

HALF-YEAR RESULTS PRESENTATION

6 MONTHS TO 31 DECEMBER 2019

20 February 2020



QANTM INTELLECTUAL PROPERTY LIMITED (ASX:QIP)

Craig Dower, Chief Executive Officer

Martin Cleaver, Chief Financial Officer

Leon Allen, Former Managing Director and CEO

Structure

1. Business and Financial Summary
2. Market and Business Overview
3. Financial Results
4. Priorities and Outlook

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Business and Financial Summary

Business Summary

Continued revenue growth trend – relative to strong 1H19

- Revenue growth over four consecutive halves, despite lower half-on-half revenue from trade marks and legal/litigation
- Highest patent revenue (\$41.6 million) achieved since listing
- Asia revenue contribution increased 35% year-on-year; now 7% of total revenue

Contributions across the business

- Patent service charges increased 9.2% vs 1H19; 4.4% increase 1H20 vs 2H19
- QANTM patent filings up 9.8% vs 1H19; up 8.7% vs 2H19; favourable indicator for future revenues
- Australian patent applications up 2.7% vs Australian market decline of 1.2%; QANTM up 7.1% vs 2H19
- QANTM trade mark service charges down 2.6%
- QANTM Group trade mark filings up 4.9%; QANTM market share up 0.8% vs overall Australian market decline in filings of 1.4%
- Legal/litigation revenue lower vs record 1H19; down 8.7%; 1H20 vs 2H19 revenues increased by 5.0%

Planned investment in people – higher operating expenses

- Underlying operating expenses increased by 5.7% to \$35.3 million (1H19: \$33.4 million)
- Higher compensation payments: incentive scheme; continued Share Trust contributions; promotion of 13 professionals; realignment of vendor principal remuneration to reflect market relativities and support retention of key talent

Financial Summary – Underlying Results¹

- **Total revenue** \$57.6 million, **up 4.2 %** (1H19: \$55.3 million)
- **Service Charges** of \$44.8 million, **up 4.2%** (1H19: \$43.0 million)
- **Foreign Associate Charges** of \$12.8 million, **up 4.1%** (1H19: \$12.3 million)
- **Total Net Revenue** of \$46.6 million, **up 3.3%** (1H19: \$45.1 million)
(includes other income of \$1.1 million and recoverable expenses of \$12.1 million)
- **Total underlying operating expenses** \$35.3 million, **up 5.7%** (1H19: \$33.4 million)
- **EBITDA after FX** of \$11.5 million, **down 5.7%** (1H19: \$12.2 million)
- **EBITDA margin** (on Service Charges) 25.7% (1H19: 28.4%)
- **Net Profit after Tax** \$6.8 million, **down 9.3%** (1H19: \$7.5 million)
- **Operating cash flow** of \$5.7 million, **up 67.6%** (1H19: \$3.4 million)
- **Net debt** \$15.1 million (30 June 2019: \$11.1 million); gearing 18.0% (31 December 2018: 19.0%)
- **Interim dividend** of 3.3 cents per share, 100% franked (1H19 dividend of 3.5 cents, 100% franked)

Note

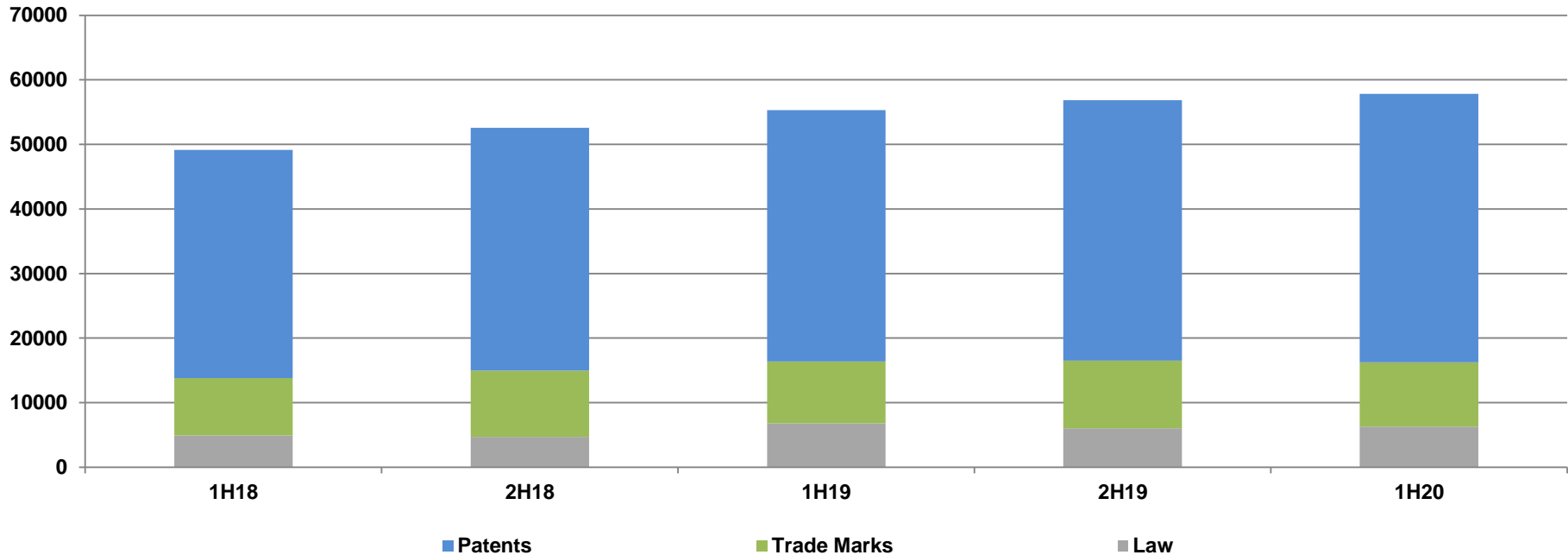
¹ A reconciliation of statutory to underlying results is included in Slide 21. The impact of new Accounting Standard AASB16 has been adjusted in the underlying results.

