

# ASX Announcement



24 October 2019

## **Presentation to the Morgan Stanley Conference 2019**

Attached is a presentation to be given today by QANTM's Managing Director and CEO, Leon Allen, to the Morgan Stanley Alpha ex-100 Conference.

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### **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.





**IP Protection**  
the cornerstone of  
modern economies

Leon Allen, Chief Executive Officer  
Martin Cleaver, Chief Financial Officer

**QANTM INTELLECTUAL PROPERTY LIMITED (ASX:QIP)**

Morgan Stanley Alpha ex-100 Conference | Sydney, 24 October 2019

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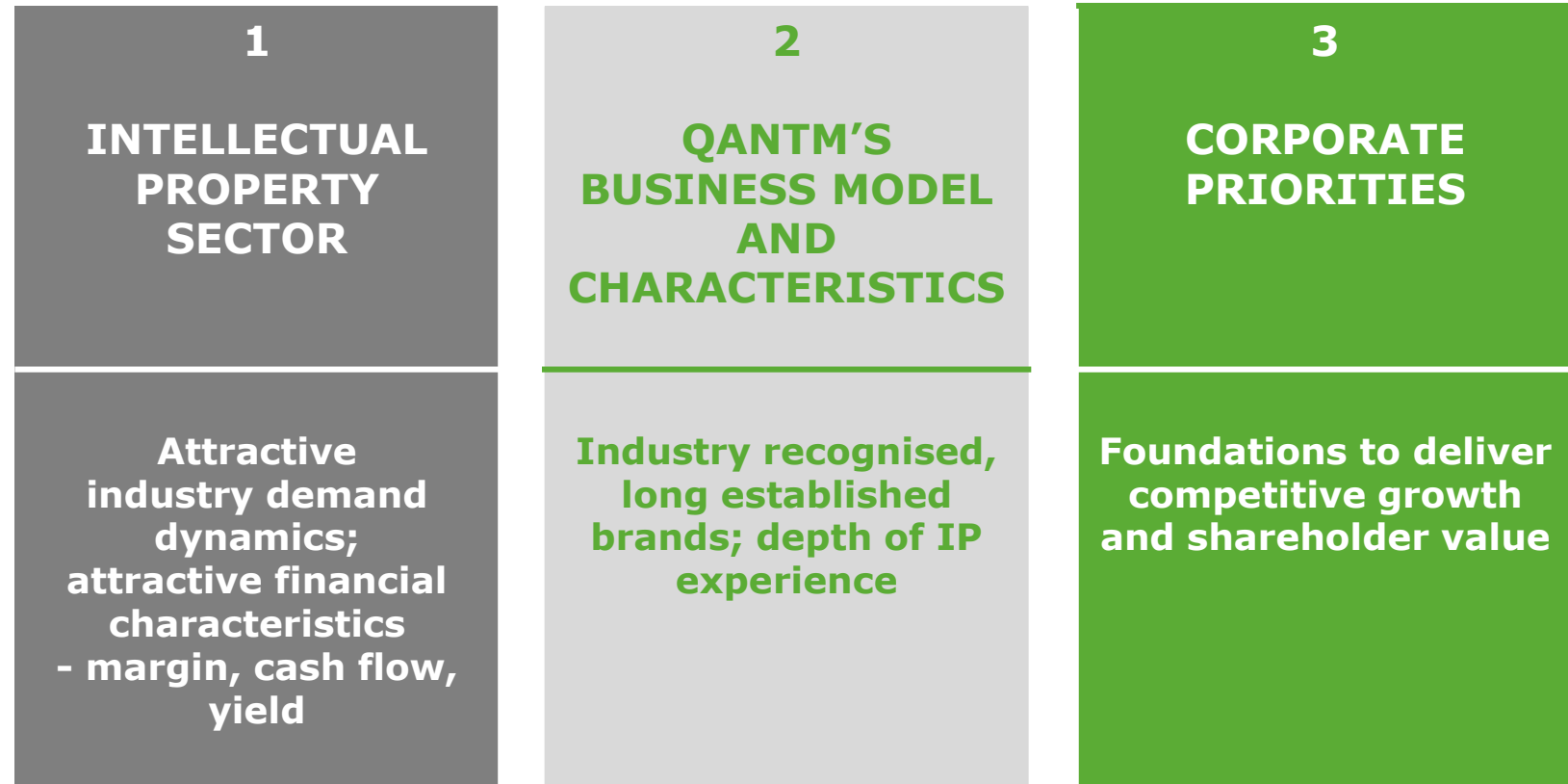
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## Structure

