

# Xenith IP Group Limited - H1 of FY16 Results

Six months to 31 December 2015

19 February 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. In particular, this information is important for comparative purposes with pro forma information contained in Xenith's IPO Prospectus lodged with ASIC on 28 October 2015.

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

# Agenda

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# Results Highlights



# FY16 Operational Highlights

## Key milestones

- ✓ Successful corporate restructure and IPO in November 2015
- ✓ Strong performance and growth in core business activities
- ✓ Revenue growth in H1 has been supported by tailwinds from:
  - America Invents Act legislation in the US\*
  - Transition to USD billing and favourable FX movements
  - Increase in Australian patent examination intensity following Raising the Bar
- ✓ Consolidated market position in patents and trade marks and Company well positioned for further growth
- ✓ Based on strong performance in H1, Xenith remains confident of achieving FY16 Prospectus forecasts.

# H1 FY16 Financial Highlights

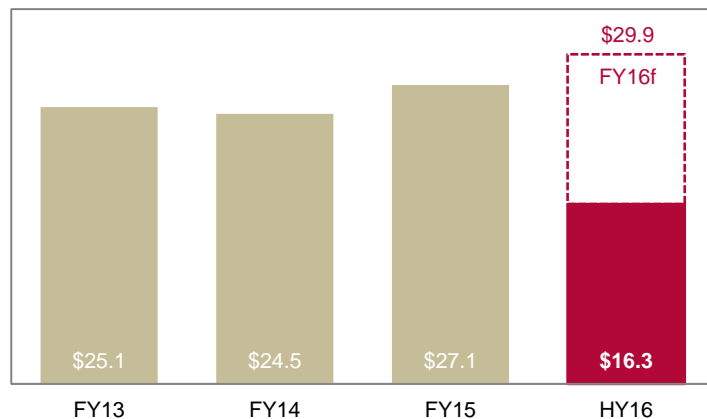
## Strong performance for the first half of FY16

- ✓ Pro forma\* group revenue of \$16.3m – up 21% on H1 FY15
- ✓ Pro forma\* EBITDA of \$4.9m – up 73% on H1 FY15
- ✓ Pro forma\* NPAT of \$3.2m – up 76% on H1 FY15 (EPS of \$0.10)
- ✓ Pro forma\* EBITDA margin (% of professional fees) of 36% - up from 25% in H1 FY15
- ✓ Operating cash flow (before financing and tax) of \$4.1m
- ✓ Net debt of \$1.3m – down from \$2.8m at IPO
- ✓ Work in progress (WIP) of \$0.65 million - 8 days of professional fee revenue.

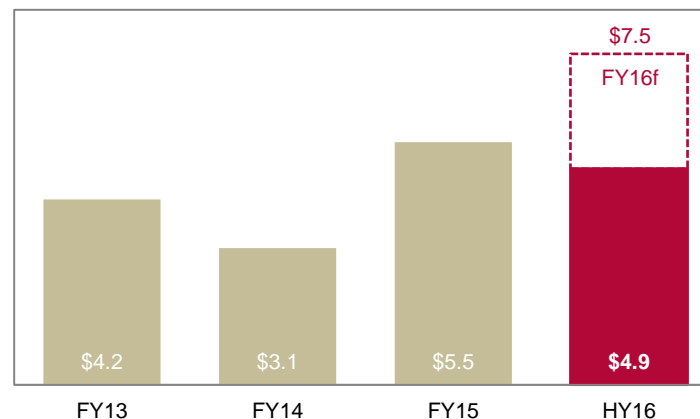
# Overview of Financial Performance

## Xenith continues to grow and improve margins

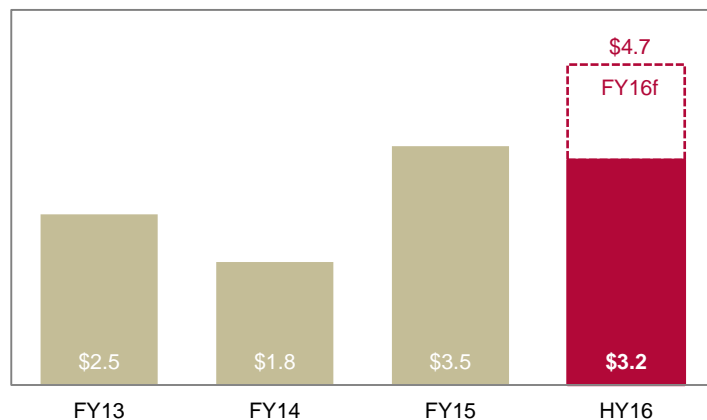
Pro forma Group Revenue (\$m)



