

# Full Year Results Presentation

12 months to 30 June 2017

# QANTM

30 AUGUST 2017

QANTM  
INTELLECTUAL PROPERTY

**Leon Allen, Managing Director and CEO**

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# Structure

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1. Operational and Financial Highlights
2. Business Model and Market Characteristics
3. 2017 Financial Results
4. 2018 Outlook

A horizontal banner with a dark blue background featuring a close-up, slightly blurred image of a mechanical component, possibly a fan or turbine, with several circular openings. The text 'Operational and Financial Highlights' is centered in a white, sans-serif font.

# Operational and Financial Highlights

# Operational and Financial Highlights

- Corporate restructure and IPO August 2016
  - 100% retention of key clients
  - continuity of DCC and FPA professional services; 10 new Principals added since IPO
- QANTM Group retains its patent market share position year-on-year
- Lower market-wide patent applications in 2017 impacted financial outcomes
- Revenues lower than Prospectus forecast, although above May update range
- For QANTM:
  - modest decline in patent filing, advisory and prosecution revenues in 2017 vs 2016
  - trade mark revenues higher
  - legal revenues recovered in H2 to be in line with expectations, but lower year-on-year reflecting variability
  - Singapore patent applications increased
  - modest growth in originating PCT applications and Australian provisional (initiating) applications
- Expenses lower than Prospectus forecast and down 1.0% compared with 2016 pro forma
- Strong balance sheet with net debt of \$7.4 million; 9.4% gearing (net debt/debt + equity)

# Financial Highlights

- FY17 Prospectus forecast not achieved as the industry experienced a flat year in patent applications, whilst the forecast assumed growth rates in line with recent experience
- Results exceeded updated guidance provided in May due to stronger revenue in May and June
- Key pro forma financial results:
  - Service charges revenue \$80.4m, a 1.3% decline from \$81.5m FY16 (Prospectus \$86.0m)
  - Operating expenses \$61.7m, 1.0% lower than \$62.3m in FY16 (Prospectus \$62.9m)
  - EBITDA before FX gains \$23.6m, a 0.4% increase on \$23.5m FY16 (Prospectus \$27.5m)
  - EBITDA after FX gains \$24.5m, a 7.9% decrease on \$26.6m in FY16 (Prospectus \$27.5m)
  - NPAT \$14.8m, a 9.8% decrease on \$16.4m FY16 (Prospectus \$16.9m)
  - EBITDA margin (on Service Charges revenue) of 30.5% (FY16 32.6%, Prospectus 32.0%)

Note:

Pro forma results are presented to highlight underlying performance, adjusted for IPO costs and other one-off expenses associated with reorganisation of the business.

A close-up, low-angle photograph of a dark grey or black car wheel with several lug nuts. The lighting creates strong highlights and shadows, emphasizing the metallic texture and the circular shape of the wheel.

