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INTEGRATED LEGAL HOLDINGS  
LIMITED

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*ASX Release – 2.30pm WST/4.30pm EST*

## **Integrated Legal Holdings Limited 2010/11 Full Year Results Announcement**

**Continuing strong financial performance**  
**51% growth in net profit after tax**  
**19% earnings per share growth**  
**20% growth in fully franked final dividend for shareholders**  
**Positioned for continued organic and acquisition growth**

### **Highlights**

- Net profit after tax increased by 51% to \$1.29m.
- Earnings per share increased by 19% to 1.41 cents per share.
- Operating revenue increased by 19% to \$28.5m.
- Operating cash inflows of \$1.23m.
- Strong balance sheet, cash reserves and conservative borrowings.
- 20% growth in final dividend of 0.60 cents per share fully franked.
  - Record Date 14 October 2011; Payable 4 November 2011
  - The dividend re-investment plan will operate
  - Full year 0.90 cents fully franked – 20% growth
- Continued acquisition growth
  - Wojtowicz Kelly Legal effective 1 February 2011 - \$5.3m annual revenue
  - PLN Lawyers effective 1 August 2011 - \$2m annual revenue
- Expect growth in earnings per share in 2011/12.

### **About Integrated Legal Holdings Ltd (ASX code – IAW)**

Integrated is an ASX listed legal services business with a developing network of member firms across Australia. Integrated is a top 40 Australian law firm by fee income and has over 175 employees including 22 Principals and more than 70 lawyers. The Group targets commercial clients in the publicly listed company, mid-market, government and SME segments, as well as high net worth individual clients. Integrated has offices in Sydney, Melbourne and Perth, representative offices in Singapore and across the Pacific region, and provides clients access to lawyers in North America, Europe and Asia through affiliations with international legal associations.

Integrated was the fastest growing law firm by fee income in Australia in 2009, and placed 2nd in 2010. (Source: Australasian Legal Business)

Integrated achieved a top 5 ranking in the 2011 and 2010 BRW Fast Starters. (Source: BRW Magazine)

## 1. Executive Summary

Integrated Legal Holdings Limited (“the Company” and “Integrated”) has today announced a net profit after tax of \$1,286,670 for the 2010/11 financial year. This compared to a full year 2009/10 net profit after tax of \$853,494, an increase of 51%.

Consolidated operating revenues of \$28,475,476 were 19% higher than the previous year which reported \$23,874,988 operating revenues. Revenue from ordinary activities increased due to a combination of organic growth and the acquisition of Wojtowicz Kelly Legal in February 2011.

Earnings per share for the year were 1.41 cents per share, compared to the year ended 30 June 2010 of 1.18 cents, an increase of 19%.

The Directors advise that they are pleased with the full year results and consider that the Company is developing a strong and consistent track record of growth in revenue, earnings, earnings per share and dividends.

### *Full Year Results Summary*

	<b>2010/11 \$m</b>	<b>2009/10 \$m</b>	<b>Growth %</b>	<b>2008/09 \$m</b>
Operating Revenue	<b>28.48</b>	23.87	19%	16.95
Net Profit after Tax	<b>1.29</b>	0.85	51%	0.59
Earnings per Share	<b>1.41 cents</b>	1.18 cents	19%	0.89 cents
Dividend per Share	<b>Final - 0.60 cents Interim - 0.30 cents Full Year - 0.90 cents</b>	Final - 0.50 cents Interim - 0.25 cents Full Year - 0.75 cents	20%	

### *Half Year Results Analysis*

The Company achieved a net profit after tax for the 2<sup>nd</sup> half of 2011 of \$0.53m, compared with a 2<sup>nd</sup> half 2010 profit of \$0.47m, and a 1<sup>st</sup> half 2011 profit of \$0.76m.

	<b>2nd Half 2010/11 \$m</b>	<b>1st Half 2010/11 \$m</b>	<b>2nd Half 2009/10 \$m</b>	<b>1st Half 2009/10 \$m</b>
Operating Revenue	14.86	13.62	12.28	11.59
Net Profit after Tax	0.53	0.76	0.47	0.38
Earnings per Share	0.55 cents	0.86 cents	0.62 cents	0.56 cents

### *New Business Acquisitions*

The Company has continued to grow by acquisition with the following announcements.

