Xenith IP Group Limited
FY18 First-Half Results

27 February 2018

Agenda

1. Highlights
2. Business Performance and Market Update
3. 1H FY18 Financial Results
4. Business Update
5. Outlook
6. Appendices

Highlights

Operational

- Making progress:
  - Established substantial leadership position in market following transformational change in scale
  - Expect stronger second half as a result of recent restructure activity and other actions
  - Expect to deliver towards lower end of recent FY18 earnings guidance (underlying EBITDA: $18m-$22m)

- 1H FY18 financial performance not yet reflecting full potential of the combined group:
  - Only 6 months post earn out; new operating model will take time to adjust; solid progress being made
  - Shelston IP, now 2 years post IPO, reported strong increase in patent filing numbers in H1 FY18 v pcp
  - Expect to see improvements across the rest of Group over next 12-18 months

- Challenging industry environment:
  - Industry patent filing numbers down 2.2% on pcp (Xenith IP down 1.5%, marginally ahead of market)
  - Legislative changes in 2013 “Raising the Bar” having a more prolonged impact than first expected
  - To a lesser extent, secondary AIA impact on downstream elements of the patent lifecycle (prosecution phase)

Highlights

Operational

- Making substantial changes to improve overall performance:
    - Experienced and diverse leadership team; deep experience in technology, leading organizational change, Asia Pacific and managing publicly listed companies
    - Addressing succession planning and capacity issues:
        - Implemented restructure; annualised EBITDA improvement of $2.6m (expect 2H FY18: $1.1m)
        - One off implementation cost of $0.6m
        - Comprehensive succession planning processes established across the group
    - IT enterprise architecture completed:
        - Aggressive move to cloud-based platforms underway across the Group
        - Collaboration platform complete; productivity improvements to follow
    - Business transformation office established (BTO) and Chief Transformation Officer recruited
    - Detailed integration and transformation plan developed

Highlights

1H FY18 Financials

- 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:
  - Current period includes $2.2m (1H FY17: $0.1m) of amortisation charges in relation to acquired intangibles
  - Prior period impacted by issue of 28.3m shares in Dec 2016, ahead of completion of Griffith Hack acquisition in Feb 2017

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

Highlights

1H FY18 Financials

- Dividend per share of 3 cents up 88% on pcp.
- Strong cash flow conversion ratio of 119%
- Net debt of $16.2m (30 June 2017: $11.3m). Increase reflects:
  - Payment of $2.7m cash component – Watermark earnout (Sept 2017)
  - FY17 catch up tax payment of $2.9m

Underlying	1H FY18	1H FY17	Var $	Var %
Revenue ($m)	63.0	22.0	41.0	187%
EBITDA ($m)	7.8	4.9	2.9	61%
NPATA ($m)	4.4	3.1	1.3	41%
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Business Performance and Market Update

Business Performance and Market Update

One of Australasia's leading specialist IP groups

Our house of brands

XENITH IP GROUP

griffith hack | Shelston ip | Watermark | Glasshouse Advisory

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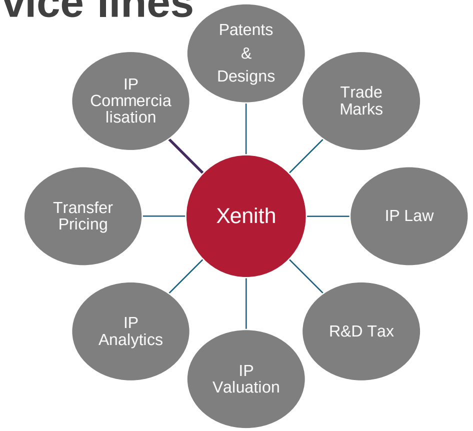
Our service lines



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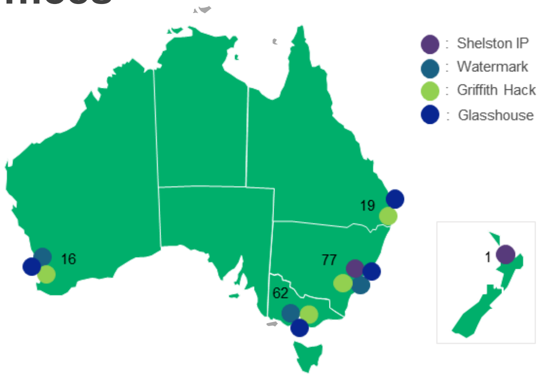
Our offices