# Business Model and Market Characteristics

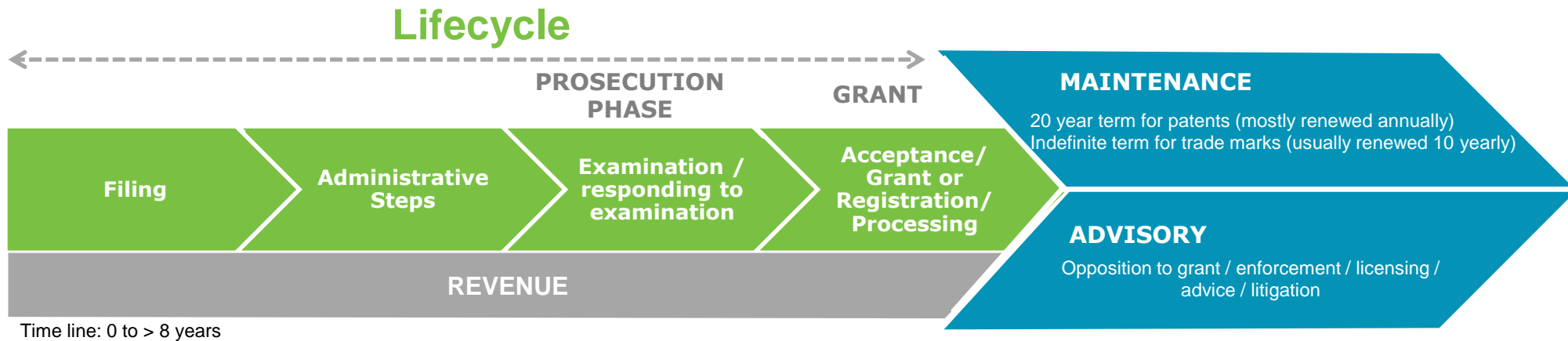
# QANTM Business Model

- Intellectual Property – patents, trade marks and patent advisory / litigation services
  - two leading and long established firms – Davies Collison Cave, FPA Patent Attorneys
  - 130 professional staff, across all major areas of technology
  - ~40% Australian sourced business across multiple private, public sectors
  - strong relationship with foreign corporates and associates
  - growing Asian presence
- Attractive industry with strong long-term trends
  - capitalising on attractive industry growth dynamics – sustainable growth longer term at or above GDP
  - attractive cash flow and yield characteristics – low working capital
  - low capital intensity/low to moderate debt levels
  - relatively high barriers to entry
- QANTM's approach
  - enhancement of organisational and technical capabilities – maintain superior offering to clients
  - organic and lateral focus on growth
  - M&A / consolidation only where financial and strategic merit



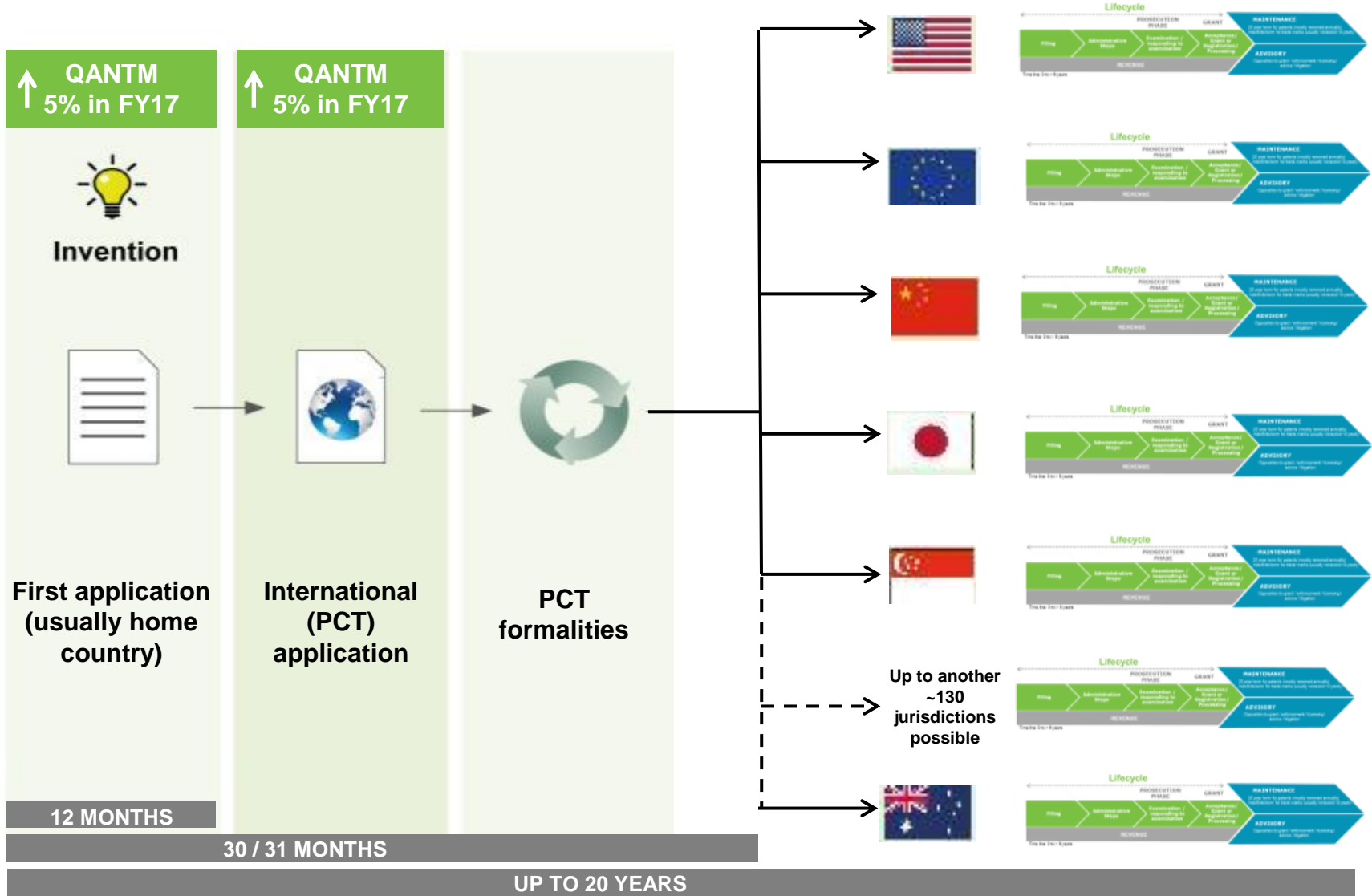
# Intellectual Property – Revenue Stages

