

ASX Announcement



22 February 2019

QANTM HALF-YEAR FINANCIAL RESULTS TO 31 DECEMBER 2018

QANTM announces strong growth in half-year results to outperform market

Highlights

- Continued restoration of stronger business trends, following recovery in market conditions in 2H FY2018.
- Favourable 1H financials: revenue, EBITDA growth, expansion of EBITDA margin.
- Strong performance across each sector of the business (patents, trade marks, legal/litigation).
- Advanz Fidelis IP acquisition finalised in Malaysia; initial financial contribution.
- Announcement of intention to merge with Xenith IP Group by way of a scheme of arrangement.

Half-Year Financial Underlying¹ Results – Summary

\$m	1H FY 19	1H FY 18	% Change
Service Charges Revenue	43.0	38.0	13.2
Associate Charges Revenue ²	12.3	11.2	9.8
Total Revenue	55.3	49.2	12.4
Total Net Revenue (incl other income, less recoverable expenses)	45.1	39.7	13.6
Operating Expenses	33.4	30.3	10.2
EBITDA after FX	12.2	9.4	29.8
EBITDA margin % (service revenue)	28.4	24.7	15.0
Net Profit after Tax	7.5	5.5	36.4
Operating Cash Flow	3.4	8.3	(59.0)
Net Debt	16.2	6.7	142.0
Gearing % (net debt/net debt + equity)	19.1	9.1	110.0
EPS (cps) - underlying	5.6	4.2	33.3
Dividend (cps) – 100% franked	3.5	2.8	25.0

Key Features

- Service Charges revenue increased by 13.2% to \$43.0 million, reflecting an increase in revenues across patents, trade marks and legal/litigation services.
- Total Revenue increased 12.4% to \$55.3 million for the half-year, which included an initial revenue contribution from Advanz Fidelis of \$1.1 million.
- Patents revenue increased by 7.6% to \$28.3 million (1H18: \$26.3 million); trade marks revenue increased by 14.7% to \$7.8 million (1H18: \$6.8 million); legal/litigation revenues increased by 41% to \$6.9 million (1H18: \$4.9 million).
- Total operating expenses increased by 10.2% to \$33.4 million, reflecting the inclusion of Advanz Fidelis; higher business development costs; the full impact of recruitment of three lateral teams; and establishment of the employee share trust.
- EBITDA was \$12.2 million, a 29.8% increase (1H18: \$9.4 million);
- Underlying net profit after tax was \$7.5 million, a 36.4% increase (1H18: \$5.5 million). Statutory NPAT was \$4.6 million (1H18: \$3.6 million).
- Operating cashflow of \$3.4 million, \$4.9 million lower, primarily due to \$5.1 million income tax (1H18: nil).
- Net debt as at 31 June 2018 was \$16.2 million; gearing (net debt/net debt + equity) of 19.1%.
- Interim dividend of 3.5 cents, fully franked (1H18: 2.8 cents).

¹ Underlying results are shown to facilitate comparisons period-to-period. For detailed financial results and a reconciliation of statutory to underlying results, refer to the Appendix 4D Half-Year Financial Report.

² Associate charges are revenues from recharging the cost of foreign agents that lodge applications in countries outside those in which QANTM operates, offset by recoverable expenses for 1H 2019 of \$11.3 million (1H18: \$10.5 million).



Managing Director Commentary

Leon Allen, QANTM's Managing Director stated:

Favourable Financials and Industry Trends

"The company has had an encouraging start to the 2019 financial year, demonstrated by stronger revenues across each sector of the business compared to the prior corresponding period. QANTM's favourable performance in patents in the second half of FY2018 was maintained into 2019. An increase in patent service charges revenue by 7.6% from the prior corresponding period was associated with higher Australian and foreign sourced Australian patent business, with a growth in Australian patent application filings by 16.6% and an overall growth in total Group patent applications of 10.5%. Relative to the immediately preceding half-year, QANTM's Australian patent applications grew by 4.7%. The company has achieved an above industry-level growth in patent applications over the last 12 months which is expected to be favourable for prosecution and advisory based revenues in future periods. QANTM's patent filings total market share continued its recovery from 12.8% in the first half of FY2018 to 14.0%.

The performance of the Group's Asian business platform, both in Singapore and now through the integration of Advanz Fidelis' professional capabilities in Malaysia, continues a favourable trend in patent application filings in this part of the business. Growth in Asia, and the increased platform for referral of business into Asia from FPA and DCC clients, remains a focus.

QANTM's trade mark business, despite a lower level of Australian trade mark filings in the first half of 2019, increased its revenue by 14.8%, including growth in the Asian contribution. DCC re-established its number one market position in Australia for trade mark applications.