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Our Staff

420

160 IP Professionals

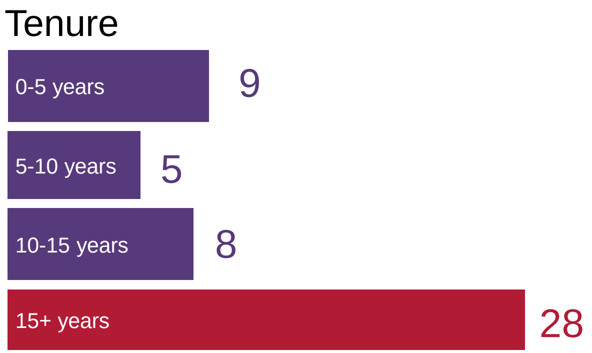
Our clients

11K+

Our market share

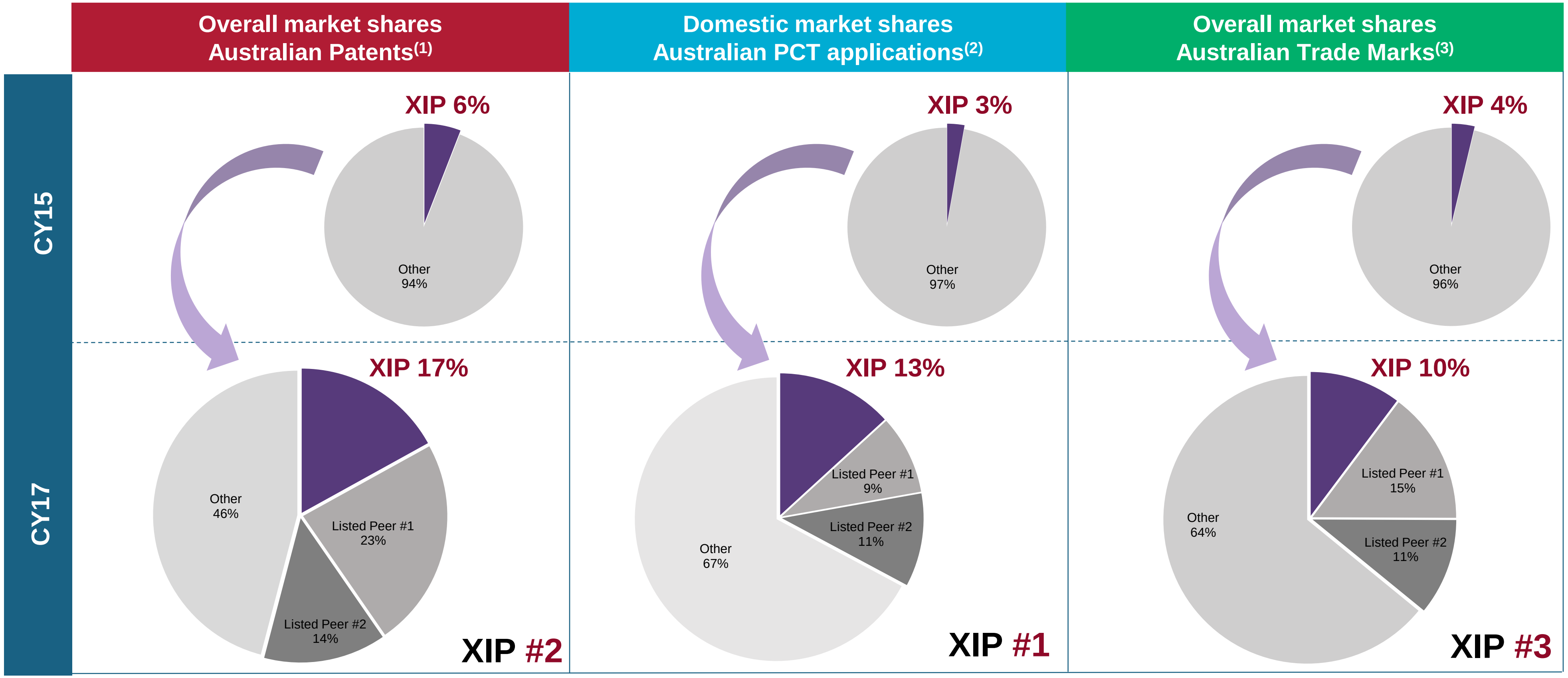
		Market position
13%	AU PCT applications	#1
17%	Australian patent filings	#2
10%	Australian trade mark filings	#3

Our Top 50 Clients



Business Performance and Market Update

Xenith achieves strong leadership positions in patents & trade marks



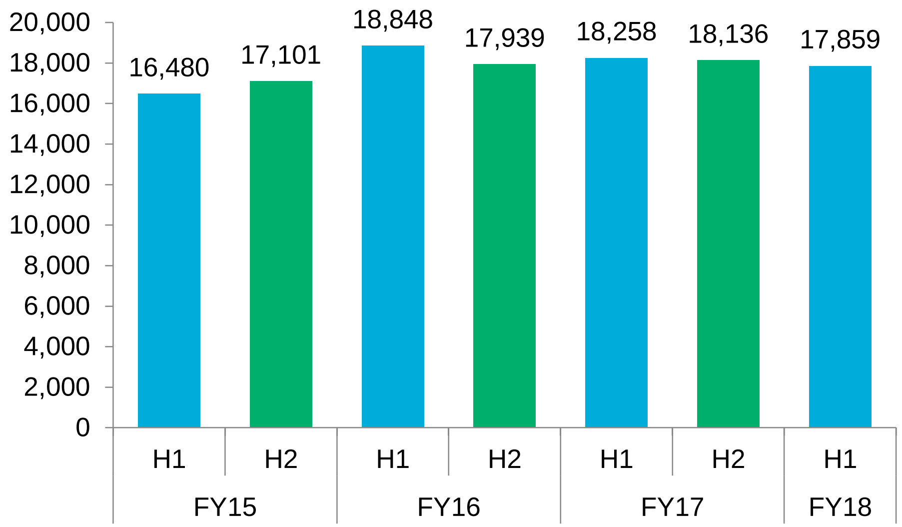
Footnotes:

1. IP Australia – market shares based on Australian patent applications (all types including AU provisional, complete, national phase and innovation patent applications) – with acquisitions completed in CY17 included for the full period. Note: in prior periods patent market share previously reported on an alternative basis, excluding provisional and innovation patent applications
2. IP Australia – market shares based on Australian originating PCT patent applications (ie AU as the priority country) filed in CY17 and published as at 22 Feb 18 – with acquisitions completed in CY17 included for the full period
3. IP Australia – market shares based on Australian trade mark applications filed through the top 50 filing agents -– with acquisitions completed in CY17 included for the full period

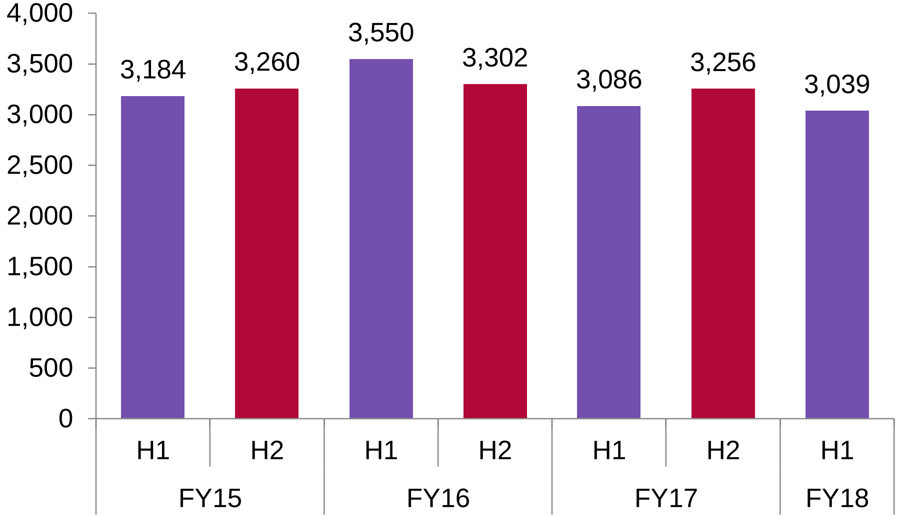
Business Performance and Market Update

Australian Patent Filings

Industry
Patent applications (1)



Xenith IP
Patent applications (2)



- AIA had effect of pulling filings forward into 1H FY16 from 2H FY17
- Market down 2.2% in 1H FY 18 on pcp
- Xenith IP group filing numbers down only 1.5% on pcp – marginally ahead of market

Footnotes:
1. IP Australia – Total Australian patent applications (all types including AU provisional, complete, national phase and innovation patent applications) domestic and foreign applicants
2. IP Australia – Presented on pro forma basis assuming Xenith entities owned throughout each reporting period.

Business Performance and Market Update

Code of Conduct Review

- New Code of Conduct and associated Guidelines (effective 23 February 2018)
- Positive development for Xenith IP Group and the IP industry more broadly:
  - Validates multiple IP firm ownership model
  - Delineates between attorney professional services and "back-office" activities validating Xenith's shared services model
- Xenith has welcomed clarification in key areas most relevant to what has become the predominant operating model for the IP industry in Australia

1H FY18 Financial Results

1H FY18 Financial Results

Underlying Income Statement

	1H FY18 $m	1H FY17 $m	Var $m	Var %
Service fee	44.5	16.7	27.8	167%
Recoverable disbursements [(2)]	18.5	5.3	13.2	250%
Total Revenue	**63.0**	**22.0**	**41.0**	**187%**
Expenses				
Employee Benefits	(27.0)	(8.9)	(18.1)	203%
Recoverable disbursements	(18.5)	(5.3)	(13.2)	249%
Occupancy expense	(3.8)	(1.1)	(2.7)	245%
Net foreign exchange gain/loss	(0.1)	0.1	(0.2)	(200%)
All other expenses	(5.8)	(1.9)	(3.9)	205%
EBITDA	7.8	4.9	2.9	61%
Depreciation and Amortisation	(3.2)	(0.3)	(2.8)	806%
Net interest expense	(0.5)	(0.1)	(0.4)	499%
Net profit before tax	4.1	4.4	(0.3)	(7%)
Income Tax Expense	(1.3)	(1.4)	0.1	(8%)
Net profit after tax	2.8	3.0	(0.2)	(7%)
NPATA	4.4	3.1	1.3	41%
EPS (cents per share)	3.3	7.3	(4.0)	(55%)

Service fee revenue increased $27.8m or 167%

- Includes full period contribution from acquisitions of $30.9m (1H FY17: $2.3m)
- Shelston IP reported a reduction in service fee revenue of $0.8m. $0.3m is attributable to unfavourable movements in AUD: USD rate relative to pcp. The remaining variance is attributed to lower levels of patent prosecution revenue.

