23 February 2017

Xenith IP Group Limited – 1H FY17 Results

Half Year to 31 December 2016

Presented by:

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Pro forma financial information

Xenith uses certain measures to manage and report on its business that are not recognised under Australian Accounting Standards. These measures are referred to as non-IFRS financial information.

Xenith considers that this non-IFRS information is important to assist in evaluating Xenith’s performance. The information is presented to assist in making appropriate comparisons with prior periods and to assess the operating performance of the business.

All dollar values in this presentation are in Australian dollars (A$) unless otherwise stated.

Agenda

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1 – Highlights

Operational Highlights

Solid performance in core business and transformational acquisitions

- ☑ Solid performance in core business activities
- ☑ Key focus of enlarged management team on acquisitions and integration, in line with strategy
- ☑ Acquisitions of Watermark and Griffith Hack provide transformational increase in scale
  - Client base increased by 366% to over 11,000
  - Professional staff increased by 450% to over 175
  - Total staff increased by 415% to over 425[(1)]
  - Patent market share increased by 342% to 21.2%[(2)]
  - Revenue increased by 388% to over $125 million[(3)]
- ☑ Successful capital raisings – Watermark $8m and Griffith Hack $66m
- ☑ Debt facility increased from $10m to $50m - three year term
- ☑ Acquisitions provide significantly enlarged platform from which to leverage adjacent service offerings, diversify revenue streams and pursue growth initiatives in Asia Pacific.

(1) FTE as at 30 September 2016
(2) IP Australia – FY16 market share based on AU national phase and direct national patent applications
(3) Pro forma revenue for combined Xenith Group in FY16

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Financial Highlights

Core business solid through a period of transformational growth

Underlying results	1H FY17	1H FY16	Var (%)
Revenue ($m)	19.2	15.9	20%
EBITDA ($m)	4.9	4.9	(1%)
NPAT ($m)	3.0	3.2	(5%)
EPS (cents)	7.2	16.8	(57%)

- ☑ Revenue of $19.2m – up 20% on 1H FY16
- ☑ Underlying EBITDA of $4.9m – flat on 1H FY16
- ☑ Underlying NPAT of $3.0m – down 5% on 1H FY16
- ☑ Issue of 33 million shares ahead of full period earnings contribution from acquired entities has a significant one-off drag on EPS and DPS
  - Underlying EPS of 7.2 cents – down 57% on 1H FY16
  - Interim fully franked dividend of 1.6 cents per share
    - Further depressed by significant one-off transaction costs re transformational acquisitions
- ☑ Underlying EBITDA margin (% of professional fees) of 29.2% (FY16: 33.6%)
  - strategic investment in management resources to support acquisition and growth initiatives ahead of integration and synergy benefits
  - FX headwinds relative to pcp
- ☑ Net cash $66.7m (30 June 2016: $0.9m)
- ☑ Cash flow conversion rate of 100% of EBITDA.

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2 – Acquisitions

Watermark

- ☑ Acquisition of Watermark completed on 2 November 2016
- ☑ Melbourne, Sydney and Perth based IP firm
- ☑ Purchase consideration of $19.4m, comprised of:
  - Cash consideration of $8.6m met from equity raising of $8m plus cash reserves
  - Equity consideration of $7.4m comprising 2,285,459 XIP shares issued to vendors, subject to 2 year escrow
  - Deferred consideration of $3.5m (fair value) contingent upon post-acquisition FY17 EBITDA, annualised
    - up to $2.8m in cash
    - up to $2.8m in XIP shares (at $3.50[1] per share)

(1) Escrow terms also apply to any securities issued to Watermark vendors under the earn out arrangement.

Griffith Hack

☑ Acquisition of Griffith Hack completed on 2 February 2017

☑ Upfront purchase consideration of $140m[1], comprised of:

- Cash consideration of $83.6m funded by equity raising of $66m and bank debt of $17.6m
- Equity consideration of $56.5m comprising 21,638,744 XIP shares issued to vendors, subject to two year escrow

☑ Earn-out consideration based on post-acquisition FY17 EBITDA, annualised:

- up to $11.0m in cash consideration (to be debt funded)
- up to $9.0m in XIP shares[2] (at $3.161 per share)

☑ Targeting annual pre-tax cost synergies by year three of $4m–6m

☑ Anticipated implementation costs of $2m–3m, primarily in the first 24 months

(1) Fair value as at completion date 2 February 2017. ASX Announcement dated 25 November 2016 referred to upfront consideration of $152m based on 20 day VWAP of $3.161 per share.
(2) Escrow terms also apply to any securities issued to Griffith Hack vendors under the earn out arrangement

