

KEY INFORMATION

Listed:

31 August 2016

Sector:

Industrials

ASX 200 Weighting:

0%

Share Price Range:

August 2016 – October 2017

High \$2.52 Low \$1.10

Shares on Issue:

132.9 million

Market Capitalisation:

\$199 million as at 6 October 2017

Share Ownership:

~51% of shares held by employees who were former owners of DCC and FPA.

Management/Chairman:

Managing Director: Leon Allen

Chief Financial Officer: Martin Cleaver

Chairman: Richard England

FINANCIALS

Year ended 30 Jun 2017	2016	2017
Service Charges Revenue	81.5	80.4
Total Revenue incl FX	88.9	86.2
Total Revenue excl FX	85.8	85.3
Operating Expenses	62.3	61.7
EBITDA incl FX	26.6	24.5
EBITDA excl FX	23.5	23.6
EBITDA % incl FX – service charge revenue	32.6%	30.5%
NPAT	16.4	14.8
DPS	n.a.	8.9
Franking	n.a.	100%
Payout Ratio	n.a.	80%
Gearing (net debt/net debt + equity)		9.4%

BUSINESS DESCRIPTION

QANTM Intellectual Property Limited is one of three listed intellectual property (IP) companies. These companies, which all evolved from private legal practices, provide patent application and advisory services, trade marks, legal/litigation, as well as other services.

QANTM was incorporated in May 2016 as the holding company of intellectual property services firms Davies Collison Cave Pty Ltd, Davies Collison Cave Law Pty Ltd and Davies Collison Cave Asia Pte Ltd (collectively known as DCC) and FPA Patent Attorneys Pty Ltd (FPA). The company was listed in August 2016.

QANTM currently ranks second in terms of market capitalisation of the listed IP companies, after having a share price retraction in May 2017, associated with a trading update. In terms of market share position, DCC is equal number one in Australian patent application and advisory work, with QANTM (DCC and FPA) the third largest group, while DCC is ranked number one in market share for trade marks and QANTM third overall.

INDUSTRY SECTOR ATTRIBUTES

Intellectual property protection, and associated legal services, as they relate to patents, designs and trademarks, forms a cornerstone of the commercial operation of modern economies. The services offered by intellectual property (IP) service firms not only protect the investments made in proprietary information, but contribute to the enhancement of technologies, services and product offerings. As technologies and inventions continue to advance, the services offered by intellectual property services will continue to be sought and with them the professionalism and skills of their main asset – their people.

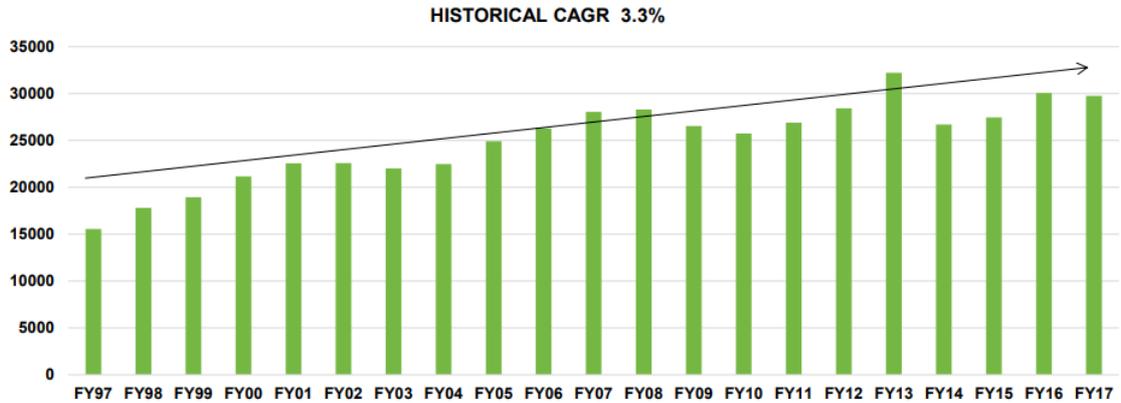
The intellectual property services industry has a strong linkage to investment in R&D by corporations and publicly funded institutions. IP rights are intangible assets that are, in many cases, the most valuable assets of companies and institutions. The protection of IP rights is considered essential to asset, brand and trade mark preservation by many corporations, government agencies and institutions.

