

# FULL YEAR RESULTS PRESENTATION

## 12 MONTHS TO 30 JUNE 2019



## QANTM Intellectual Property Limited



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

29 August 2019

1. 2019 – Highlights
2. Market and Business Overview
3. Financial Results
4. Priorities and Outlook

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# 1. 2019 Highlights

# 2019 – Highlights



- Solid increase across all key financial metrics; strong recovery from subdued FY18 results
  - Underlying improvement reflects strength of IP businesses and benefits of business development activities
  - First full year contribution from Advanz Fidelis IP (AFIP)
- Increased cash flow and strong balance sheet enabled final dividend of 4.8 cents, making full year dividends of 8.3 cents (2018: 7.1 cents)
- Patents, trade marks, legal/litigation recorded higher service charge revenue
  - Patents revenue up 10.1%
  - Trade mark revenue up 9.1%
  - Legal/litigation revenue up 35.4%
- DCC Law had a record year with very strong 1H case load/revenue
  - Result aided by recruitment of commercial law team
- Asian presence with DCC, FPA, AFIP provides broader base for growth in region
  - Asian patent applications up 36.6% in FY19, excl AFIP; up 96% incl AFIP – positive for future year revenue
  - Asia constitutes ~6% of service charges revenue; focus on higher EBITDA contribution after initial investments
- Investment in lateral hires, share-based compensation, promotions, career development

# Financial Summary – Underlying Results<sup>1</sup>



- **Total revenue** \$112.2 million, up 10.3% (2018: \$101.7 million)
  - **Service Charges** of \$86.5 million, up 13.1% (2018: \$76.5 million)
  - **Foreign Associate Charges** of \$25.7 million (2018: \$25.2 million) (net after recoverable expenses of \$1.8 million)
- **Net revenue** \$90.3 million, up 12.3% (2018: \$80.4 million)
- **Operating expenses** \$67.1 million, up 9.8% (2018: \$61.1 million)
- **EBITDA after FX** (\$0.8m) of \$24.0 million, up 19.4% (2018: \$20.1 million)
- **EBITDA margin** (on Service Charges Revenue) 27.7% (2018: 26.3%); on Total Revenue 21.4% (2018: 19.8%)
- **Net Profit after Tax** \$14.8 million, up 24.4% (2018: \$11.9 million)
- **Operating cash flow** of \$14.6 million, up 29.2% (2018: \$11.7 million)
- **Final dividend** of 4.8 cents per share, 100% franked; total 2019 dividends of 8.3 cents (2018: 7.1 cents)
- **Net debt** of \$11.1 million (2018: \$8.3 million); gearing (net debt/net debt + equity) 13.6% (2018: 10.6%)

**Note:**

<sup>1</sup> A reconciliation of Statutory to underlying results is included in Slide 20. Underlying results are shown to facilitate comparisons period-to-period.

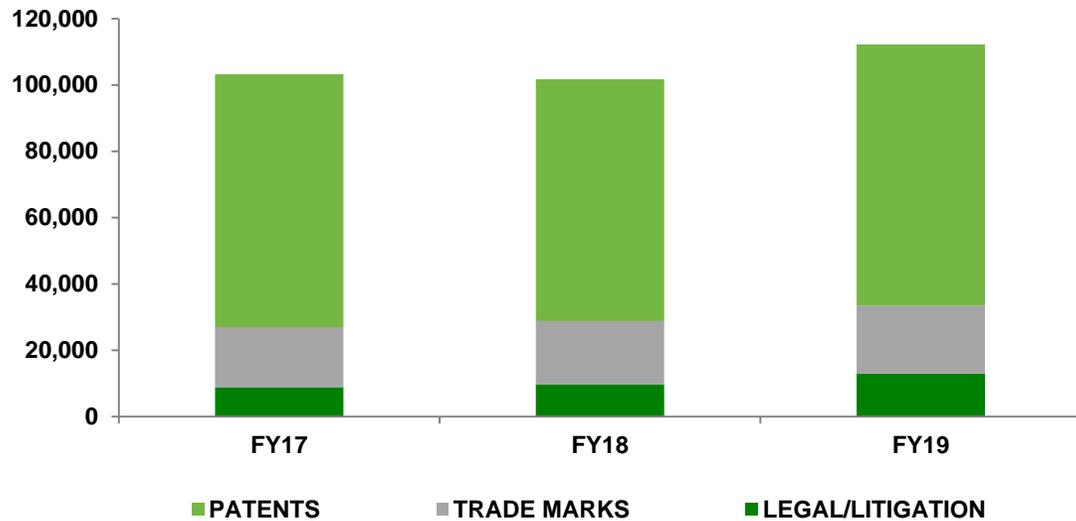
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# 2. Market and Business Overview