Operating expenses impacting EBITDA

- Movement in expenses largely related to impact of acquisitions. Refer EBITDA bridging analysis on next slide

Depreciation and Amortisation

- Current period includes:
  - Amortisation expense of $2.2m arising on acquired intangible assets (1H FY17: $0.1m)
  - Depreciation and amortisation expense of $0.8m arising in acquired businesses (1H FY17: $0.1m)

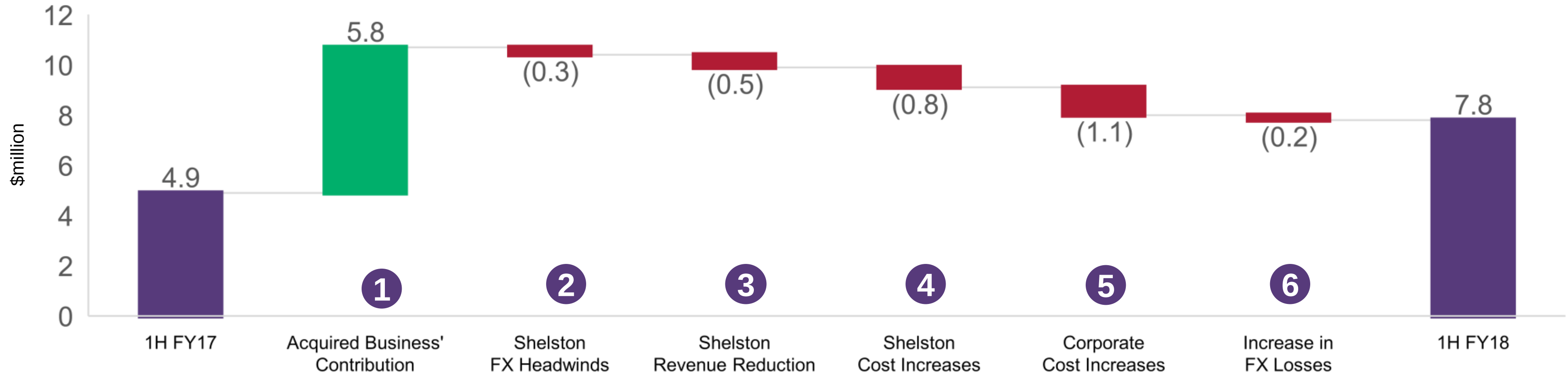
Net interest expense

- Increase of $0.4m due to increased debt levels post funding the Griffith Hack acquisition in Feb 2017

Footnotes:
1. Refer to reconciliation of statutory to underlying results included as an Appendix 1 to this presentation
2. Recoverable disbursements includes the gross amount of reimbursement by clients of official fees paid to national bodies. Previously these were recorded on a net basis. 1H FY17 revenue has been restated to increase recoverable disbursements by $2.8m

1H FY18 Financial Results

Underlying EBITDA Bridging analysis



1. Additional contribution from acquired subsidiaries – 1H FY18 underlying EBITDA of $6.2m (1H FY17: $0.4m)
2. Reduction in Shelston IP revenue of $0.3m due to unfavourable movement in foreign currency rates relative to pcp. Average AUD:USD exchange rate in 1H FY18 of 0.78 (1H FY17: 0.755)
3. Reduction in Shelston IP revenue of $0.5m. This is largely attributed to softness in patent prosecution revenue likely due to a prolonged residual impact of legislative changes “Raising the Bar” and “America Invents Act”.
4. Increase in Shelston IP expenses of $0.8m, including $0.5m on employee benefits as a result of focused succession planning. Xenith IP has recently implemented a cost reduction program to remove $2.6m of annual cost.
5. Recent transformational acquisitions resulted in significantly larger and more diversified business. XIP has invested in appropriate corporate resources to better manage this transformation ahead of realisation of synergy benefits, including a CEO with deep management and transformational experience, Chief Transformation Officer, and CIO
6. Increase in foreign currency losses from the revaluation of working capital balances relative to prior period

1H FY18 Financial Results

Cash Flow

	1H FY18 $m	1H FY17 $m
Statutory EBITDA	**6.7**	**2.7**
Non-Cash Movements	0.1	0.5
Working capital movements	1.2	0.9
Cash flow before financing, investing and tax	**8.0**	**4.1**
Cash conversion ratio	119%	153%
Capital expenditure	(1.1)	(1.4)
Net interest paid	(0.5)	(0.0)
Tax paid	(5.4)	0.0
Free Cash Flow	**1.0**	**2.7**
Financing and investing Activities		
Purchase of controlled entities	(2.7)	(7.0)
Capital raisings	0.0	73.2
Debt drawdown/ (repayment)	4.3	(4.5)
Dividends paid	(3.0)	(2.5)
Revaluation of cash	(0.2)	0.0
Net Cash Flow for the period	**(0.6)**	**61.8**
Cash on hand	**3.0**	**3.6**

- Strong Cash flow conversion ratio of 119% of EBITDA with improved working capital management
- Capex spend of $1.1m includes:
  - $0.7m in fit out costs arising on co-location of Griffith Hack and Watermark offices in Sydney and Perth
- Tax paid of $5.4m includes:
  - $2.9m incurred in relation to FY17 catch up tax payments; and
  - $2.5m incurred in FY18 income tax instalments
- Purchase of controlled entities: Watermark acquisition with $2.7m in earn out cash consideration paid Sept 2017

