
INTEGRATED LEGAL HOLDINGS
LIMITED

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ASX Release

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Integrated Legal Holdings Limited

2009/10 Full Year Results Announcement

Pleasing full year results – continued improved performance

Solid revenue, profit and earnings per share growth

Robust operating cash flows

0.50 cent fully franked final dividend for shareholders

Positioned for growth

Highlights

- **Operating revenue increased by 41% to \$23.87m.**
 - Fastest growing legal firm in Australia 2009 by fee income (Source: Australasian Legal Business).
- **Net profit after tax increased by 44% to \$0.85m.**
- **Earnings per share increased by 33% to 1.18 cents per share.**
- **Operating cash inflows of \$1.45m.**
- **Strong balance sheet, cash reserves and conservative borrowings.**
- **Final dividend of 0.50 cents per share fully franked (full year 0.75 cents fully franked).**
 - Record Date 15 October 2010; Payable 5 November 2010
- **Expect growth in earnings per share in 2010/11.**

1. Executive Summary

Integrated Legal Holdings Limited (“the Company” and “Integrated”) has today announced a net profit after tax of \$853,494 for the 2009/10 financial year. This compared to a full year 2008/09 net profit after tax of \$593,875, an increase of 44%.

Earnings per share for the year were 1.18 cents per share, compared to the year ended 30 June 2009 of 0.89 cents, an increase of 33%.

The Directors advise that they are pleased with the full year results and with the continued strategic and operational progress that has been made during the period towards developing a robust business model and in positioning the Group for future growth. Further, the results were an improved position on the year ended 30 June 2009, the Company having commenced its recovery from the effects of the Global Financial Crisis (GFC).

Full Year Results Summary

	Full Year 2009/10 \$m	Full Year 2008/09 \$m	% Growth
Operating Revenue	23.87	16.95	41%
Net Profit after Tax	0.85	0.59	44%
Earnings per Share	1.18 cents	0.89 cents	33%
Dividend per Share	Final - 0.50 cents Interim - 0.25 cents Full Year - 0.75 cents	Nil	Large
Operating Cash Inflows/(Outflows)	1.45	(1.65)	Large
Net Tangible Asset Backing per Share	6.54 cents	4.89 cents	34%
Gearing (net bank debt/equity)	6%	12%	-50%

Significant strategic and operational progress

The period was highlighted by operational consolidation following a period of very strong organic and acquisition growth experienced by the Company. The Company's acquisitions in 2009 were very large relative to the existing business. The Directors can advise that these acquisitions are performing well.

Accounting Error - 31 December 2009 Half-Year Financial Report

Earlier this week, the Board of Integrated Legal Holdings was advised by the Company's auditors Ernst & Young, as part of the process of preparing the Company's full year financial statements, that an accounting error had been made in the preparation of the Company's financial report for the half-year ended 31 December 2009. The half-year financial report was reviewed and signed off by Ernst & Young on 25 February 2010.

The accounting error involves the treatment of an Australian Taxation Office tax refund of \$325,306 received by the Company in December 2009, relating to the tax treatment of work in progress. This item was highlighted in the ASX Appendix 4D lodged by the Company in February 2010.

At 30 June 2010, Ernst & Young are of the view that in relation to the tax treatment of work in progress, this tax refund should be treated as an increase to deferred tax liability, and not recognised as a credit to income tax expense.

The error relates to the treatment of a transaction that is one-off in nature and does not affect the underlying operational performance of the Company.

The effect of this change is to decrease first half Net Profit after Tax and Earnings per Share of the Company as follows.

	Previously Reported First Half 2009/10 \$m	Corrected First Half 2009/10 \$m
Net Profit after Tax	0.71	0.39
Earnings per Share	1.03 cents	0.56 cents

Half Year Results Analysis

The Company achieved a net profit after tax for the 2nd half of 2010 of \$0.47m, compared with a 1st half 2010 profit of \$0.38m (corrected), an increase of 21%.