# Revenue by Source of Business

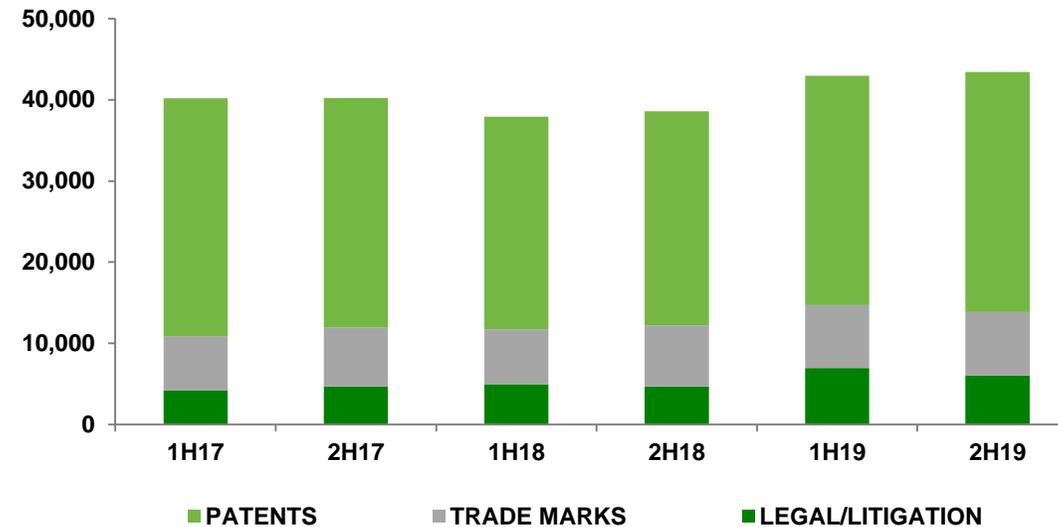


**QANTM TOTAL REVENUE - FULL YEAR TREND  
FY17 - FY19**



- Total revenue of \$112.2m up \$10.4m or 10.3%
- Patent revenue up \$5.8m or 7.9%
- Trade mark revenue \$1.3m up 7.0%
- Legal/litigation revenue up \$3.4m or 35.4%

**QANTM SERVICE CHARGES REVENUE - HALF YEAR TREND  
1H17 - 2H19**



- Total service charges revenue, up 1.1% 2H19 vs 1H19
- 2H19 Patents revenue up 4.7% vs 1H19
  - 2H19 up 12.2% vs 2H18
- 2H19 Trade mark revenue up 0.6% vs 1H19
  - 2H19 up 4.2% vs 2H18
- 2H19 Legal/litigation revenue down 13.1% vs 1H19
  - 2H19 up 28.4% vs 2H18

**Note:**

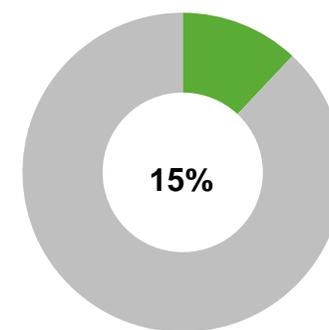
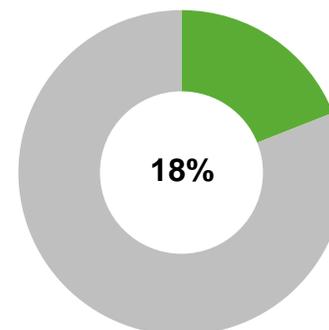
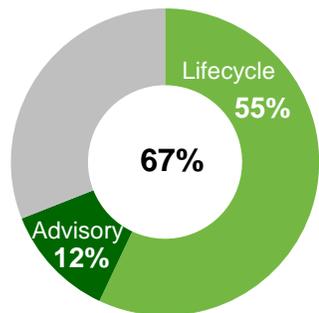
QANTM Total Revenue chart (left hand chart) includes both service charge revenue and foreign associate revenues.

# Business Overview



BUSINESS AREAS	PATENTS AND DESIGNS LIFECYCLE/ADVISORY	TRADE MARKS	LEGAL / LITIGATION
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Percentage of aggregate QANTM Service Charges Revenue FY19



## FY19 vs FY18

Service Charges Revenue  
Service and Foreign Associates Charges Revenue

\$57.9 m vs \$52.6 m  
\$78.7 m vs \$73.0 m

\$15.6 m vs \$14.3 m  
\$20.5 m vs \$19.1 m

\$13.0 m vs \$9.6 m

## Main Factors

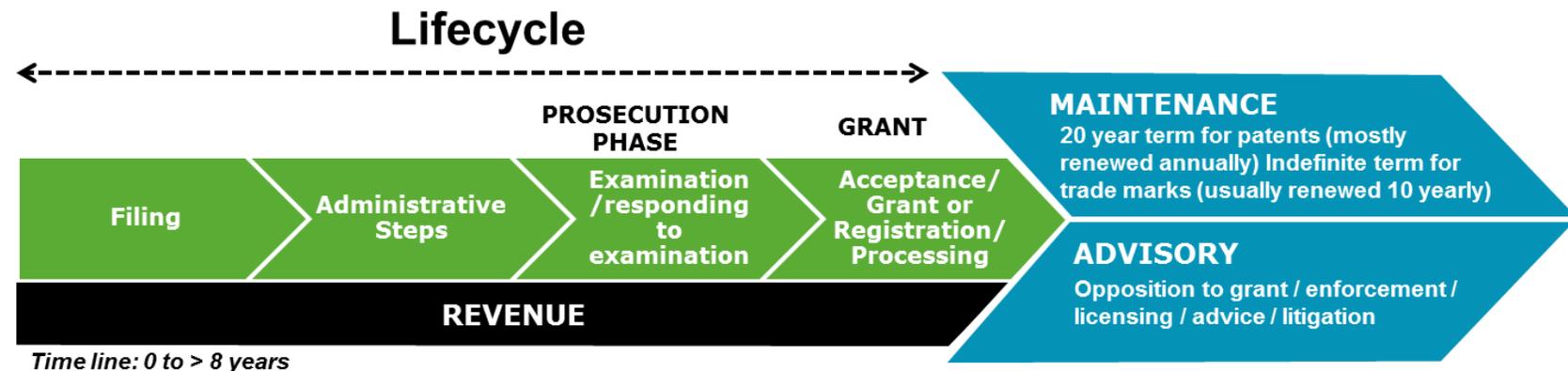
- Group patent applications up 8.2% (excl AFIP); 11.9% (incl AFIP)
- Australian domestic patent applications up 6.6%, after FY18 was down 6.2% vs FY17
- Higher level of foreign sourced, Australian patent work, particularly prosecution and advisory
- Trade mark revenue growth of 9.1% in context of softer overall market
- DCC trade mark franchise strength and business generation
- Increase in client litigation/ legal work and contribution from lateral commercial team recruited FY19

# Intellectual Property – Revenue Stages



## Main revenue components of the IP cycle:

Filing, prosecution, maintenance/renewal phases, with potential for advisory, legal/litigation services. Originating application work for new inventions, at a pre-filing stage, also generates revenue.