1H FY18 Financial Results

Balance Sheet

	31-Dec-17 $m	30-Jun-17 $m	Var $m
Cash and cash equivalents	3.0	3.6	(0.6)
Trade and other receivables	25.0	29.1	(4.1)
Work in progress	5.3	2.2	3.2
Prepayments	2.5	1.8	0.7
Property, plant and equipment	6.8	6.6	0.1
Intangible assets	159.9	162.7	(2.7)
Income tax receivable	2.5	-	2.5
Total assets	**205.1**	**206.0**	**(1.0)**
Liabilities			
Trade and other payables	(8.3)	(6.9)	(1.4)
Provisions	(9.7)	(14.9)	5.3
Other liabilities	(7.9)	(8.4)	0.6
Borrowings	(19.2)	(14.9)	(4.3)
Income tax payable	-	(2.6)	2.6
Deferred tax liability	(15.5)	(15.4)	(0.1)
Total liabilities	**(60.5)**	**(63.2)**	**2.7**
Net assets	**144.5**	**142.8**	**1.7**
Equity			
Issued capital	144.5	141.4	3.1
Reserves	0.7	0.9	(0.3)
Retained earnings	(0.6)	0.5	(1.1)
Total liabilities	**144.5**	**142.8**	**1.7**

Key movements include

- Trade debtors and WIP of $30.3m (30 June 2017: $31.3m) reduced reflecting lower revenues in 1H FY18
- $2.7m reduction in intangible assets includes $2.2m of amortisation of acquired intangibles in period and $0.6m adjustment to goodwill on finalisation of GH acquisition accounting
- $2.5m in tax receivable (30 June 2017: tax payable $2.6m). This prepayment of tax instalments largely expected to reverse in 2H FY18
- $5.3m reduction in provisions reflects settlement of $5.2m in Watermark earn out payment ($2.7m cash and $2.5m in equity)

Net debt

- Net debt at 31 Dec 2017 of $16.2m (30 June 2017: $11.3m) reflects $2.9m of FY17 catch up tax payments and earn out cash payment of $2.7m to Watermark Vendors
- Leverage ratio at 31 Dec 2017 of 1.2 (30 June 2017: 0.76) comfortably within covenant of < 2 times. Timing issue on tax prepayments expected to reverse in 2H FY18 with forecast leverage ratio of 0.8 at 30 June 2018
- Facility limit of $50 million
- Expiry 1 Feb 2020

Business Update

Business Update

Transformation

- In developing our detailed integration plan, we have focused on the increased benefits from transformation
- The IP industry is facing disruption on a number of fronts, which present opportunity:
  - Historically, change has been relatively slow
  - Competition: market fragmenting and consolidating simultaneously; multi-disciplinary practices emerging; client procurement strategies maturing
  - Process work is being automated and commoditised (we are investing in this already)
  - Technological disruption is everywhere: AI, blockchain, smart contracts, cloud-computing; mobility
  - IP firm technology has been highly proprietary / bespoke; all innovation is now taking place in the cloud; need to shift to a new ecosystem; many firms are "trapped" by their legacy systems, with islands of isolated data, no upgrade path, and limited ability to integrate
- Xenith's strategy is to build a differentiated market position:
  - Holistic approach to IP and innovation: traditional IP services coupled with complementary advisory services
  - Technology will be at the core of all service delivery and client engagement
  - Adopting an aggressive move to the cloud for all aspects of technology; all innovation is shifting to cloud-based platforms and ecosystems
  - Development of client self-service platform for lower-cost / lower-complexity requirements
  - Investments in people and culture; focus on developing commercial and soft skills as well as technical skills
  - Increased collaboration with clients across the IP life-cycle will be key to future success → we are building the capability to deliver

Business Update

Transformation

To truly differentiate we will transform the business across six key areas.

Imperative 1	Imperative 2	Imperative 3	Imperative 4	Imperative 5	Imperative 6
Transition from partnership to public company	**Provide compelling careers for our people**	**Increase engagement with our clients**	**Move from integration to transformation**	**Grow profitably**	**Deliver value for our shareholders**
Implement the necessary management, governance, policy, cultural and operating regimes to be a role-model listed company	Create an inspiring, innovative and high-performance culture that reflects the values of our people and attracts, retains and rewards top talent	Ensure that we are at the forefront of delivering outstanding client service, both technically and commercially and that we are seen as innovative and value adding	Move all of our platforms to the cloud, embrace change and digital disruption across all that we do; build an innovation eco-system; optimise all aspects of the business	Develop and implement strategies that deliver above-market growth; through expansion and connection of service offerings, innovation, increasing our presence in Asia, and further developing our eco-system	Consistently meet our commitments - to ourselves and to the market
Progress Made: • Corporate governance frameworks established • Experienced leadership team in place • Cultural change underway, including increased accountability	**Progress Made:** • Performance-based incentives established • Learning and development framework developed • Core values program developed • Capacity and succession planning established	**Progress Made:** • Consistent approach to client planning • Targeted processes around business development • More strategic approach to winning major bids	**Progress Made:** • Core capabilities in place; BTO established • IT enterprise architecture finalised • Overall transformation plan developed • IT partner selection process in final stage	**Progress Made:** • Glasshouse Advisory services launched • Asian strategy underway • Client-centric digital strategy under development • AI project underway	**Progress Made:** • Strong governance in place • Business stabilised post IPO and acquisitions • Results not yet where we want to be • Expect stronger 2H FY18