### Intellectual Property and QANTM's key characteristics

Investment characteristics:

- Defensive sector
- Typically displaying GDP/GDP+ secular growth
- High yield potential





## 1 Intellectual Property Sector

## 2 QANTM's business model

## 3 QANTM's corporate priorities



Intellectual property (IP) rights protect the output of intellectual creativity in the commercial, industrial, scientific and artistic fields. IP is the cornerstone of modern economies, of innovation and creativity.

## QANTM and IP Sector – attractive investment market characteristics

### Key business characteristics

- Attractive industry dynamics with historical growth in patent filings typically at or above GDP levels.
- DCC and FPA have traded profitably over a long period and through various economic cycles.
- A business model that generates recurring revenue streams, often over periods of at least 20 years.
- Regular invoicing of clients with typically low work-in-progress / working capital.
- Generally low levels of capital expenditure.
- Associated high cash flow conversion, enabling payments of dividends and/or reinvestment opportunities for growth.
- Attractive EBITDA margin structure with EBITDA margin averaging 28.2% (on Service Charges) over 2017-2019.
- Favourable industry dynamics and growth prospects in developing economies; an increasing part of QANTM's asset base.
- High barriers to entry through geographical scale, established client relationships, ICT systems and professional expertise.

#### GENERALLY PREDICTABLE EARNINGS PROFILE FROM IP PATENT, TRADE MARKS

- Historical GDP related growth trends
- Multiple revenue-generation stages
- Multiple customer/sector revenue bases
- Longer term client relationships

#### ATTRACTIVE CASH FLOW AND DIVIDEND YIELD CHARACTERISTICS

- Attractive EBITDA margins
- High cash conversion
- Attractive dividend yield

#### LOW CAPITAL INTENSITY

- Low levels of capital investment
- Low working capital
- Low gearing, strong balance sheet

#### HIGH BARRIERS TO ENTRY

- Reliance upon technically qualified patent attorneys
- Information systems for patent recording and monitoring
- Client servicing track record; global reach

## IP Protection

### Global consumer goods example



### Apple iPhone

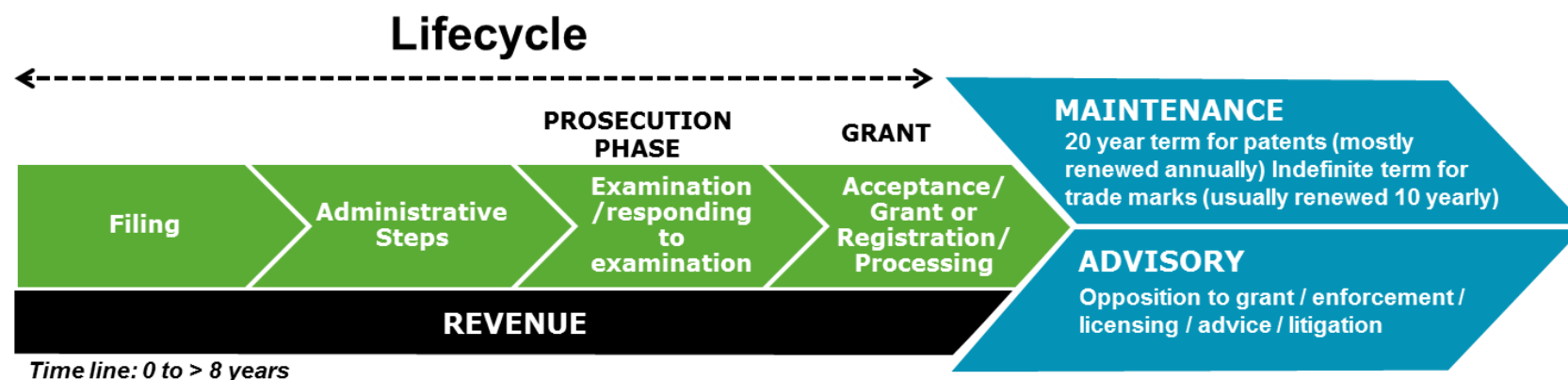
- Criticality of patent protection – over 150 separate patents
- Extensive trade mark protection
  - logo, names (Siri, Garage Band....)
  - well over 200 for Apple products
- Multi-jurisdictional, international patent and trade mark coverage
- Legal and litigation protection (the 'phone wars')
- Patents - insurance for R&D investment
- Trade marks – insurance for brand integrity and marketing