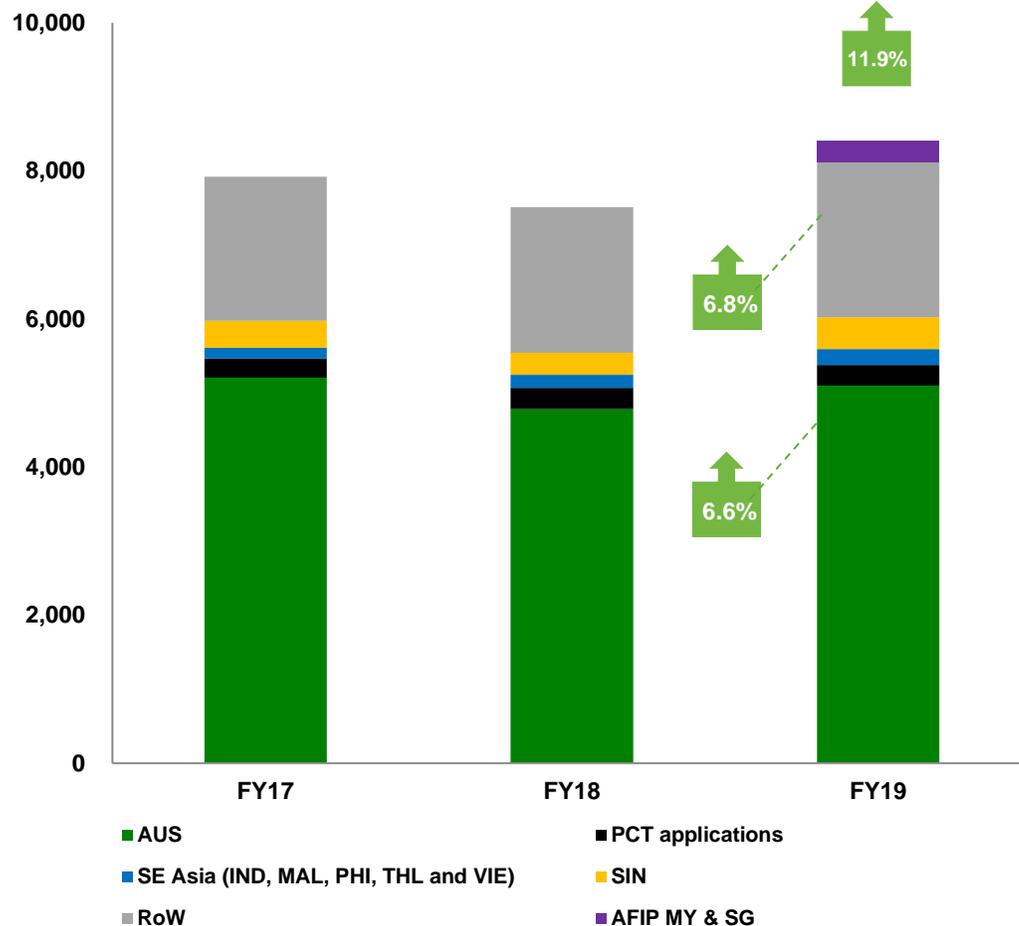


- Revenue generation at various stages of maintaining and enforcement of IP rights
- Client relationships tend to be long term and stable – 18 months – 20 years+
- Client arrangements can be national, regional, multi-national
- Reciprocal arrangements internationally generate additional revenue streams

# Patent Applications – Group



**QANTM GROUP  
TOTAL NEW PATENT CASES  
FY17 – FY19**



Source: DCC and FPA management analysis

## Recovery across the business and growth above market trend

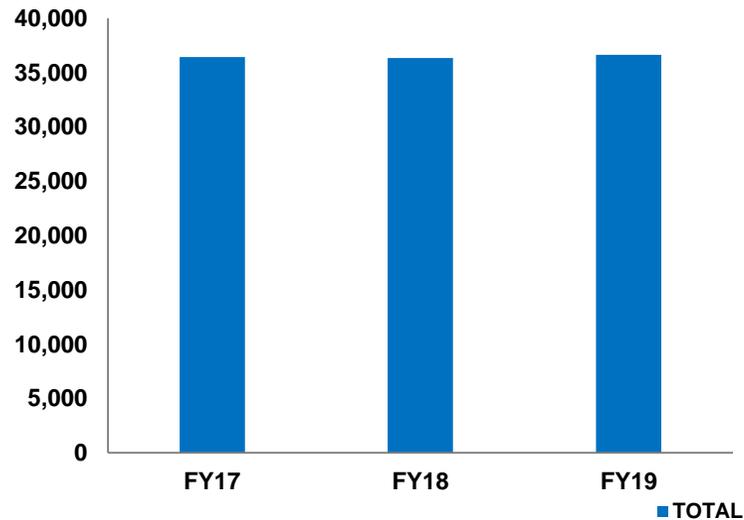
- Group patents up 8.2% excl AFIP, up 11.9% incl AFIP; highest level since IPO
- Australian patents up 6.6% vs market growth of 0.9%
- Asian patents (excl AFIP) up 36.6%, to highest recorded level
- RoW applications achieved highest recorded level
- Australian patent applications: 61% of Group; RoW 25%; Asia 11%; PCT 3%

Patent applications are a lead indicator for future period patent service charges revenue. Revenue derived from patent applications typically constitutes ~10% of QANTM's annual patents service charges revenue.

