Xenith IP Group Limited – Annual General Meeting

Managing Director's Presentation – Stuart Smith

18 November 2016

Operational Highlights

Key milestones

- ☑ Successful corporate restructure and IPO in November 2015
- ☑ Strong out-performance against prospectus forecast in FY16
- ☑ Strong performance and growth in core business activities
- ☑ Strong working capital management
- ☑ Strengthening of senior management team
- ☑ Successful capital raising in August 2016 (institutional placement and Share Purchase Plan)
- ☑ Completion of Watermark acquisition in November 2016.

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Financial Highlights

Strong performance for FY16

☑ Strong performance against Prospectus forecast

- Pro forma* Revenue of $32.2m - up 8% on FY16 Prospectus forecast
- Pro forma* EBITDA of $9.2m - up 23% on FY16 Prospectus forecast

☑ Strong growth on FY15 (Pro forma*)

- Revenue of $32.2m - up 19% on FY15
- EBITDA of $9.2m - up 67% on FY15
- NPAT of $6.0m - up 71% on FY15
- EPS of 18.2 cents – up 71% on FY15
- EBITDA margin (% of professional fees) of 34% (FY15: 24%)

Pro forma ($m)	FY16	Prospectus	FY15
Revenue	32.2	29.9	27.0
EBITDA	9.2	7.5	5.5
Net profit after tax	6.0	4.7	3.5
EPS (cents)	18.2	14.3	10.6

☑ Other metrics

- Final fully franked dividend of 7 cents per share paid September 2016
- Net cash position of $0.9m at 30 June 2016 (net debt of $0.6m at 30 June 2015)
- Strong cash conversion ratio of 97% in FY16[1]
- New $10m bank debt facility established.

* NB. Pro forma results are presented to highlight underlying performance of the business in its current structure, adjusted for IPO costs and other one-off expenses and notional costs associated with the restructure and IPO of the business. Refer to Xenith 2016 Annual Report for more detailed information and reconciliation between the statutory and pro forma results.
Note: (1) After adjusting for timing on receipt of $810k receivable from the prior partnership.

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Summary Income Statement – pro forma

Strong growth in revenue and EBITDA

$'000	Pro forma			
Year ended 30 June	FY16	FY15	Var	%Var
Revenue	**32,171**	**27,006**	**5,165**	**19%**
Other income	17	131	(114)	-87%
Recoverable disbursements[1]	(4,321)	(3,651)	(670)	-18%
Compensation	(13,330)	(12,883)	(447)	-3%
Occupancy	(1,479)	(1,430)	(49)	-3%
Other	(3,876)	(3,679)	(197)	-5%
Total operating expenses	**(18,685)**	**(17,992)**	**(693)**	**-4%**
Total expenses	(23,006)	(21,643)	(1,363)	-6%
EBITDA	**9,182**	**5,494**	**3,688**	**67%**
Earnings before interest and tax	8,805	5,231	3,574	68%
Net profit before tax	8,548	4,990	3,558	71%
NPAT	**5,984**	**3,493**	**2,491**	**71%**

- Key drivers of **revenue** growth included:
  - (a) Successful business development initiatives
  - (b) Favourable movements in AUD/USD Exchange Rate and transition to USD billing
  - (c) Increased patent examination intensity following “Raising the Bar” legislative transition
- Increase in **recoverable disbursements** expense reflects an increase in outbound IP work from local clients (included in Revenue)
- **Other expenses** have increased as a result of foreign exchange losses in the current year.

Note: (1) predominately foreign agents fees, foreign patent office fees and barrister fees.