<b>Acquired Firm</b>	<b>Acquired Firm</b>	<b>Location</b>	<b>Annualised Revenue \$m</b>	<b>Effective Date</b>
Wojtowicz Kelly Legal	Merger with existing Member Firm Brett Davies Lawyers	Perth	5.3	1 February 2011
PLN Lawyers	Tuck-in for existing Member Firm Argyle Lawyers	Sydney	2.0	1 August 2011
<b>Total</b>			<b>7.3</b>	

*Wojtowicz Kelly Legal*

In December 2010 the Company announced the acquisition of Wojtowicz Kelly Legal (“WK”) under merger arrangements with the existing member firm Brett Davies Lawyers (incorporating Law Central) (“BDL”).

WK is an established and well regarded Perth CBD based commercial law firm delivering services to commercial enterprises and private individuals predominantly in Western Australia, but also to enterprises based in Southeast Asia with Australian interests.

WK was established in 1994 and has developed a range of legal services including corporate and commercial, property, litigation, family, migration advice, local government law and settlements (conveyancing).

WK also has an office in Rockingham south of Perth, and a representative office in Singapore.

The firm consisted of three Partners, Gavan Kelly, Anthony Quahe and John Wojtowicz, with 40 staff and annual fee income of approximately \$5.3m.

WK has merged with existing member firm BDL, with the merged firm having four Principals, approximately 54 staff and annual fee income of more than \$7.5m.

BDL has operated in the Perth CBD for over 15 years and is a specialist in tax, succession planning, estate planning and superannuation. BDL has a national client base and focuses on accountants, financial planners and lawyers.

BDL incorporates the Company’s Law Central division, an internet based business providing on line purchase of legal documents since 2000. Law Central provides preparation and publishing of documents as well as an information service, predominantly for do it yourself users.

The merged business is now trading as **Civic Legal** while Law Central has retained its brand. As Principals, Brett Davies, Gavan Kelly, Anthony Quahe, and John Wojtowicz are the management team of the business.

Under the merger plans, the Company’s existing BDL business relocated and integrated into the nearby offices of WK.

WK is a quality business with strong growth prospects and the Directors consider that the merger will provide a platform for further growth. In particular, the Company expects to generate earnings improvements through cross referral of client matter opportunities.

**As expected, the acquisition did not add materially to earnings per share in the second half 2010/11. Generally, the initial trading period of an acquisition will not provide a material profit contribution. Specifically, this initial trading period will involve an element of acquisition cost including stamp duty, audit and legal costs, integration expenses and include accounting adjustments on acquisition.**

*PLN Lawyers*

Effective 1 August 2011 the Company acquired the legal business of PLN Lawyers Pty Ltd (“PLN”) under tuck-in arrangements with the existing member firm Argyle Lawyers Pty Ltd (“Argyle”).

PLN is an established and highly regarded Sydney based commercial law firm. PLN’s mission is to be the leading provider of legal and business advisory services to corporations and international institutions operating in the Pacific region. PLN’s clients include Australian, Asian, American and European based companies and financial institutions with business interests in the Asia-Pacific region.

PLN provides a range of legal services including Corporate and Financial Services, Travel and Tourism, Aviation Industry services, Infrastructure and Development, Insurance, Insolvency, Mergers, Acquisitions and IPO's, Mining and Petroleum, Telecommunications and Information Technology.

PLN is the centre of management for the Pacific Legal Network which was established in 2002 and has developed key affiliate relationships in Vanuatu, Fiji, Papua New Guinea, Samoa, New Zealand, American Samoa, Tonga, Cook Islands, New Caledonia, French Polynesia, Solomon Islands, Hawaii, the Marshall Islands, Northern Mariana Islands, Palau, mainland USA, and across Asia. Pacific Legal Network remains the only co-ordinated legal and business advisory service in the region.

The firm consists of founder and Principal John Ridgway, Senior Associate Nitij Pal, and 4 lawyers, with a total of 8 staff, and annual fee income of approximately \$2m.

PLN is an award winning law firm having won the 2009 New South Wales Exporter of the Year Award in a recognised services industry, and in August 2010 was named joint winner of the e.law Asia-Pacific Box Breaker of the Year Award, which recognises those thinking outside the square to meet legal business challenges.

PLN will tuck-in with existing member firm Argyle, with the combined firm having 6 Principals, approximately 40 staff and annual fee income of more than \$10m.

