ASX Announcement

QANTM INTELLECTUAL PROPERTY

29 August 2019

QANTM FULL YEAR FINANCIAL RESULTS TO 30 JUNE 2019

SOLID PERFORMANCE AND INCREASED PRESENCE IN ASIA

Highlights

- Full year financial performance recorded substantial year-on-year increases across key metrics – revenue, EBITDA, NPAT, operating cash flow, return on equity.
- Final dividend of 4.8 cents, fully franked; full year dividend payments of 8.3 cents (2018: 7.1 cents).
- Patents, trade marks and legal/litigation recorded a higher annual service charges contribution: patent revenue up 10.1%; trade mark revenue up 9.1%; legal/litigation revenue up 35.4% on pcp.
- Higher operating expenses mainly reflected increased expenditure for principal and professional remuneration, including a share-based compensation arrangement introduced in 2018 to align the interests of principals with shareholders.
- Successful integration of first Asian acquisition, Advanz Fidelis IP (AFIP) in Malaysia.

Full Year Financial Underlying[1] Results – Summary

$m	FY 2019	FY 2018	% Change
Service Charges Revenue	86.5	76.5	13.1
Associate Charges Revenue[2]	25.7	25.2	2.0
Total Revenue	112.2	101.7	10.3
Total Net Revenue (incl other income, less recoverable expenses)	**90.3**	**80.4**	**12.3**
Operating Expenses	67.1	61.1	9.8
EBITDA before FX	23.2	19.3	20.2
EBITDA after FX	**24.0**	**20.1**	**19.4**
EBITDA margin % (total revenue)	21.4	19.8	8.1
EBITDA margin % (service revenue)	27.7	26.3	5.3
Profit before Tax	20.8	17.2	20.9
Net Profit after Tax	**14.8**	**11.9**	**24.4**
Operating Cash Flow	14.6	11.7	24.8
Net Debt	11.1	8.3	33.7
Gearing % (net debt/net debt + equity)	13.6	10.6	28.3
EPS (cps) – statutory	8.42	7.15	17.8
Return on shareholders' equity % – statutory	15.9	13.6	16.9
Return on shareholders' equity % – underlying	21.0	17.1	22.8
Dividend (cps) – 100% franked	8.3	7.1	26.9

[1] Underlying results are shown to facilitate comparisons period-to-period. The appendix provides a reconciliation from statutory to underlying results for 2019 and 2018.

[2] Associate Charges relate to revenue from recharging the cost of foreign associates that lodge applications in countries outside those in which QANTM acts; the revenue is offset by recoverable expenses as detailed.

Key Features

- Total revenue of $112.2 million, comprising Service Charges revenue and Associate Charges revenue, increased by 10.3% from the previous year.
- Total Net Revenue of $90.3 million, which includes other income of $2.0 million and is after recoverable expenses from Associates of $23.9 million, increased by 12.3%.
- Service Charges revenue of $86.5 million increased by $9.9 million or 13.1%, reflecting an increase in revenue derived from patent Service Charges of $57.9 million, up $5.2 million or 10.1%; trade mark Service Charges of $15.6 million, up $1.3 million or 9.1%; and legal/litigation revenue of $13.0 million, up $3.4 million or 35.4%.
- Associate Charges revenue of $25.7 million, an increase of 2% (2018: $25.2 million), with recoverable expenses for Associates of $23.9 million (2018: $23.4 million).
- Total operating expenses of $67.1 million, a 9.8% increase (2018: $61.1 million). The major components of the higher operating expenses were $4.8 million higher remuneration expenses, reflecting higher salary packages for some professionals and principals; lateral recruitments (including a commercial legal team); an increase in share-based payments to new principals and the addition of AFIP.
- EBITDA, after a foreign exchange gain of $0.8 million, was $24.0 million (2018: $20.1 million), a 19.4% increase. EBITDA margin (on Service Charges revenue) was 27.7% (2018: 26.3%).
- Net profit after tax was $14.8 million (2018: $11.9 million), a 24.4% increase.
- Net debt as at 31 June 2019 was $11.1 million, compared with $16.0 million at 31 December 2018 and $8.3 million at 30 June 2018. Gearing (net debt/net debt + equity) was 13.6%.
- Higher operating cash flows allowed a $6.5 million reduction in borrowings in the second half of 2019, after payment of the interim dividend of $4.7 million and the payment of an earn-out amount of $2.1 million, the first of two potential earn-outs associated with the purchase of AFIP.