# Patent Applications – Australia



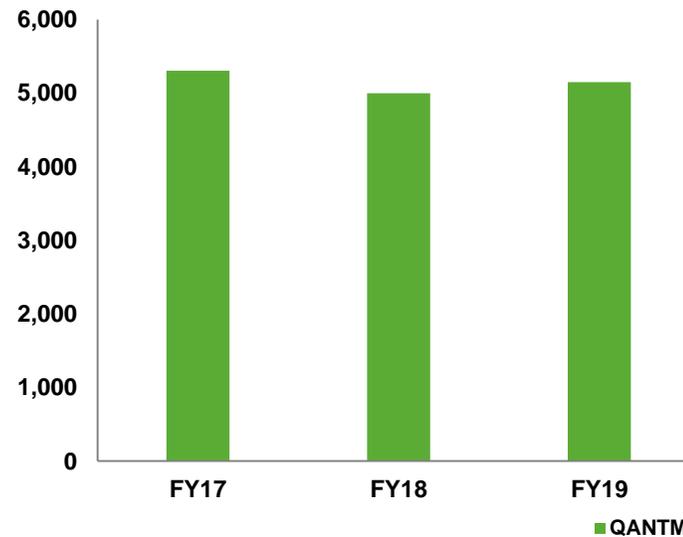
**TOTAL  
PATENT APPLICATIONS FILED IN AUSTRALIA  
FY17 – FY19**



Source: IP Australia

- FY19 total Australian market patent applications up 0.9% (QANTM up 6.6%)

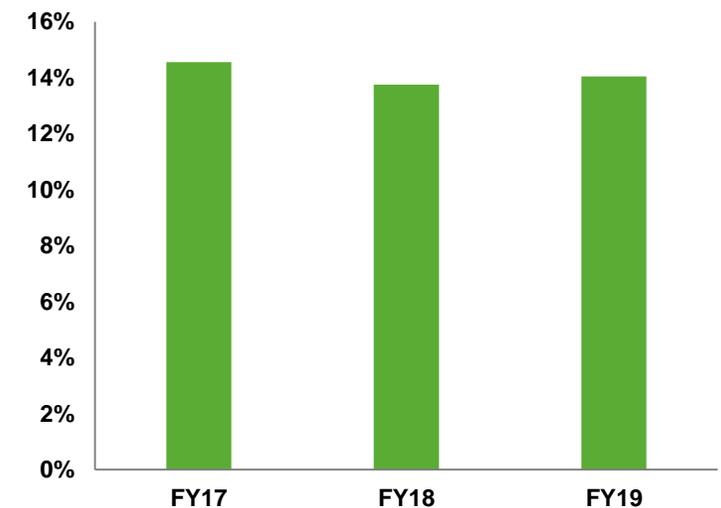
**QANTM <sup>1</sup>  
AUSTRALIA PATENT APPLICATIONS FILED  
FY17 – FY19**



Source: DCC and FPA management analysis

- QANTM Australian patent applications up 6.6% from lower FY18, down 6.2% on FY17
- Recovery reflects higher foreign sourced Australian patent business
- FPA Highly Recommended for Patent Prosecution by *IAM Patents 1000* during year

**QANTM  
PATENT FILINGS TOTAL MARKET SHARE  
FY17 – FY19**



Source: DCC and FPA management analysis

- QANTM market share increased from 13.8% FY18 to 14.0% FY19
- 2H19 market share of 14.1%

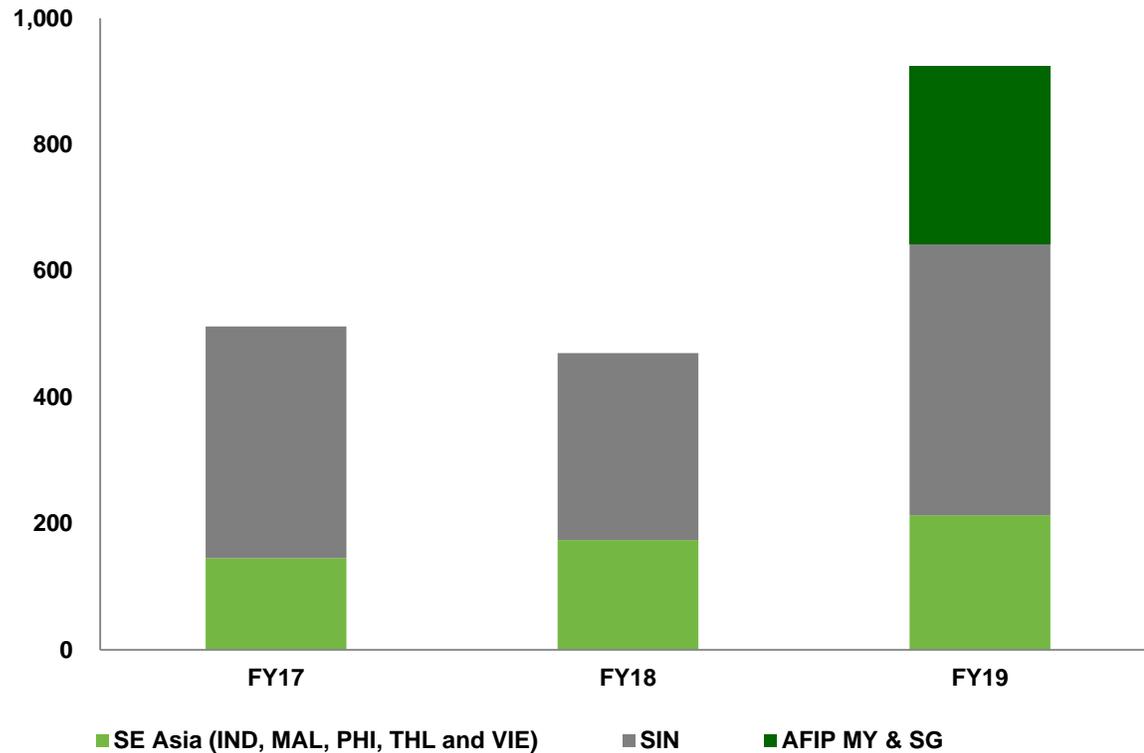
**Note:**

<sup>1</sup> Based on IP Australia at conclusion of each filing year. Not including subsequent international filings allocated.