John Ridgway will join Managing Principal Peter Bobbin, Principals Andrew Ireland, Mark Petrucco, Glenda Laurence and Fiona Sonntag, and Practice Director Janice Duncan as the senior management of the business, all of whom are committed to growing Argyle within the ILH Group.

PLN will retain its brand, but operate going forward under the Argyle business umbrella. The tuck-in arrangements promise a sound base for the growth and expansion of the PLN brand across Asia-Pacific and via the ILH member firms in Australia.

Under the tuck-in arrangements, PLN will be relocated and integrated into the nearby offices of Argyle.

The transaction was funded through surplus cash reserves.

The Directors believe that PLN is a high quality business with strong growth prospects and will provide both Argyle and ILH with a platform for further growth, in particular strengthening the organisation's commercial law services offering, and providing new access to the Pacific and Asian markets.

The Company expects to generate earnings improvements through cross referrals of client matter opportunities as well as cost synergies such as premises.

**The WK and PLN transactions are consistent with ILH's strategy of supporting the growth and expansion of a limited number of core member firms into major businesses with competitive advantage through the scope and scale of their operations, as part of a publicly listed group.**

**Both acquisitions are structured with significant employment constraints and conditions, consistent with the Company's disciplined acquisition model and strict criteria.**

**The full revenue and profit impact of the WK and PLN acquisitions will be achieved from the 2011/12 financial year. The Directors believe that the effect of both acquisition transactions will be materially positive in terms of earnings per share in the 2011/12 financial year and will enhance the Company's growth prospects.**

### *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:

- Cash position (including overdrafts) at 30 June 2011 of \$2.44m.
- Bank loans of \$1.95m at 30 June 2011 (debt to equity ratio 15%).
- The Company had a bank facility as at 30 June 2010 of \$3.05m (drawn down to \$1.95m).
- At 31 July 2011 the Company's bank facility increased to \$3.50m.
- The Company achieved operating cash inflows for the year of \$1.23m.
- The Company's 2010/11 interim dividend was fully underwritten by Taylor Collison (Sharebrokers and Investment Advisers) with the support of an institutional investor. The Company issued 2.1m new shares at 12.5 cents per share in lieu of a cash dividend payment of \$267,833. The Company's dividend re-investment plan for the interim dividend attracted 22% re-investment.

### *Operating Cash Flow*

Cash flows from operations were \$1.23m during the period, compared with \$1.45m for the period ended 30 June 2010.

It should be noted that under the Integrated model the Company does not acquire debtors and work in progress as part of an acquisition. Consequently, the Company will invest funds from operations in the build-up of working capital (including debtors and work in progress) to normal levels post acquisition. As a result, net operating cash flows of the Company will generally be lower in the period following an acquisition.

During the period, the WK acquisition required the build-up of working capital to generally acceptable levels in the normal course of trading. Similarly, the acquisition of PLN will have an effect in the first half of 2011/12.

### *Dividend Announcement*

The Directors have declared a fully franked final dividend of 0.60 cents.

The dividend will have a record date of 14 October 2011 and a payment date of 4 November 2011. The dividend reinvestment plan will operate.

In total, the Company has declared fully franked dividends of 0.90 cents per share for the 2010/11 financial year, having paid an interim dividend of 0.30 cents fully franked in May 2011.

### *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 capitalise 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 2011/12, providing reasonable business conditions continue for the year.

## 2. Business Performance

### *Legal Services Division*

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

Each of these businesses has highly competitive positions in their respective markets, and target commercial clients in the public listed company, mid-market, government and SME segments, as well as high net worth individual clients.

Talbot Olivier has a history of over 80 years and operates in commercial law, litigation, insurance, property, estate planning and family law predominantly in the Perth area.

Argyle Lawyers commenced in 1982 and 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.

Civic Legal provides a range of legal services including corporate and commercial, property, litigation, family, migration advice, local government law, settlements and superannuation, taxation and estate planning firm.

The Legal Services division employs over 90 lawyers across 4 offices in Sydney, Perth and Melbourne, and has developed a broad and diversified range of legal services shown in the following table.