## IP lifecycle revenue stages

### Main revenue components of the IP cycle:

Filing, prosecution, maintenance/renewal phases, with potential for advisory, legal/litigation services.

Originating application work for new inventions, at a pre-filing stage, also generates revenue.






















- Revenue generation at various stages of maintenance and enforcement of IP rights
- Client relationships tend to be long term and stable – 18 months – 20 years+
- Client arrangements can be national, regional, multi-national
- Reciprocal arrangements internationally generate additional revenue streams



## 2. QANTM's Business Model and Characteristics

## A leading IP provider; extensive industry experience

 DAVIES COLLISON CAVE INTELLECTUAL PROPERTY	 FPA Patent Attorneys	 ADVANZ FIDELIS PATENTS TRADEMARKS COPYRIGHT INDUSTRIAL DESIGNS
 <b>41</b> Principals	 <b>12</b> Principals	 <b>CEO</b> and 3 Department Heads
 Patents  Trade Marks  Law	 Patents	 Patents  Trade Marks  Law
Formed <b>1877</b>	FPA Partnership established <b>1890</b>	Formed <b>2000</b>
 Singapore Brisbane Sydney Melbourne New Zealand	 Singapore Sydney Melbourne	 Kuala Lumpur
 <b>98</b> Professionals	 <b>30</b> Professionals	 <b>17</b> Professionals

## Focused business activities for growth



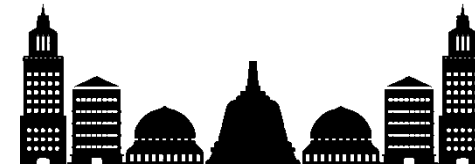
### INVESTMENT IN OUR PEOPLE

- Commitment to professional development and leadership programs
- Shareholder alignment – establishment of share trust for new professionals
- Engagement in professional associations – domestically and overseas
- Extension of vendor principal retention commitments (further 2 years)



### MARKET AND BUSINESS DEVELOPMENT

- Business and market development focus, involving senior personnel
- Australian patent applications up 6.6% vs market growth of 0.9%
- Lateral recruitment focus, with associated development of new service offerings
- End-to-end IP services



### FOUNDATIONS FOR ASIAN GROWTH

- Base for expansion in Asia established
- FPA Singapore office set up following earlier establishment of DCC presence
- 2019 acquisition of Malaysian IP firm of Advanz Fidelis – effective integration
- Strategic consideration of other M&A opportunities

## Highly experienced, academically qualified IP professionals across industry sectors

Recently appointed  
principals for  
Davies Collison Cave



**Carly Mansell**

*Bachelor of Arts, Bachelor of Laws (Hons), Barrister and Solicitor of the Supreme Court of Victoria*

Principal, Trade Marks Attorney, Melbourne

Carly specialises in all aspects of trade mark law and has particular experience in the pharmaceutical industry.



**Grant Stonier**

*Bachelor of Engineering (Mechanical & Space Engineering)(Hons), Master of Engineering (Systems Engineering), Master of Industrial Property Law*

Principal, Patent Attorney, Brisbane

Grant specialises in patent drafting, patent prosecution, patent validity and infringement advice, and related opinion works across a broad spectrum of engineering technologies.



**Humphrey Foote**

*BSc (Hons) (Bio Sci), PhD (Mol Bio)*

Principal, Patent Attorney, New Zealand

Humphrey specialises in protecting innovations in the agricultural, horticultural, pastoral, forestry, life science and biotechnology sectors.