# Patent Applications – Asia



QANTM  
ASIA NEW PATENT CASES FILED  
FY14 – FY19



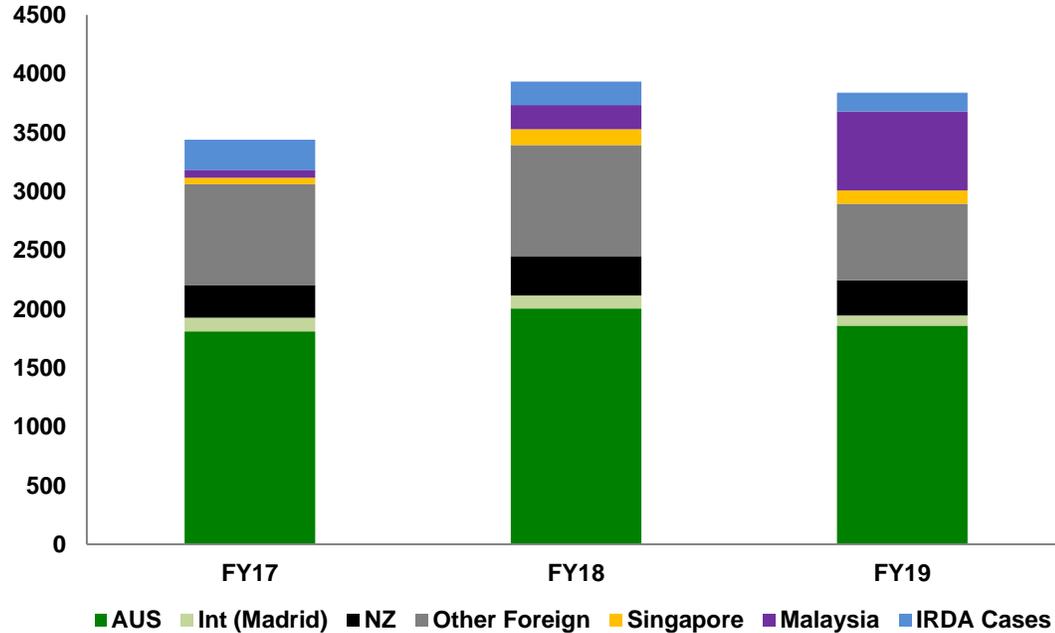
Source: QANTM management information

- Total Asian patent filings up 96% FY19 vs FY18, including AFIP
- Asia incl Singapore (ex AFIP) patent filings up 36.6%
- Singapore patent filings up 44.9%
- AFIP integration progressed smoothly
- AFIP patent filings FY19 represent ~30% of total QANTM Asia filings
- Three senior AFIP personnel to be promoted to principal status
- Collaboration between Malaysia, Singapore and Australia for joint business development opportunities
- Asian revenues 6% of Group service charges revenue
- Ongoing focus on building earnings contribution

# Group Trade Mark Filings

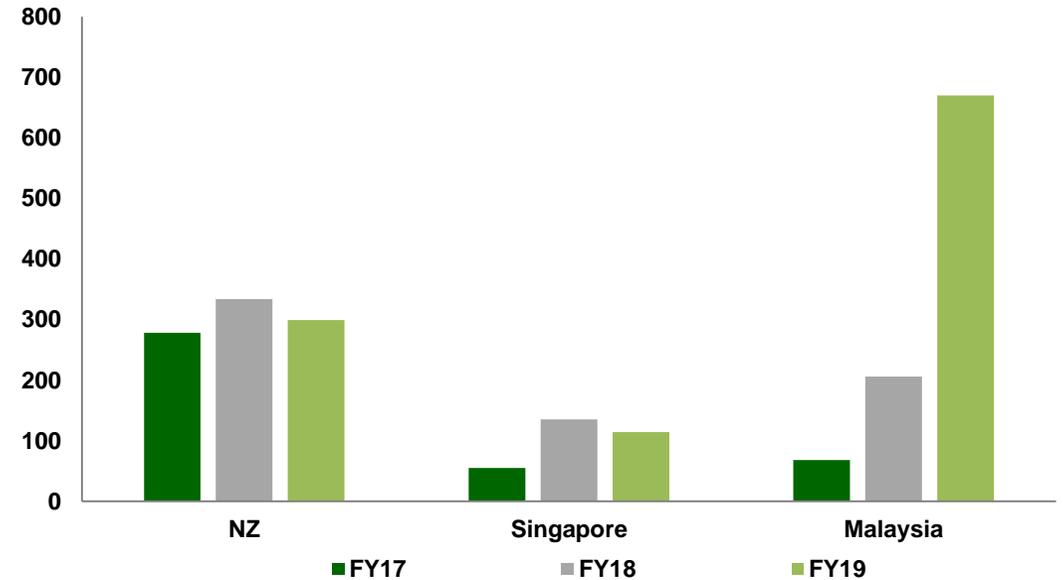


**QANTM  
TRADE MARK FILINGS  
FY17 - FY19**



Source: Australian filings numbers based on IP Australia data  
Other country data sourced from QANTM management information