	2nd Half 2009/10 \$m	(Corrected) 1st Half 2009/10 \$m	Full Year 2009/10 \$m	Full Year 2008/09 \$m
Operating Revenue	12.28	11.59	23.87	16.95
<i>Growth</i>	6%		41%	
Net Profit after Tax	0.47	0.38	0.85	0.59
<i>Growth</i>	21%		44%	
Earnings per Share	0.62 cents	0.56 cents	1.18 cents	0.89 cents
<i>Growth</i>	11%		33%	
Dividend per Share	0.50 cents	0.25 cents	0.75 cents	Nil

Balance Sheet

The Company has maintained a strong balance sheet and is well placed to continue organic and acquisition growth. The following points are highlighted:

- Net cash position at 30 June 2010 of \$1.95m.
- Bank loans of \$0.95m at 30 June 2010 compared with \$1.85m at 31 December 2009 (bank debt gearing level 6%).
- The Company's existing bank facility has a limit of up to \$3.25m (drawn down to \$0.95m at 30 June 2010).
- The Company achieved robust operating cash inflows for the year of \$1.45m.
- The Company raised \$1.67m in additional capital in April/May 2010 through a well supported private placement and share purchase plan.

Dividend Announcement

The Directors have declared a fully franked final dividend of 0.50 cents.

The dividend will have a record date of 15 October 2010 and a payment date of 5 November 2010. There will not be a dividend reinvestment plan available.

In total, the Company has declared fully franked dividends of 0.75 cents per share for the 2009/10 financial year, having paid an interim dividend of 0.25 cents fully franked in April 2010.

The Directors consider that the dividend announcements of 2010 have established a pattern for dividends for the Company going forward, subject to the previously stated dividend policy of the Company that dividends will be declared after consideration of the performance of the company and future investment opportunities.

Outlook

Overall, the Directors remain confident in the outlook for the Company given the strength and underlying quality of its member firms, the significant opportunity for organic growth and improved performance in these firms, and the significant potential to grow by selective acquisition as part of the strategy of developing a national network of legal services businesses.

The Directors are of the view that the Company is well placed to continue growth by capitalising on the significant opportunity afforded by prevailing industry issues. Long-term competitive advantage can be achieved by the Company in supporting member firms in developing scale to underpin future growth and profitability.

Consistent with this position, the outlook for the Group is positive and the Directors expect the Company to achieve earnings per share growth for 2010/11, providing reasonable business conditions continue for the year.

2. Detailed Performance Review

2.1 Operating Revenue

The Company continues to develop a strong track record of revenue growth, with full year operating revenue increasing by 41% to \$23.87m, as a result of continued organic and acquisition growth.

Operating revenue for the 2nd half 2009/10 was \$12.28m, representing 31% growth against 2nd half 2008/09.

	Full Year Revenue \$m	1st Half Revenue \$m	2nd Half Revenue \$m
2009/10	23.87	11.59	12.28
2008/09	16.94	7.59	9.35
<i>Growth</i>	<i>41%</i>	<i>53%</i>	<i>31%</i>

2.2 Business Performance

Legal Services Division

The Legal Services division incorporates the businesses of Talbot Olivier (Perth), Argyle Lawyers (Sydney/Melbourne) and Brett Davies Lawyers (national coverage).

Each of these businesses has highly competitive positions in their respective markets.

Talbot Olivier has a history of over 80 years and operates in commercial law, litigation, and insurance, predominantly in the Perth area, and targets commercial clients in the public listed company, mid-market, SME and high net worth private client segments. Family Law, and Licensing, Gaming & Hospitality Law, have recently been added as services for the firm.

Argyle Lawyers combines corporate, business, family, litigation and property law, with particular specialisation in key long term growth industries of financial services and wealth management, superannuation and taxation and high net wealth estate planning. Argyle Lawyers has been working with the financial planning profession for more than 20 years and is an innovative leader in training and supporting dealer groups and financial planners, including major banks and insurance companies. Further, Argyle has developed a strong specialty and market position in taxation litigation and taxation advice.

Brett Davies Lawyers is a specialist superannuation, taxation and estate planning firm, with predominantly accountant and financial planning clients across Australia.

All the businesses are Law Society approved quality practices.

