

MARKET RELEASE - Sydney, 27 February 2018

NOT FOR RELEASE OR DISTRIBUTION IN THE UNITED STATES OR TO US PERSONS

Xenith IP Group Limited

Half-year results to 31 December 2017 (1H FY18)

Xenith IP Group Limited reaffirms guidance for 2018 Financial Year

- Revenue of \$63m, up 187% on pcp
- Underlying* EBITDA of \$7.8m, up 61% on pcp
- Underlying* NPATA of \$4.4m, up 41% on pcp
- Underlying* EPS of 3.3 cents, down 55% on pcp
- Interim DPS of 3 cents, up 88% on pcp
- Highly cash-generative business; cash flow conversion of 119%
- Reaffirms guidance of FY 18 EBITDA (underlying) of \$18m-\$22m (towards lower end of range)

	1H	1H	Var	
	FY18	FY17	\$	%
Service Fee Revenue (\$m)	44.5	16.7	27.8	167%
Total Revenue (\$m)	63.0	22.0	41.0	187%
Underlying EBITDA (\$m)	7.8	4.9	2.9	61%
Underlying NPATA (\$m)	4.4	3.1	1.3	41%
Underlying NPAT (\$m)	2.9	3.0	(0.1)	(3%)
Underlying EPS (cents)	3.3	7.3	(4.0)	(55%)
Interim DPS (cents)	3.0	1.6	1.4	88%

*Underlying earnings are non-IFRS measures that are presented to provide an understanding of the underlying performance of Xenith IP Group Limited, excluding the impact of significant acquisition, integration and IPO related expenses. Refer to Appendix 4D for more detailed information and reconciliation between the statutory and underlying results.

Xenith IP Group (**Xenith IP** or **the Company**; ASX: XIP) today announced its results for the six months to 31 December 2017. The Company reported revenue of \$63m, an increase of 187% on the prior corresponding period (pcp). EBITDA of \$7.8m was up 61% on pcp, with NPATA of \$4.4m, up 41% on pcp. The result includes the full period contribution of the Watermark and Griffith Hack businesses acquired on 2 Nov 2016 and 2 Feb 2017 respectively.

Xenith IP Group Managing Director Craig Dower said, "While the result for the first half of FY18 does not yet reflect the full promise of the expanded Xenith IP Group, we are making steady progress. The Company is forecasting a stronger second half as a result of recent restructuring activity and other actions reducing the annual cost base by \$2.6m. The Company expects to deliver a full year EBITDA result within the market guidance of \$18m-\$22m, albeit towards the lower end.

“We are seeing early cost savings starting to flow and the full scope of synergy benefits made possible through the acquisition of Watermark and Griffith Hack will be realised over the next two to three years. We have established a business transformation office to manage that integration process and improve overall performance and efficiency as well as to drive cultural change. Those plans have developed substantially over the past six months, and the major underlying technology and business process changes will start to be rolled out early in the new financial year.

“We have recently completed the implementation of our core technology infrastructure and collaboration platform, which is a major step forward and an enabler of future platform upgrades. We have a number of initiatives underway around culture and succession planning, which are critical success factors in this move from a collection of partnerships to a successful, publicly listed company. We have established a diverse leadership team with extensive experience across the Asia Pacific region, and deep capability in technology, organisational change and managing publicly listed companies.

“Xenith IP companies are highly cash-generative businesses with an overall cash flow conversion rate in the first half of FY18 of 119%, and a client profile of long-standing well-established business relationships.

“It is now six months after the earnout periods following the acquisition of Griffith Hack and Watermark, and the new operating model for the expanded Company is continuing to evolve. There is strong progress within Shelston IP which, two years post acquisition and initial public offering through Xenith IP, has reported a strong increase in filing numbers in 1H FY18 over the pcp – this is very pleasing and is a leading indicator of future revenue growth. We would expect to see similar improvements within Watermark and Griffith Hack over the next 12-18 months as these acquisitions are further bedded down under the new operating structure.”

The Directors have declared a fully franked interim dividend of 3 cents, up 88% on pcp.

Industry Commentary

In a challenging industry environment with patent filing numbers in Australia for the first half down 2.2% on the prior corresponding period, Xenith IP patent filing numbers decreased by only 1.5%.

The Company experienced a decline in patent prosecution revenue in the current period which may be attributed to a more prolonged impact from “Raising the Bar” (RTB) legislative changes effective April 2013 and, to a lesser extent, a secondary impact from America Invents Act (AIA). These two events are further explained below:

- The IP Laws Amendment (Raising the Bar) Act 2012 took effect in Australia in April 2013 and had the effect of creating a significant spike in the number of patent examination requests in 2H FY13 and to a lesser extent, a spike in the number of patent filings in the same period. These spikes created a significant back log in processing of examination requests at IP Australia. Analysis of industry data suggests that the processing of this backlog took longer than initially expected with the prolonged effect through the various stages of examination favourably impacting prior periods.
- The America Invents Act (AIA) had the effect of creating an increase of US originating PCT national phase applications which peaked in Australia in October 2015. Xenith IP previously disclosed an increase in the number of filings in 1H FY16 attributing this to the pull-forward effect of AIA. A secondary impact from AIA had the effect of pulling forward examination requests which peaked in the prior comparative period.

The prolonged but transient impact of these two events is believed to have largely washed through the Australian patent process and we expect a return to a more stable environment where filing numbers as a lead indicator correlate more consistently with revenues associated with the downstream examination stages.

Combined Xenith IP companies finished the 2017 calendar year with:

- #1 domestic PCT market share in Australia (13%)
- #2 patent filing market share in Australia (17%)
- #3 trade mark filing market share in Australia (10%)

In early 2018, the Professional Standards Board for Trans-Tasman Patent and Trade Mark Attorneys issued a new Code of Conduct, which came into effect on 23 February 2018. The new code explicitly acknowledges the concept of an "ownership group" comprising two or more incorporated patent or trade mark attorney practices and any ancillary businesses, and further acknowledges that the incorporated attorney practices within an ownership group may be operated independently in providing attorney professional services (subject to appropriate information barriers and data security protocols). The code also helpfully delineates between attorney professional services and "back-office" activities, reinforcing the rationale for Xenith's shared services model. Xenith has welcomed the code in clarifying key areas that are most directly relevant to what has become the predominant operating model for the IP industry in Australia.

Growth Opportunities and Asia Strategy

In an industry that has undergone recent swift consolidation, Xenith IP is now well placed to further build its presence in the Australian and Asian markets and manage for sustained growth.

Substantial progress has been made in developing the firm's Asian strategy, which encompasses both traditional IP services and the extended complementary service lines associated with Glasshouse Advisory. The Company is actively exploring both nearer and medium term strategic options across the region, with dialogues at various stages of progression.

ENDS

For further information

Craig Dower
Managing Director
Ph: +61 2 9777 1189
craig.dower@xenithip.com

Lesley Kennedy
CFO & Company Secretary
Ph: +61 2 9777 1146
lesleykennedy@xenithip.com

About Xenith

Xenith IP Group Limited (ASX: XIP) is the holding company for the businesses of Griffith Hack, Shelston IP, Watermark and Glasshouse Advisory and their related corporate entities. The Group's core business is to provide a comprehensive range of IP services including identification, registration, management, valuation, commercialisation and enforcement of IP rights for a global client base including Fortune Global 500 companies, multinational, domestic and foreign corporations, research institutes, educational institutions, SMEs and entrepreneurs.