

## **Chairman's Address**

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QANTM was listed in August 2016, bringing together two of Australia's foremost intellectual property firms: Davies Collison Cave and FPA Patent Attorneys. Shareholders will be aware that both firms have a long and esteemed history in the provision of intellectual property services. DCC was established in 1878 and FPA was established in 1994 and initially had a relationship with Freehills.

I mention the history as it reflects the depth and breadth of experience both firms – now under the ownership of QANTM – have in the provision of services in patent application and protection; trademarks and, in the case of DCC Legal, litigation, dispute resolution, as well as other IP related legal services.

QANTM has over 135 professional staff with a capability to provide specialist services across industry sectors. I will name but a few: agri business and food; biotechnology; chemicals and engineering; food beverage and the FMCG sector, nanotechnology, pharmaceuticals and mining. As you can see from this selective listing, our business provides services to a range of sectors in the economy, both here in Australia and internationally.

I think it is important to recognise, as I said in my Annual Report comments, that the services provided by QANTM are a foundation of the operation of modern economies. They protect investments made by companies, research institutes and governments in proprietary information, new technologies, trade marks, copyright and so on.

So, if you consider any aspect of modern life – the development of the iPhone, the trend to electric vehicles, new medicines or medical technology – it is likely that DCC or FPA and its professional staff have had a role in patent or trademark application and protection. And the services provided are highly specialised ones; reflected both by the length of experience as well as impressive academic qualifications of our people.

In my mind, establishing QANTM in a publicly listed environment brings with it an attractive and sustainable business model and a series of services that will continue to be in high demand. Your board is confident in the future and in the capabilities of QANTM to deliver services that are sought by its clients; to continue to provide the high level of expertise and quality service that has been a hallmark of DCC and FPA, and in doing so, generate attractive financial performance that will ensure that shareholder value is created and delivered.

Leon will speak more about the 2017 financial results and key operational features of the business. Management and Directors were disappointed that the initial Prospectus forecasts were not able to be met due to a market-wide trend of lower patent filings in 2017; some softness in patent advisory work and unfavourable currency factors.

Nonetheless, QANTM generated pro-forma EBITDA of \$24.5 million including Foreign Exchange; operating cash flow of \$21.3 million; ended the year with a low to moderate levels of debt, reflected in a gearing ratio of 9.4 per cent and was able to declare a dividend of 8.9 cents fully franked. With the share price having retreated from the May Update the company provided, this reflected a dividend yield of 6 per cent.

Your Board, members of whom you will have the opportunity to meet later, have operated together professionally. I believe your Directors have the requisite blend of skills to oversee the governance and strategic direction of your company, as well as assist Leon and his senior management team in the delivery of their business goals. Those directors standing for re-election will make some brief comments about themselves as part of the formal proceedings.

I am confident the company is well positioned. This confidence derives from the strength of our professional and support personnel; the depth and strength of client relationships; including our relationships with overseas associates; and the integrity of our systems.

The Board is aware that this is a business reliant on the expertise of its professional personnel and in this regard the retention and attraction of personnel is a key consideration at Board level.

Management is focussed upon the growth in the core parts of the business through its ongoing client relationships, marketing and business generation activities and through the expansion of the company's initial Asian presence based in Singapore. The company has been successful in eight lateral recruitments – that is attracting existing intellectual property practitioners – and with this comes further business opportunities as well as a deepening of our skills base.

The company has, as I said, a sound balance sheet and the capability to consider acquisition opportunities. As shareholders would expect, acquisition as a means to create shareholder value is considered. Opportunities have and will be reviewed but, will be done so in a considered and disciplined manner and only progressed where there is sufficient confidence that shareholder value can be generated in a reasonable period. I am pleased to say that the Managing Director displays this disciplined approach to the deployment of shareholder funds.

While the company will remain alert to appropriate acquisition opportunities the fundamental focus will remain on the growth and further efficiency of the existing business.

I thank shareholders – including the large proportion who are employees of DCC, FPA and QANTM – for their support. I also acknowledge and thank my fellow Board members for their counsel and hard work. I would also like to thank management and, in particular, our Managing Director, Leon Allen whom I will now ask to address shareholders.

### **Managing Director's Address**

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Thank you Chairman. I would like to welcome shareholders to this the company's first AGM.