**Dr Ken Simpson**

*Bachelor of Science (Hons) (Physics), Doctor of Philosophy (High Energy Astrophysics)*

Principal, Patent Attorney, Singapore

Ken specialises in patents for software and computer technology.



**Sally Foreman**

*Bachelor of Laws (Hons)/Bachelor of Legal Studies, Master of Laws*

Principal, Trade Marks Attorney, Melbourne

Sally advises on all aspects of trade marks with expertise in national and international jurisdictions.



**Tania Uren**

*Bachelor of Science (Hons.) (Microbiology and Immunology), Doctor of Philosophy (Microbiology and Immunology), Master of Intellectual Property Law*

Principal, Patent Attorney, Brisbane

Tania specialises in the preparation and prosecution of patent applications in microbiology, immunology and molecular biology.



## Highly experienced, academically qualified IP professionals across industry sectors

Recently appointed  
principals for  
FPA Patent Attorneys



**Adam Denley**

*Bachelor of Biotechnology (Hons), PhD (Biochemistry), Master of Intellectual Property Law*

Principal, Patent Attorney, Melbourne

Adam specialises in the drafting and prosecution of global patent families related to biotechnology and pharmaceuticals.



**Daneta Crump**

*Bachelor of Engineering in Product Design Engineering, Graduate Diploma in Intellectual Property Law*

Principal, Patent Attorney, Melbourne

Daneta specialises in mechanical and manufacturing engineering and industrial design.



**Desmond Tan**

*Bachelor of Engineering in Mechanical Engineering, Graduate Certificate in Intellectual Property Law*

Principal, Patent Attorney, Singapore

Desmond specialises in manufacturing and processes, communications systems, acoustics devices, bio-mechanical medical devices, semiconductor devices, payment services, medical diagnostic devices, materials and electro-mechanical devices.



**Karen Bentley**

*Bachelor of Applied Science (Medical Laboratory Science) (Hons), PhD (Medicine), Masters (Intellectual Property Law)*

Principal, Patent Attorney, Melbourne

Karen specialises in biotechnology, food technology, pharmaceutical, agricultural and life sciences sectors.



**Stuart Irvine**

*Bachelor of Science (Computer Science), Bachelor of Laws, Master of Laws (Intellectual Property)*

Principal, Patent Attorney and Solicitor, Sydney

Stuart specialises in computer implemented inventions, information and communications technology, business methods, mechanical engineering and manufacturing, electronic and electrical engineering, consumer products and designs.



**Tracey Hendy**

*Bachelor of Engineering (Manufacturing & Materials)*

Principal, Patent Attorney, Melbourne

Tracey specialises in patents and designs for mechanical engineering inventions, including preparation of patent specifications, advice on infringement and international IP portfolio management.



## 2019 - impressive business characteristics

### Patents

**Group Patent**  
applications up  
**11.9%**  
(including AFIP)  
Highest level since  
QANTM listing

**QANTM Australian  
Patent Market Share** of  
**14.0%**  
(2018: 13.8%)

**Australian Patent**  
applications up  
**6.6%**  
Higher than overall  
Australian market  
growth of 0.9%

**Singapore Patent**  
applications up  
**44.9%**

**Rest of World Patent**  
applications up  
**6.6%**  
New record level

**Asian Patent**  
applications  
– excluding AFIP up  
**36.6%**  
– including AFIP up  
**96%**

### Trade Marks

**Trade Mark  
service charges**  
revenue up  
**9.1%**

**QANTM Group  
Trade Mark**  
filings down  
**2.4%**  
on pcp

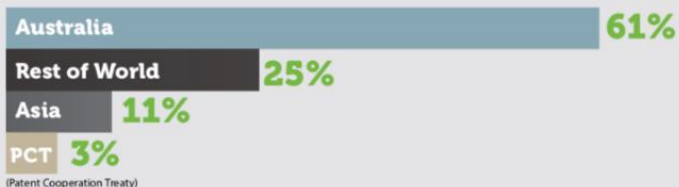
**QANTM  
Australian Trade Mark**  
filings down  
**7.4%** in context of Australian overall  
market down 8.2%, two-fold increase in Asian  
filings (Singapore and Malaysia) including  
contribution by AFIP.