Strategic Rationale for Acquisitions

- ☑ In line with Company's growth strategy, recent acquisitions provide transformational combination of three of Australia's leading IP firms – Shelston IP, Watermark and Griffith Hack
- ☑ Independently branded firms with substantial scope for efficiencies through centralised support functions and shared services
- ☑ Increased scale in a rapidly consolidating sector – #1 market position on several key metrics
- ☑ Complementary geographic fit – strong presence in major capital cities
- ☑ Diversified, long-term client profile with enhanced focus on premium local clients
- ☑ Increased scope of services including suite of complementary service lines bringing diversified revenue streams and unique market position
- ☑ Significantly enlarged client base from which to leverage complementary service offerings and pursue growth initiatives in Asia Pacific
- ☑ Targeting meaningful cost and revenue synergy benefits over three year integration period.

3 – 1H FY17 Financial Results Detail

Statutory and Underlying Income Statement

$m	Statutory 1H FY17	Adj	Underlying 1H FY17	Statutory 1H FY16	Adj	Underlying 1H FY16
Revenue	19.2	-	19.2	15.9	-	15.9
Other income	-	-	-	0.2	(0.2)	-
Expenses						
Disbursement Expense	(2.5)	-	(2.5)	(2.0)	-	(2.0)
Compensation	(9.3)	0.5	(8.9)	(6.0)	(0.9)	(6.9)
Occupancy expense	(1.1)	-	(1.1)	(1.3)	0.6	(0.7)
Net foreign exchange gain/loss	0.1	-	0.1	0.3	-	0.3
All other expenses	(3.7)	1.7	(2.0)	(3.1)	1.3	(1.8)
EBITDA	**2.7**	**2.2**	**4.9**	**4.1**	**0.8**	**4.9**
Depreciation and Amortisation	(0.4)	-	(0.4)	(0.3)	0.1	(0.2)
Net interest expense	(0.1)	-	(0.1)	(0.1)	-	(0.1)
Net profit before tax	**2.2**	**2.2**	**4.4**	**3.7**	**0.9**	**4.6**
Income Tax Expense	(0.7)	(0.7)	(1.4)	-	(1.4)	(1.4)
Net profit after tax	**1.5**	**1.6**	**3.0**	**3.7**	**(0.5)**	**3.2**
EPS (cents per share)	**3.57**	**3.59**	**7.16**	**19.60**	**(2.83)**	**16.77**

- Adjustments in 1HFY17 for one-off items include:
  - $1.7m transaction costs associated with acquisition of Watermark and Griffith Hack
  - $0.5m share based payments expense re issue of Share Rights at IPO
  - ($0.7m) tax effect of the above two adjustments
- Adjustments in 1HFY16 for one-off items include:
  - $1.4m transaction costs associated with IPO
  - $0.2m share based payments expense relating to IPO
  - $0.5m net lease surrender cost arising of restructure of business
  - ($0.6m) for tax effect of above adjustments
  - ($1.1m) for one-off tax benefit arising on tax exempt income pre restructure of business
- Pro-forma adjustments in 1HFY16 include:
  - ($1.0m) notional salary costs of principals of business pre restructure
  - ($0.3m) notional cost of being a listed entity
  - $0.4m tax effect of the above

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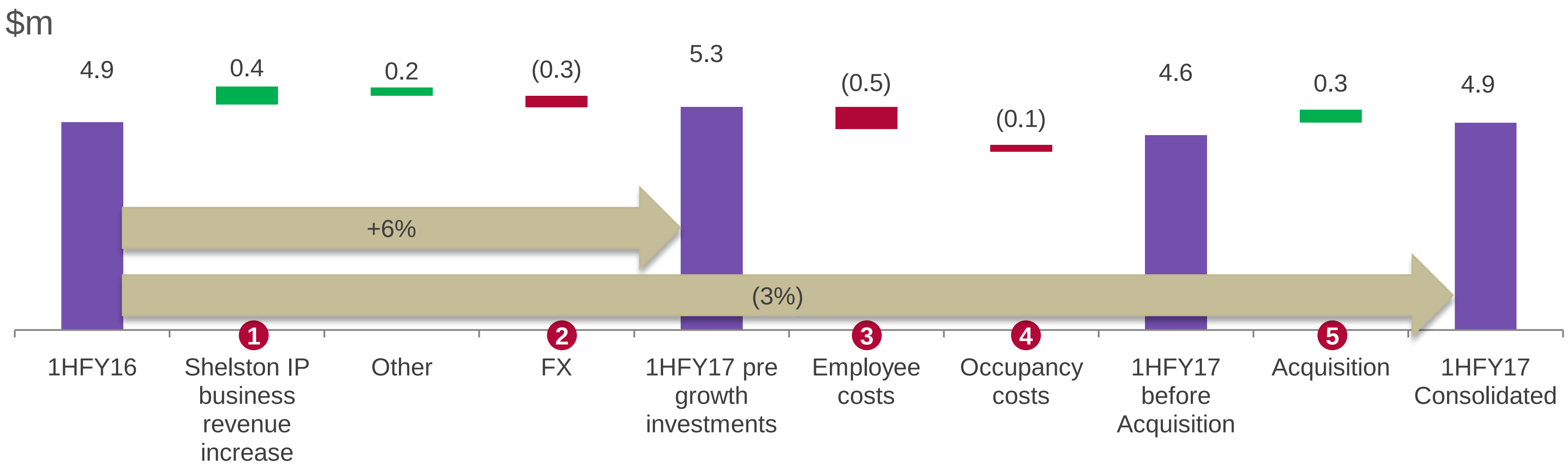
Underlying EBITDA Bridging Analysis