Business Update

Transformation

- Previously spoke of “integration” approach:
    - Annual synergies of $4m-$6m, by year three (2020)
    - One-off cost of $2m - $3m to implement
    - Approach envisaged consolidation of existing platforms and processes (using current legacy systems)
    - The challenge with this is that law-firm legacy systems are not future proof and ill-suited to the need for innovation
- Revised approach focuses on transformation:
    - Aggressive move of all systems to the cloud
    - Partner with world-leading players (e.g. Amazon, Workday, Netsuite, Microsoft, Google) who are building innovation ecosystems
    - Full digital enabling of the business
    - Revised costs and benefits:
        - Full cloud-migration will involve greater costs: expect range to be $4m-$6m (previously $2m-$3m)
        - Expect greater annual synergies: $6m-$8m (previously $4m-$6m)
    - Detailed plan in final stages, business cases being finalised, IT partner selections imminent

Business Update

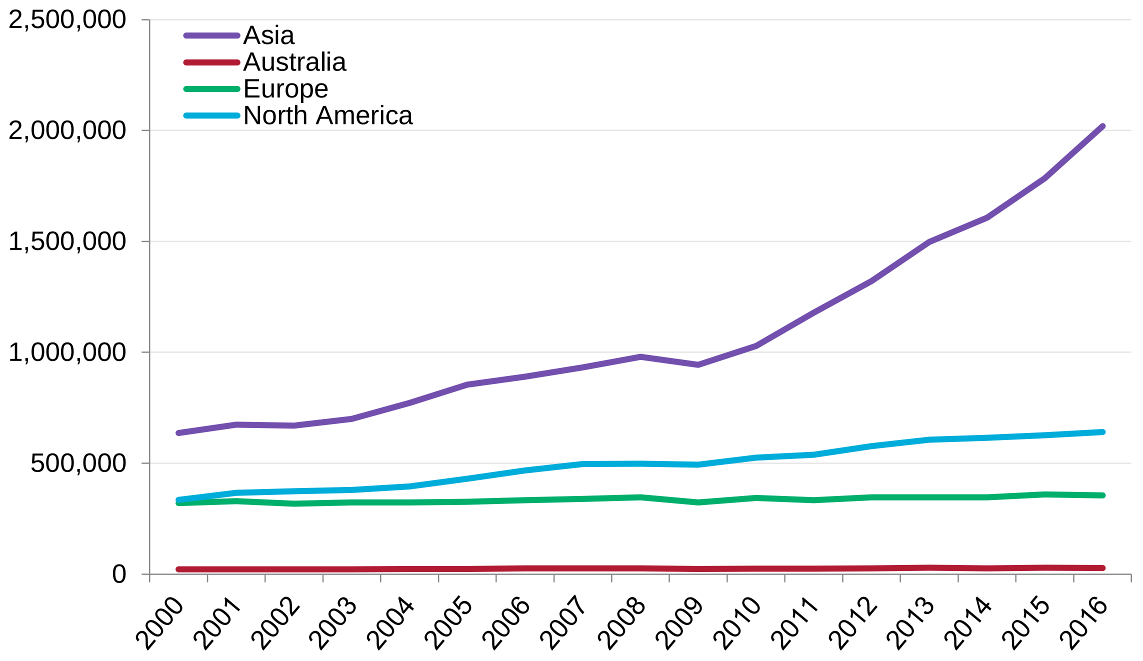
People and Culture

- Attracting and retaining the right talent is a key area of focus, especially given the major changes in ownership structures (from partnership to listed entity) and expiry of retention plans (refer Appendix 3)
- Major steps taken in past six months:
  - Performance management framework established and implemented
  - Succession planning process established; focus on performance as well as cultural alignment, addressing capacity issues
  - Performance based incentive plans implemented for senior team
  - Business development bonus established (for new logo business)

Business update

Asia

Total patent applications by region (resident and non-resident applicants)



Source: WIPO Statistics Database (most recent data - 2016)

- IP offices in Asia collectively receive the highest numbers of applications for patents, trade marks and designs relative to all other regions combined
- Growth in patent activity in Asia far outstrips that in other regions, strongly influenced by growth in China
- Asia accounts for more than half of all PCT patent applications globally

Business Update

Asia

- Substantial progress on development and implementation of Asian growth strategy:
  - Detailed market analysis completed and areas of targeted growth identified
  - Potential strategic partnerships identified and dialogues established
  - Shelston IP continuing to develop momentum in China:
    - China revenues were ~3% at time of IPO, now ~5% and growing strongly
  - Regional service solution gaining momentum:
    - current and new clients transitioned through hub & spoke model
  - Will continue to engage with strategic partners and explore opportunities for growth:
    - Encompassing both traditional IP services & complementary service offerings through Glasshouse Advisory
    - With active dialogues at various stages of progression