### Legal/Litigation

DCC Law achieved a record year in  
financial terms.  
Strong initial contribution from new  
commercial law team.

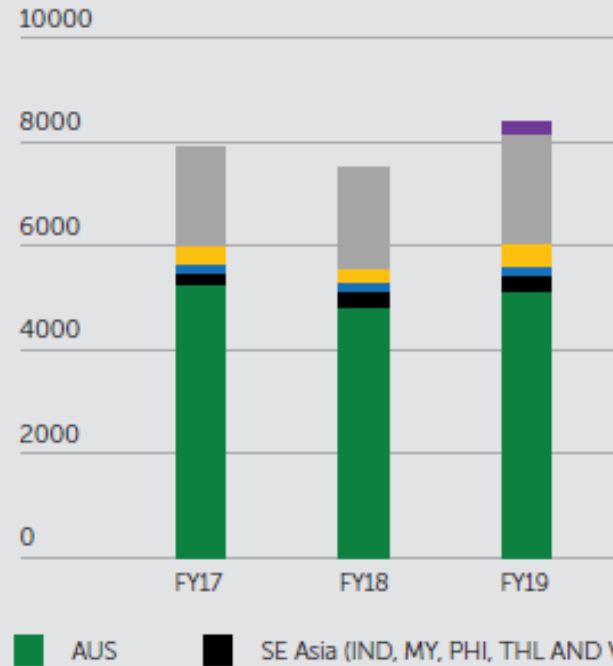
**DCC Law revenue** up  
**35.4%** to record year  
in financial terms