**QANTM TRADE MARK FILINGS  
ASIA AND NEW ZEALAND  
FY17 - FY19**



Source: IP Australia

- Group trade mark filings down 2.4% on pcp; trade mark service charges revenue up 9.1%
- QANTM Australian trade mark filings down 7.4% in context of Australian overall market down 8.2%
- Over two-fold increase in Asian filings (Singapore and Malaysia) contributed by AFIP
- DCC - Australian Trade Mark Prosecution Firm of the Year 2019

# Legal/Litigation Services



- Legal/litigation revenue up 35.4% from pcp to \$13.0 million (2018: \$9.6 million)
- Record result for DCC Law following strong case load and number of trials in 1H19
- Commercial law team and new service offering
- Work load for litigation services is dependent on cases referred and, as such, is variable

The background is a solid green color with a faint, light-green network pattern of interconnected nodes and lines. The nodes are represented by small circles of varying sizes, and the lines are thin and connect these nodes in a complex, web-like structure.

# 3. Financial Results

# Summary Profit and Loss



Year ended 30 June 2019 \$m	Statutory FY19	Adj	Underlying FY19	Statutory FY18	Adj	Underlying FY18	FY % Change
Revenue							
Service charges	86.5		86.5	76.5		76.5	13.1%
Associate charges	25.7		25.7	25.2		25.2	2.0%
<b>Total Revenue</b>	<b>112.2</b>		<b>112.2</b>	<b>101.7</b>		<b>101.7</b>	<b>10.3%</b>
Other income excl FX	3.6	(1.6)	2.0	2.1		2.1	-4.8%
Recoverable expenses	(23.9)		(23.9)	(23.4)		(23.4)	2.1%
<b>Net Revenue</b>	<b>91.9</b>	<b>(1.6)</b>	<b>90.3</b>	<b>80.4</b>		<b>80.4</b>	<b>12.3%</b>
Operating expenses							
Compensation - normal	49.0	(0.3)	48.7	44.8	(0.9)	43.9	10.9%
Compensation - acquisition earn out	3.1	(3.1)	-	-		-	-
Occupancy	6.9	(0.2)	6.7	6.5		6.5	3.1%
Business acquisition and restructuring	2.1	(2.1)	-	2.3	(2.3)	-	-
Other	11.7		11.7	10.7		10.7	9.3%
<b>Total Operating expenses</b>	<b>72.8</b>	<b>(5.7)</b>	<b>67.1</b>	<b>64.3</b>	<b>(3.2)</b>	<b>61.1</b>	<b>9.8%</b>
<b>EBITDA before FX</b>	<b>19.1</b>	<b>4.1</b>	<b>23.2</b>	<b>16.1</b>	<b>3.2</b>	<b>19.3</b>	<b>20.2%</b>
Foreign exchange	0.8		0.8	0.8		0.8	-
<b>EBITDA after FX</b>	<b>19.9</b>	<b>4.1</b>	<b>24.0</b>	<b>16.9</b>	<b>3.2</b>	<b>20.1</b>	<b>19.4%</b>
Dep'n and amort'n	2.3		2.3	2.1		2.1	9.5%
Interest	0.9		0.9	0.8		0.8	12.5%
<b>Profit before tax</b>	<b>16.7</b>	<b>4.1</b>	<b>20.8</b>	<b>14.0</b>	<b>3.2</b>	<b>17.2</b>	<b>20.9%</b>
Tax expense	5.5	0.5	6.0	4.5	0.8	5.3	13.2%
<b>Net profit after tax</b>	<b>11.2</b>	<b>3.6</b>	<b>14.8</b>	<b>9.5</b>	<b>2.4</b>	<b>11.9</b>	<b>24.4%</b>
Amortisation	1.1		1.1	1.0		1.0	10.0%
<b>NPATA</b>	<b>12.3</b>	<b>3.6</b>	<b>15.9</b>	<b>10.5</b>	<b>2.4</b>	<b>12.9</b>	<b>23.3%</b>
EBITDA % after FX - service charge revenue	23.0%		27.7%	22.1%		26.3%	
EBITDA % after FX - total revenue	17.7%		21.4%	16.6%		19.8%	

## COMMENTS

### Revenue:

- Service charge revenue increase 13.1% reflecting growth across all businesses; 10.7% increase excluding AFIP
- Patent revenue increased 10.1% (8.3% ex AFIP), trade marks up 9.1% (4.7% ex AFIP), legal/litigation up 35.4%
- H2 marginally up on H1, with growth in patent revenue offset by drop in legal
- AFIP contributed \$2.2 million of total revenue for the year at an EBITDA margin of 41%
- Favourable FX environment

### Expenses:

- Operating expenses increased 9.8% (8.4% ex AFIP):
  - Staff costs up 10.9% impacted by full year of lateral teams, additional EST contributions (commenced 2H18), AFIP impact and corporate cost growth
  - Other costs up 9.3%, due to a general uplift in business activity and particularly in overseas travel related BD spend
  - Occupancy costs up 3.1% in line with annual rates of increase
- M&A costs \$2.1 million, no restructuring costs in FY19
- AFIP earn out payments of \$3.1 million recorded as remuneration due to alignment with employment contract of vendor
- FX benefit from the lower AUD, offset by hedging in place
- Interest expense increased with higher average borrowing volumes
- Underlying effective tax rate 29%, impacted by lower Asia tax rates

Note: Figures may vary from those shown in the financial statements due to rounding