Solid growth and investment in corporate resources ahead of EBITDA contribution and synergies from acquisitions



1. Revenue from Shelston IP business included solid growth of $0.4m (+2.4%), notwithstanding FX headwinds and AIA (America Invents Act) uplift in prior period.
2. Foreign currency gain reduced by $0.3m over prior period.
3. Transformational acquisitions during the period have resulted in a significantly larger and more complex business. The Company has invested in appropriate corporate resources to better manage this transformation ahead of the realisation of the synergy benefits and full period impact of EBITDA contribution.
4. The company has marginally increased its occupancy footprint to accommodate the additional corporate resources.
5. The Watermark business contributed $0.3m in underlying EBITDA for the period. This includes the seasonally low month of December and does not incorporate the impact of the rationalisation of the business carried out in February 2017.

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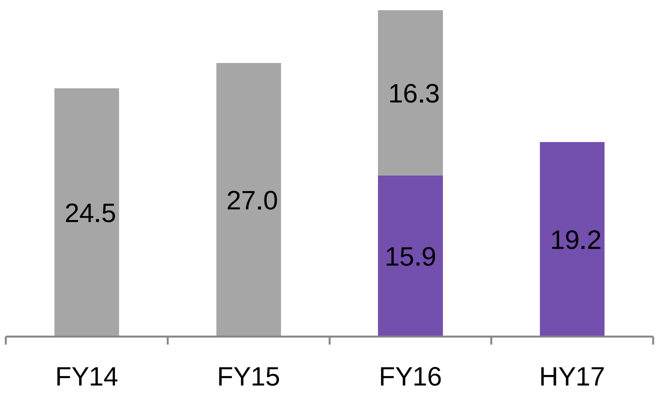
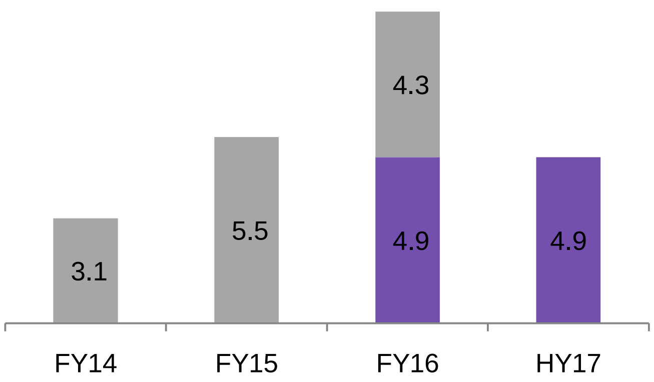
Revenue and EBITDA %

Solid growth and investment in corporate resources ahead of EBITDA contribution and synergies from acquisitions

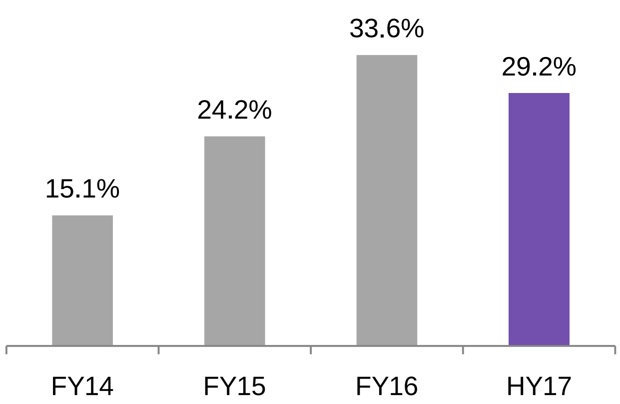
Revenue ($m)



Underlying EBITDA ($m)



Underlying EBITDA margin (% of professional fees)



Comments

- Revenue from Shelston IP business included solid growth of $0.4m (+2.4%), notwithstanding FX headwinds and AIA (America Invents Act) uplift in prior period
- EBITDA in 1HFY17 impacted by:
  - Strategic investment in management resources to support acquisition and growth initiatives ahead of integration and synergy benefits
  - FX headwinds relative to PCP
  - Inclusion of Watermark for two months pre rationalisation of the business post period end.