QANTM has a defined business model and operates in a sector that displays favourable characteristics in terms of a generally high level of predictability of revenue growth, high cash conversion and low working capital, capable of being translated into favourable margin and cash flow characteristics.

The listed intellectual property sector can be considered to typically display the following investment market characteristics:

- *Relatively predictable and expected growing revenue and earnings profile* from the core businesses of IP patent and trade marks.
 - *Attractive cash flow and dividend yield characteristics* - high cash generation, with low working capital (work in progress) associated with short payment cycles.
 - *Low capital intensity* for sustaining business operations, although in the case of non QANTM participants, acquisitions have been a feature since publicly listing.
 - *High barriers to entry* associated with the importance of reputable, technically qualified patent attorneys, long term client relationships and information systems for patent recording and monitoring.
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- *Favourable industry dynamics* – associated with an historical compound annual growth rate of patent applications of 3.3% between 1999 and 2017 (see Figure 1); with higher recent growth rates for patent applications in ASEAN and other economies.

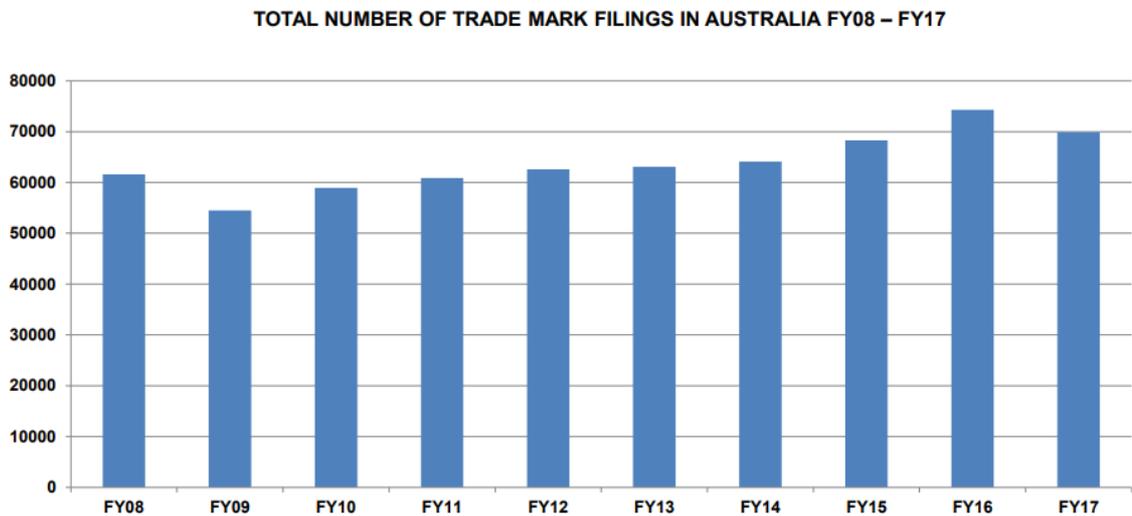
Figure 1 Patent Application Filings, Australia 1997-2017



Source: QANTM analysis from IP Australia data

Patent applications filed in Australia have demonstrated a compound annual growth of 3.3% over the period 1997 – 2017. Patent applications generate revenue, followed by lifecycle income, as conveyed in Figure 3.

Figure 2 Trade Mark Filings, Australia 2008-2017



Source: QANTM analysis from IP Australia data
Note: Lag for International Registrations Designating Australia means that FY17 will increase

This table demonstrates total Australian trade mark filings in Australia between 2008 to 2017. Trade mark work represented 17% of QANTM Services Charges revenue in 2017. DCC holds the #1 market position, with QANTM, the #3 market position group.