#### Composition of QANTM Patent Applications – 2019



## Patent cases FY17 – FY19

QANTM GROUP  
TOTAL NEW PATENT CASES FY17 – FY19

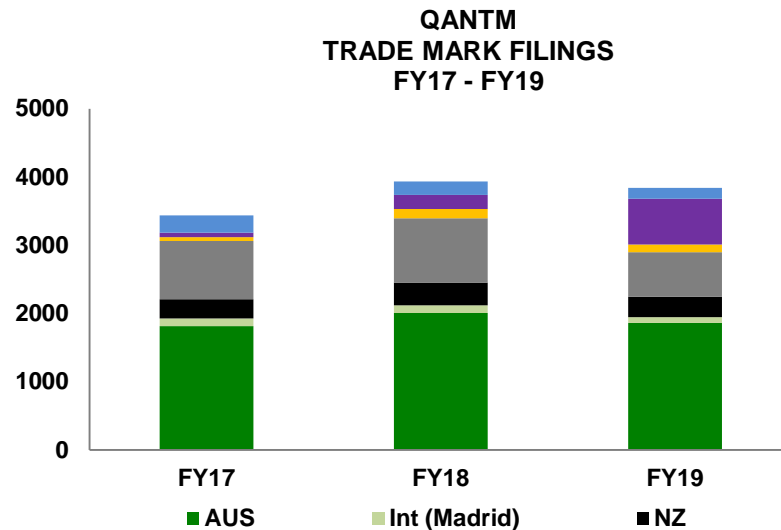


### Recovery across the business and growth above market trend

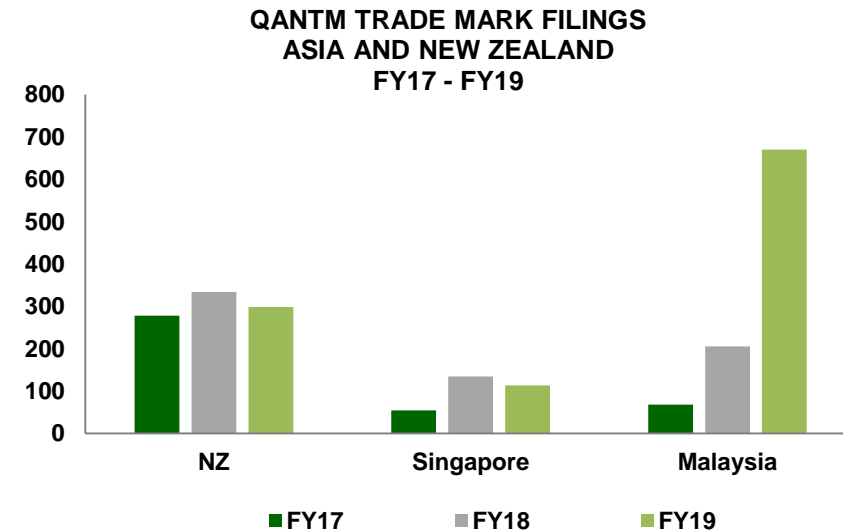
- Group patents up 8.2% excluding AFIP, up 11.9% including AFIP; highest level since IPO
- Australian patents up 6.6% vs market growth of 0.9%
- Asian patents (excluding AFIP) up 36.6%, to highest recorded level
- Rest of World (RoW) applications achieved highest recorded level
- Australian patent applications: 61% of Group; RoW 25%; Asia 11%; PCT 3%

Source: DCC and FPA management analysis

## QANTM Trade Mark Filings FY17 – FY19



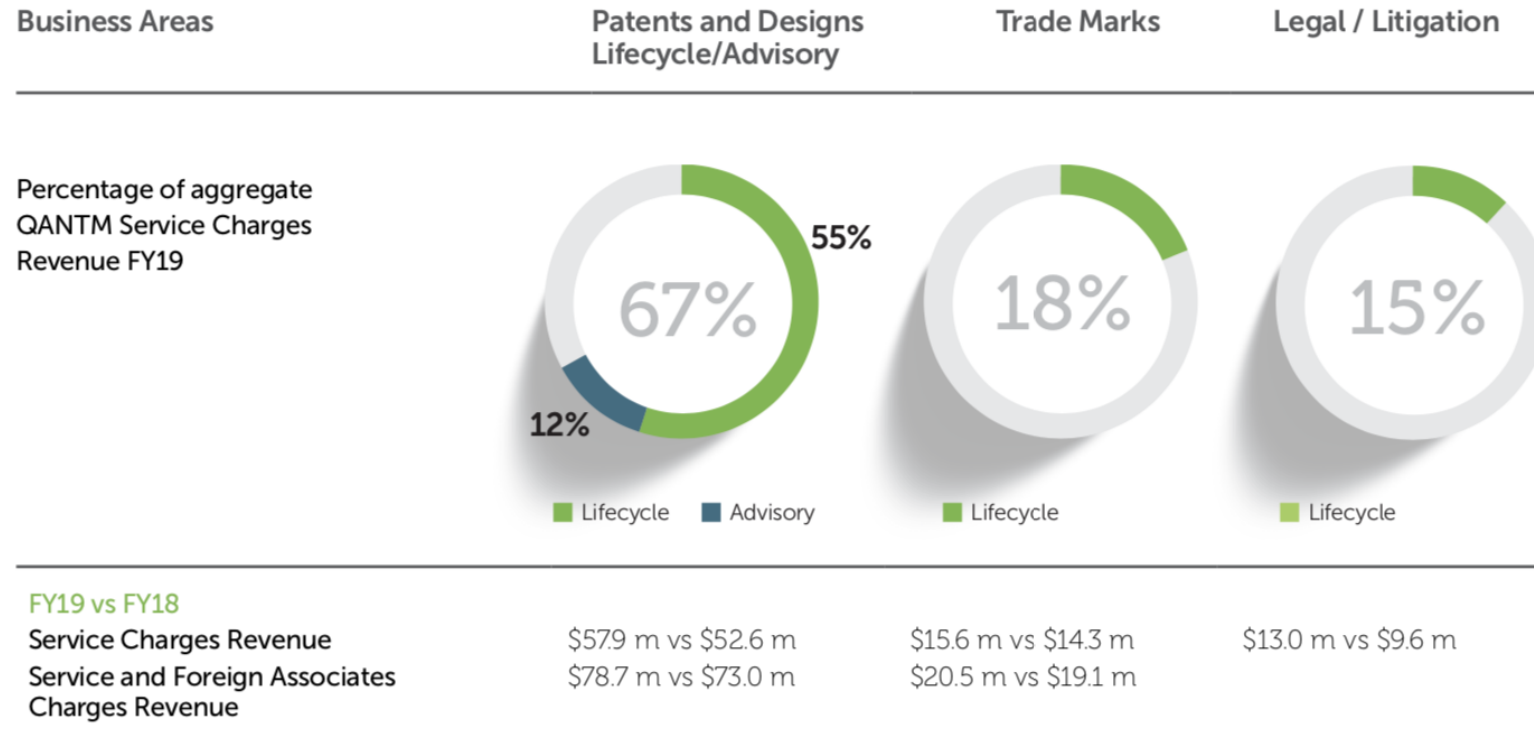
Source: Australian filings numbers based on IP Australia data  
Other country data sourced from QANTM management information