Cash Flow

$m	Statutory 1H FY17
EBITDA	2.7
Non-cash movements	0.5
Changes in working capital	0.9
Capital Expenditure	(1.4)
Cash flow before financing, investing and tax	**2.7**
Cash conversion ratio	100%
Financing costs	
Net interest paid	-
Income tax paid	-
Free Cash Flow	**2.7**
Financing and investing activities	
Purchase of controlled entities	(7.1)
Capital raisings	73.2
Debt repayment	(4.5)
Dividends paid	(2.5)
Net Cash Flow for the 6 months	**61.8**
Cash on hand	**66.7**

- High cash conversion rate of 100% of EBITDA
- Non cash movements: share based payments expense
- $1.4m capital expenditure relating to Watermark fit-out of new leased premises (offset by $0.9m lease incentive, included in changes in working capital)
- Income tax payments commence February 2017
- $73.2m of cash raised, net of transaction costs, through equity raisings to fund the cash component of:
  - The acquisition of Watermark on 2 November 2016
  - The acquisition of Griffith Hack on 2 February 2017
- $7.1m paid for Watermark acquisition, net of cash acquired.

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Consolidated Balance Sheet

$m	Statutory 31-Dec-16	Statutory 30-Jun-16	Acquired entities 31-Dec-16
Assets			
Cash and cash equivalents	66.7	4.9	0.9
Trade and other receivables	11.9	8.3	4.7
Work in progress	1.7	0.3	0.5
Property, plant and equipment	2.6	0.9	1.8
Intangible assets	18.6	-	18.6
Deferred tax asset	3.1	1.4	0.8
Other Assets	1.0	0.3	(0.4)
Total assets	105.6	16.1	26.9
Liabilities			
Trade and other payables	4.7	2.4	1.3
Employee benefits provision	4.5	2.3	2.1
Provisions	5.8	1.0	1.4
Borrowings	-	4.0	-
Deferred tax liability	3.1	0.3	2.4
Other	2.1	1.6	0.1
Total liabilities	20.2	11.6	7.3
Net assets	**85.4**	**4.5**	**19.6**
Equity			
Issued capital	85.6	3.9	
Reserves	(2.4)	(2.5)	
Retained earnings	2.1	3.1	
Total liabilities	**85.3**	**4.5**	

- Balance Sheet Strengthened
  - $7.4m of shares issued to Vendors of Watermark business as part of acquisition
  - $73.2m net cash from equity raising to fund Watermark and Griffith Hack acquisitions
- Working Capital
  - December 2016 WIP unusually high. Corrected in January 2017 to normal levels
  - Offset by reduced trade receivables balance
  - Increase in trade and other payables due to acquisition related expenses
- Cash and Funding
  - At 31 December 2016 the Company has $66.7m of cash
  - Bank debt facilities renegotiated
    - increased from $10m to $50m
    - 3 year term from 2 February 2017
  - Griffith Hack cash consideration of $83.6m paid on 2 February 2017 - met through cash reserves and debt drawn down
- Provisions include
  - $3.5m relating to the fair value of the deferred contingent consideration payable to Watermark Vendors on achievement of targets.

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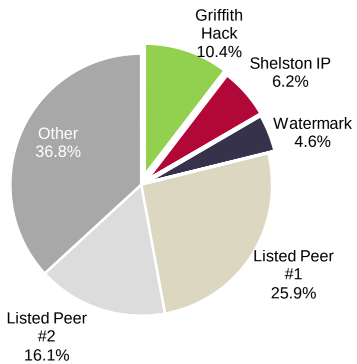
4 – Post Acquisition Business Overview

Three of Australia's leading IP firms

Xenith is No. 2 in market share in patents and trade marks in Australia

FY16 market shares

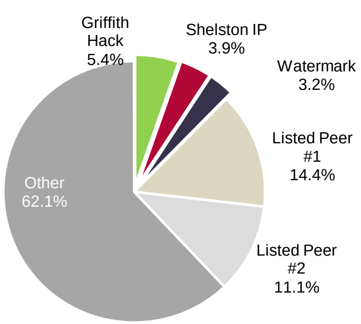
Patent filing market share(1) (FY16)