2

Market and Business Overview

Revenue by Source of Business

**QANTM REVENUE HALF YEAR TREND
1H18 - 1H20**



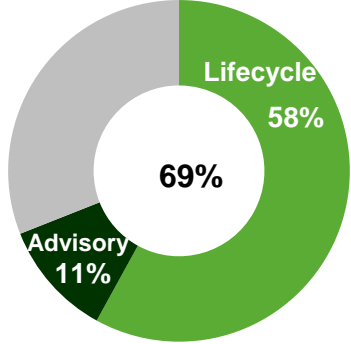
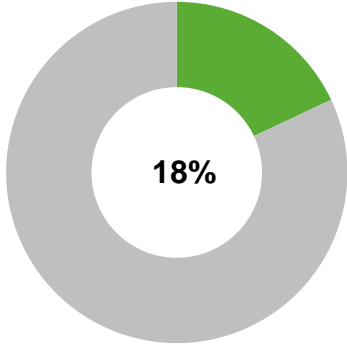
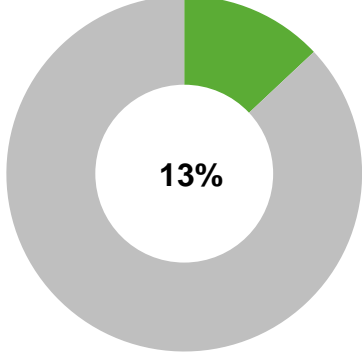
Highest half year total revenues; despite lower trade marks and legal/litigation

- 1H20 total revenue of \$57.6m increased by 4.2% vs 1H19 (\$55.3m) and 1.2% vs 2H19 (\$56.9m)
- Service charges of \$44.8m increased by 4.2% vs \$43.0m in 1H19 and 3.0% vs 2H19 (\$43.5m)
- Associate charges revenue of \$12.8m increased by 4.1% vs 1H19 (\$12.3m)

Note:

Includes both service charges and foreign associate charges.

Business Overview

BUSINESS AREAS	PATENTS AND DESIGNS LIFECYCLE/ADVISORY	TRADE MARKS	LEGAL / LITIGATION
<p>Percentage of aggregate QANTM Service Charges revenue 1H20¹</p>			
<p>1H20 vs 1H19</p> <ul style="list-style-type: none"> • Service Charges • Service Charges and Foreign Associates Charges 	<p>\$30.9m vs \$28.3m</p> <p>\$41.6m vs \$38.4m</p>	<p>\$7.6m vs \$7.8m</p> <p>\$9.7m vs \$10.0m</p>	<p>\$6.3m vs \$6.9m</p>
<p>Main Factors</p>	<ul style="list-style-type: none"> • Higher QANTM Australian and foreign sourced patent business; benefit of prior period growth. • QANTM group patent applications up 9.8% • QANTM Australian patent applications up 2.7% in context of 1.2% decline in total Australian market 	<ul style="list-style-type: none"> • Lower trade mark revenue • QANTM group filings up 4.9% • Total Australian market filings - 1.4% decline • QANTM's Australian market share increased 0.8%; DCC retains leading market position 	<ul style="list-style-type: none"> • Lower legal/litigation revenue relative to record 1H19 • 1H20 increase from 2H19 • Inclusive of AFIP advisory services (\$0.4 m vs \$0.1m)

Source: DCC, FPA and AFIP management analysis

Note:

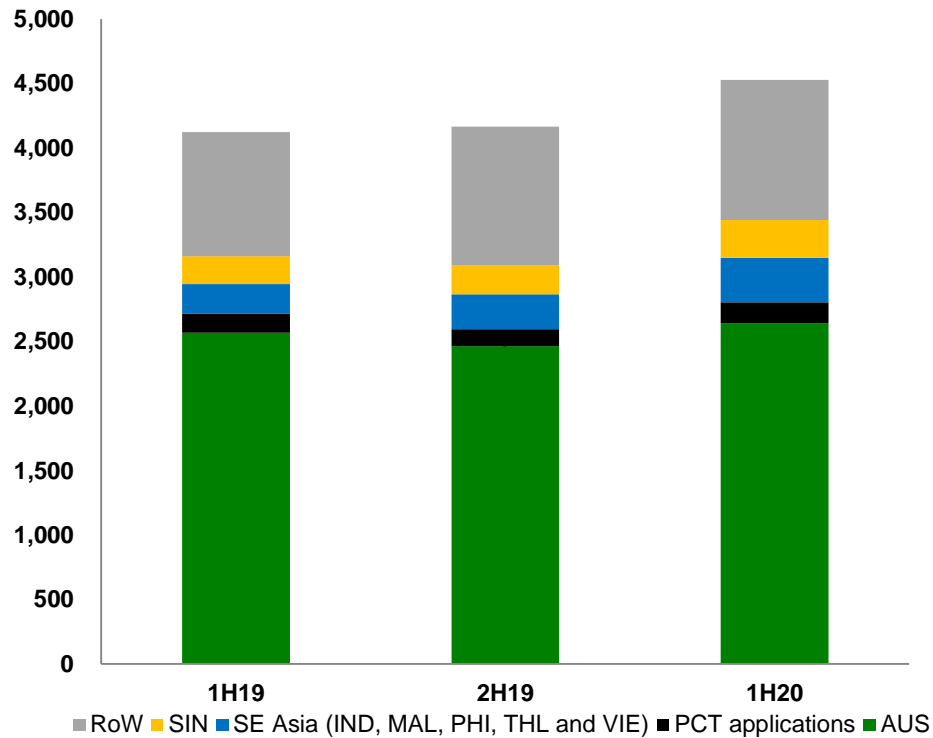
¹ Excludes Associate Charges

Patents and Designs Life Cycle / Advisory

- QANTM total patent revenues (service charges and associate charges) increased by 8.3% vs 1H19
 - Patent service charges increased by 9.2% (4.4% increase 1H20 v 2H19)
 - Patent associate charges increased 5.9%
- Stronger revenue growth reflects combination of factors
 - Overall Group patent applications up 9.8%
 - QANTM Australian patent applications (58% of QANTM total) growth of 2.7%, compared to an overall market decline of 1.2%
 - Benefits of marketing and business development focus over past 18–24 months; four consecutive half year periods of Australian patent application growth (total 22.5% increase since 2H17)
 - Strengthening of contribution from Asian business, patent applications up 42.8%
 - Strong patent franchise, with market share growth over four consecutive half year periods
- PCT and Rest of World patent application performance
 - Reflects strong domestic client base
 - Combined represent 28% of QANTM patent applications
 - PCT applications up 13.8%
 - RoW applications up 12.7%

Patent Applications – Group

**QANTM GROUP
TOTAL NEW PATENT CASES
1H19 – 1H20**



Source: DCC and FPA management analysis

Strong growth, above market trend

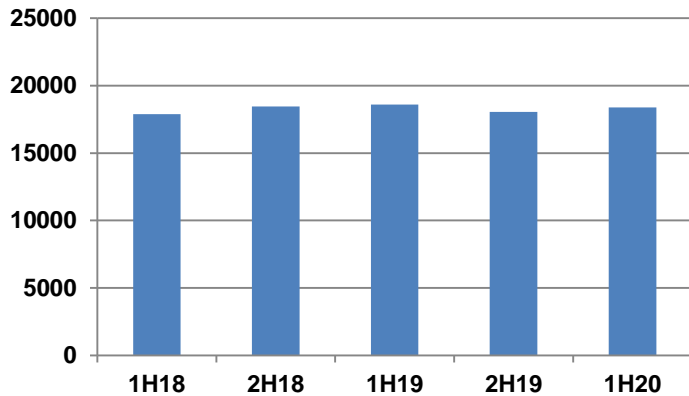
Relative to 1H19:

- QANTM Group patents up 9.8% (with contribution from AFIP in FY19 and FY20)
- QANTM Australian patents up 2.7%; Australian market down 1.2%
- QANTM Asian patents (inc AFIP) up 42.8%
- QANTM RoW applications up 12.7%; PCT applications up 13.8%