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

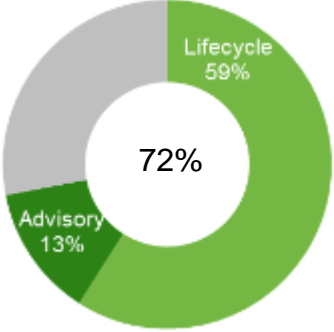
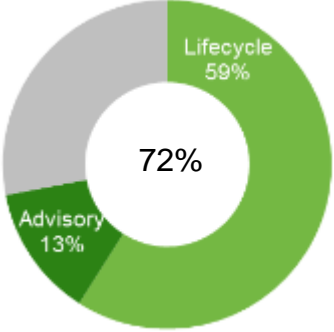

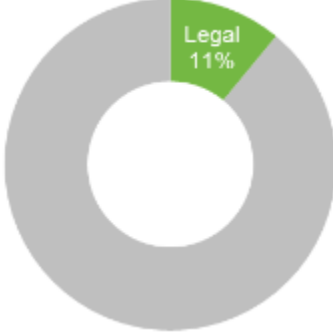


This chart demonstrates the main revenue components of the IP rights filing, prosecution and maintenance/renewal phases, with potential for opposition, advisory and legal/litigation services. It excludes originating application work for new inventions, at a pre-filing stage, which also generates revenue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

# Patent Originating Application Process



# Business Outcomes

BUSINESS AREAS	PATENTS AND DESIGNS LIFECYCLE/ADVISORY	TRADE MARKS	LEGAL / LITIGATION
<p><b>Percentage of aggregate QANTM Service Charges revenue in 2017<sup>1</sup></b></p> 			
<p><b>2017 vs 2016 Service Charges Revenue</b></p>	<p>\$57.7m vs \$58.6m</p>	<p>\$13.8m vs \$13.3m</p>	<p>\$8.9m vs \$9.6m</p>
<p><b>Factors Influencing Outcome</b></p>	<ul style="list-style-type: none"> <li>• Lower patent applications year-on-year (1% decline in line with 1% Australian market decline)</li> <li>• Lower levels of prosecution and advisory fees</li> <li>• Originating applications up 5%</li> <li>• Stronger A\$</li> </ul>	<ul style="list-style-type: none"> <li>• Growth in trademark applications</li> <li>• Stronger A\$</li> </ul>	<ul style="list-style-type: none"> <li>• Recovery in legal and litigation services in H2 to internal expectations</li> <li>• Lower y-on-y reflecting variability in this market</li> <li>• Stronger A\$</li> </ul>
<p><b>Market Position<sup>2</sup></b></p>	<ul style="list-style-type: none"> <li>• DCC equal #1 firm</li> <li>• QANTM #3 group</li> </ul>	<ul style="list-style-type: none"> <li>• DCC #1 individual firm</li> <li>• QANTM #3 group</li> </ul>	<ul style="list-style-type: none"> <li>• DCC legal services</li> </ul>

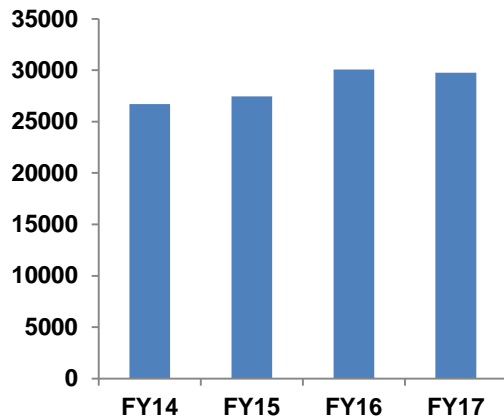
Source: DCC and FPA management analysis

Notes:

1. Excludes Associate Charges
2. Market position analysis is based on the total number of patent or trade mark applications filed in Australia in CY17 and assumes the Group and two additional competitor groups of businesses both operated in their current form in CY17

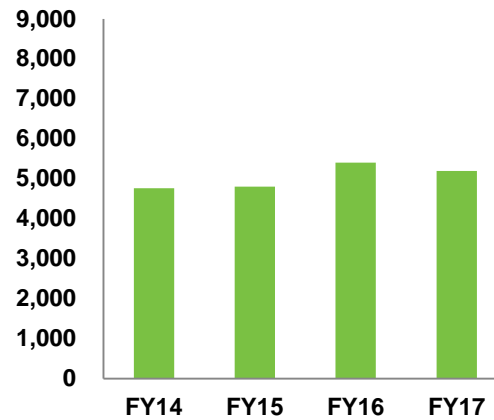
# Patent Applications Australia

**TOTAL  
PATENT APPLICATIONS FILED IN AUSTRALIA  
FY14 – FY17**



- 2017 1% decline in overall level of patent applications filed

**QANTM  
AUSTRALIA PATENT APPLICATIONS  
FY14 – FY17**



- Australian patent applications declined FY17 vs FY16 by 1%
- QANTM's decline reflects overall market trend in 2017

**QANTM  
PATENT FILINGS TOTAL MARKET SHARE  
FY14 – FY17**

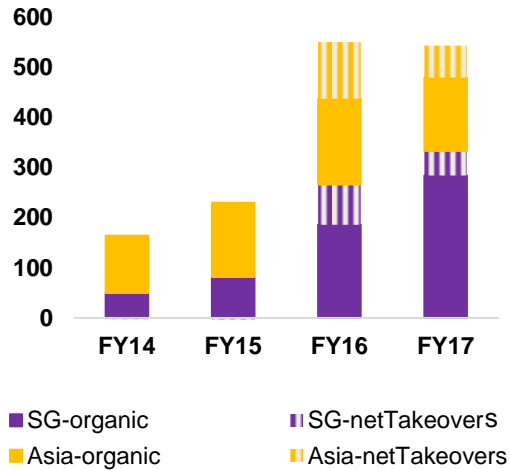


- QANTM market share has remained stable over recent years

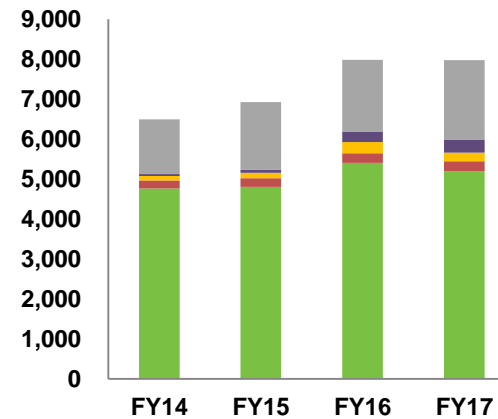
■ Total    ■ QANTM

# Patent Applications Australia and International

**QANTM SINGAPORE/ASIA NEW PATENT CASES SECURED FY14 – FY 17**



**QANTM TOTAL NEW PATENT CASES SECURED FY14 – FY 17**



- Singapore patent applications/new cases secured grew FY17 vs FY16
- Overall Asian patent growth, influenced by lateral growth in FY16
- “Takeover” is an application previously the responsibility of another IP firm

- Total patent applications for QANTM were relatively stable FY17 vs FY16
- 5% growth in originating PCT applications and Australian provisional (initiating) applications

A horizontal banner with a dark blue background featuring a close-up, high-angle view of a fan blade. The blade is dark blue with several small, light-colored rectangular markers. The text '2017 Financial Results' is centered in white, sans-serif font.

