity partners will generally enter into four year minimum term employment agreements as a part of the transaction

1) IPH shares issued as a part of the potential earn-out will be escrowed for two years from the start of the calendar year following the calendar year in which the relevant earn-out was achieved, subject to certain exceptions. Any such shares will be issued at a price equal to the 20 day VWAP of IPH shares ending on the last trading day of the year in which the relevant earn-out was achieved.



# Expanded IPH network offering

There are strong similarities between Smart & Biggar and IPH's existing IP businesses

	Smart & Biggar	Spruson & Ferguson Australia	Spruson & Ferguson Singapore	Griffith Hack	Pizeys	AJ Park
<b>Year founded</b>	1890	1887	1997	1904	1981	1891
<b>Core services</b>	<ul style="list-style-type: none"> <li>• Patent</li> <li>• Trade mark</li> <li>• Industrial design</li> <li>• IP legal services</li> </ul>	<ul style="list-style-type: none"> <li>• Patent</li> <li>• Trade mark</li> <li>• Industrial design</li> <li>• IP legal services</li> </ul>	<ul style="list-style-type: none"> <li>• Patent</li> <li>• Trade mark</li> <li>• Industrial design</li> </ul>	<ul style="list-style-type: none"> <li>• Patent</li> <li>• Trade mark</li> <li>• Industrial design</li> <li>• IP legal services</li> </ul>	<ul style="list-style-type: none"> <li>• Patent</li> <li>• Trade mark</li> <li>• Industrial design</li> </ul>	<ul style="list-style-type: none"> <li>• Patent</li> <li>• Trade mark</li> <li>• Industrial design</li> <li>• IP legal services</li> </ul>
<b>Patent filings for CY21<sup>1</sup></b>	>6,200	6,818	3,194	3,181	1,804	1,244
<b>Patent filing market share (local market) CY21<sup>2</sup></b>	>16% Canada	19% Australia	22% Singapore	9% Australia	5% Australia	17% New Zealand

<sup>1</sup> based on local IP office filing data for CY21 as at: Australia (1/8/22 excl. innovation patents), Singapore (3/3/22), New Zealand (4/8/22); Smart & Biggar internal filing data for CY21 as at 30/6/22.

<sup>2</sup> Management estimated market share based on local IP office filing data for CY21 as at: Australia (1/8/22 excl. innovation patents), Singapore (3/3/22), New Zealand (4/8/22). Estimated market share in Canada based on IP office data and Smart & Biggar internal filing data for CY21.





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# Thank you

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