# Cash Flow Statement



Year ended 30 June 2019 \$m	FY19	FY18	COMMENTS	
Receipts from customers	117.2	105.9	<p><b>Cash generated by operating activities:</b></p> <ul style="list-style-type: none"> <li>Operating cash flows of \$14.6 million, up \$2.9 million, despite additional income tax, earn out payments and EST contributions, offset by scheme break fee received</li> <li>Strong second half cash result, \$11.2 million v \$3.4 million (EST and tax payments mainly H1)</li> </ul>	
Scheme break fee	1.6	-		
Payments to suppliers and employees	(93.3)	(88.8)		
Business acquisition related remuneration	(2.1)	-		
Interest and finance costs paid	(1.0)	(0.8)		
Income tax paid	(7.8)	(4.6)		
<b>Net cash generated by operating activities</b>	<b>14.6</b>	<b>11.7</b>		
Payments for property, plant and equipment	(0.6)	(1.5)		<p><b>Cash used in investing activities:</b></p> <ul style="list-style-type: none"> <li>Capex of \$1.7 million mainly in software upgrades for finance system and SOE, and in line with prior year levels</li> <li>Payment of \$3.05 million to acquire AFIP in Malaysia</li> <li>Focus on M&amp;A activity</li> </ul>
Payments for intangible assets	(1.1)	(0.2)		
Payments to acquire investments	(3.1)	-		
Business acquisition related costs	(2.1)	(0.4)		
<b>Net cash used in investing activities</b>	<b>(6.9)</b>	<b>(2.1)</b>		
Proceeds from bank borrowings	18.1	-	<p><b>Cash used in financing activities:</b></p> <ul style="list-style-type: none"> <li>Strong cash conversion supporting dividend payout at 90% of NPATA</li> </ul>	
Repayment of bank borrowings	(17.2)	(4.2)		
Dividends paid	(10.4)	(10.8)		
<b>Net cash used in finance activities</b>	<b>(9.5)</b>	<b>(15.0)</b>		
<b>Net decrease in cash and cash equivalents</b>	<b>(1.8)</b>	<b>(5.4)</b>		

**Note:** Figures may vary from those shown in the financial statements due to rounding

# Summary Balance Sheet



As at 30 June 2019  
\$m

FY19 FY18

## COMMENTS

### CURRENT ASSETS

Cash and cash equivalents  
Trade and other receivables  
Other assets

1.2	3.1
32.0	31.6
1.5	1.2
<u>34.7</u>	<u>35.9</u>

### TOTAL CURRENT ASSETS

### NON-CURRENT ASSETS

Property, plant and equipment  
Intangible assets

2.5	2.7
69.9	66.3
<u>72.4</u>	<u>69.0</u>

### TOTAL NON-CURRENT ASSETS

### TOTAL ASSETS

<u>107.1</u>	<u>104.9</u>
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### CURRENT LIABILITIES

Trade and other payables  
Provisions  
Borrowings  
Current tax liabilities  
Other financial liabilities

9.5	9.5
8.0	6.4
0.1	0.2
2.4	3.2
0.1	0.1
<u>20.1</u>	<u>19.4</u>

### TOTAL CURRENT LIABILITIES

### NON-CURRENT LIABILITIES

Provisions  
Borrowings  
Deferred tax liabilities

3.1	2.8
12.2	11.2
1.1	1.8
<u>16.4</u>	<u>15.8</u>

### TOTAL NON-CURRENT LIABILITIES

### TOTAL LIABILITIES

<u>36.5</u>	<u>35.2</u>
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### NET ASSETS

<u>70.6</u>	<u>69.7</u>
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### EQUITY

Issued capital  
Reserves  
Retained earnings

294.1	293.8
(222.9)	(222.6)
(0.6)	(1.5)
<u>70.6</u>	<u>69.7</u>

### TOTAL EQUITY

### Balance sheet strength

- Net debt as at 30 June 2019 was \$11.1 million, up from \$8.3 million as at 30 June 2018
- Current banking facilities include:
  - \$25 million working capital facility (\$15 million undrawn)
  - \$30 million acquisition facility (\$27.9 million undrawn – used to pay first AFIP earn out \$2.1 million)
- Debtor book remains of high quality with debtors near prior year level despite increase in business activity
- Intangible asset increase mainly relating to AFIP acquisition and software additions
- Current provisions increased \$1.6 million mainly due to the second AFIP earn out accrual of \$1.4 million
- Comfortably within all bank covenants and headroom for further acquisitions

Note: Figures may vary from those shown in the financial statements due to rounding

# Income Statement Reconciliation

## Statutory to underlying



Statutory NPAT to Underlying NPAT reconciliation	FY19 \$m	FY18 \$m
<b>Statutory NPAT</b>	<b>11.2</b>	<b>9.5</b>
add: interest	0.9	0.8
add: depreciation and amortisation	2.3	2.2
add: tax	5.5	4.5
<b>EBITDA – QANTM Group</b>	<b>19.9</b>	<b>17.0</b>
add: share based payments	-	0.1
add: employee incentive payments <sup>1</sup>	-	0.7
add: remuneration related to business acquisition	3.1	-
add: new business establishment costs	0.5	-
less: scheme of arrangement break fee	(1.6)	-
add: business acquisition and restructuring costs	2.1	2.3
<b>Underlying EBITDA – QANTM Group</b>	<b>24.0</b>	<b>20.1</b>
less: depreciation and amortisation	(2.3)	(2.1)
less: interest	(0.9)	(0.8)
less: tax	(6.0)	(5.3)
<b>Underlying NPAT - QANTM Group</b>	<b>14.8</b>	<b>11.9</b>

**Note:** Figures may vary from those shown in the financial statements due to rounding

**Note:**

<sup>1</sup> Represents one-off benefit payments to provide selected employees access to the Company's shares, facilitated through the Company's cash contributions to the Employee Share Trust.