# 2017 Financial Results

# Summary pro forma Profit and Loss

Year ended 30 June 2017	Pro forma <sup>1</sup>			Prospectus
\$m	FY17	FY16	% Change	IPO
Revenue				
Service charges	80.4	81.5	-1.3%	86.0
Associate charges	22.8	25.5	-10.6%	26.1
Revenue	103.2	107.0	-3.6%	112.1
Other income excl FX	2.0	2.0	-	2.0
FX gains	0.9	3.1	-71.0%	-
Recoverable expenses	(19.9)	(23.2)	-14.2%	(23.7)
Net total	86.2	88.9	-3.0%	90.4
Net total excl FX	85.3	85.8	-0.6%	90.4
Operating expenses				
Compensation	43.0	42.3	1.7%	43.2
Occupancy	6.7	5.9	13.6%	6.7
Other	12.0	14.1	-14.9%	13.0
Total	61.7	62.3	-1.0%	62.9
<b>EBITDA before FX</b>	<b>23.6</b>	<b>23.5</b>	<b>0.4%</b>	<b>27.5</b>
<b>EBITDA after FX</b>	<b>24.5</b>	<b>26.6</b>	<b>-7.9%</b>	<b>27.5</b>
Dep'n and amort'n	2.0	1.8	11.1%	2.0
Interest	1.0	1.0	-	0.9
<b>Profit before tax</b>	<b>21.5</b>	<b>23.8</b>	<b>-9.7%</b>	<b>24.6</b>
Tax expense	6.7	7.4	-9.5%	7.7
<b>Net profit after tax</b>	<b>14.8</b>	<b>16.4</b>	<b>-9.8%</b>	<b>16.9</b>
EBITDA % after FX - service charge revenue	30.5%	32.6%	-6.6%	32.0%
EBITDA % after FX - total revenue	23.7%	24.9%	-4.5%	24.5%

Note:

1 Pro forma results are presented to highlight underlying performance, adjusted for IPO costs and other one-off expenses associated with reorganisation of the business.

## OBSERVATIONS

### Prospectus Forecast:

As explained in the May Trading Update, the major factors that contributed to a revenue shortfall from the prospectus were:

- advisory service charges below the prospectus forecast level
- patent prosecution revenue, which was expected to increase this year following strong filing numbers in recent years, was below expectations
- a slight weakening in Australian patent filings versus the last corresponding period (consistent with the market) against an increase forecast in the prospectus

### Revenue FY17 vs FY16:

- Revenue influenced by the above factors resulting in:
  - service charge decline of 1.3%
  - currency head wind had a negative impact on service charge revenue of 2.5% year-on-year (ave USD rate 0.75 FY17 vs 0.73 FY16)
  - partially offset by increase in trade mark application revenues
  - growth in local revenue generated in Singapore
  - lower Associate charges – following historical overseas filing levels

### Expenses:

- Operating expenses 1.0% lower than FY16
  - migration to a single ICT platform complete
  - savings from back-office rationalisation
  - the above factors also contributed to a reduction in the operating expenses compared to prospectus forecast
  - occupancy costs growth due to Singapore relocation and annual rent increases however most leases now renegotiated for FY18
- Good EBITDA margins

# Income Statement Reconciliation

## Statutory to pro forma

	YEAR ENDED	
	30-Jun-17 \$m	30-Jun-16 \$m
<b>Statutory NPAT</b>	<b>7.2</b>	<b>25.3</b>
add: DCC and FPA pre acquisition NPAT	(2.3)	9.3
<b>NPAT – QANTM Group</b>	<b>4.9</b>	<b>34.6</b>
add: interest	1.0	1.1
add: depreciation and amortisation	1.9	0.9
add: tax	2.8	0.0
<b>EBITDA – QANTM Group</b>	<b>10.6</b>	<b>36.6</b>
add: IPO expenses	6.6	1.5
add: share based payments	1.0	0.0
add: retention bonuses	4.5	0.0
add: reorganisation expenses	1.3	0.3
add: initial recognition Principal LSL	1.7	0.0
add: partnership expenditure	0.2	0.8
less: notional remuneration adjustment	(1.4)	(10.1)
less: notional public company costs	0.0	(2.5)
<b>Pro forma EBITDA – QANTM Group</b>	<b>24.5</b>	<b>26.6</b>
less: pro forma depreciation and amortisation	(2.0)	(1.8)
less: pro forma interest	(1.0)	(1.0)
less: pro forma tax	(6.7)	(7.4)
<b>Pro forma NPAT - QANTM Group</b>	<b>14.8</b>	<b>16.4</b>