The Legal Services division employs over 70 lawyers across 4 offices (Sydney, Perth and Melbourne) and has developed a broad and diversified range of legal services shown in the following table:

Business Advisory Services	Private Client Services
Corporate & Commercial	Wealth Management
Commercial Litigation	Wealth Protection
Insurance Services	Superannuation
Media & Defamation	Taxation Litigation
Licensing, Gaming and Hospitality	Taxation Advice
Government Services	Taxation Audits
Insolvency & Corporate Recovery	Estate Planning & Wills
Workplace Relations	Succession Planning
Taxation Litigation & Advice	Family
Compliance & Regulatory	Property
Dispute Resolution & Mediation	Employment/Workplace
Mergers & Acquisitions	Criminal
Mining, Energy & Resources	On-line Document Publishing

The Directors consider that the broad diversification of services offered by the Company provides strong support to the ongoing revenue profile of the Company and assists in insulating against market downturns.

The Company's strategy for the Legal Services division is to develop a national network of leading law firms in the capital cities and other key centres across Australia, with a view to the growth and improvement of these businesses, as well as the development of cross referral processes, national tenders and strategic relationships and scale advantage opportunities.

Information Technology Services Division

The Information Technology Services division (IT Services) incorporates the Law Central business, which is an internet based customised legal document publishing and information service. The service is targeted towards accountants and financial planners and earns revenue based on the selling of documents and subscriptions to the service.

The Company strategy for IT Services is to grow and develop the business organically through the expansion of on-line services, and the building of deeper relationships within the existing Law Central client base.

The Company experienced improved performance in its Law Central business, following the significant drop in demand for services in the 2008/09 financial year as a result of the GFC.

2.3 Analysis of Balance Sheet and Operating Cash Flow

The Company has maintained a strong balance sheet and is well placed to continue organic and acquisition growth.

	As at 30 June 2010 \$m	As at 30 June 2009 \$m
Cash	2.15	0.60
Borrowings		
- Current	0.95	0.72
- Non-current	0.00	1.00
- Leasing, HP, Loans & Overdrafts	0.88	0.59
Total Debt	1.83	2.31
Net Cash/(Debt)	0.32	(1.71)
Shareholders' Funds	16.20	13.86
<i>Net Cash/(Debt) to Shareholders' Funds</i>	<i>2%</i>	<i>(12%)</i>
Trade Debtors (net of provisions)	6.72	4.77
WIP (net of provisions)	1.35	1.37
<i>Net Cash/(Debt) as a % of net Debtors and WIP</i>	<i>4%</i>	<i>(28%)</i>
Operating Cash Inflows/(Outflows)	1.45	(1.65)

3. Industry Overview and Business Strategy

Industry Overview

The Directors are of the view that the legal services industry is currently influenced by a number of issues which provide an opportunity to develop and grow a network of leading medium sized firms in the mid market, SME and high net worth client segments, and that the Company's business model and strategy provides the basis for assisting member firms in addressing these industry issues.

According to the 2008 IBIS Industry Report, there is significant fragmentation in the industry with currently over 11,000 legal firms in Australia.

The Directors consider that there are in the range of 150-200 medium sized firms in Australia, these being the Company's target market member firms.

For medium sized legal firms, it is difficult to attract and retain good senior lawyers and also to provide broad services to meet client needs.

The traditional partnership model limits business growth due to the availability of capital and prevents owners from realising value for their business.

Further, succession planning is difficult with young lawyers increasingly reluctant to buy into partnerships given the cost of living in Australian cities.

For small law firms, it is just difficult to survive with challenges in attracting and retaining staff, providing training, providing an appropriate service to clients, finding capital and resources for growth and business succession generally.

The Directors believe these industry issues provide the Company with a unique opportunity to acquire and grow a national network of quality member firms and aspire to a market leadership position in the mid market, SME and high net worth client segments.

The Directors consider there will be a strong pipeline of smaller tuck-in acquisitions that can support member firms in developing scale to underpin future growth and profitability and achieve long-term competitive advantage.

Business Strategy

The Company's stated strategy is for the development of a national network of leading medium sized law firms, and we remain focused on incrementally and selectively acquiring good businesses and working with them towards above market growth, business improvement and Group synergies.

The Company's strategy is based on the following principles.