Market shares:

- Griffith Hack — #3
- Shelston IP — #6
- Watermark — #9

Trade mark market share(2) (FY16)

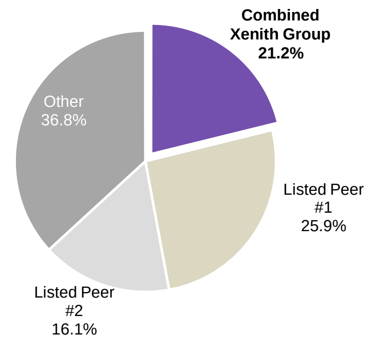


Market shares:

- Griffith Hack — #3
- Shelston IP — #6
- Watermark — #8

FY16 pro forma market shares(1)

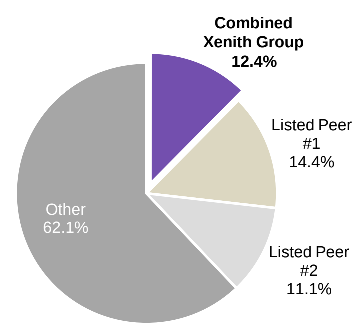
Patent filing market share(1) (FY16)



Pro forma market share:

☑ **Combined Xenith Group: #2**

Trade mark market share(2) (FY16)



Pro forma market share:

☑ **Combined Xenith Group: #2**

(1) IP Australia – FY16 market share based on Australian national phase and direct national patent applications.
(2) IP Australia – FY16 market share based on Australian trade mark applications filed through the top 50 filing agents.

Three of Australia's leading IP firms

Xenith is No. 1 in market share across a range of other key measures

FY16 filing market shares (Australia)

	Shelston IP	Watermark Intellectual Asset Management	Griffith Hack IP Amplified	Combined Xenith Group (pro forma)	Combined Xenith Group vs Australian Peers
Australian PCT[(1)] applications	3.1%	3.1%	7.6%	13.8%	☑ No. 1 by market share
Innovation patent applications	3.5%	1.0%	3.5%	8.0%	☑ No. 1 by market share
Provisional patent applications	2.2%	1.6%	6.2%	9.9%	☑ No. 1 by market share
Registered designs	5.1%	3.7%	7.7%	16.4%	☑ No. 1 by market share

Source: IP Australia – FY16 market share.

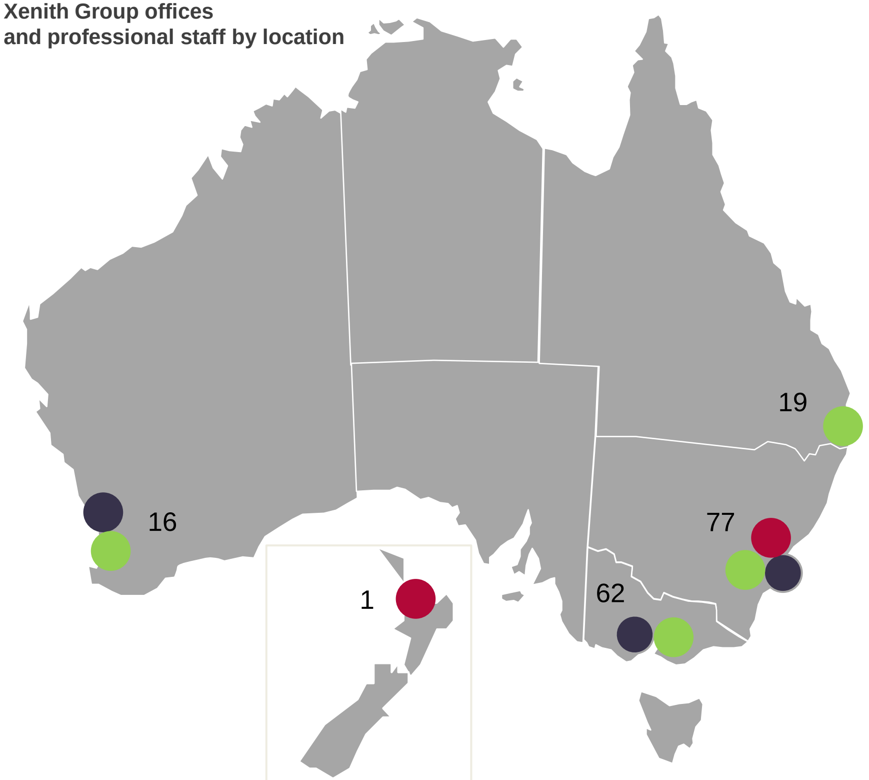
(1) A Patent Cooperation Treaty (PCT) application is a single international application that has initial effect in over 140 countries (signatories to the treaty) for a period of up to 31 months from the date of filing in the country of origin, subsequently requiring national phase entry in each jurisdiction of interest. Australian PCT applications are a proxy for local client patent origination activity and generate subsequent outbound national phase applications, supporting reciprocal workflows.