Legal/litigation had a record half-year in terms of revenue performance. A continuing solid case load was evident, with higher utilisation, while an initial contribution was made from a new corporate law legal team who joined DCC at the commencement of the 2019 financial year.

The investment in business development and marketing activities, as well as new lateral recruitments, appears to be showing benefits in revenue terms.

Operating Expenses – Organisational Investments

Operating expenses increased period-on-period, reflecting investment in QANTM's business, designed to generate new revenue streams (through business development activities, including various M&A evaluation opportunities and marketing); an investment in professional capabilities and alignment to shareholder interests (through promotions, professional development and an employee share trust for new principals) and higher staff costs (through an increase in professional staff numbers, annual salary adjustments and incentive payments).

Advanz Fidelis Acquisition

During the half, QANTM finalised the acquisition of Malaysian intellectual property company, Advanz Fidelis IP Sdn Bhd. Integration activities have progressed well, with the engagement of the firm's principals with a range of personnel from DCC and FPA and initial benefits of client referrals. Advanz made an initial contribution to Group revenues of \$1.1 million. DCC Asia's existing Singapore presence was complemented by the establishment of FPA Patent Attorneys Asia Pte Ltd in Singapore.

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QANTM – Xenith IP Group Merger

On 27 November 2018, QANTM and Xenith IP Group Ltd announced their intention, subject to shareholder and regulatory approvals, to merge by way of a scheme of arrangement under section 411 of the Corporations Act. The proposed merger, if approved, will create a leading provider of IP origination services in Australia. The merged Group will offer a broad base of highly complementary patent, trade mark, legal and strategic innovation advisory services. In particular, it will provide the opportunity to build upon QANTM's existing presence in Asia with Xenith's growing operations and opportunities in the region. A strengthened balance sheet will support the pursuit of acquisitions and other growth opportunities in Asia. Increased scale will also enable the merged Group to realise benefits of a streamlined corporate management and shared back-office services, and to invest in common, world-class technology platforms. The proposed merger will also enhance the attractiveness of the group to new employees and provide improved career opportunities.

The Scheme Booklet was lodged with the Australian Securities and Investments Commission (ASIC) on 19 February 2019 and will be sent to Xenith shareholders on 27 February 2019. I have held informal planning discussions with Xenith CEO, Craig Dower, to facilitate a rapid and efficient integration of the two entities, if shareholder, regulatory and Court approvals are granted.

Outlook

We remain confident of a continuation of favourable financial trends based on the excellent franchises DCC, FPA and Advanz Fidelis have in intellectual property services, backed by a depth of internal expertise and capabilities. The benefits of the combined business, particularly the expanding Asian presence, are starting to generate common business benefits. Subject to the merger with Xenith being approved, QANTM and Xenith will enter a new stage in their evolution in the IP sector. The merged group will be an Australian leader in IP originating services, will facilitate geographical expansion, introduce greater flexibility and robustness in the business model and generate improved efficiencies and service delivery to a diverse client base."

Dividend Details

Directors determined to pay an interim dividend of 3.5 cents per share, fully franked, with a payment date of 28 March 2019 for shareholders registered as at 28 February 2019. The interim dividend for the first half of 2018 was 2.8 cents per share, fully franked.

QANTM's Appendix 4D, Half-Year Financial Report for the half-year ended 31 December 2018 and Investor Presentation, provide more detailed information on the Company's half-year results, available at www.qantmip.com.

For further information, please contact:

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About QANTM Intellectual Property

QANTM Intellectual Property Limited ("QANTM" ASX: QIP) is the owner of leading intellectual property (IP) businesses operating in Australia, New Zealand, Singapore and Malaysia under three key brands - Davies Collison Cave, FPA Patent Attorneys and Advanz Fidelis IP Sdn Bhd. With 150 highly qualified professionals and over 270 years' combined history, the QANTM Group has a strong track record in providing IP services to a broad range of Australian and international clients, ranging from start-up technology businesses to Fortune 500 multinationals, public research institutions and universities. The company also provides services in relation to patents, designs and trademarks and through DCC, a litigation service in relation to patent and trade mark protection.

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QANTM Results Teleconference

QANTM will be holding a results teleconference today, 22 February 2019 at 10:00am Australian Eastern Daylight Time (AEDT). Details are as follows:

10:00am – 11:00am AEDT on Friday 22 February 2019

Conference ID: 6697366

Participant Dial In Numbers:

Australia (toll free) 1800 123 296 New Zealand (toll free) 0800 452 782

Singapore (toll free) 800 616 2288 Hong Kong (toll free) 800 908 865

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