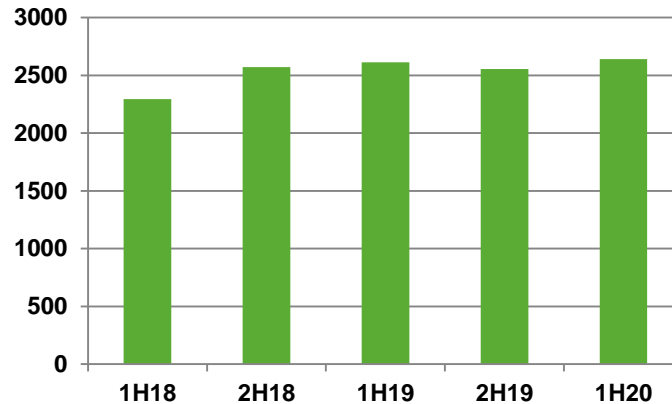
Patent applications are a lead indicator for future period patent service charges. Revenue derived from patent applications typically constitutes ~10% of QANTM's annual patents service charges.

Patent Applications – Australia

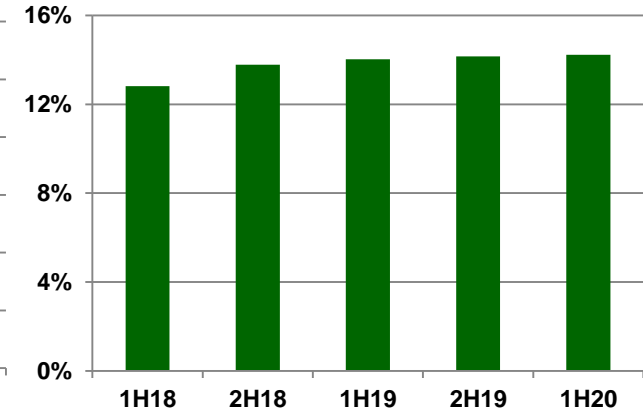
**TOTAL
PATENT APPLICATIONS FILED IN AUSTRALIA
1H18 – 1H20**



**QANTM
PATENT APPLICATIONS FILED IN AUSTRALIA
1H18– 1H20**



**QANTM
PATENT FILINGS TOTAL MARKET SHARE
1H18 – 1H20**



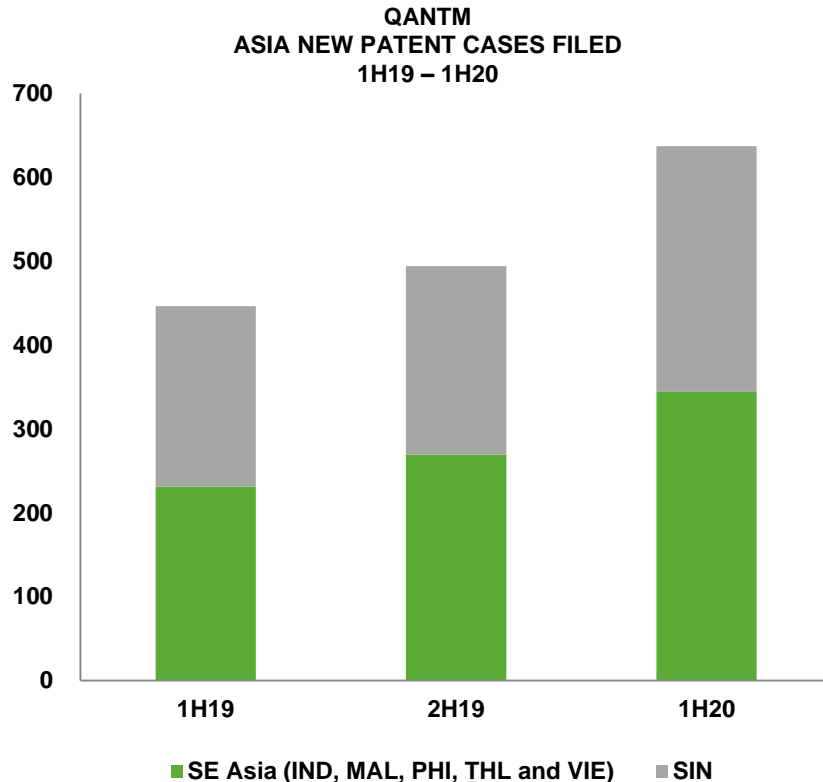
- Total market patent applications declined by 1.2% vs pcp; 1H19 a strong half for patent applications; recovery from subdued 1H18
- 1.8% increase in patent applications 1H20 vs 2H19

- 2.7% growth vs pcp; in excess of market growth
- 8.7% increase in patent applications 1H20 vs 2H19; ahead of market growth

- Increase from 14.0% to 14.2% QANTM market share from 1H19
- Four half year periods of strengthening market share trend