Complementary geographic footprint

An extensive national footprint positions Xenith as one of the largest IP groups in Australia by number of professional staff

Australasian geographic footprint

Xenith Group offices
and professional staff by location



Professional staff by office location	Shelston ip	watermark	griffith hack IP Amplified	Combined Xenith Group
Brisbane	-	-	19	**19**
Sydney	38	6	33	**77**
Melbourne	-	20	42	**62**
Perth	-	6	10	**16**
Auckland	1	-	-	**1**
Total	**39**	**32**	**104**	**175**

● : Shelston IP
● : Watermark
● : Griffith Hack

Source: Acquisition of Griffith Hack and Entitlement Offer Presentation lodged with the ASX on 25 November 2016.

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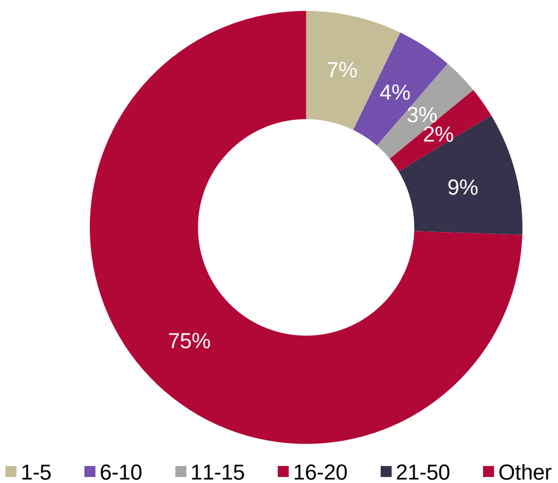
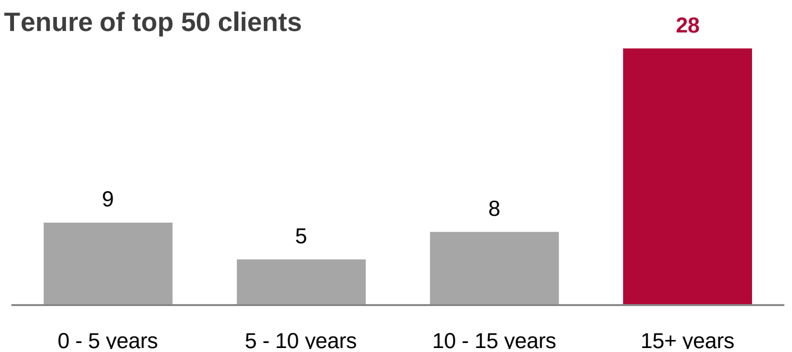
Diversified and long-term client profile

Highly diversified client base with Xenith's largest client representing only 2% of pro forma FY16 revenue

FY16 pro forma revenue by client[1]



Tenure of top 50 clients



- Approximately 11,000 clients on combined basis including:
  - Major multinational corporations
  - Domestic and foreign corporations, research institutes, educational institutions and SMEs
  - Domestic professional services firms
  - Foreign associates including offshore IP & other law firms
- Client base highly diversified by geographies, service lines and industries
- Resulting greater diversification of revenue across the client base, with top 20 / 50 clients accounting for only 16% / 25% of pro forma FY16 revenue
- Long-term relationships:
  - **36 of the top 50 clients** with Xenith firms for **more than 10 years**
  - **28 of the top 50 clients** with Xenith firms for **more than 15 years**

(1) Post acquisition of Watermark (completed 2 November 2016) and Griffith Hack.

