ASX Announcement

QANTM INTELLECTUAL PROPERTY

30 August 2022

QANTM FINANCIAL RESULTS FOR THE YEAR ENDED 30 JUNE 2022

Strong growth in revenue and increasing momentum in Asia

- Strong growth in revenue with Service Charges up 4.5%. Total Revenue increased by 6.9%
  - Patent Service Charges up 1.2% to $65.0m
  - Trade Mark Service Charges up 25.2% to $19.8m
  - Legal Service Charges reduced 4.4% to $11.7m
- Record number of new patent applications, with Asian patent applications increasing 16%. Group patent applications have now grown by 18% over the last two years, with 33% growth in Asia.
- Trade Mark applications up 64% with record filings in DCC and the addition of Sortify. DCC remained as the #1 filer of Trade Marks in Australia and Sortify now holds the #3 position in Australia and #2 in New Zealand.
- EBITDA up 0.8%. Increased marketing and travel expenses, plus investments in targeted recruitment, that are being made for future growth of the business, offset revenue growth over the full year. EBITDA increased by 6.3% in 2H22 (compared to 1H22).
- Full year EBITDA margin of 27.2% (FY21 28.2%). EBITDA margin increased to 28.4% in 2H22.
- Acquisition of the Sortify.tm Ltd business in 1H22 and continued expansion in Asia, with DCC opening a Hong Kong office and the launch of Sortify in Singapore and, in August 2022, Malaysia.
- Simplification and streamlining of brands with the integration of Cotters into FPA and DCC in Australia, Advanz Fidelis into DCC Asia, and Ipervescence into DCC Australia to establish DCC Advisory.
- Final dividend of 3.5 cents per share, fully franked (FY21 final dividend: 3.4 cents). Full year dividend 6.5 cents (FY21: 7.4 cents).
- The IP sector continues to be resilient, with steady growth in Australian markets and expanding demand in Asia.

FY22 Underlying[1] Results – Summary

$m	FY22	FY21	Change
Service Charges	96.6	92.4	4.5%
Total Revenue	127.3	119.1	6.9%
EBITDA[2]	26.3	26.1	0.8%
EBITDA margin[3]	27.2%	28.2%	-1.0%
Net Profit before Tax[4]	18.1	18.5	-2.1%
Final Dividend (cps)	3.5	3.4	2.9%

[1] The appendix provides a reconciliation of statutory to underlying results.
[2] Includes correction of prior period misstatements ($0.3m). EBITDA increased by 2.0% excluding this impact
[3] Margin is on Service Charges
[4] Includes correction of prior period misstatements ($0.6m). Net profit before tax increased 1.1% excluding this impact

Key Financials

- Service Charges of $96.6m (FY21: $92.4m)
  - Patent Service Charges up 1.2% to $65.0m (FY21: $64.3m)
  - Trade Marks Service Charges up 25.2% to $19.8m (FY21: $15.8m)
  - Legal Service Charges 4.4% lower at $11.7m (FY21: $12.3m)

- Total Revenue (Service Charges and Associate Charges) increased 6.9% to $127.3 million (FY21: $119.1m).
- Total Net Revenue of $101.2m (FY21 $95.6m), which includes FX gains of $0.9m, increased by 5.9%, and is after recoverable expenses from Associate Charges of $29.3m.
- Underlying operating expenses of $74.9m (FY21: $69.5m). Operating expenses include increased marketing and travel expenses, plus investments in targeted recruiting that are being made for the future growth of the business. Expenses fell by 2.1% in the second half on increased productivity.
- Underlying EBITDA was $26.3m (FY21: $26.1m). EBITDA increased by 6.3% in 2H22 relative to 1H22.
- Statutory net profit after tax of $7.1m (FY21: $10.4m). Statutory profit includes a significant increase in (non-cash) amortisation charges for intangibles, due to acquisition purchase price accounting requirements.
- Underlying net profit after tax of $12.8m (FY21: $13.5m). Net profit after tax includes the write off of $0.4m of tax losses which are unable to be utilised. The appendix provides a reconciliation from statutory to underlying NPAT.
- Operating cash flow $16.0m (FY21: $19.8m). Prior period cash flow benefited as new shares were issued for the employee share scheme, rather than cash funded. In FY22, cash funding was used to purchase shares on market.
- Net debt at 30 June 2022 was $23.8m (30 June 2021: $16.2m) with the increase due to the acquisition of Sortify in 1H22 and the final tranche of the Cotters acquisition purchase price in 2H22. The ratio of net debt to underlying EBITDA was 0.90 at 30 June 2022 (30 June 2021: 0.62). At 30 June 2022 the group held cash and cash equivalents of $7.4m (30 June 2021: $5.7m).