Source: Management analysis based on IP Australia data

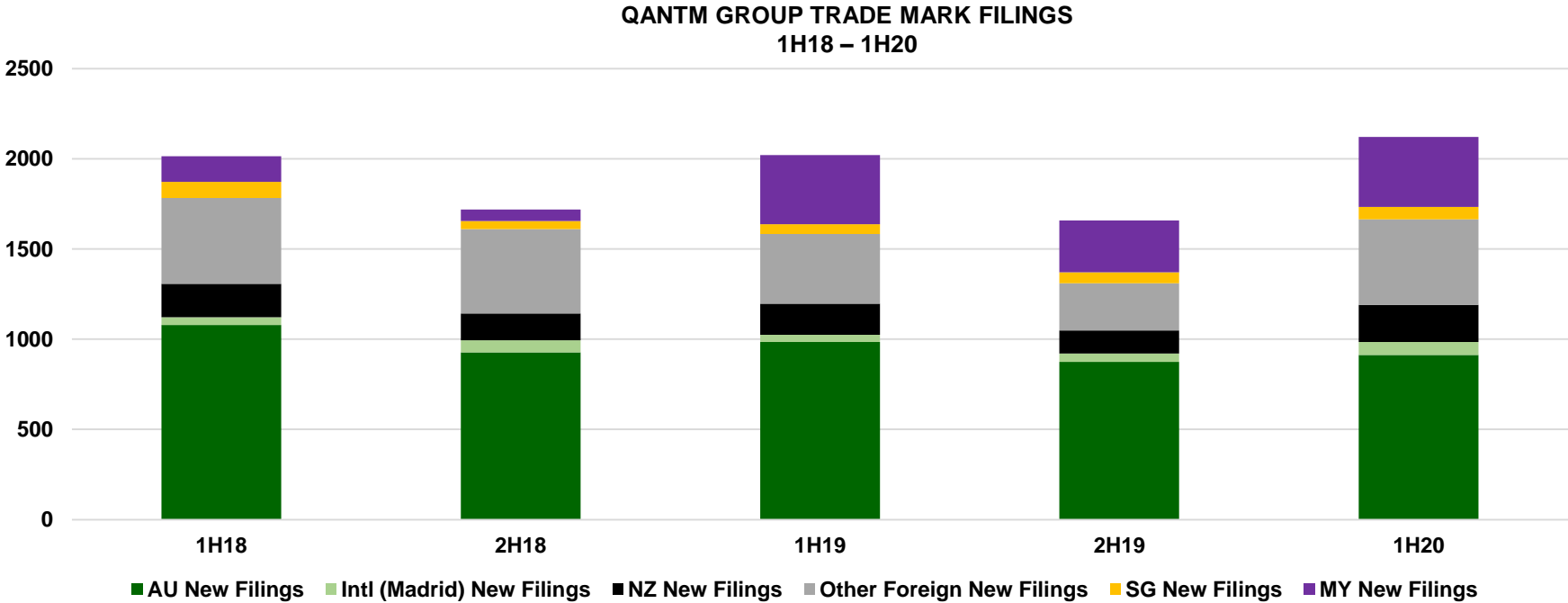
Patent Applications – Asia



Source: QANTM management information

- Total QANTM Asia patent filings up 42.8% 1H20 vs 1H19
- Total QANTM Asia patent applications up 28.9% 1H20 vs 2H19
- AFIP patent filings FY19 represent ~37% of total QANTM Asia filings
- Major contributor to Asia service charges growth of 34.3%; represents 7.2% of Group service charges
- Ongoing focus on building earnings contribution from foundation established in Asia

Trade Mark Filings – Group



Source: QANTM management information

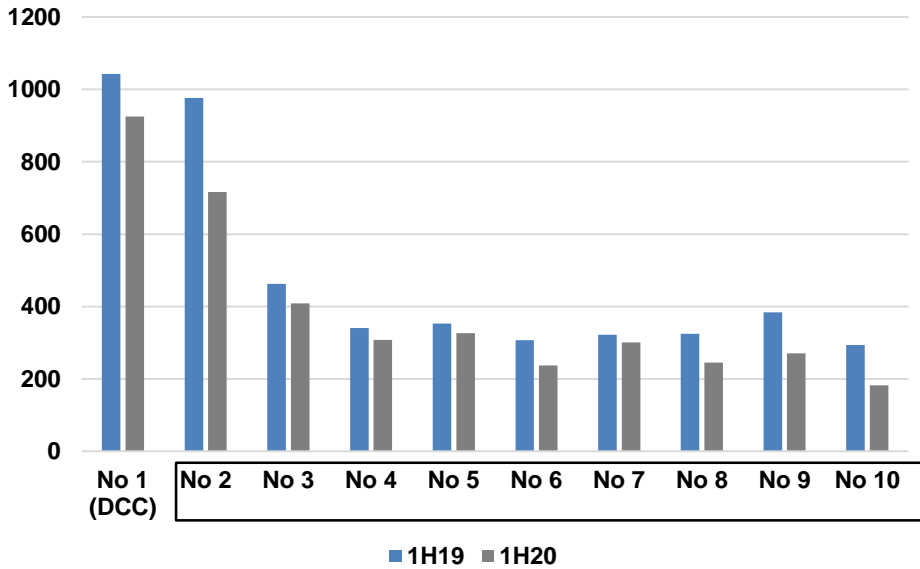
- Total QANTM Group trade mark filings increased 4.9% 1H20 v 1H19; 27.9% increase 1H20 v 2H19
- QANTM Australian trade mark filings declined 7.2% 1H19 to 1H20; relative to Australian market decline of 1.4% in the context of a total 10.5% decline in number of applications with the top 50 agents during 1H20
- 4.5% increase in QANTM Australia trade mark filings 1H20 v 2H19
- Asia filings up 4.3%; New Zealand filings up 19.8%