# Cash Flow Statement

\$m	Statutory FY17	Pro forma adjustments		Pro forma FY17
		Pre acq	Reorg'n related	
Receipts from customers	108.8	3.5	-	112.3
Payment to suppliers and employees	(86.6)	(1.2)	(0.1)	(87.9)
Net interest paid	(1.1)	-	-	(1.1)
Income tax paid	(2.0)			(2.0)
<b>Net cash provided by operating activities</b>	<b>19.1</b>	<b>2.3</b>	<b>(0.1)</b>	<b>21.3</b>
Net payments for PPE and intangibles	(0.6)	(0.0)	-	(0.6)
Loans to related parties prior to acquisition	(0.5)	0.5	-	-
Cash acquired	2.3		(2.3)	-
<b>Net cash used in investing activities</b>	<b>1.2</b>	<b>0.5</b>	<b>(2.3)</b>	<b>(0.6)</b>
Proceeds from bank borrowings	15.0	0.7	-	15.7
Repayment of bank borrowings	(15.9)	-	-	(15.9)
Proceeds from issue of new shares	30.8	-	-	30.8
Transaction costs relating to issue of new shares	(9.9)	-	-	(9.9)
Repayment of existing owner loans and distributions	(26.9)	0.2	-	(26.7)
Dividend paid	(4.8)			(4.8)
Forward exchange contracts	(0.8)			(0.8)
<b>Net cash provided by financing activities</b>	<b>(12.5)</b>	<b>0.9</b>	<b>-</b>	<b>(11.6)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>7.8</b>	<b>3.7</b>	<b>(2.4)</b>	<b>9.1</b>

## OBSERVATIONS

### Cash provided by operating activities:

- Operating cash flows of \$21.3m

### Cash used in investing activities:

- Ongoing expenditure of \$0.6m reflects the continued investment in the Group's IT systems

### Cash provided by financing activities:

- Existing external borrowings and loans from existing owners paid out and new facility drawn down during corporate reorganisation

### Pro forma adjustments

- Pre acquisition cash flows of FPA and DCC
- Cash provided by operating activities for retention bonuses and notional remuneration and remove "cash acquired" from cash used in investing activities

# Summary Balance Sheet

\$m	Statutory		Pro forma adjustments	Pro forma
	30 Jun 2017	30 June 2016		30 June 2016
<b>Current Assets</b>				
Cash and cash equivalents	8.3	0.5	2.0	2.5
Trade and other receivables	29.6	22.9	7.6	30.5
Other current assets	1.4	2.0	0.2	2.2
<b>Total Current Assets</b>	<b>39.3</b>	<b>25.4</b>	<b>9.8</b>	<b>35.2</b>
<b>Non-Current Assets</b>				
Intangible assets	67.1	0.0	0.0	0.0
Property, plant and equipment	2.3	2.4	0.4	2.8
Other non current assets	0.1	0.0	0.0	0.0
<b>Total non-current assets</b>	<b>69.5</b>	<b>2.4</b>	<b>0.4</b>	<b>2.8</b>
<b>Total assets</b>	<b>108.8</b>	<b>27.8</b>	<b>10.2</b>	<b>38.0</b>
<b>Current Liabilities</b>				
Trade and other payables	8.1	8.3	1.8	10.1
Provisions	6.4	3.3	0.5	3.8
Loans and borrowings	0.6	35.5	6.6	42.1
Other liabilities	3.5	0.0	0.0	0.0
<b>Total current liabilities</b>	<b>18.6</b>	<b>47.1</b>	<b>8.9</b>	<b>56.0</b>
<b>Non-current Liabilities</b>				
Loans and borrowings	15.1	1.2	0.0	1.2
Provisions	2.7	2.6	0.4	3.0
Deferred tax liabilities	1.5	0.0	0.0	0.0
Other liabilities	0.0	0.5	0.9	1.4
<b>Total non-current liabilities</b>	<b>19.3</b>	<b>4.3</b>	<b>1.3</b>	<b>5.6</b>
<b>Total liabilities</b>	<b>37.9</b>	<b>51.4</b>	<b>10.2</b>	<b>61.6</b>
<b>Net Assets</b>	<b>70.9</b>	<b>(23.6)</b>	<b>0.0</b>	<b>(23.6)</b>
<b>Equity</b>				
Issued capital	293.8	0.0	0.0	0.0
Reserves	(222.7)	0.0	0.0	0.0
Retained profits	(0.2)	(23.6)	0.0	(23.6)
<b>Total Equity</b>	<b>70.9</b>	<b>(23.6)</b>	<b>0.0</b>	<b>(23.6)</b>