- Group trade mark filings down 2.4% on pcp; trade mark service charges revenue up 9.1%;
- QANTM Australian trade mark filings down 7.4% in context of Australian overall market down 8.2%;
- Over two-fold increase in Asian filings (Singapore and Malaysia) contributed by AFIP; and
- DCC - Australian Trade Mark Prosecution Firm of the Year 2019

## 2019 Business Characteristics

Summary of the revenue outcomes and main factors influencing QANTM's three main business areas, as well as market position data.



# Financial Summary<sup>1</sup>

## FY17–FY19

	FY19	FY18	FY17
<b>Summary Financials (\$m)</b>			
Service charges revenue	86.5	76.5	80.4
Associate charges revenue <sup>2</sup>	25.7	25.2	22.8
Total Revenue	112.2	101.7	103.2
<b>Total Net Revenue (other income, less recoverable expenses)</b>	<b>90.3</b>	<b>80.4</b>	<b>83.3</b>
Operating expenses	67.1	61.1	61.7
EBITDA pre FX	23.2	19.3	23.6
<b>EBITDA after FX</b>	<b>24.0</b>	<b>20.1</b>	<b>24.5</b>
Depreciation and amortisation	2.2	2.1	2.0
Group EBIT	21.8	18.0	22.5
Net interest costs and bank charges	1.0	0.8	0.9
Profit before tax	20.8	17.2	21.6
Tax expense	6.0	5.3	6.7
<b>Net Profit after Tax</b>	<b>14.8</b>	<b>11.9</b>	<b>14.8</b>
Operating Cash Flow	14.6	11.3	21.3
Net debt	11.1	8.3	7.4
<b>Capital and Dividends</b>			
Ordinary shares on issue (millions)	133,050,724	132,904,331	132,900,281
<b>Dividends per share for year (cents)</b>	<b>8.3</b>	<b>7.1</b>	<b>8.9</b>
Franking level (per cent)	100	100	100
Opening share price (\$)	1.05	1.27	000
Closing share price (\$)	1.42	1.05	1.27
<b>Financial Ratios</b>			
EBITDA/Total revenue (per cent)	21.4%	19.8%	23.7%
<b>EBITDA/Service charges revenue (per cent)</b>	<b>27.7%</b>	<b>26.3%</b>	<b>30.5%</b>
Interest cover (EBITDA/net interest expense) times	26.7	25.1	24.5
Basic earnings per share (cents)	8.42	7.15	5.4
Return on equity – statutory (per cent)	15.9%	13.6%	10.1%
<b>Return on equity – underlying (per cent)</b>	<b>21.0%</b>	<b>17.1%</b>	<b>20.9%</b>
Gearing (net debt/net debt + equity) (per cent)	13.6%	10.6%	9.4%
<b>Financial Position as at 30 June (\$m)</b>			
Total assets	107.0	104.8	108.8
Total liabilities	36.4	35.1	37.9
Net assets / Shareholders' equity	70.6	69.7	70.9
Net tangible asset per share (\$)	0.01	0.03	0.03

### NOTES:

- The above reflects underlying results to facilitate comparisons period to period. A reconciliation of statutory to underlying results is included in Note 5 of the Directors' Report, 2019 Annual Report.
- Associate charges relate to revenue from recharging the cost of foreign agents that lodge applications in countries outside those in which QANTM acts, the revenue is offset by recoverable expenses as detailed.