Note:

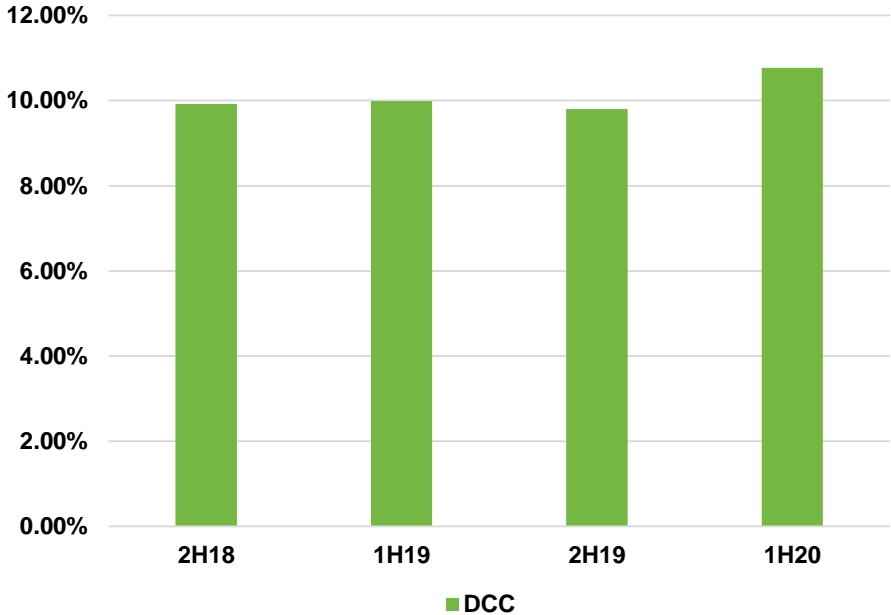
International Registration Designating Australia (IRDA) data not included

Australian Trade Mark Filings

**AUSTRALIAN TRADE MARK FILINGS
BY TOP 10 FIRMS
1H19 - 1H20**



**TRADE MARK MARKET SHARE OF NATIONAL
APPLICATIONS FOR TOP 50 AGENTS (excl IRDA) ¹
2H18 - 1H20**



Note:

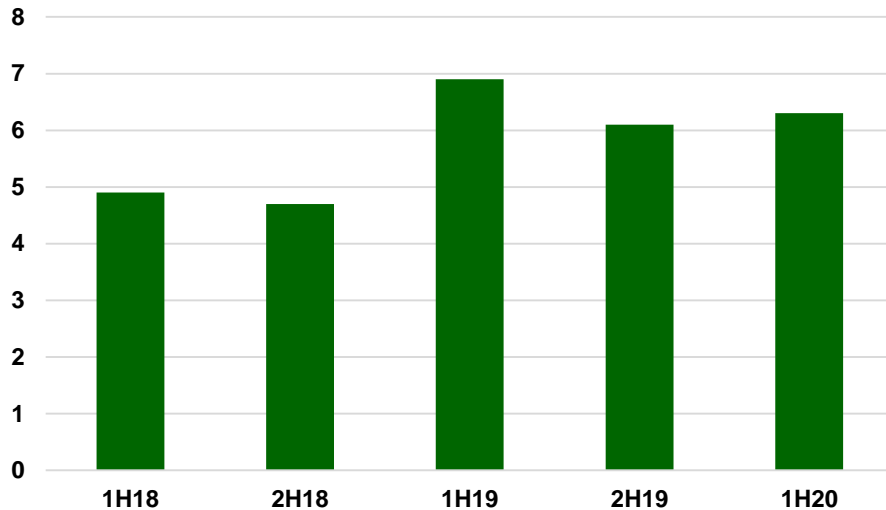
¹ International Registration Designating Australia (IRDA) data not included

- DCC maintained No.1 market share in Australia for trade mark filings
- QANTM 0.8% increase in trade mark market share vs pcp

Source: Management analysis based on IP Australia data

Legal/Litigation Services

QANTM GROUP LEGAL REVENUE TREND (\$m)
1H18 – 1H20



- Legal/litigation revenues decreased by 8.7% to \$6.3 million (1H19: \$6.9 million) following record 1H19 performance for DCC Law
- 1H20 revenue increase of 5.0% relative to 2H19; includes AFIP advisory revenues
- Stable case load

