

ASX Announcement



20 February 2020

QANTM HALF YEAR FINANCIAL RESULTS TO 31 DECEMBER 2019 CONTINUED REVENUE GROWTH – INCREASED ASIA CONTRIBUTION

Highlights

- Total revenue of \$57.6 million, up 4.2% relative to a strong 1H 2019; revenue growth trend now evident over four consecutive half year periods.
- Patents driving growth: patent service charges up 9.2% to \$30.9 million (1H: 2019: \$28.3 million).
- QANTM Group overall patent applications up 9.8% and Australian patent applications up 2.7% (relative to 1.2% total Australian market decline).
- QANTM Australian patent market share increased to 14.2% (1H 2019: 14.0%) - fourth consecutive period of market share growth. QANTM Asian patent applications up 42.8%. Patent application growth a favourable indicator for future revenues.
- Asia revenues up 35.1%, increasing to 7% of Group revenues.
- EBITDA down 5.7% and NPAT down 9.3%, reflecting planned investments in personnel.
- Craig Dower commenced as CEO on 13 January.
- Strengthening organisational capability – Chief Transformation Officer appointed, Head of M&A commencing in H2 2020.

Half Year Financial Underlying¹ Results – Summary

\$m	1H FY 20	1HFY 19	% Change
Service Charges Revenue	44.8	43.0	4.2
Associate Charges Revenue ²	12.8	12.3	4.1
Total Revenue	57.6	55.3	4.2
Total Net Revenue (incl other income, less recoverable expenses)	46.6	45.1	3.3
Operating Expenses	35.3	33.4	5.7
EBITDA before FX	11.3	11.8	-4.2
EBITDA after FX	11.5	12.2	-5.7
EBITDA margin % (service revenue)	25.7	28.4	-9.5
EBITDA margin % (total revenue)	20.0	22.1	-9.5
Profit before Tax	9.7	10.6	-8.5
Net Profit after Tax	6.8	7.5	-9.3
Operating Cash Flow	5.7	3.3	72.7
Net Debt	15.1	16.1	-6.2
Gearing % (net debt/net debt + equity)	18.0	19.0	5.3
Dividend (cps) – 100% franked	3.3	3.5	-5.7
Return on equity (annualised)	19.8	21.9	-9.6

¹ Underlying results are shown to facilitate comparisons period-to-period. The appendix provides a reconciliation from statutory to underlying results for 1H 2020 and 1H 2019. The impact of the AASB16 leases adjustment was to increase statutory EBITDA by \$2.4m

² Associate Charges relate to revenue from recharging the cost of foreign associates that lodge applications in countries outside those in which QANTM acts; the revenue is offset by recoverable expenses as detailed.



Other Key Features

- Total net revenue of \$46.6 million (1H 2019: \$45.1 million), a 3.3% increase. Includes other income of \$1.1 million (1H 2019: \$1.1 million) and is after Associates' recoverable expenses.
- Group trade mark applications up 4.9%. QANTM's Australian trade mark market share increased by 0.8% and DCC maintained its number 1 Australian market position, in context of overall Australian market filings decline of 1.4%. QANTM's trade mark service charges decreased by 2.6%.
- Legal/litigation revenue, as foreshadowed, lower at \$6.3 million (1H 2019: \$6.9 million), an 8.7% decrease relative to a record first half 2019. 1H 2020 legal/litigation revenue increased by 5.0% compared to 2H 2019.
- Underlying operating expenses of \$35.3 million (1H 2019: \$33.4 million), a 5.7% increase, reflecting planned higher compensation costs associated with salary increases, promotions (13 in FY 2020), realignment of vendor principal remuneration to reflect market relativities, and a new short-term incentive scheme for vendor principals.
- EBITDA margin of 25.7% reduced from prior period (1H 2019: 28.4%) due to investment in professional personnel and organisational capability for future revenue growth and margin expansion.
- Operating cash flow of \$5.7 million (1H 2019: \$3.3 million), up 72.7%.
- Net debt of \$15.1 million (31 December 2019: \$16.1 million); gearing (net debt/net debt + equity) of 18.0% (31 December 2018: 19.0%). Net debt as at 30 June 2019 of \$11.1 million.
- Interim dividend of 3.3 cents, fully franked; (1H 2019: 3.5 cents, fully franked).

CEO Commentary

Craig Dower, who commenced as QANTM's Chief Executive Officer on 13 January 2020, stated:

"QANTM's half year results reflect the strength of the QANTM's intellectual property businesses, with an excellent position in patent application and advisory work through DCC and FPA; DCC's market-leading trade mark advisory position and DCC's industry-recognised legal and litigation services. It is pleasing that in its second year of ownership by QANTM, Advanz Fidelis IP has contributed a material increase in its revenue in patents, trademarks and legal services. AFIP has been well integrated into the QANTM organisation and, along with the DCC and FPA presence in Singapore, provides a sound foundation for further growth in the region. This base, and further plans for expansion in the region, provide a major opportunity for QANTM.