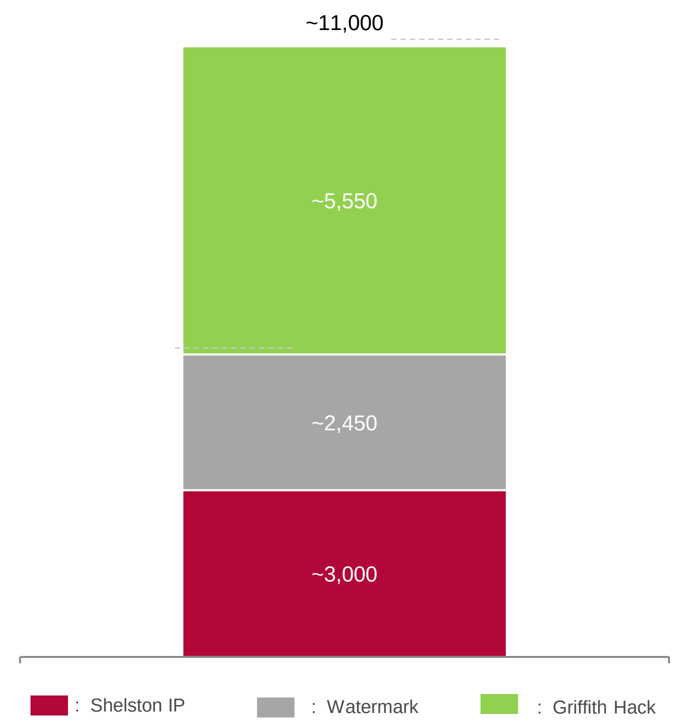
Increased scope of service offering

Large client base with potential to cross-sell traditional and established adjacent advisory services

Comparison of capabilities

	Capability	Shelston IP	Watermark	Griffith Hack	Xenith Group
Traditional IP Services	Patents	✓	✓	✓	✓
	Trade Marks	✓	✓	✓	✓
	IP Law	✓	✓	✓	✓
Established adjacent IP Services	R&D Tax	✗	✓	✓	✓
	IP Valuation	✗	✓	✓	✓
	IP Analytics	✗	✗	✓	✓
	IP Transfer Pricing	✗	✗	✓	✓

Pro forma client numbers (FY16)



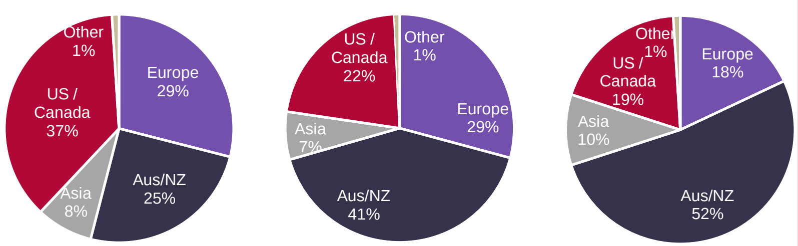
- Client base presents significant opportunity to offer existing adjacent IP service offerings across the enlarged group

Large domestic client base

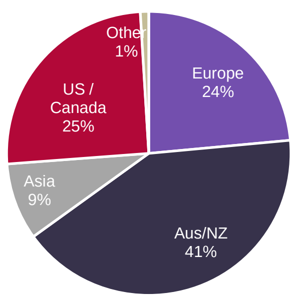
Weighting towards premium domestic clients expected to deliver a range of strategic and financial opportunities

Revenue by client geography (FY16)

Shelston ip | watermark Intellectual Asset Management | griffith hack IP Amplified



Combined Xenith Group (pro forma FY16)



- Combined Xenith Group ranked #1 by domestic PCT patent applications (13.8%) on a pro forma FY16 market share basis[(1)] *(vs next largest competitor with c.12.7% market share[(1)])*
- Strong domestic market shares positions Xenith to benefit from a range of significant potential strategic and financial opportunities:
  1. ***Earlier stage involvement in the IP lifecycle*** with potential for:
     – **Increased revenue opportunities and client tenure** stemming from initial IP origination services through to multi-jurisdictional application, prosecution and subsequent stages
     – **Provision of incremental advisory services** for each new application and on existing portfolios (e.g. patentability advice, patent drafting, IP searching, infringement, commercialisation, valuation and enforcement)
     – **Broader professional development of staff** through direct interaction with local clients
  2. Potential for outbound filings to act as ***stimulus for foreign originating inbound reciprocal work flows***
  3. Broader scope of service offering diversifies revenue streams and ***diminishes exposure to possible extension of ePCT system*** to national phase entry
- Diversified exposure to foreign currencies and reduced exposure to USD.

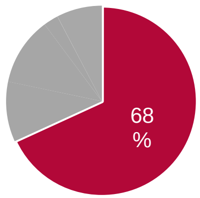
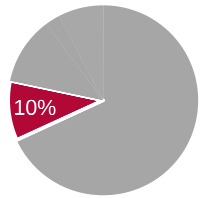
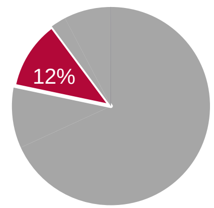
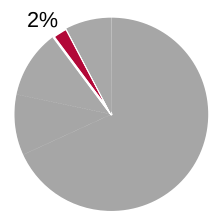
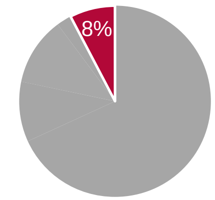
(1) IP Australia – FY16 market share of Australian PCT applications.