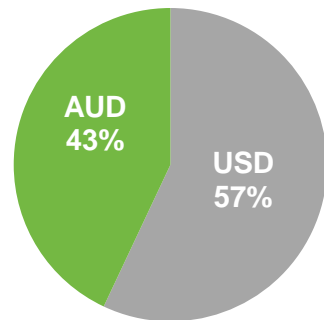
## OBSERVATIONS

- **Balance sheet strength**  
Net debt as at 30 June 2017 was \$7.4m, down from \$14.6m at IPO (pro forma); reduction from \$12.4m as at 31 December 2016
  - **Current Banking Facilities include**
    - \$25m working capital facility (\$10m undrawn)
    - \$30m acquisition facility (undrawn)
  - Good quality debtor book with low levels of bad and doubtful debts
  - Intangible assets reflect the accounting treatment of combining with FPA
  - Provisions predominantly comprise long service leave and annual leave
  - Other liabilities represent the current income tax provision \$3.5m
- Pro forma adjustments**
- Add the FPA and DCC balance sheets not included in the comparative statutory balance sheet

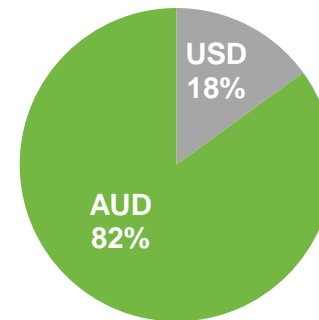
# Foreign Currency Impact

- A substantial portion of Service Charges (55% - 60%) is generated in USD
- The balance sheet includes receivables and liabilities denominated in USD
- As at 30 June 2017 net assets with USD exposure amounted to \$12.6m (2016: \$11.1m)
- Adverse movements of the AUD against the USD can have a potentially significant impact on results. Selective hedging is used to mitigate the currency movement on USD denominated invoices

**SERVICE CHARGE REVENUE FY17**



**NET ASSETS AT 30 JUNE 2017**



- The FX result in the pro forma profit and loss statement represents the movement in rates from revenue booking to the collection of the debt, adjusted for any hedge impact

