2018 AGM Chair's Address: A Year of Consolidation in a Flat Market

For Xenith IP Group Limited (Xenith), FY18 was a year of consolidation. FY18 was only the second full financial year since Xenith's listing on the Australian Securities Exchange (ASX) on 20 November 2015, and the first full financial year with Griffith Hack, Watermark and Glasshouse Advisory as new members of the Group.

During FY18 we welcomed Craig Dower as incoming Managing Director and CEO. Craig came to us as an experienced listed company CEO with the benefit of years of living and working in Asia. Craig has consolidated his executive team and has presided over a number of important foundation steps to prepare the Group and its people for implementation of a far-reaching transformation program, commencing during the second half of FY19.

The IP services sector has undergone rapid change in a short period of time. For a group of businesses which are primarily people businesses, this has thrown up a number of challenges. The engagement and client focus of their highly skilled fee-earning professional staff is key to their success. Loss of focus translates very quickly into a dip in revenue.

Adapting to the rapid sector changes takes time, but we are getting there, and our people are embracing the development programs and opportunities being offered to them to facilitate delivery of excellent client service in a more intensely scrutinized commercial environment.

In October 2017 we issued guidance for FY18 EBITDA between $18m and $22m. At the half year we confirmed our guidance and said that it would be at the lower end of the range. In the end result, FY18 EBITDA landed within the guidance range.

The FY18 results were driven in part by a slowdown in the Australian patents market, by excess capacity, and by the people adjustment issues referred to above. In the second half of FY18 steps were taken to reduce excess capacity and to refocus attention on clients, business development and efficient service delivery. At the same time, industry filing volumes returned to modest growth. While aspects of business performance improved, prolonged lower industry volumes resulted in a rebasing of the earnings of the businesses, which in turn led Xenith to take a one-off non-cash impairment charge of $20.7m to the carrying value of the Griffith Hack and Glasshouse Advisory businesses.

The Board declared a final dividend of 4.5 cents per share, which represents a payout ratio of 73% of NPATA for the full year. This brought the dividend per share for the full year to 7.5 cents, an increase of 50% on the prior corresponding period.

Our financial performance is not yet where we want it to be or where we think it could be in the future, but we are building the foundations of sustainable future success. We expect the transformation pace to pick up during FY19.

Our attorneys and other IP advisers are very focused on delivering first class efficient services to our clients, on developing business and on developing the next generation of IP professionals. Management is very focused on supporting the fee-earning professionals, on realising the synergies and scale benefits which were an important rationale for the acquisitions, and on continuous improvement in revenue growth, operating efficiencies, capacity utilisation and EBITDA margin. Management has also spent much time and effort exploring growth opportunities in Asia.

Together these two work streams of the attorneys and of management should produce the returns which investors expect, while delivering to our professionals the enhanced career prospects which the listed company model can offer.

In the last few weeks, a further significant opportunity has presented itself. We have been engaged in discussions with QANTM Intellectual Property Limited, the listed holding company of a group of brands with a history and an outlook which is strongly similar to our own.

Following an intensive but very focused due diligence process we have agreed that it would be better for the two groups to join in a merger of equals than to continue to operate as competitors of roughly equal size. The proposed merger would deliver value to our shareholders and also to our employees and our clients. It would create the undoubted second largest listed IP services group in Australia by market capitalization. Indeed, by some other equally important metrics, the merged group would rank first.

QANTM's brands have a long history and heritage which is comparable to that of the Xenith brands. QANTM's values, its vision, its strategy for growth in Asia and its respected expertise are very much consistent with those of Xenith. Together we can create a group of about twice the size with about twice the capacity for investment in technology, business systems, training and development of our people, and investment in the pipeline of opportunities in Asia which we have been exploring for some time. In addition to capturing cost synergies, the merger is expected to be value-adding and EPS accretive to both parties.

The proposed merger is to be implemented by way of a scrip-based Scheme of Arrangement. The proposed merger exchange ratio is 1.22 QANTM shares for every Xenith share. This would result in Xenith shareholders owning 45% of the merged entity, and offers Xenith shareholders a premium of 28.4% to the closing price on 26 November ($1.245) and a premium of 27.1% to the one month volume weighted average price ($1.258). The Board of Xenith has supported the merger proposal unanimously and, subject to the opinion of the Independent Expert, and on the assumption that no superior proposal emerges, the Xenith directors intend to vote their shares in favour of the merger with QANTM.

While the Scheme process is a long one and must be conducted under Court supervision, we are hopeful to conclude the merger implementation by end April 2019. We acknowledge that the proposed merger will add significant further change to the years of rapid change which our people have already experienced, but we are confident that the advantages of the merger more than justify the disruption. We look forward to the enthusiastic support of shareholders for this important new chapter in the evolution and growth of the Xenith brands.

I would like to acknowledge the hard work of our attorneys and other professional advisers in serving the needs of our client base with great skill and expertise. I would also like to acknowledge the hard work and persistence of our CEO and Managing Director Craig Dower and our executive team in guiding the Xenith brands through turbulent times.

The Xenith Board is a collegiate team which has provided good governance and wisdom in decision-making, and I thank my fellow directors for their contribution. Finally, I would like to thank our shareholders for supporting Xenith and for sharing our optimism about the potential of the Group.

Sibylle Krieger, Xenith Chair

28 November 2018