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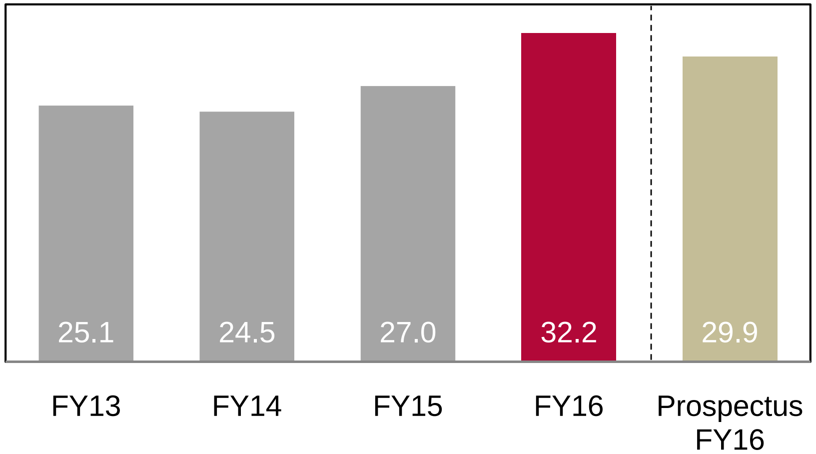
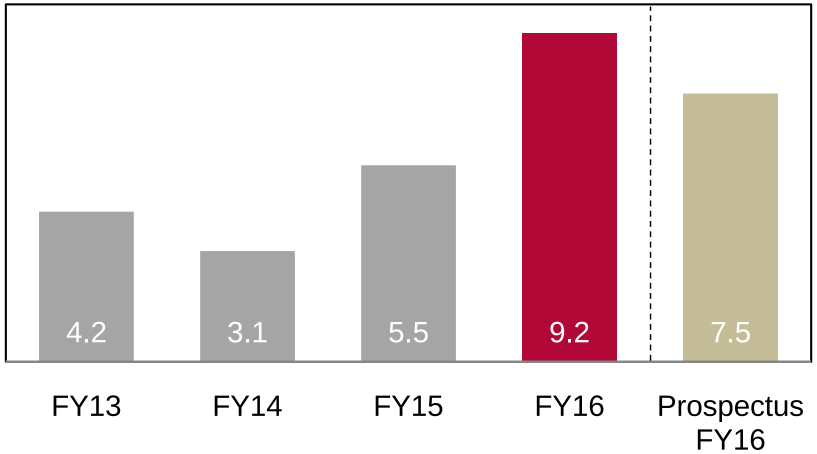
Xenith financial performance

Xenith continues to grow and improve margins

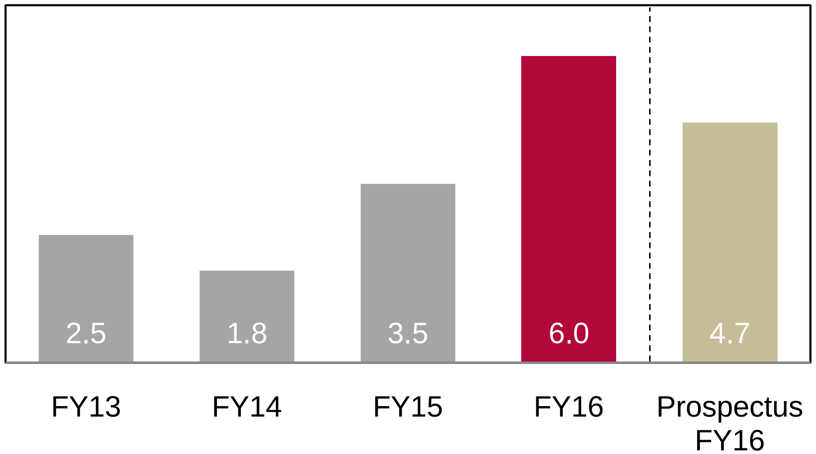
Pro forma revenue ($m)



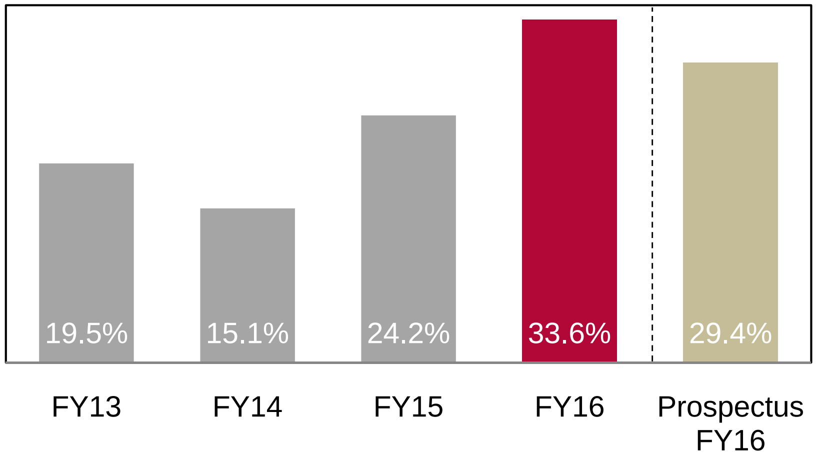
Pro forma EBITDA ($m)



Pro forma NPAT ($m)



Pro forma EBITDA margin (% of professional fees)



(1) References to "Prospectus FY16" are references to the relevant metric forecast for FY16 in Xenith's prospectus dated 28 October 2015.
(2) Pro forma results are presented to highlight underlying performance of the business in its current structure, adjusted for IPO costs and other one-off expenses and notional costs associated with the restructure and IPO of the business. Please refer Xenith 2016 Annual Report.