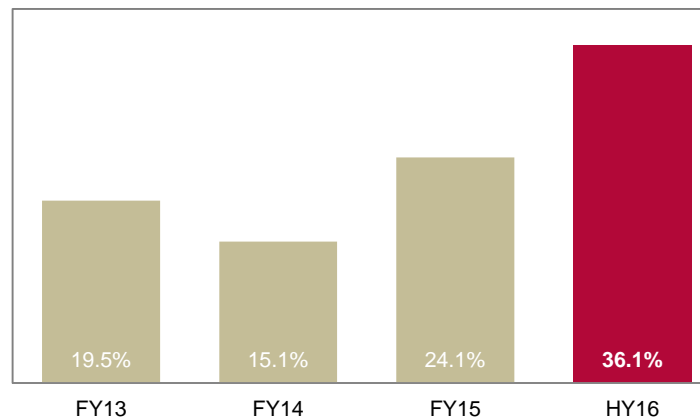
Pro forma EBITDA (\$m)



Pro forma NPAT (\$m)



Pro forma EBITDA margin (% of professional fees)



# Business Overview



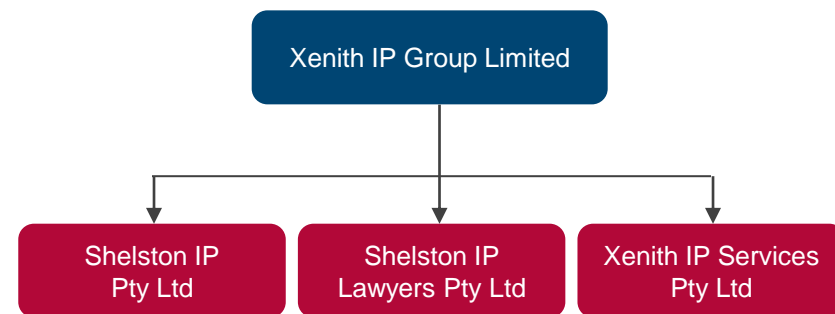


# Overview of Xenith IP Group

## A leading Australasian specialist IP firm

- Xenith IP Group Limited is the holding company of Shelston IP Pty Ltd, Shelston IP Lawyers Pty Ltd and Xenith IP Services Pty Ltd
- The Group's core business is to provide a comprehensive range of IP services, including identification, registration, management, commercialisation and enforcement of IP rights locally and internationally
- Xenith is the oldest IP firm in Australia with a proud 156 year history
- The Group employs over 100 personnel, including over 40 patent and trade mark attorneys and IP lawyers
- Majority of revenue is derived from foreign clients (73% in FY15), with the remainder (27% in FY15) sourced from Australia and New Zealand
- Shelston IP is consistently recognised as one of the leading Australian IP firms:
  - Recognised as "Australian IP firm of the year" by the global "Managing Intellectual Property" (MIP) magazine in 2013
  - Ranked Tier 1 in Australia by MIP magazine and as a Leading Firm by "Legal 500" in the Asia-Pacific region in 2015.

## Xenith group structure overview



## Recent awards and acknowledgements



# Investment Highlights

<b>1 Market leading position</b>	<ul style="list-style-type: none"><li>• The only top 5 full service practice to have organically increased market share in both patents and trade marks in Australia over the last 5 years</li></ul>
<b>2 Supportive industry dynamics</b>	<ul style="list-style-type: none"><li>• Supportive industry dynamics, with increasing importance of IP and high barriers to entry</li><li>• Australian patent and trade mark filings show steady long term growth and have nearly doubled since 1996</li></ul>
<b>3 Diversified client base</b>	<ul style="list-style-type: none"><li>• Over 3,000 active clients, including multinational corporations, research institutes, educational institutions and SMEs</li><li>• 25% of FY15 revenue provided by top 20 clients; 62 of the top 100 clients have been with the firm for more than 10 years</li></ul>
<b>4 Strong financial performance</b>	<ul style="list-style-type: none"><li>• Stable financial performance, with revenue CAGR of 4.1% and EBITDA CAGR of 15.0% from FY13a – FY15a</li><li>• Low capex, low working capital requirements and exceptionally strong cash conversion ratio (104.9% over FY13a – FY16f)</li></ul>
<b>5 Industry leading systems</b>	<ul style="list-style-type: none"><li>• Driver of operational efficiency and operating leverage, providing significant competitive advantage</li><li>• Highly scalable beyond current utilisation levels, and capable of supporting multiple practices</li><li>• Opportunities for further enhancement and process automation</li></ul>
<b>6 Further growth opportunities</b>	<ul style="list-style-type: none"><li>• Significant potential growth through a range of organic and inorganic initiatives</li><li>• Including expansion into Southeast Asia</li></ul>
<b>7 Experienced Board and management</b>	<ul style="list-style-type: none"><li>• Highly qualified Board, with experience across professional and legal services and substantial M&amp;A experience</li><li>• Highly qualified team of 14 principals, with an average of over 22 years' industry experience.</li></ul>