CEO Commentary

Craig Dower, QANTM's Chief Executive Officer, stated:

"QANTM delivered continued, strong underlying business performance relative to the prior corresponding period, with solid revenue growth across its patent and, in particular, trade mark businesses. Legal and litigation services revenue was up compared to the immediately preceding half-year, although lower compared to a strong first half in FY2021, reflecting timing of case load work.

The market for IP services remains resilient, with continued strong client demand across our patent and trade mark service lines.

The strong core business and client bases of DCC, FPA, Cotters and Advanz Fidelis have continued to hold QANTM in good stead, while the addition of Sortify has given additional momentum to our trade mark business and access to a high-growth trade mark segment (i.e. self-filers, start-ups, micro-businesses).

Sortify's automated trade mark filing platforms provide a basis for the further expansion of our trade mark services into other geographies, with new platforms having commenced operation in Singapore and, since the end of FY22, in Malaysia. We are also working to deploy Sortify's deep technology and automation capabilities into our core businesses to help drive innovation, productivity and improved client service. Sortify is a high-growth business which will become a significant contributor to our financial performance over the next several years.

Pleasingly, the COVID enforced restrictions for Advanz Fidelis in Malaysia have largely lifted, with a return to near pre-COVID business activity levels. This, and the continued growth of DCC and FPA in Singapore, including strong foreign filings into South East Asia, have contributed to a 13.9 per cent increase in Asian service fees. Asia constitutes 6.4 per cent of total Group service fees.

We continue to explore a number of M&A opportunities across the Asia Pacific region, and aim to complete at least one of these in the year ahead.

Business Performance

QANTM's Patents business has continued strong growth period-on-period:

- The Patent service offerings of DCC, FPA and Advanz Fidelis (which is in the process of being integrated with DCC Asia) recorded steady performance, with combined service charge revenue increasing by 1.2%. Patents contributed 67.3% of Group service charge revenue.
- Overall Group Patent applications grew 3.2%, with new Australian patent application filings increasing by 0.2%, in the context of an overall Australian patent market increase of 5.5%.
- QANTM's Australian patent application market share decreased to 15.0% compared with 15.8% in FY21, but has increased from 14.7% to 15.0% over the past two years, in a period when the Australian market expanded by 8.1%.
- Group patent application filings in Asia increased by 16%. Asia now represents 16% of Group patent applications.
- QANTM's Rest of World patent applications (24% of the Group total) increased by 6.2%.

QANTM's Trade Marks business recorded very strong growth of 25.2% in Service Charges (20.5% of the Group total):

- Trade mark applications for the Group increased by 64%, reflecting an excellent performance by the DCC Trade Mark business and the acquisition in September 2021 of Sortify.
- Australian trade mark applications (57% of the Group total) increased by 76%.
- New Zealand applications (16% per cent of the Group total), more than doubled through the acquisition of Sortify.
- Asian applications (6% of the Group total) remained stable period-on-period.

DCC retains the largest market share for trade mark applications in Australia and, with the acquisition of Sortify provides a basis for the expansion of advisory and prosecution services.

Sortify holds the #3 market position in Australia and the #2 market position in New Zealand.

Legal and litigation services revenue contribution (12.1% of the Group total) was 4.4% lower, relative to a strong prior year, reflecting the timing of advisory and case load work. DCC Law experienced an increase in revenue generation in the second half, up 4.4% compared to 1H22.

In Conclusion

QANTM has been engaged in the design and implementation of major business improvement processes since I commenced as CEO in January 2020.