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Financial Results

Summary Profit and Loss

Half-year ended 31 December 2019	Statutory	Adj	AASB16	Underlying	Statutory	Adj	Underlying	1H20 v 1H19 % Change
\$m	1H20			1H20	1H19		1H19	
Revenue								
Service charges	44.8			44.8	43.0		43.0	4.2%
Associate charges	12.8			12.8	12.3		12.3	4.1%
Total Revenue	57.6			57.6	55.3		55.3	4.2%
Other income excl FX	1.1			1.1	1.1		1.1	-
Recoverable expenses	(12.1)			(12.1)	(11.3)		(11.3)	7.1%
Net Revenue	46.6			46.6	45.1		45.1	3.3%
Operating expenses								
Compensation	27.8	(1.8)		26.0	25.8	(1.7)	24.1	7.9%
Occupancy	1.1		2.4	3.5	3.4		3.4	2.9%
M&A	0.7	(0.7)		-	1.2	(1.2)	-	-
Other	5.8			5.8	5.9		5.9	(1.7%)
Total Operating expenses	35.4	(2.5)	2.4	35.3	36.3	(2.9)	33.4	5.7%
EBITDA before FX	11.2	2.5	(2.4)	11.3	8.8	2.9	11.8	(4.2%)
Foreign exchange	0.2			0.2	0.5		0.5	(60.0%)
EBITDA after FX	11.4	2.5	(2.4)	11.5	9.3	2.9	12.2	(5.7%)
Dep'n and amort'n	3.4		(2.1)	1.3	1.1		1.1	18.2%
Interest	0.9		(0.4)	0.5	0.5		0.5	0.0%
Profit before tax	7.1	2.5	0.1	9.7	7.7	2.9	10.6	(8.5%)
Tax expense	2.7	0.2		2.9	3.1		3.1	(6.5%)
Net profit after tax	4.4	2.3	0.1	6.8	4.6	2.9	7.5	(9.3%)
Amortisation	0.6			0.6	0.6		0.6	0.0%
NPATA	5.0	2.3	0.1	7.4	5.2	2.9	8.1	(8.6%)
EBITDA % after FX - service charges	25.4%			25.7%	21.6%		28.4%	(9.5%)
EBITDA % after FX - total revenue	19.8%			20.0%	16.8%		22.1%	(9.5%)

COMMENTS

Revenue

- Service charges growth of 4.2%, 3.1% growth on 2H19
- Patent revenue increase of 9.2% with filings growth well above market
- Offset by lower trade mark and legal revenues
- Asia service charges growth of 34.3%, AFIP exceeding expectations
- Favourable FX environment

Expenses

- Operating expenses 5.7% higher than pcp, mainly in staff costs 7.9% increase due to:
 - Realignment of vendor principal salaries to market
 - Promotion of professional staff
 - Introduction of short term incentive scheme
 - New principals added to EST scheme
 - Investment in corporate resources
- Other expenses include IT spend, accounting and legal, travel and marketing. Spend in line with pcp
- Consequential EBITDA margin decrease to 25.7%

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

A reconciliation of statutory to underlying results is included at Slide 21. Adjustments to statutory results include contingent payments for a business acquisition accounted for as remuneration business acquisition costs and AASB16 adjustments.

Cash Flow Statement

Half-year ended 31 December 2019
\$m

	1H20	1H19
Receipts from customers	63.1	59.1
Payment to suppliers and employees	(53.2)	(50.1)
Interest and costs of finance paid	(0.9)	(0.5)
Income tax paid	(3.3)	(5.1)
Net cash provided by operating activities	5.7	3.4
Payments for property, plant and equipment	(0.4)	(0.3)
Payments for intangible assets	-	(0.9)
Payments to acquire investments	-	(3.1)
Business acquisition related costs	(0.7)	(1.2)
Net cash used in investing activities	(1.1)	(5.5)
Payment of lease liability	(2.4)	-
Proceeds from bank borrowings	6.9	7.3
Repayment of bank borrowings	(1.0)	-
Dividends paid	(6.4)	(5.7)
Net cash provided by / (used in) finance activities	(2.8)	1.6
Net increase / (decrease) in cash	1.8	(0.5)

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

COMMENTS

Cash provided by operating activities

- Operating cash flows of \$5.7m
- Reversion to normal level of tax payments after higher pcp
- Reclass of occupancy expenses to finance activities
- One-off retention payments of \$1.3m

Cash used in investing activities

- Lower capital outlay to prepare for transformation spend in future
- Lower outlay on external M&A related costs

Cash used in financing activities

- First half historically more cash intensive due to payment of final dividend and EST contributions
- Dividend paid at 88% NPATA