I would like to acknowledge at the outset the work undertaken by many of my colleagues and the wider staff of both DCC and FPA and now QANTM in making the transition to a public listed entity.

In my mind, the fact that we retained all of the company's major clients; that there has been no diminution in the quality of the services we provide and that both DCC and FPA remain in strong market positions as widely respected intellectual property firms are great achievements in marking the transition from private to public ownership.

I also know there is a very clear alignment between a major proportion of QANTM's employees, as shareholders, and the interests of those that have come on to our register since the listing.

As the Chairman indicated, the financial results reported relative to Prospectus forecasts were adversely influenced by slightly lower Australian market-wide patent applications in 2017.

This resulted in Services Charges revenue of \$80.4 million and as you can see from this slide relative to prior year pro-forma and the Prospectus Forecast.

Operating expenses were lower than both the 2016 Pro-forma and the Prospectus forecast, indicating that we controlled what we could control in terms of the contribution to financial outcomes.

EBITDA before the impact of foreign exchange was \$23.6 million, essentially in line with 2016 and as you can see lower than Prospectus forecast. NPAT was \$14.8 million.

The company had a solid EBITDA margin of 30.5%; demonstrated high cash conversion; attractive cash flow and – as the Chairman indicated – attractive dividend yield characteristics.

The company ended the year with debt of \$7.4 million which equates to a gearing ratio (net debt/debt and equity of 9.4%).

The company held total bank facilities at 30 June 2017 of \$59.5 million, of which \$15.7 million had been drawn.

Cash on hand was \$8.3 million. I think this reinforces the Chairman's comments about a favourable balance sheet situation.

The structure of the main components of the 2017 business outcomes are shown in this chart, which provides the revenue generation from Patents and design lifecycle and advisory business; trademarks and litigation and other legal services.

The trend in patent applications filed in Australia over the last four years is shown in the blue columns in this chart and you can see the trend for QANTM in Australia which in 2017 reflected the slight decline in line with the market trend I indicated. There was no diminution in QANTM's market share year-on-year.

If we look at the Australian patent application situation along with the company's recently established Singapore based business, the trend for Singapore was positive – although still from a small but growing part of the company's revenue stream.

Our business priorities at a corporate level were associated with bedding down, if you like, the new corporate entity, establishing management systems, implementing efficiencies in terms of IT services and so on.

An example in this regard would be bringing FPA and DCC onto a common information and communications technology platform, with work progressing this year on establishing a common accounting platform. These and other initiatives have progressed well and, as you would expect, a focus will remain on further efficiency and cost improvements.

I would like to make some brief comments upon what I consider the main areas of organic growth potential in the business. Clearly there is a focus on the generation of new business and both DCC and FPA personnel undertake this through a series of activities, which relate to professional relationships with associations; the publication of papers and attendance at industry fora.

DCC and FPA also have a series of regional offices which enable the company's personnel to be in close association with research institutes or various industry sectors where we provide professional services.

During 2017, QANTM attracted four new principals and with this some of the clients of these lateral recruits. In Asia and through the company's office in Singapore, that now has eight professional staff we have continued to expand our business over the last twelve months with successful efforts to generate reciprocal work in other Asian centres.

I have always envisaged our Asian presence as being a five to ten year programme, but I am confident we can expedite our presence and the significance of the revenue generation from this geographical and market base.

QANTM's strong presence in Australian-initiated patent application work also positions the company well in terms of foreign associates referring their clients to QANTM.

As the Chairman indicated, the company reviews and analyses potential acquisition opportunities. A number have and will continue to be evaluated. Any such opportunities will only be progressed if it is assessed that the financial rationale related to acquisition cost, payback and other financial metrics meet my and the Board's criteria. I am not one to get excited about M&A opportunities based on so-called "strategic rationale"; the financial merit test is more important to me.

Turning to the market environment and outlook for 2017, we are five months into the financial year. Having analysed trends in this sector for over 30 years, I am aware that short term monthly data, often quite variable, makes predictions problematical. As things currently stand, I see little to alter the outlook statements I made with the full year results. We continue to see the opportunity in 2017 for modest revenue growth over the year even if the trend to date has been relatively flat.