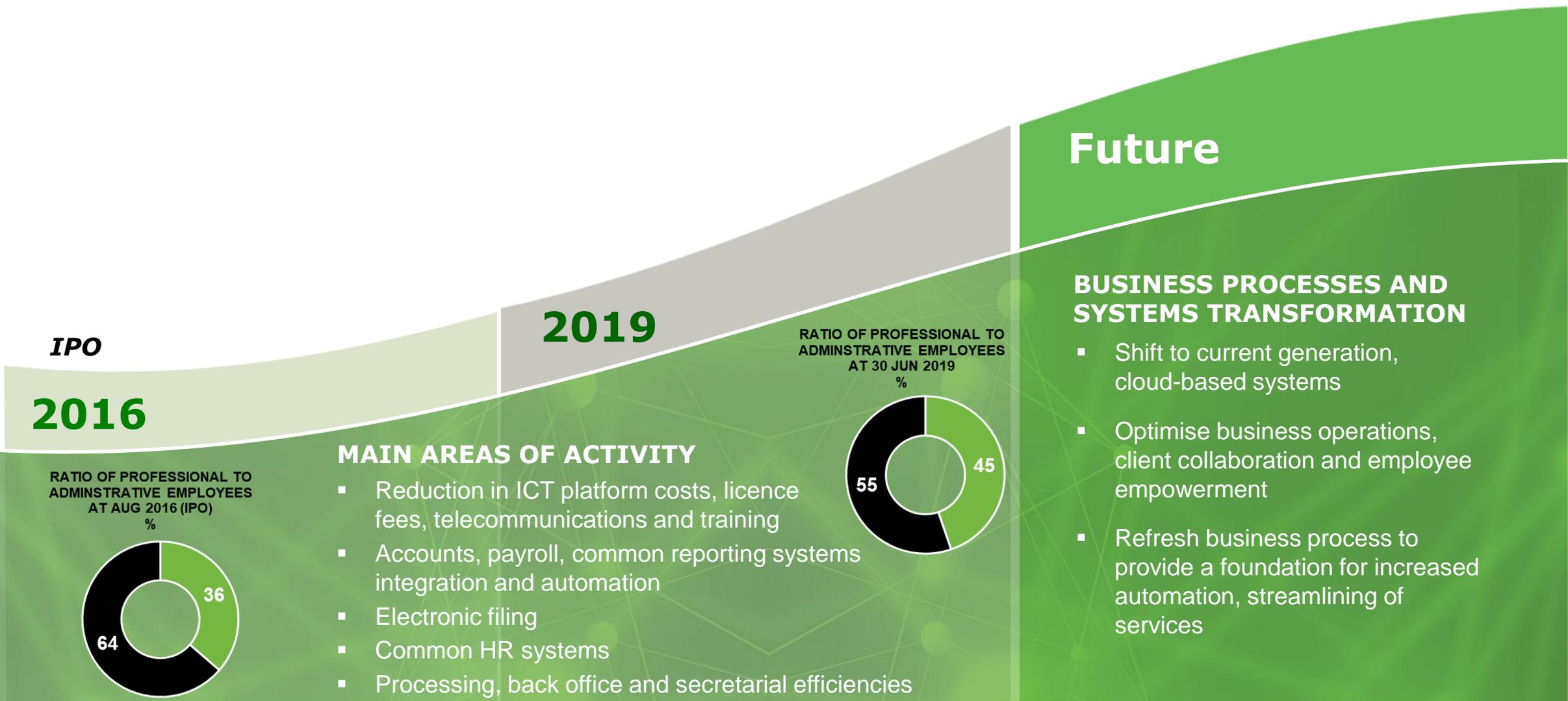
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# 4. Priorities and Outlook

## Ongoing focus on key areas of organisational and business development

- Continue to strengthen and retain professional capability, core to client outcomes
- Focus on key market development opportunities:
  - market and business development; client retention
  - industry and association involvement
  - lateral recruitment, including focus on enhanced service offerings (e.g. commercial law team in DCC)
  - new business ventures
- People initiatives and investment (remuneration and incentive arrangements) for key outcomes: behavioural, cultural and financial
  - rebasing of vendor principal salaries to reflect market relativities
  - re-commitment of vendor principals for a minimum of two years
  - introduction of new short-term incentive scheme
- Enhancement of business capture in Asia with increased EBITDA contribution
- Continued evaluation and pursuit of strategically and financially appropriate acquisitions
- Investment in next generation business processes and systems to enhance client interfaces, information retention and specific administrative activities; commencement of Chief Transformation Officer

# Business Process and Systems Transformation



## MAIN AREAS OF ACTIVITY

- Reduction in ICT platform costs, licence fees, telecommunications and training
- Accounts, payroll, common reporting systems integration and automation
- Electronic filing
- Common HR systems
- Processing, back office and secretarial efficiencies

■ Professional = principals, associates and other direct fee generating and client servicing personnel  
 ■ Administrative = back office services including finance, human resources and ICT as well as executive support services in DCC, FPA and AFIP

- Following strong financial outcomes in 2019
  - return to more moderate levels of revenue growth in patents and trade marks
  - improved contribution from Asia
  - lower legal/litigation contribution from record FY19 result
  - higher operating expenditure from increased investment in our people and business processes
- Continue to build on strong recovery
  - business development initiatives
  - focus on acquisition opportunities
  - progressive benefits from systems improvement

**FOR MORE INFORMATION CONTACT:**

**Leon Allen**  
Managing Director

**Martin Cleaver**  
Chief Financial Officer  
+61 3 9254 2806