<b>Business Advisory Services</b>	<b>Private Client Services</b>
Corporate & Commercial	Wealth Management
Property & Construction	Wealth Protection
Commercial Litigation	Superannuation
Insurance Services	Taxation Litigation & Advice
Media & Defamation	Taxation Advice
Licensing, Gaming and Hospitality	Taxation Audits
Government Services	Estate Planning & Wills
Insolvency & Corporate Recovery	Succession Planning
Workplace Relations	Family
Taxation Litigation & Advice	Property/Settlements
Compliance & Regulatory	Immigration
Dispute Resolution & Mediation	Employment/Workplace Relations
Mergers & Acquisitions	Criminal
Mining, Energy & Resources	On-line Legal 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, 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 with the existing Law Central client base.

### **3. Industry Overview**

The Directors believe that the legal services industry is currently influenced by a number of issues which provide an opportunity for the Company to develop and grow a network of leading law firms.

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

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

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

Growth is difficult for these businesses due to availability of capital.

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, of which there are 1,000's, 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.

Additionally, the Australian legal industry is currently undergoing an "internationalisation" with the entry of a number of foreign law firms into key Australian markets.

Whilst the Directors are watchful of these developments, these changes are generally seen as positive for the Company with the associated fragmentation, consolidation and evolution in Australian law firms providing further opportunities for Integrated for expansion through acquisition and new hiring of lawyers.

Against this background, the Directors consider that ILH provides an attractive value proposition for firms to join the Company.

The Company's business model and strategy provides the basis for assisting member firms in addressing these industry issues.

Specifically, ILH looks to improve the financial and risk position of vendors, as well as un-lock the growth potential of a law firm.

### *Business Philosophies and Strategy*

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

This means selectively acquiring quality firms 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.

Over the next 5 to 10 years, we intend to develop a national network of legal services businesses (member firms) by acquiring 15 to 20 high quality medium sized law firms in the Australian capital cities and key regional centres.

The businesses we target are both medium sized commercial law firms and specialist law firms in key growth segments.

Integrated supports these member firms towards above market revenue and profit growth through the development of a broad range of legal services, organic growth, tuck-in acquisitions, best practice business development, cross selling and succession planning,

Integrated also supports these member firms towards improved and sustainable business performance through improved business management, personnel management, best practice business processes, training and development, share plans and performance based rewards.

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.

Over time, scale advantage is expected to support improved margins and we expect best practices to help drive cost efficiencies.

Remuneration is performance based and 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 provides Group management, strategic direction, boundaries and support, as well as providing accountability for member firms.

#### **4. Positioned for Growth**

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 and business improvement.
- The Company's member firms have high quality and long term client relationships with publicly listed companies, mid-market businesses, government entities, SME's and high net worth individuals, which provides a significant element of "recurring" fee income for the Group.

- The Company has demonstrated an ability to achieve strong, consistent and above market revenue growth.

Integrated is now a top 40 Australian law firm by fee income.

The Company was nominated the fastest growing legal firm by fee income in Australia in 2009 and second fastest growing in 2010 (Source: Australasian Legal Business), and ranked 4<sup>th</sup> in the 2011 BRW Magazine Fast Starters, and 5<sup>th</sup> in 2010.

- Significant organic and acquisition growth opportunities exist for the Group and for member firms.

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 has a strong balance sheet and conservative borrowing.
- There is significant scope for business operational performance improvement in all member firms, providing an opportunity for increased profitability over time.

Furthermore, an opportunity exists for increased profitability by achieving increased scale at both a Group and member firm level.

At a Group level this means securing more member firms to share the fixed overhead burden of the Corporate office.

And at a member firm level, this means achieving organic and acquisition growth to optimise the use of existing premises, and to share the professional management and infrastructure costs that these firms now have in place.

The Directors believe that long-term competitive advantage can be achieved by the Company in supporting member firms in developing scale to underpin future growth and profitability.

- **Significantly, the future profitability of the Company is underpinned by long term employment contracts, restraints and non-competition arrangements with vendor Principals of member firms.**

## 5. Outlook

The Company's priorities for the period ahead remain unchanged:

- Working with existing member firms for continued growth and development.

This includes organic revenue growth and continued business operational improvement, with a focus on business leadership and management, working capital management and best practice development.

- Extending the Group's geographic coverage and services to build scale.

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 effective delivery of the Company's stated strategy of developing a national network of leading medium sized law firms will take time. The Company remains focused on incrementally and selectively acquiring good businesses with like-minded people and working with them towards quality and sustainable growth and improvement.

Consistent with this position, the outlook for the Group is positive and the Directors expect the Company to achieve earnings per share growth for 2011/12, providing that reasonable business conditions continue for the year.

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