- Owning a limited number of member firms in capital cities and key regional areas across Australia;
- Target firms are both medium sized commercial law firms and specialist law firms in key growth segments;

The Company is targeting 15-20 member firms over the next 5-10 years, specifically firms that operate in the mid market, SME and high net worth client segments, and acquiring selectively and incrementally only quality firms compatible with existing firms and Company culture, aspirations and values.

- Supporting the strong growth and development of member firms both organically and by tuck-in acquisition, to achieve scale businesses with competitive advantage in their markets;

We will look to grow these member firms organically with a series of strategies including the implementation of best practices for revenue growth, enhancing the environment for attracting and retaining great lawyers, introducing new products and services, and developing internal cross referral processes and external strategic relationships to leverage client opportunities as part of a network of member firms.

- Improvement of the overall management of these businesses;

We will look to improve margins of member firms with enhanced management practices.

- Developing internal cross referral processes and external strategic relationships to leverage client opportunities as part of a network of member firms; and
- Developing cost advantages for member firms through national procurement arrangements.

Business Philosophies

The key business philosophies of the Company include a selective approach to acquisitions.

This means selectively acquiring quality firms only, with strong growth prospects, and who are compatible with existing member firm aspirations, culture and values, including a commitment to growth, improvement and working together.

In this regard there are a number of potential acquisitions we are currently speaking with which may or may not turn out to be the right fit for the Group.

Growth will also be incremental. The Company does not intend to make a large number of acquisitions quickly, but rather ensure that the Company's businesses are managed to the maximum potential for shareholders.

The model is one of freedom within boundaries, where member firms retain their branding and continue to develop the strategy and manage the business as they have previously done, but with strategic, financial and risk management boundaries.

Scale advantage over time is expected to support improved margins and we expect best practices to help drive cost efficiencies again over time.

Remuneration is performance based and as such is aligned with shareholder interests, with profit share and share schemes to incentivise growth and improvement in business revenue and earnings.

The Corporate team will be kept to a minimum and provide Group management, strategic direction, boundaries and support, as well as providing accountability for member firms.

Consistent with its selective and incremental acquisition strategy, the Company is aiming to acquire one new member firm and a number of smaller tuck-in acquisitions in each 12 month period, which would contribute approximately \$10m in annualised revenue.

The Company did not pursue acquisitions in the 2010 year, instead focusing on consolidation of the existing businesses following significant acquisitions in 2009.

Given the progress made in operational improvement in 2010 and the strength of the Company's balance sheet, the Directors consider that Integrated is well placed for acquisitions going forward.

4. Positioned for Growth

The Directors consider that the Company is making progress and has good prospects.

The Directors note their expectation of continued acquisition growth, organic growth and operational improvement from member firms in the periods ahead, in particular noting:

- The Company has good businesses with strong market positions and growth prospects.
- The Company is successfully building a strong culture of like-minded people, with common aspirations for above market growth, business improvement and working together.
- The Company has demonstrated an ability to achieve strong and consistent revenue growth. Integrated was nominated the fastest growing legal firm by fee income in Australia in 2009 by Australasian Legal Business (December 2009) and ranked 5th in the 2010 BRW Magazine Fast Starters.
- Scope for business performance improvement in all member firms, providing an opportunity for the increased profitability over time. In particular, opportunities exist for improved margins and improved cash flow management.

- A strong balance sheet and available funding for further acquisitions.
- Organic and acquisition growth opportunities for the Group and for member firms.
- Opportunity to increase profitability by achieving increased scale at both a Group and member firm level.
- Importantly for shareholders, the future profitability of the Company is underpinned by long term employment contracts and non competition arrangements with the Principals of member firms.

5. Outlook

2009/10 has been a year of consolidation for the Company and the Directors advise that they are pleased with the Group's performance and the significant progress that has been made during the year at an operational level and in terms of developing and strengthening the Company's business model and strategy.

Consistent with this position, the outlook for the Group is positive and the Directors expect the Company to achieve earnings per share growth for 2010/11, providing that reasonable business conditions continue for the year.

Overall, the Directors remain confident in the outlook for the Company given the strength and underlying quality of its member firms, the significant opportunity for organic growth and improved performance in these firms, and the significant potential to grow by selective acquisition as part of the strategy of developing a national network of legal services businesses.

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