Managing Director Commentary

Leon Allen, QANTM's Managing Director stated:

"QANTM's full year financial results reflect a strong performance across all parts of the business, with an initial full year contribution from Advanz Fidelis IP (AFIP), the Malaysian intellectual property business acquired in July 2018.

Patents and Trade mark businesses

The patent service offering of both DCC and FPA recorded a solid contribution, with combined service charges revenue for the two entities increasing by 8.3 per cent for the full year, or 10.0 per cent with the inclusion of AFIP. Pleasingly, the 2019 outcome reversed the prior year's lower recorded level of foreign-sourced Australian patent work. In 2019, both DCC and FPA improved their level of revenue from overseas sourced work. For the Group, patent applications, inclusive of AFIP, increased 11.9 per cent, while Australian patent applications increased 6.6 per cent from the softer 2018 outcome. Trade mark service charges revenue increased year-on-year by 9.2 per cent, despite a softer overall trade mark market.

Legal

DCC Law's legal and litigation services achieved a record financial performance, and contributed 15 per cent of total service charges revenue. The increase was related primarily to higher case load work in the first half of the 2019 financial year, which moderated in the second half. A contribution was made by the commercial legal team recruited in July 2018, which enabled the expansion of the service offering of DCC Law. This team contributed 10 per cent of DCC Law's total 2019 revenue.

Asia

Asian-sourced revenues constituted around 6 per cent of total group service charge revenues, with both revenue and EBITDA contribution from Asia increasing, although from a low base. Patent applications in Asia, including Malaysia and Singapore, increased by 96 per cent in 2019 compared to the prior year, a highly encouraging trend for future year revenue generation. AFIP made a revenue contribution, comprising patent and trade mark service charges, of $1.8 million.

Intellectual Property Market Conditions

Overall Group patent applications in 2019 increased by 11.9 per cent (8.2 per cent excluding AFIP), with QANTM's Australian patent applications increasing 6.6 per cent in the context of a largely flat (0.9 per cent increase) Australian market trend. The strength in QANTM's overall patent application growth, a lead indicator of future revenue potential, was also associated with the strong growth in Asian patent applications, already referred to, as well as a 6.8 per cent increase in rest of world applications (excluding, Australia, Asia and PCT) to a record level.

QANTM's total trade mark filings were down 2.4 per cent and Australian trade mark applications were 7.4 per cent lower, in the context of an overall Australian market decline in trade mark filings of 8.2 per cent.

Business Priorities

QANTM's focus remains orientated to organic revenue growth, through the expansion of the client base and existing business relationships. This is manifested through continuing business and market development activities, as well as the continued focus on building the Group's market presence and earnings contribution from its South East Asian presence. In this regard, DCC and FPA have offices in Singapore, with a presence established in Malaysia and other regional countries through AFIP.

In addition, the expansion of the service offering to clients remains a priority, as exemplified by the establishment of a commercial legal team within DCC Law, as well as the recent launch of a new IP consultancy subsidiary, ipervescence Pty Ltd, providing IP strategy and locum services.

QANTM will continue to evaluate strategically and financially logical acquisitions.

A focus on professional development, as well as the attraction and retention of high-quality intellectual property professionals, remains of paramount importance, to ensure continued excellence in client servicing and advisory outcomes. Lateral recruitments that are able to supplement areas of IP servicing of DCC and FPA will continue to be pursued.

QANTM is planning to undertake a major renewal of its systems and processes across all of its businesses. This is expected to result in a step-change from prior ICT enhancements. An appointment has been made to a new role of Chief Transformation Officer, commencing later in the 2019 calendar year.