XENITH IP GROUP

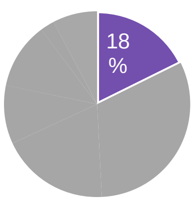
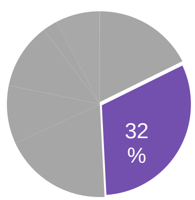
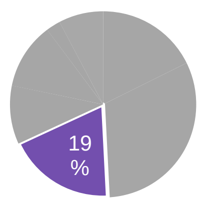
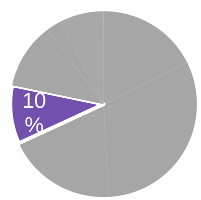
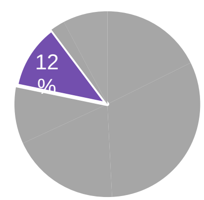
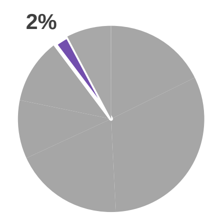
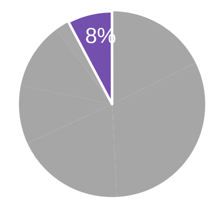
Xenith revenue base

Highly diversified revenue base – by industry and service line

By Practice Area

	Patents	Trade Marks	IP Law	IP Economics	IP Consulting
Overview	Xenith provides a comprehensive range of IP services including registration, management, commercialisation, valuation and enforcement of IP rights locally and internationally				
FY16 professional fees					

By Practice Group

	Electrical / Physics / ICT[(1)]	Engineering	Life Sciences	Trade Marks	Law	IP Economics	Consulting
FY16 professional fees							
Professionals (including principals)	14 attorneys (6 principals)	18 attorneys (10 principals)	18 attorneys (6 principals)	8 attorneys (4 principals)	18 lawyers (6 principals)	12 professionals (1 principal)	16 professionals (2 directors)

(1) ICT means information and communication technology.

5 – Integration

Integration

"Xenith targeting annual pre-tax cost synergies by year 3 of $4.0–6.0 million[(1)] to the combined business. One-off implementation costs are expected to be approximately $2.0–3.0 million, primarily in the first 24 months post-completion"

- Integration Project Manager appointed
- Comprehensive integration plan developed
- IP Advisory practice consolidated within new standalone entity
- IP Advisory practice rebranding underway to enhance market positioning and facilitate cross-referrals from expanded client base
- SE Asia service offerings initiated.

(1) Excludes one-off implementation costs and potential incremental revenue streams that may be generated by the Combined Xenith Group following integration of Griffith Hack.

Targeting meaningful synergy benefits

Synergies

Cost synergies	**Productivity**	• Potential benefits associated with improvements in professional staff productivity	Target annual pre-tax cost synergies by year 3: **$4.0 – 6.0 million(1)**
	Technology synergies	• Opportunities to deliver scale benefits associated with technology investment	
	Property / lease synergies	• Cost saving opportunities from rationalisation of overlapping leased property footprint	
	Support function efficiencies	• Opportunities for improved support function utilisation, operational efficiency and profitability through leveraging corporate services, IT systems, resources and other infrastructure across the Combined Xenith Group	
Revenue synergies	**Incremental revenues**	• Opportunities for incremental revenue generation from cross-selling of adjacent service lines and extension of the Southeast Asian services offering	Not included in above target synergies

One-off implementation costs

Implementation costs	• One-off costs associated with the three year integration plan • Includes costs related to technology integration (project management), lease make-good provisions and costs associated with elimination of overlapping functions

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6 – Outlook

Xenith Outlook

- The underlying business (Shelston IP) remains steady despite forex headwinds in FY17 YTD relative to pcp
- Enlarged scale, additional resources, expanded services lines, expanded geographic footprint and consolidated market share position the Company well for further growth
- Comprehensive three year integration plan in progress with substantial scope for synergies and operational efficiencies through improved utilisation, shared services, technology platform development and complementary geographic locations
- Key areas of Board and management focus:
  - Integration of Shelston IP, Watermark and Griffith Hack businesses – based on 3 year detailed integration plans
  - Southeast Asian growth strategy, leveraging enlarged client base and targeting regional hub
  - Development of complementary service lines through the IP Advisory services business, supported by Shelston IP, Watermark and Griffith Hack
  - Continued business development in China to build on current momentum
  - Further consolidation opportunities in Australasia
  - Continued development of technology platform and work flows to improve operational efficiencies and margin performance
- No change to target dividend payout ratio of 70% - 90% of NPAT.

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