QANTM

Experience

QANTM's experience derives from:

- DCC – patent application, advisory, prosecution, trade mark and legal/litigation services related to IP protection. The firm was established 130 years ago and holds the equal number 1 market position in Australian patents work and is the number 1 market position in trade marks.
- FPA – patent and design services. FPA was established in 1994 and had a relationship with the Freehills partnership, before establishing a separate management structure and formal relationship with Freehills in 2012.

Attributes

- QANTM has more than 135 professional staff employed across patents, designs, trade marks and legal services. The professional staff includes patent attorneys, trainee attorneys, lawyers, principals, consultants and other technically qualified personnel to assist with patent and trade mark applications and prosecution, including 44 PhDs.
- QANTM derives ~40 per cent of its revenue for patents from Australian institutions (corporations, government and research institutions). This is a leading position in a business segment which is typically more stable, produces high margins and provides a strong basis for reciprocal arrangements with foreign associates in terms of patent licencing.
- QANTM has established a presence, via an office and professional staff in Singapore. This presence is designed to build a local origination presence, managing clients' Asian IP portfolios and strengthening the company's existing relationships with clients and foreign associates throughout Asia. Growth in patent applications in Asia has been significantly greater than the growth in patent applications in Australia.

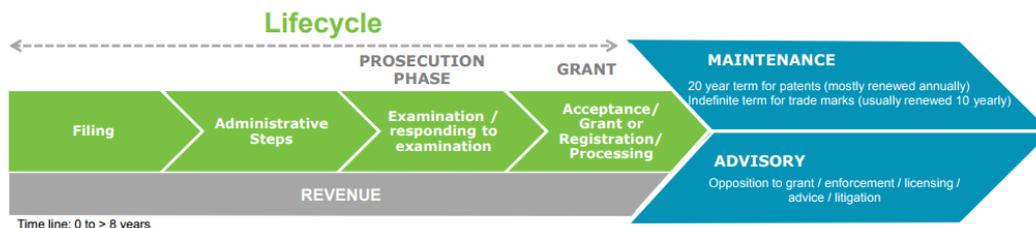
Financial Attributes

- EBTIDA margins in 2016 and 2017 averaging ~31%, with expected margin expansion opportunities related to:
 - scalable business platform – revenue expansion with minor incremental costs
 - early stage Asian expansion programme - higher margin revenue potential
 - cost stabilisation/reduction opportunities through implementation of shared systems and reduction in support costs
- Low capital intensity business – sustainable business capital expenditure of ~\$1.0 million per annum
- Close to 100% per cent cash conversion – low credit risk exposure
- 2017 dividend yield of ~6%; 8.9 cents per share fully franked; 80% of net profit after tax paid out as dividends
- Low to moderate debt levels with cash generation expected to remain strong
- ~55% – 60% of billings are in US\$, although while hedging is employed, revenues have an exposure to AUD/USD exchange rates

BUSINESS MODEL AND MAIN OPERATIONS

Figure 3 - QANTM Business Structure 2017

Revenue generation at various stages of obtaining, maintaining and enforcement of Intellectual Property Rights



This chart demonstrates the main revenue components of the IP rights filing, prosecution and maintenance/renewal phases, with potential for opposition, advisory and legal/litigation services. It excludes originating application work for new inventions, at a pre-filing stage, which also generates revenue as shown on slide 10.

Figure 3 shows the structure of QANTM's business and revenue generation in 2017

Patents and Designs

The majority of revenue is generated in relation to services associated with patents. For clients seeking to register patents or designs in relation to their own intellectual property, DCC and FPA offers services which include:

- drafting of new patent applications
- prosecution of patent and design applications in Australia, New Zealand, Singapore and other overseas jurisdictions in conjunction with Foreign Associates (reflected as Associate charges revenue)
- formulation of patent and/or design procurement strategies and filing programs;
- patent oppositions;
- IP portfolio management and maintenance;
- assistance in the commercialisation and licensing of patents and/or designs;
- and in the case of DCC patent litigation services.