Historically, patent applications in Australia have typically grown in line with GDP trends – or in fact a 3.3% compound annual growth rate between 1997 to 2017. We would expect to see a reversion over time to GDP style growth rates. Our industry – like others – however, is influenced by economic settings, business confidence and investment decision-making.

Business conditions for many of our clients remain challenging and this will influence investment and R&D decision-making. We retain a close focus on operating expenses which, as we indicated we expect to be flat year-on-year, subject to the revenue environment.

Clearly, our intentions in terms of dividend payments representing 70 – 90 per cent of net profit after tax and amortisation remains the framework we will adopt, with the ability to frank dividends to 100% in the foreseeable future.

Our priorities in 2017 remain on the organic growth in the business; in retaining and attracting professional staff that can grow our business and enhance our ability to service clients across sectors; in capturing further efficiencies across our business and in prudently evaluating logical acquisition opportunities if financial merit can be demonstrated.

I thank my colleagues, shareholders and the Board for their support for the company and its efforts.

# Financial Highlights



- FY17 Prospectus forecast not achieved as the industry experienced a flat year in patent applications, whilst the forecast assumed growth rates in line with recent experience
- Results exceeded updated guidance provided in May due to stronger revenue in May and June
- Key pro forma financial results:
  - Service charges revenue \$80.4m, a 1.3% decline from \$81.5m FY16 (Prospectus \$86.0m)
  - Operating expenses \$61.7m, 1.0% lower than \$62.3m in FY16 (Prospectus \$62.9m)
  - EBITDA before FX gains \$23.6m, a 0.4% increase on \$23.5m FY16 (Prospectus \$27.5m)
  - EBITDA after FX gains \$24.5m, a 7.9% decrease on \$26.6m in FY16 (Prospectus \$27.5m)
  - NPAT \$14.8m, a 9.8% decrease on \$16.4m FY16 (Prospectus \$16.9m)
  - EBITDA margin (on Service Charges revenue) of 30.5% (FY16 32.6%, Prospectus 32.0%)

Note:

Pro forma results are presented to highlight underlying performance, adjusted for IPO costs and other one-off expenses associated with reorganisation of the business.

# Business Outcomes



BUSINESS AREAS	PATENTS AND DESIGNS LIFECYCLE/ADVISORY	TRADE MARKS	LEGAL / LITIGATION
<p><b>Percentage of aggregate QANTM Service Charges revenue in 2017<sup>1</sup></b></p>			
<p><b>2017 vs 2016 Service Charges Revenue</b></p>	<p>\$57.7m vs \$58.6m</p>	<p>\$13.8m vs \$13.3m</p>	<p>\$8.9m vs \$9.6m</p>
<p><b>Factors Influencing Outcome</b></p>	<ul style="list-style-type: none"> <li>• Lower patent applications year-on-year (1% decline in line with 1% Australian market decline)</li> <li>• Lower levels of prosecution and advisory fees</li> <li>• Originating applications up 5%</li> <li>• Stronger A\$</li> </ul>	<ul style="list-style-type: none"> <li>• Growth in trademark applications</li> <li>• Stronger A\$</li> </ul>	<ul style="list-style-type: none"> <li>• Recovery in legal and litigation services in H2 to internal expectations</li> <li>• Lower y-on-y reflecting variability in this market</li> <li>• Stronger A\$</li> </ul>
<p><b>Market Position<sup>2</sup></b></p>	<ul style="list-style-type: none"> <li>• DCC equal #1 firm</li> <li>• QANTM #3 group</li> </ul>	<ul style="list-style-type: none"> <li>• DCC #1 individual firm</li> <li>• QANTM #3 group</li> </ul>	<ul style="list-style-type: none"> <li>• DCC legal services</li> </ul>

Source: DCC and FPA management analysis

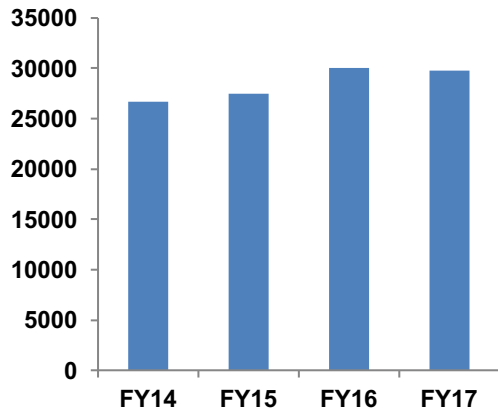
Notes:

1. Excludes Associate Charges
2. Market position analysis is based on the total number of patent or trade mark applications filed in Australia in CY17 and assumes the Group and two additional competitor groups of businesses both operated in their current form in CY17

# Patent Applications Australia

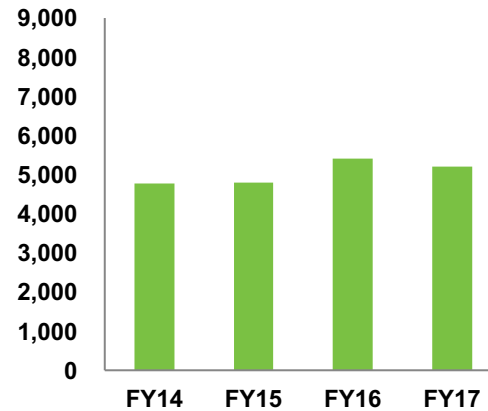


**TOTAL  
PATENT APPLICATIONS FILED IN AUSTRALIA  
FY14 – FY17**



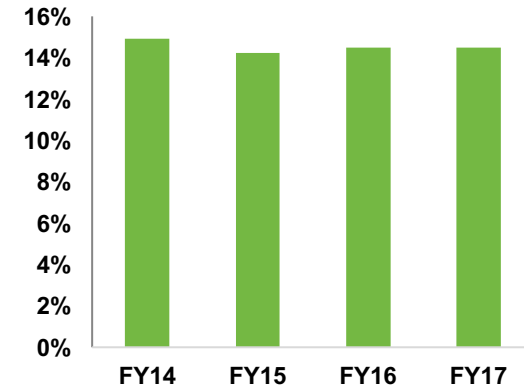
- 2017 1% decline in overall level of patent applications filed

**QANTM  
AUSTRALIA PATENT APPLICATIONS  
FY14 – FY17**



- Australian patent applications declined FY17 vs FY16 by 1%
- QANTM's decline reflects overall market trend in 2017

**QANTM  
PATENT FILINGS TOTAL MARKET SHARE  
FY14 – FY17**



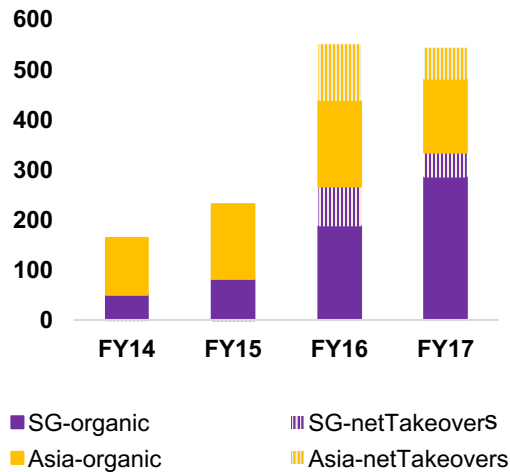
- QANTM market share has remained stable over recent years

■ Total   ■ QANTM

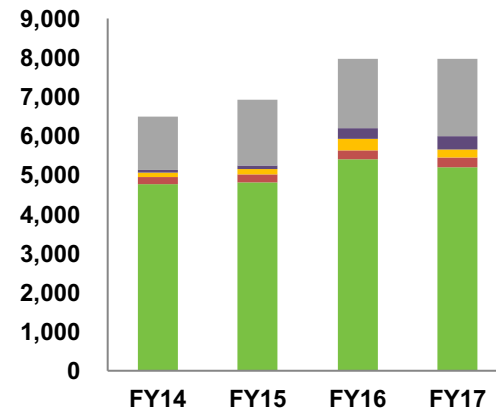
# Patent Applications Australia and International