This has encompassed the areas of technology modernisation; empowering our people; comprehensive improvements to business systems, analytics and processes; as well as the client interface and revenue growth through both organic and acquisition routes. These investments will help enhance our competitive and market position, and will deliver improved business outcomes over the medium term.

There was a large element of these business transformation costs in the operating expenditure for 2H22, and this will continue in FY23. Investors can take confidence from the underlying trends in our business that these initiatives are starting to have an impact. We are over half way through that 4-year modernisation program, and with the planning work on our IP Management upgrades now complete, we have started that next phase of implementation during 2022, and expect to start seeing synergies and productivity gains in 2023. We will also migrate all of our infrastructure to Microsoft's Azure cloud platform in the year ahead. This will free up resources to focus further on innovation.

In the meantime, the investments in our capability to service clients effectively and efficiently – more effective account planning, use of improved client tools, DCC's USA-based sales desk, the recent opening of a DCC office in Hong Kong, the acquisition of Sortify, which has launched automated trade mark filing in platforms in Singapore and Malaysia since acquisition by QANTM – are driving top-line growth which will flow through to earnings as our transformation program starts to deliver results."

Outlook

The IP sector has continued to demonstrate resilience during a period of volatility. During this period, QANTM has invested in a number of strategic initiatives – across people, process and technology - that will improve the overall performance of our business. We are now in the second half of that investment cycle. These investments have had an impact on EBITDA margins over the past two years, and we are anticipating that margins will start to improve in the next several reporting periods, modestly at first. Our target for EBITDA margins relative to services revenue is above 30% in the medium term.

We expect to see continued revenue growth in the low single-digits in Australia and New Zealand, with more accelerated growth in Asia and in trade marks through Sortify.

Dividends

Directors have approved a final dividend of 3.5 cents per share, fully franked, with a payment date of 6 October 2022 for shareholders registered as at 6 September 2022.

QANTM's Appendix 4E, Full Year Financial Report for the year ended 30 June 2022, and the Full Year Investor Presentation provide more detailed information on the Company's full 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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WEBCAST AND INVESTOR TELECONFERENCE DETAILS

You are invited to join QANTM's CEO, Craig Dower, and CFO, Brenton Lockhart, for a presentation and discussion of the results.

DATE AND TIME

Tuesday, 30th August 2022 at 11:00am Australian Eastern Daylight Time

PRESENTERS

Craig Dower, CEO and Managing Director
Brenton Lockhart, Chief Financial Officer

DIAL-IN DETAILS

TELECONFERENCE DIAL-IN DETAILS (required to participate in Q&A)

Conference ID: **10022948**

Participant Dial-In Numbers:

Australia:	1800 558 698	New Zealand:	0800 453 055
Singapore:	800 101 2785	Hong Kong:	800 966 806
China:	4001 200 659	UK:	0800 051 8245
US:	1855 881 1339	Canada:	1855 881 1339

Any other country or mobile phone: +61 2 9007 3187

WEBCAST

The presentation will be webcast live. You can pre-register for the webcast via this link https://webcast.openbriefing.com/8842/

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 five key brands - Davies Collison Cave, FPA Patent Attorneys, Cotters Patent and Trade Mark Attorneys and Advanz Fidelis IP and Sortify.tm Ltd (including Sortify's brands – DIY Trademarks, Trademarks Online and Trademark Planet). With more than 160 highly qualified professionals, the businesses within the QANTM Group have 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.

Appendix: Statutory NPAT to Underlying NPAT

	Year ended 30-Jun-22 $'000	Year ended 30-Jun-21 $'000
Statutory NPAT	**7.1**	**10.4**
add: interest	2.4	1.6
add: depreciation and amortisation	8.2	7.3
add: tax	3.9	4.4
EBITDA	**21.6**	**23.7**
add: retention/restructuring payments	0.4	0.6
add: SaaS costs	3.2	1.1
add: transformation costs	-	0.3
add: business acquisition costs	1.1	0.4
Underlying EBITDA	**26.3**	**26.1**
less: depreciation and amortisation	(5.8)	(6.0)
less: interest	(2.4)	(1.6)
less: tax	(5.3)	(5.0)
Underlying NPAT	**12.8**	**13.5**

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