The lifecycle of patents in terms of filing, examination and prosecution, renewal, management and enforcement can entail periods of up to 20 years, providing a recurring revenue base, as well as established and on-going relationships with clients.

Trade Marks

DCC operates a full-service trade marks practice which represents clients with rights extending around the world. DCC has been the largest filer of trade marks in Australia since 1999.

The services provided include:

- searching, analysing and advising on availability of trade marks;
- filing and prosecuting trademarks applications;
- advising on filing of trade marks internationally;
- registering and maintaining company and domain name; and
- renewing trade mark registrations.

DCC also provides services not directly related to trade mark applications, including:

- auditing and managing trade mark portfolios;
- due diligence enquiries;
- advising in relation to trade mark infringements.

Legal Services

DCC operates an IP focussed commercial law and litigation practice with qualified and registered Australian legal practitioners.

The services provided include:

- litigation services in relation to all forms of IP including patents, designs, trade marks and copyright litigation
- structuring advice including shareholder agreements, joint venture agreements and technology acquisition and divestment agreements
- commercial law advice relating to trade secrets, privacy, e-commerce, labelling advice, due diligence, IP portfolio audits, website terms and conditions, anti-counterfeiting programmes and trade practices compliance.

Client Base

QANTM's client base is diversified in terms of numbers, industry and technology sectors and geographies. The DCC and FPA practices entail industry specialists group which include: electrical, mechanical, chemistry, biotechnology, materials science, chemistry and biotechnology, physics and engineering.

A feature of the service provided is that client relationships are typically long-term and invariably stable.

The recent structure of QANTM's client base indicates that:

- ~2% of total revenue is derived from the largest client
- ~20% of top 20 clients are major multinational companies
- 16 of top 20 clients have had a relationship with DCC or FPA for over 15 years

QANTM's clients can be divided into three broad categories:

- Australian and New Zealand – corporations, public sector research institutions, universities and private individuals. In this regard, DCC and FPA together have a presence and capability across multiple sectors of technology with specialist capabilities within *[are we able to list some]*. Clients range from ASX100 companies, smaller-entrepreneurial companies (either listed or privately owned), major research institutes (such as the CSIRO and medical research institutes) to universities, start-up ventures.
- International clients, which include:
 - direct foreign corporates – international clients that are engaged direct and which include Fortune 500 companies and other multi-national corporations; and
 - Foreign Associate clients – international clients referred by the company's Foreign Associated (legal firms and patent attorneys)

Revenue Generation

Revenue is generated by providing services associated with the creation, protection, commercialisation, enforcement and management of IP rights. Due to the long-term nature of the IP lifecycle, QANTM generates recurring revenue from its clients over a relatively long period of time.

- QANTM, through DCC and FPA, had ~80,000 active patent, trade mark and design cases as at 30 June 2017
- In 2017 Services Charges revenue of \$80.4 million was generated and ~66,000 invoices were issued in aggregate through the year.

SHAREHOLDER VALUE GENERATION

QANTM's approach to shareholder value generation is focussed upon the following elements:

- Revenue growth from growth in its existing business of patents and trade mark applications, advisory services, patent renewal and legal/litigation services related to intellectual property
- Lateral growth by the attraction and recruitment of patent attorneys and professionals
- Delivery of operational synergies and efficiencies from common application of common information and data retention systems across DCC and FPA
- Continued implementation of Asian expansion strategy based on Singapore office
- Evaluation and, where business model and financial merit exists, pursuit of consolidation and/or merger and acquisition opportunities

BROKER COVERAGE OF QANTM

Recent brokerage coverage includes:

Bell Potter Securities

Sam Haddad shaddad@bellpotter.com.au

Evans & Partners

Tom Strong tstrong@eandp.com.au

QANTM Information

[2017 Annual Report](#)

[2017 Full Year Results Presentation](#)

[IPO Prospectus 2016](#)

For further information, contact:

Leon Allen, Managing Director and CEO
Martin Cleaver, Chief Financial Officer

1 Nicholson Street
East Melbourne VIC 3002

T: +61 3 9254 2666

E: mcleaver@qantmip.com