**QANTM SINGAPORE/ASIA NEW PATENT CASES SECURED FY14 – FY 17**



**QANTM TOTAL NEW PATENT CASES SECURED FY14 – FY 17**

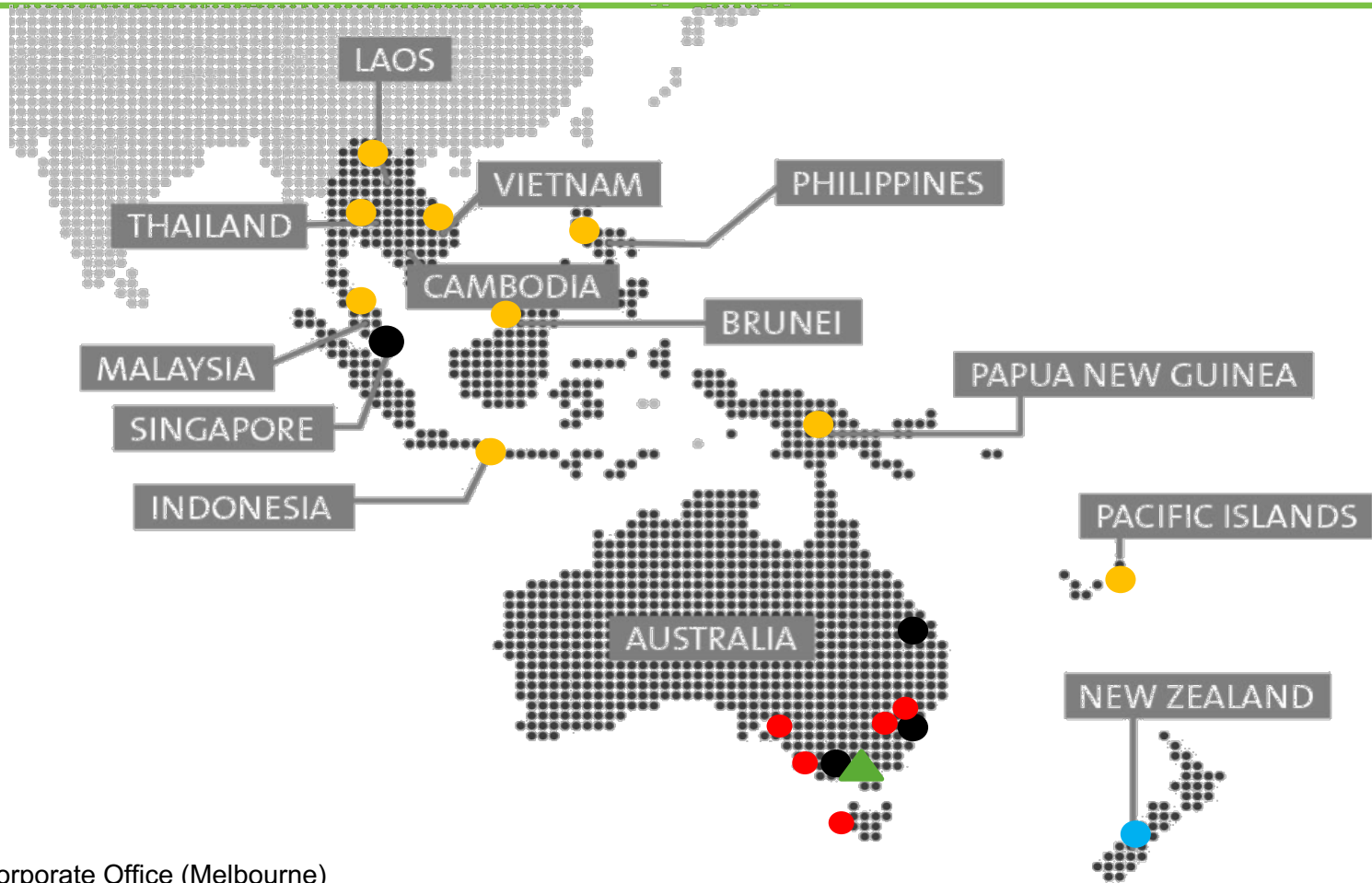


- Singapore patent applications/new cases secured grew FY17 vs FY16
- Overall Asian patent growth, influenced by lateral growth in FY16
- “Takeover” is an application previously the responsibility of another IP firm

- Total patent applications for QANTM were relatively stable FY17 vs FY16
- 5% growth in originating PCT applications and Australian provisional (initiating) applications



# Asia Pacific Presence



- ▲ Corporate Office (Melbourne)
- Offices (Melbourne, Sydney, Brisbane, Singapore)
- Regional presence
- Direct filing location
- Serviced through agency relationship