Summary Balance Sheet

As at 31 December 2019

\$m	31-Dec-19	30-Jun-19
CURRENT ASSETS		
Cash and cash equivalents	3.0	1.2
Trade and other receivables	30.4	32.0
Other assets	3.7	1.5
TOTAL CURRENT ASSETS	37.1	34.7
NON-CURRENT ASSETS		
Property, plant and equipment	2.0	2.5
Intangible assets	69.1	69.9
ROU Assets	17.4	-
TOTAL NON-CURRENT ASSETS	88.5	72.4
TOTAL ASSETS	125.6	107.1
CURRENT LIABILITIES		
Trade and other payables	7.6	9.5
Provisions	8.5	8.0
Borrowings	-	0.1
Current tax and other liabilities	0.2	2.5
Lease liability	2.2	-
TOTAL CURRENT LIABILITIES	18.5	20.1
NON-CURRENT LIABILITIES		
Provisions	0.5	3.1
Borrowings	18.1	12.2
Deferred tax liabilities	2.3	1.1
Lease liability	17.6	-
TOTAL NON-CURRENT LIABILITIES	38.5	16.4
TOTAL LIABILITIES	57.0	36.5
NET ASSETS	68.6	70.6
EQUITY		
Issued capital	294.1	294.1
Reserves	(222.9)	(222.9)
Retained earnings	(2.6)	(0.6)
TOTAL EQUITY	68.6	70.6

COMMENTS

Balance sheet strength

- Balance sheet grossed up for AASB 16 effect
- Net debt of \$15.1m, an increase from \$11.1m at 30 June 2019, but down from \$16.2m at Dec 2018
- Current banking facilities extended to 31 Jan 2021 include:
 - \$25m working capital facility (\$9.0m undrawn)
 - \$30m acquisition facility (\$27.9m undrawn)
- Good quality debtor book with low levels of bad and doubtful debts. Improvement in DSO
- Current provisions increased due to the contingent consideration on business acquisition
- Non current provisions decreased due to reclass of lease incentive provisions to ROU assets

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

	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	11.4	9.3
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	11.5	12.2
less: depreciation and amortisation	(3.4)	(1.1)
add: AASB16 amortisation and interest add back	2.5	-
less: interest	(0.9)	(0.5)
less: tax	(2.9)	(3.1)
Underlying NPAT	6.8	7.5

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

4

Priorities and Outlook

Priorities and Approach

Period of extensive internal and external engagement

- All offices – Australia, Singapore and Malaysia

Review of main pillars of strategic framework

- March board and executive strategy sessions (at 3 years post-listing)
- Expectation that main elements of strategy will be continued
- Likely refinement regarding some elements of analysis, execution and accountabilities

Growth opportunities – evaluation of main options

- Business and market development, including lateral hires
- Evaluation of mid-late stage M&A opportunities; refinement of evaluation of other logical, financially appropriate opportunities

Technology road map – to guide technology investment over 2 – 3 years

- Details to be shared at full year results presentation

Business Transformation



2016

IPO

2020

PROGRESS

- Appointment of Chief Transformation Officer
- High level Transformation Plan created and socialised with business (detailed and costed plan will be finalised by August 2020)
- Review of IT Enterprise Architecture underway
- Scoping of transformation projects has commenced

Future

BUSINESS PROCESSES AND SYSTEMS TRANSFORMATION

- Improvements in core network infrastructure and cloud platforms
- Implementation of cloud based business applications – case management, CRM and ERP
- Review and refresh processes in line with technology improvements
- Shared Services Strategy
- Learning Academy
- Continue to develop industry leading people strategies

People and Culture

DIVERSITY AND INCLUSION STRATEGY



RECRUITMENT AND ONBOARDING SOFTWARE

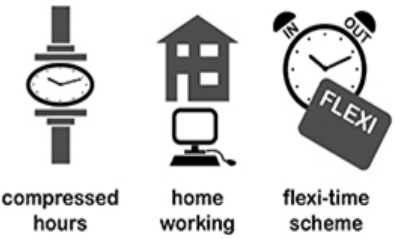
PROMOTION OF 7 PRINCIPALS ACROSS THE GROUP INCLUDING 3 PRINCIPALS AT AFIP IN MALAYSIA



WELLBEING STRATEGY



FLEXIBLE WORK PROGRAMS



INVESTMENT IN LEADERSHIP DEVELOPMENT

LEARNING AND DEVELOPMENT PROGRAMS



Outlook – Key Factors

- Expected strengthening of 2H20 revenues relative to 1H20
- Moderate growth in patent revenues at or above market trend
- Trade mark and legal revenue – stable to modest growth relative to 1H20
- Continued investment in people, organisational capabilities; business transformation
- Investment phase for expected growth in revenues and margin over the medium term
- Further Asia expansion, technology and transformation remain key focus



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