Outlook

Following the rebound in revenues and earnings recorded in FY19, QANTM expects a return in the 2020 financial year to more modest levels of revenue growth for the two main parts of its business, patents and trademarks. Legal and litigation revenues are expected to be lower, given the very strong first half performance in FY19, and subsequent second half completion of case load work and corresponding abatement in revenues.

Increased investment in the organisation will be a feature in the 2020 financial year, with a corresponding budgeted increase in operating expenses. As would be expected in a business where the key assets are its people, remuneration arrangements are a key part of this investment. Remuneration for those principals who were former partners of DCC and FPA will be re-aligned in FY20, given the expiry of the three year period since the public listing of QANTM, during which fixed remuneration for those principals varied only with CPI. This realignment will see competitive remuneration arrangements that reflect market conditions, and appropriately incentivise and align our people with defined outcomes: behavioural, cultural and financial. Twenty-four of these principals have also committed to extend their employment arrangements for a further two years. Recent promotions of personnel within DCC and FPA, as well as three AFIP personnel to the role of principal, will also influence compensation expenditure in FY20.

The investment in a transformation of the Group's business systems and processes will entail a higher level of expenditure, with benefits expected to be realised, in efficiencies and revenue-enhancement, in subsequent years."

Dividends

Directors determined to pay a final dividend of 4.8 cents, fully franked, with a payment date of 3 October for shareholders registered as at 5 September 2019. The full year dividend payment equates to 8.3 cents, fully franked.

QANTM's Appendix 4E, Full Year Financial Report for the year ended 30 June 2019 and Investor Presentation, provide more detailed information on the Company's full year results, and are available at www.qantmip.com.

For further information, please contact:

Leon Allen
Managing Director and CEO
Tel: +61 3 9254 2806
www.qantmip.com

Martin Cleaver
Chief Financial Officer and Company Secretary
Tel: +61 3 9254 2806

QANTM Results Teleconference

10:00am – 11:00am (AEST) on Thursday 29 August 2019

Conference ID: 8871218

Participant Dial In Numbers:

Australia (toll free)	1800 123 296	New Zealand (toll free)	0800 452 782
Singapore (toll free)	800 616 2288	Hong Kong (toll free)	800 908 865
UK (toll free)	0808 234 0757	US (toll free)	1855 293 1544

Any other country or mobile phone: +61 2 8038 5221

About QANTM Intellectual Property

QANTM Intellectual Property Limited (QANTM, ASX: QIP) is the owner of a group of leading intellectual property (IP) services businesses operating in Australia, New Zealand, Singapore and Malaysia under three key brands - Davies Collison Cave (DCC), FPA Patent Attorneys (FPA) and Advanz Fidelis IP Sdn Bhd (AFIP), as well as an IP consultancy company, ipervescence Pty Ltd. With more than 140 highly qualified professionals, the QANTM Group has a strong track record in providing a comprehensive suite of services across the IP value chain to a broad range of Australian and international clients, ranging from start-up technology businesses to Fortune 500 multinationals, public research institutions and universities.

Appendix: Statutory NPAT to underlying NPAT

The reconciliation table below reconciles statutory net profit after tax ('Statutory NPAT') to underlying NPAT:

	Year ended	
	30 Jun 19 $m	30 Jun 18 $m
Statutory NPAT	**11.2**	**9.5**
add: interest	0.9	0.8
add: depreciation and amortisation	2.3	2.2
add: tax	5.5	4.5
EBITDA – QANTM Group	**19.9**	**17.0**
add: share based payments	-	0.1
add: employee incentive payments [1]	-	0.7
add: remuneration related to business acquisition	3.1	-
add: new business establishment costs	0.5	-
less: scheme of arrangement break fee	(1.6)	-
add: restructuring and business acquisition costs	2.1	2.3
Underlying EBITDA – QANTM Group	**24.0**	**20.1**
less: depreciation and amortisation	(2.3)	(2.1)
less: interest	(0.9)	(0.8)
less: tax	(6.0)	(5.3)
Underlying NPAT - QANTM Group	**14.8**	**11.9**

[1] Represent one-off benefit payments to provide selected employees access to the Company's shares, facilitated through the Company's cash contributions to the Employee Share Trust.