Business Update

Glasshouse Advisory

- Glasshouse Advisory's complementary IP services integrating well within Xenith:
  - Service line models developed across practices including in IP due diligence, government grants and idea diagnostics
  - Successful joint tenders with Glasshouse Advisory and Xenith IP firms
- Close collaboration with University of Technology Sydney:
  - Ongoing project in patent AI systems
  - Extension of capabilities in innovation process and analytics
- Strong revenue growth in R&D Tax and Grant sectors of the business
- Continued strong interest in IP economics services in Asia

Outlook

Outlook

Making progress

- Shelston IP, now 2 years post IPO, showing encouraging volume growth
- Expect similar improvements within Watermark and Griffith Hack over next 12-18 months
- Impacts of AIA and Raising the Bar continue to have lagging effect on elements of patent lifecycle downstream; expect this has now largely washed through (hard to be more exact)
- Focus on continued operational performance and implementation of transformation plan
- Some cost savings starting to flow from integration and transformation program
- Stronger 2H FY18 performance due to recently implemented restructure and continued momentum within Shelston IP
- Expect to deliver towards lower end of recent earnings guidance (FY18 Underlying EBITDA: $18m-$22m[1])

Footnote:
1. Assumes no significant movement in AUD:USD rate. 1 cent movement in AUD:USD rate results in a $420,000 change in annual revenue and EBITDA

Appendices

Appendix 1

Statutory to Underlying Income Statement

	1H FY18						1H FY17			
Description	Statutory $m	Integration expenses $m	Acquisition expenses $m	GH Restructure $m	IPO related expenses $m	Underlying $m	Statutory $m	Acquisition expenses $m	IPO related expenses $m	Underlying $m
Service fee	**44.5**					**44.5**	**16.7**			**16.7**
Recoverable disbursements	**18.6**					**18.6**	**5.3**			**5.3**
Revenue	**63.0**	**-**	**-**	**-**	**-**	**63.0**	**22.0**	-	-	**22.0**
Other income	**0.2**	**-**	**-**	**-**	**-**	**0.2**	**-**	-	-	**-**
Expenses										
Compensation	**(27.8)**	-	-	0.4	0.4	**(27.0)**	**(9.3)**	-	0.5	**(8.8)**
Recoverable disbursements	**(18.6)**	-	-	-	-	**(18.6)**	**(5.3)**	-	-	**(5.3)**
Occupancy expense	**(3.8)**	-	-	-	-	**(3.8)**	**(1.1)**	-	-	**(1.1)**
Net foreign exchange gain/loss	**(0.1)**	-	-	-	-	**(0.1)**	**0.1**	-	-	**0.1**
All other expenses	**(6.2)**	0.2	0.1	-	-	**(5.9)**	**(3.7)**	1.7	-	**(2.0)**
EBITDA	**6.7**	0.2	0.1	0.4	0.4	**7.8**	**2.7**	1.7	0.5	**4.9**
Depreciation and Amortisation	**(3.2)**	0.0	-	-	-	**(3.2)**	**(0.4)**	-	-	**(0.4)**
Net interest expense	**(0.7)**	-	0.1	-	-	**(0.5)**	**(0.1)**	-	-	**(0.1)**
Net profit before tax	**2.9**	0.2	0.2	0.4	0.4	**4.1**	**2.2**	1.7	0.5	**4.4**
Income Tax Expense	**(1.0)**	(0.1)		(0.1)		**(1.2)**	**(0.7)**	(0.5)	(0.2)	**(1.4)**
Net profit after tax	**1.9**	0.1	0.2	0.3	0.4	**2.9**	**1.5**	1.2	0.4	**3.0**
NPATA	**3.4**	0.1	0.2	0.3	0.4	**4.4**	**1.6**	1.2	0.4	**3.1**

Appendix 2

The IP Life Cycles

Pre-Filing and Filing		Examination / Prosecution		Maintenance, commercialisation, enforcement and defence
Pre-filing	**Filing**	**Examination & Responding**	**Acceptance & Grant**	**Post-grant**
• Searching • Registrability advice • Competitor IP analysis • Freedom to operate searching and advice • IP strategy formulation • Drafting specifications	• Preparing & filing applications (locally and internationally) • Monitoring deadlines • Case management, verification and reporting	• Initiating examination • Analysing and reporting examination reports • Responding to official examination reports	• Acceptance and grant/registration procedures • Post-acceptance oppositions and re-examinations	• IP portfolio management • Commercialisation advice • Enforcement & defence • Watching services • Maintenance & renewals
Typically 1-6 months	Up to 3 years Up to 6 months	Typically 1–3 years Typically up to 12 months	1 month to 3 years	Up to 20 years from filing Potentially indefinite

Patents

Trademarks

- The IP life cycles are characterised by integrated process pipelines with the various phases together spanning periods many years
- Xenith generates revenue by assisting clients at each stage through a combination of time-based charges and scheduled fees relating to the specific process steps and associated advisory services
- This results in relatively stable and consistent annuity-style revenue streams at the core of the business requiring low levels of work in progress (WIP) and strong Cash conversion