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Consolidated Balance Sheet

Strengthening of financial position

$'000	Statutory as at 30-Jun-16	Statutory as at 30-Jun-15
Cash and cash equivalents	4,911	1,403
Trade and other receivables	8,340	7,552
Work in progress	290	279
Other current assets	278	311
Total current assets	13,819	9,545
Property, plant and equipment	911	970
Deferred tax asset	1,355	-
Other non current assets	35	52
Total non-current assets	2,301	1,022
Total assets	16,120	10,567
Trade and other payables	2,438	1,717
Borrowings	4,000	2,000
Income tax payable	1,318	-
Deferred tax liability	332	-
Employee benefits	2,252	1,892
Provisions	981	2,117
Other liabilities	314	252
Total liabilities	11,635	7,978
Net assets	4,485	2,589
Equity		
Issued capital	3,883	1
Partner loans	-	4,583
Reserves	(2,496)	(3,027)
Retained earnings	3,098	1,032
Total Equity	4,485	2,589

- **Balance sheet** strengthened. Net cash $0.9m (net debt $0.6m at 30 June 2015)
- **Work in progress** (WIP) carefully managed: $0.3m at 30 June 16 ($0.3m at 30 June 2015)
- **Trade and other receivables** are up $788k or 10%. Included in the current year is an amount owed by the former partnership of $810k cleared post year end
- The **30 June 2015 Statutory Balance Sheet** is the consolidated balance sheet of the Shelston IP partnership and associated entities prior to the restructure. As such there are no tax related balances recorded
- The reduction in the **provision balance** of $1,136k in the current year arises from the reduction in lease provisions (incentive and make good) on surrender of leased space – relinquished due to improved operational efficiency.

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Watermark

Acquisition metrics

☑ Completed Watermark acquisition on 2 November 2016

☑ Purchase consideration:

- $15.5m upfront
- up to $5.6m deferred contingent upon financial performance to 30 June 2017
- Circa 50:50 cash:shares
- Vendor shares escrowed for 2 years from completion

☑ Cash component funded by

- Institutional Placement of 2,064,634 shares at $3.35 per share, raising $6.9m
- Share Purchase Plan (SPP), raising $1.4m
- Bank debt (residual consideration and transaction costs)

☑ Transaction EPS accretive on an underlying basis [1].

Note: (1) Before expected synergies and excluding transaction costs and integration costs and amortisation of intangible assets.

Watermark

Business Overview

- ☑ Watermark is one of the longest established national IP practices in Australia
- ☑ 90 staff over three offices – Melbourne, Perth and Sydney
- ☑ Circa 4% market share[1] bringing combined group market share to circa 10%

Operating Model

- ☑ Watermark will continue to run as a standalone operating business, maintaining its independent brand
- ☑ Synergies will be derived from shared “back office” functions including IT platforms following staged integration

Strategic Benefits

- ☑ **Geographic reach** – Increased national scale and reach
- ☑ **Complementary service lines** – Opportunity to build on strategically important adjacent service lines
- ☑ **Scale** – Broader base of personnel and other resources to pursue growth initiatives,
- ☑ **Expanded client referral network -** For adjacent services lines and Southeast Asian strategy
- ☑ **Operational efficiencies** – Opportunities for improved utilisation and operational efficiency by leveraging corporate services, IT systems, and other infrastructure across the group.

Note: (1) Based on Australian PCT national phase and complete patent applications filed in FY 16 (source: IP Australia).

Trading update and outlook

Focus for FY17

☑ Xenith October 2016 YTD underlying performance in line with management expectations

☑ Key areas of Board and management focus

- Integration of Watermark
- Southeast Asian growth strategy, supported by Watermark acquisition
- Development of complementary services lines, supported by Watermark acquisition
- Continued business development in China to build on current momentum
- Further consolidation opportunities in Australia
- Continued development of technology platform to improve operational efficiencies

☑ No change to target dividend payout ratio of 70% - 90% of NPAT

☑ Xenith continues to explore acquisition opportunities with other complementary businesses in the Australian IP services sector and to pursue opportunities to expand its service offerings in the emerging markets of Southeast Asia, with some discussions at more advanced stages than others.

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