# 2018 Outlook

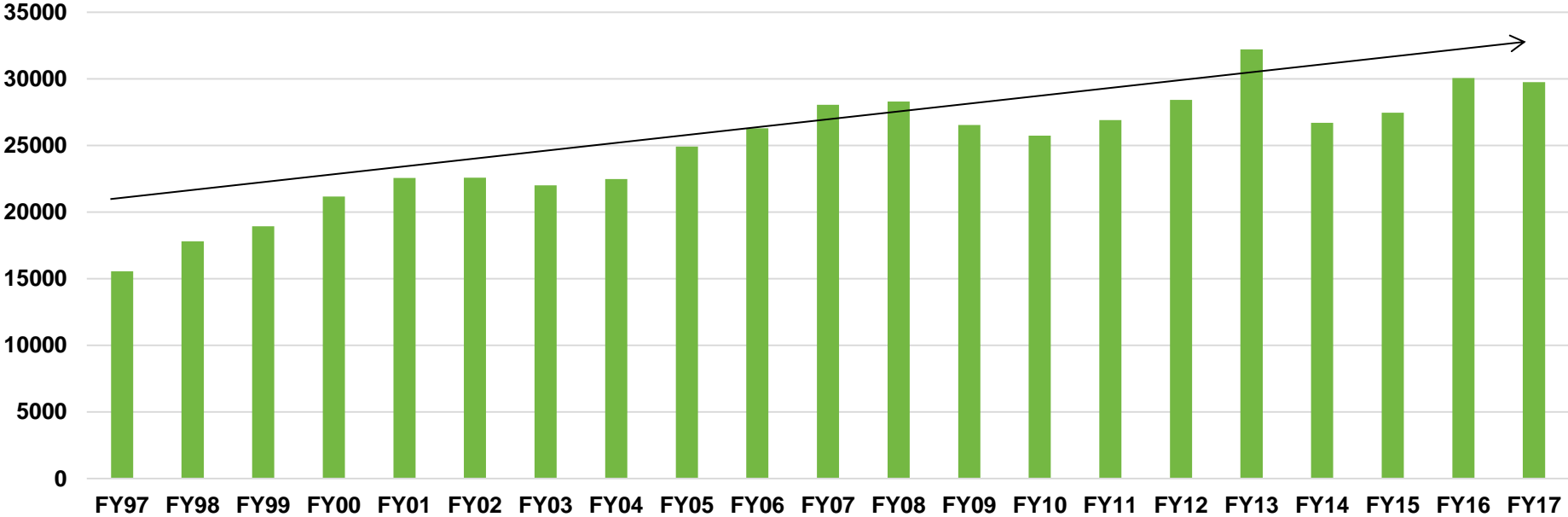
# 2018 Outlook – Key Features

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- **Operating Environment**
  - expected reversion to long-term historical growth rates (GDP) in patent and trade mark filings
- **Revenue Characteristics**
  - revenue growth in line with the market; with increased contribution from Asian presence
- **Business and Operational Efficiencies**
  - addition of principals/professional staff entails higher compensation expenses, offset by full year impact of FY17 initiatives
  - operating expenses expected to be flat, subject to revenue environment
  - continued automation of processes and technology based efficiencies
- **Growth**
  - strategically acquire key senior personnel with accompanying lateral growth
  - continued focus on building of Singapore and wider Asian presence
  - M&A / consolidation subject to strategic fit and financial merit

# Patent Applications Filed in Australia 1997 - 2017

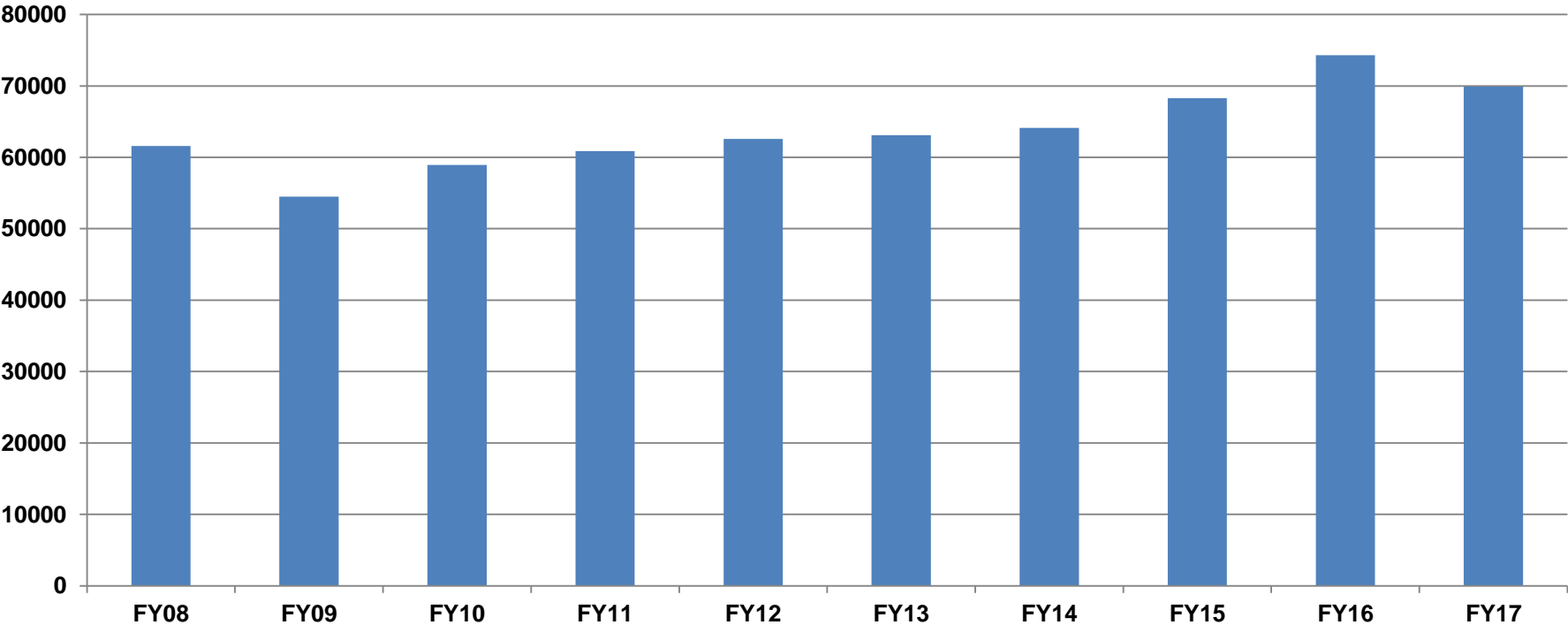
HISTORICAL CAGR 3.3%



Source: QANTM analysis from IP Australia data

# Total Trade mark Filings in Australia 2008 - 2017

TOTAL NUMBER OF TRADE MARK FILINGS IN AUSTRALIA FY08 – FY17



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



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