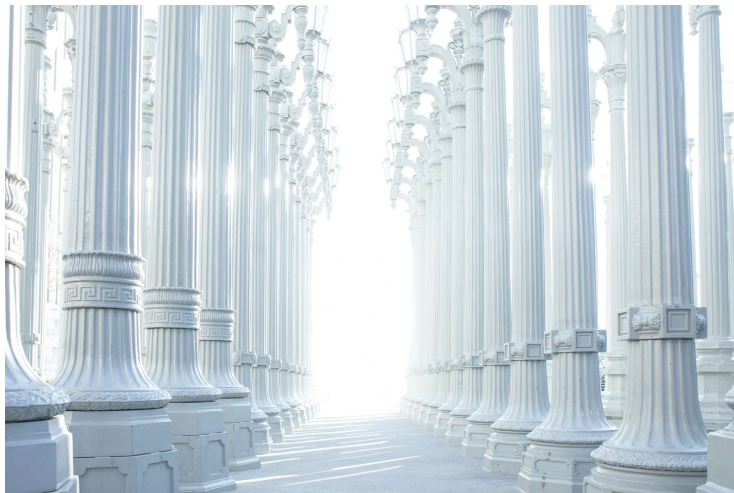


Quarterly Investment Insight – October 2022

IPH gets Smarter & Biggar

Robust, durable business model? *Check*. Highly capable management team? *Check*. Clean, conservatively stated accounts? *Check*. Applying Celeste Funds Management's three-pillared investment approach, we discuss the compelling opportunity presented by market-leading Intellectual Property (IP) services provider, IPH Group Ltd.

IPH Group was the first IP services group to list on the ASX. Since IPO in 2014, it has expanded through organic and acquisitive growth. Spanning 25 countries and eight IP jurisdictions, it services a diversified mix of global Fortune 500 companies, multinationals, and public sector research organisations. With a strong track record of acquisition and integration, the IPH network comprises leading IP firms such as AJ Park, Pizzeys, Spruson & Ferguson. It recently completed another notable acquisition, adding Canada's pre-eminent IP agency firm, Smarter & Biggar, to the IPH network. This marks another step towards IPH's goal to be the leading IP services group in secondary IP markets and agencies.



So, what exactly does IPH do?

IP firms typically provide professional services associated with registering and protecting intellectual property across various stages of the IP lifecycle. Firms may also assist clients in enforcing their IP rights and advise clients on the IP rights of competitors. Certain types of IP may be protected with registrable monopoly rights which govern the use of the IP for a period. The most common forms of registrable IP rights are patents and trademarks. IPH provides services spanning the entire patent and trademark life cycle, from pre-filing advice, application filing, to renewal. On occasion, it also provides IP-related legal and commercial advice, and acts in IP-related litigation and dispute resolution.

IP rights are fundamental to protecting the competitive advantage of IP holders, and ultimately, the incentive to invest in innovation. As such, patent and trademark services will always remain critical to the growth of companies and broader economies. In fact, not only is IPH leveraged to global GDP growth and R&D spend, it also benefits from

competitive tensions. For example, China-US competition and the Biden administration's focus on tech provides tailwinds for patent filings. Similarly, the industry benefits from the global shift towards protection of data and privacy.



In addition to durable underlying demand for IPH's services, the Group also has a robust business model. We like that IPH has a long-established operating history. It also maintains a strong track record of acquisition and integration. This has strengthened what it refers to as the 'network effect' – IPH's ability to generate client referrals by cross-selling services across its network.

IPH is the incumbent player in a sector with high barriers to entry. The business maintains leading market share in Australia, New Zealand and Singapore. It is quickly gaining share in other parts of Asia, including China, which is expected to be a high growth opportunity. The group's scale advantages are particularly beneficial given the multi-jurisdictional nature of IP law. Clients are provided a one-stop-shop to access international markets in a streamlined way. Their value proposition is also difficult to replicate as it has been cultivated through many years of industry expertise and relies on long-standing relationships with IPH's top-tier, diverse client base.

The sticky nature of client relationships means IPH benefits from predictable, annuity-style revenues. This pairs well with their capital-light and highly cash generative business model. It allows IPH to consistently return profits to shareholders, with the business historically maintaining a dividend payout ratio of between 80-90%. Moreover, IPH's internal cash flow generation allowed IPH to acquire Smart & Biggar without raising equity, thereby avoiding diluting existing shareholders interests.



IPH acquired Smart & Biggar earlier this year for \$390m. Consistent with prior acquisitions, it acquired a best-in-class operator, with Smart & Biggar one of the largest filers of patents and trademarks in the Canadian IP market. Not only does management expect EPS accretion of 10% in the first full year of ownership, but also the acquisition is strategically transformative for IPH. It is the group's first acquisition outside of Asia Pacific. With multiple offices spanning the country, Smart & Biggar provides a strong beachhead into the Canadian market. The two businesses are also highly complementary, with the Canadian market akin to Australia in size, culture, governance, and legal system. This indicates a bullish outlook for synergies and further expansion.

Who makes it happen?

As the stewards of capital, a highly capable management team is imperative, particularly for a highly acquisitive business. IPH has an aligned, highly experienced management team with a track record of execution. CEO, Dr. Andrew Blattman, has nearly 30 years' experience in IP. Having joined the group pre-IPO, he has a deep understanding of the IPH business. He provides the necessary mix of legal and commercial experience required for this role, particularly in a service-based industry where expertise and client relationships are key. This is also true for the broader management team, providing rich industry experience across IP and law, and experience with a range of listed multinationals.

How do their numbers look?

Annual Reports are arguably the most vital piece of information provided by the company to the market. A detailed analysis of a company's financial accounts is one of the central tenets of the Celeste investment process, as it allows us to assess the health and profitability of the business, and to inform our view on valuation and outlook. An opaque set of reported accounts means an opaque line of sight on their future trajectory. IPH has a simple operating model and straight-forward financial reports. For example, their revenue recognition is easy to understand and does not require significant judgement or complex calculations. We also like that they have predictable, recurring revenues, and a capital-light business model which is free from inventory-risk. They also use reputable auditors and maintain a clean track record of reporting with no indicators of material misstatements.

Where do they go from here?

IP services will always have a place in our innovation-focused commercial world. As a best-in-class operator with a proven track record, IPH presents an attractive way to participate in this sector whilst providing a defensive play against a weakening AUD/USD. We expect IPH and its capable management team will continue to execute in its market-leading geographies, with a bullish outlook for growth across adjacencies, China, Canada and beyond.

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