Appendix 3
Vendor Agreements

Staggered release of XIP shares from escrow over time

	Escrowed Shares		**Minimum Term Contract**	
Entity	% of Share Capital in Escrow	Expiry Date	No. of Vendor Principals	Expiry Date
Shelston ip	-	Nov 2017	12	Nov 2018
Watermark	3%	Nov 2018	9	Nov 2019
griffith hack	25%	Feb 2019	14	Feb 2020

Appendix 4

Digital Transformation Roadmap

Solutions Framework


Core applications and infrastructure


Modern workplace


Business applications


Data and analytics plus AI

Business Framework


Empower employees


Engage clients


Optimise operations


Transform services

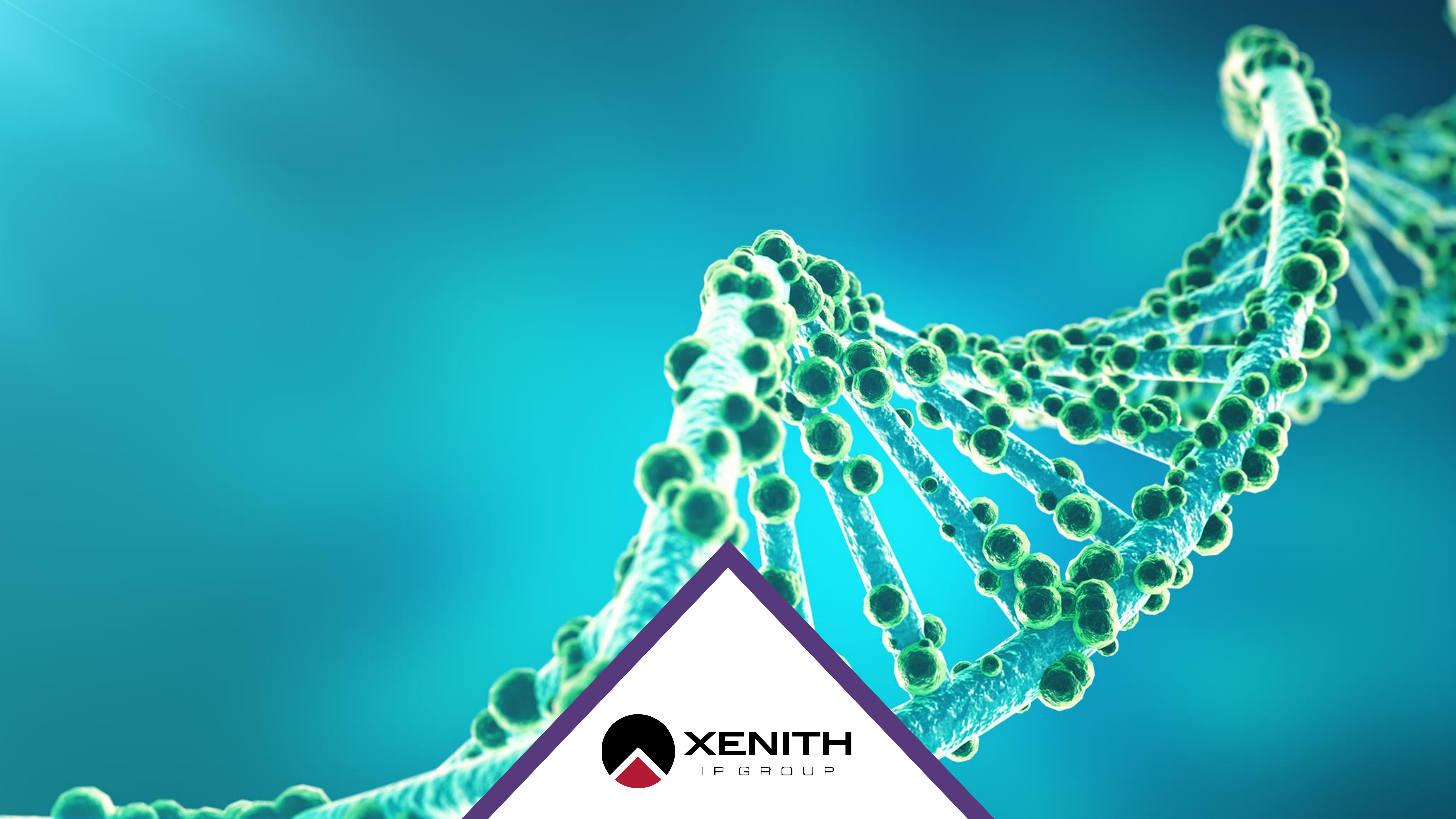
Source: Microsoft Summit: Digital Transformation

Appendix 5

People and Culture

- All great companies have a clearly defined set of values and a strong culture
- We recently completed a review of shared values across all of Xenith IP. Our core shared values are:
  - Client-centred collaboration
  - Respect for the individual
  - Fresh and forward thinking
  - Drive to deliver

  These will be embedded across all that we do over the years ahead
- We are committed to investing in our people:
  - Overall learning and development framework developed
  - Three areas of focus: mindset (culture), skillset (technical and commercial), toolset (systems and processes)
  - Program to commence in 2H FY18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