Patents and Trade Mark Businesses

The patent service offering of DCC, FPA and AFIP showed continued strong performance, with combined service charges increasing by 9.2 per cent. Patents contribute 69 per cent of Group revenue. This performance follows a strong first half of 2019 compared to the prior corresponding period. The result reflects overall QANTM Group patent application growth of 9.8 per cent, while new Australian patent applications increased 2.7 per cent, in the context of an overall Australian patent market decline of 1.2 per cent. QANTM recorded its fourth consecutive increase in patent market share growth in Australia, with its market share increasing to 14.2 per cent, compared to 14.0 per cent in the prior corresponding period. QANTM Group patent applications in Asia increased by 42.8 per cent.

QANTM's Group trade mark applications increased by 4.9 per cent from the prior corresponding period. In Australia, QANTM's market share amongst the top 50 filers increased (up 0.8 per cent), with QANTM's Australian trade mark filings declining by 7.2%, in the context of a 10.5% decline in the total number of filings by the top 50 filers. Total Australian trade mark filings (all filers) decreased by 1.4%. DCC maintains its number one market position in trade marks. QANTM's trade mark service charges declined by 2.6 per cent.

Legal

DCC Law's legal and litigation services achieved a record financial performance in the 2019 financial year, mainly contributed in the first half of 2019. As the company observed at the time of the 2019 full year results, this contribution moderated in the second half of FY 2019 as case load work was finalised. Legal service charges in the first half of FY 2020 (including advisory services provided by AFIP) declined by 8.7 per cent. Legal/litigation revenues in the first half of FY 2020 rose by 5.0 per cent relative to the second half 2019 performance.

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Asia

Asia region revenues from DCC, FPA and AFIP across patents, trade marks and advisory services increased by 35.1 per cent compared to the first half of 2019. Asia now constitutes 7 per cent of QANTM's total service charges, and this level is expected to continue to grow. Asia patent applications increased by 42.8 per cent, a favourable indicator for future revenue generation.

Operating Expenses and EBITDA Margins

Underlying operating expenses were \$35.3 million (1H 2019: \$33.4 million). Planned investments in professional personnel were the main factors contributing to the increase. These included a new incentive scheme, higher compensation associated with the planned realignment of vendor principal remuneration to reflect market relativities following a three year transition period post-IPO, and the promotion of professional personnel."

Business Priorities

Craig Dower commented:

"Since commencing with QANTM I have had the opportunity to meet with most of our people across the Group. I come to the role with a good understanding of the business as well as broader market dynamics. I am confident that the main business strategy components at QANTM are in place. That said, the executive team, our Board and I will work through all of that over the next several months and refine and enhance both our strategy as well as our execution, where appropriate.

Attracting and retaining key professional talent, and helping to further develop the skills and career opportunities of our people remains one of our key priorities. In collaboration with my colleague Kylie Sprott, QANTM's Chief Transformation Officer, we are developing a technology and transformation roadmap which will guide our investment in technology and digital transformation over the next two to three years. The approach will be consistent with what Leon Allen outlined at QANTM's full year results.

I look forward to meeting with our current shareholders and prospective investors and expect to be in a position to provide further detail of business priorities and key milestones at the company's full year results."

Dividends

Directors determined to pay an interim dividend of 3.3 cents, fully franked, with a payment date of 26 March 2020 for shareholders registered as at 27 February 2020.

QANTM's Appendix 4D, Financial Report for the half year ended 31 December 2019 and Investor Presentation, provide more detailed information on the Company's half year results, and are available at www.qantmip.com.

This Announcement has been authorised by the QANTM Board for release through the ASX Market Announcements Platform.

For further information, please contact:

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www.qantmip.com

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QANTM Results Teleconference

10:00am – 11:00am (AEDT) on Thursday 20 February 2020

Conference ID: 8049416

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
UK (toll free)	0808 234 0757	US (toll free)	1855 293 1544
Any other country:	+61 2 8038 5221		

About QANTM Intellectual Property

QANTM Intellectual Property Limited (QANTM, ASX: QIP) is the owner of a group of leading intellectual property (IP) services businesses operating in Australia, New Zealand, Singapore and Malaysia under three key brands - Davies Collison Cave (DCC), FPA Patent Attorneys (FPA) and Advanz Fidelis IP Sdn Bhd (AFIP), and is the majority owner of IP consultancy company, ipervescence Pty Ltd. With more than 140 highly qualified professionals, the QANTM Group has a strong track record in providing a comprehensive suite of services across the IP value chain to a broad range of Australian and international clients, ranging from start-up technology businesses to Fortune 500 multinationals, public research institutions and universities.

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Appendix: Statutory NPAT to underlying NPAT

The reconciliation table below reconciles statutory NPAT for the year to underlying NPAT.

	Half Year ended	
	31-Dec-19	31-Dec-18
	\$m	\$m
Statutory NPAT	4.4	4.6
add: interest	0.9	0.5
add: depreciation and amortisation	3.4	1.1
add: tax	2.7	3.1
EBITDA – QANTM Group	11.4	9.3
add: IPO expenses	-	-
add: remuneration related to business acquisition	1.2	1.7
add: new business establishment costs	0.3	-
less: lease payments (AASB16)	(2.4)	-
add: retention payments	0.3	-
add: business acquisition costs	0.7	1.2
Underlying EBITDA – QANTM Group	11.5	12.2
less: depreciation and amortisation	(3.4)	(1.1)
less: interest	(0.9)	(0.5)
add: AASB16 amortisation and interest add back	2.5	-
less: tax	(2.9)	(3.1)
Underlying NPAT - QANTM Group	6.8	7.5