The background of the slide is a solid green color. Overlaid on this is a faint, white network pattern of interconnected nodes and lines, resembling a molecular or digital structure. The nodes are represented by small circles of varying sizes, and the lines are thin and connect the nodes in a complex, web-like fashion.

## 3. QANTM's Corporate Priorities

- Focus on key market development opportunities:
  - revenue growth – business development, client retention, service delivery expansion
  - new revenue sources – lateral recruitment, including focus on new service offerings
  - M&A evaluation that delivers – diversification of clients, geographical presence and shareholder value generation opportunities
  - IP diversification and new business ventures
- People initiatives for key outcomes: retention, attraction and advancement of professional standing of our people
- Delivery of EBITDA contribution from Asia business base
- Business process transformation, to enhance:
  - client interfaces
  - data based management and client/industry information retention and access
  - working environment for professionals
  - nature and form of service delivery to clients

## Asia Pacific - foundation for future growth

- Early stage market position
- Significant revenue and earnings potential
- Based on DCC and FPA franchise and Advanz Fidelis regional market position

- Offices (Melbourne, Sydney, Brisbane, Singapore, Malaysia, New Zealand)
- △ Serviced through agency relationship



## Business process and systems transformation

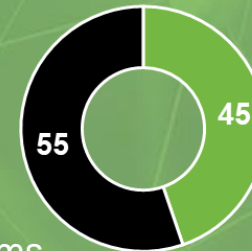
### Future

#### BUSINESS PROCESSES AND SYSTEMS TRANSFORMATION

- Shift to current generation, cloud-based systems
- Optimise business operations, client collaboration and employee empowerment
- Refresh business process to provide a foundation for increased automation, streamlining of services

2019

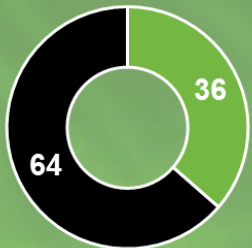
RATIO OF PROFESSIONAL TO ADMINISTRATIVE EMPLOYEES AT 30 JUN 2019 %



#### MAIN AREAS OF ACTIVITY

- Reduction in ICT platform costs, licence fees, telecommunications and training
- Accounts, payroll, common reporting systems integration and automation
- Electronic filing
- Common HR systems
- Processing, back office and secretarial efficiencies

RATIO OF PROFESSIONAL TO ADMINISTRATIVE EMPLOYEES AT AUG 2016 (IPO) %



IPO

2016

## CEO Succession – first half 2020



- Craig Dower, former CEO of Xenith IP, to succeed Leon Allen on 9 January 2020
- Systems engineer with experience in project management, professional services, consulting and integration, IT transformation
- Two public company CEO roles and worked in Asia Pacific (based in Singapore)
- Craig gained depth of understanding of QANTM business model during proposed QIP–Xenith merger discussion and due diligence process in 2019
- Leon Allen's depth of IP experience (40 years) to be retained by appointment as non-executive director

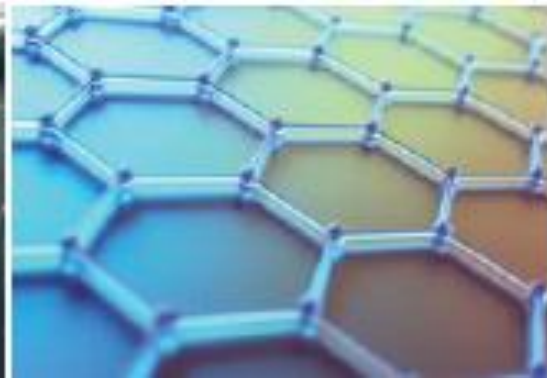




## Investment Proposition

- IP sector – attractive yield and defensive style characteristics
- QANTM displays favourable growth dynamics
- QANTM investment attributes:
  - culture, technical skills, strength of IP market presence through DCC, FPA and Advanz Fidelis IP
  - ability to provide end-to-end patent and trade mark, legal and litigation services and advice
  - potential stronger growth profile than other players through Asian/regional expansion plans
- Disciplined approach to capital deployment

# CONTACT DETAILS



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