# Operational Overview

Xenith's revenue is well diversified across industry sectors and practice groups

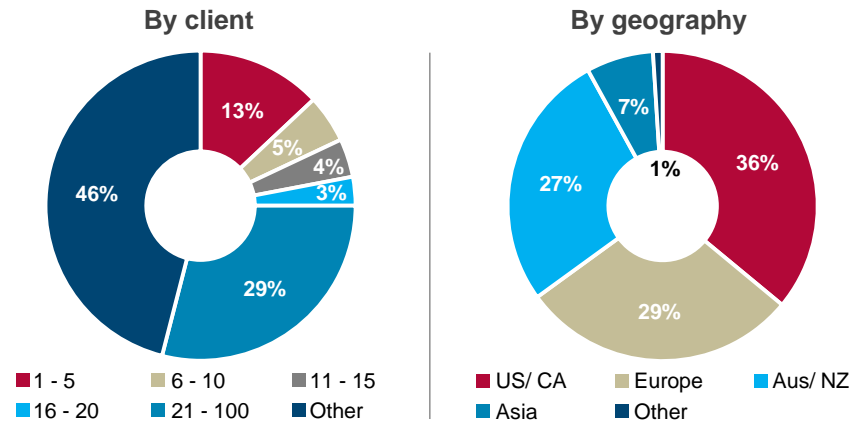
By Practice Area						
	Patents and Designs		Trade Marks		Transactions and Disputes	
<b>Overview</b>	Xenith provides a comprehensive range of IP services including registration, management, commercialisation and enforcement of IP rights					
<b>FY15 Prof. fees</b>						
<b>FY15 Market share <sup>1</sup></b>	Top 6 (5.9%)		Top 5 (4.4%)		n/a	
By Practice Group						
	Mechanical	Chem/ Pharma	Biotech/ Pharma	Electrical/ ICT	Trade Marks	Transactions and Disputes
<b>FY15 Prof. fees</b>						
<b>FY15 Market share<sup>1</sup></b>	Top 5 (7.0%)	Top 5 (7.3%)	Top 6 (7.7%)	Top 6 (4.4%)	Top 5 (4.4%)	n/a
<b>Revenue model</b>	Scheduled charges plus hourly rates, with the majority of international clients charged in USD					Primarily hourly rates
<b>Professionals (including principals)</b>	7 attorneys (3 principals)	6 attorneys (2 principals)	7 attorneys (2 principals)	6 attorneys (2 principals)	6 attorneys (2 principals)	6 lawyers (3 principals)

# Group Clients

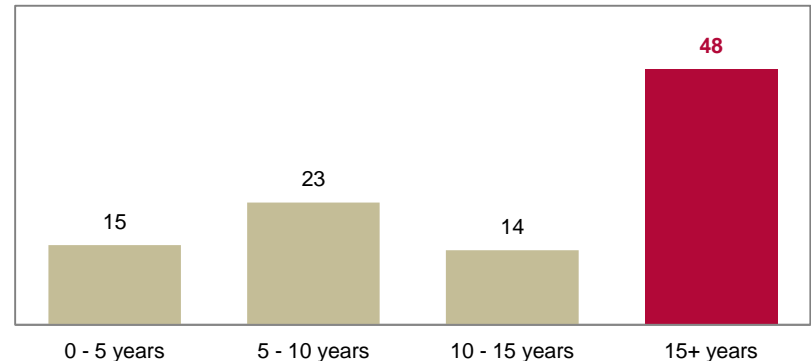
## Xenith has a highly diversified revenue base by client

- Xenith has over 3,000 clients including:
  - Major multinational corporations
  - Domestic and foreign corporations, research institutes, educational institutions and SMEs
  - Domestic professional services firms
  - Foreign associates including offshore IP & law firms
- Clients are highly diversified by geography, service line and industry
- Revenue is diversified across the client base, with the top 20 clients providing only 25% of revenue
- Xenith has long-term relationships with many of its largest clients, with
  - 62 of the top 100 clients with the firm for longer than 10 years
  - 48 of the top 100 clients with the firm for longer than 15 years.

FY15 revenue by client size and geography



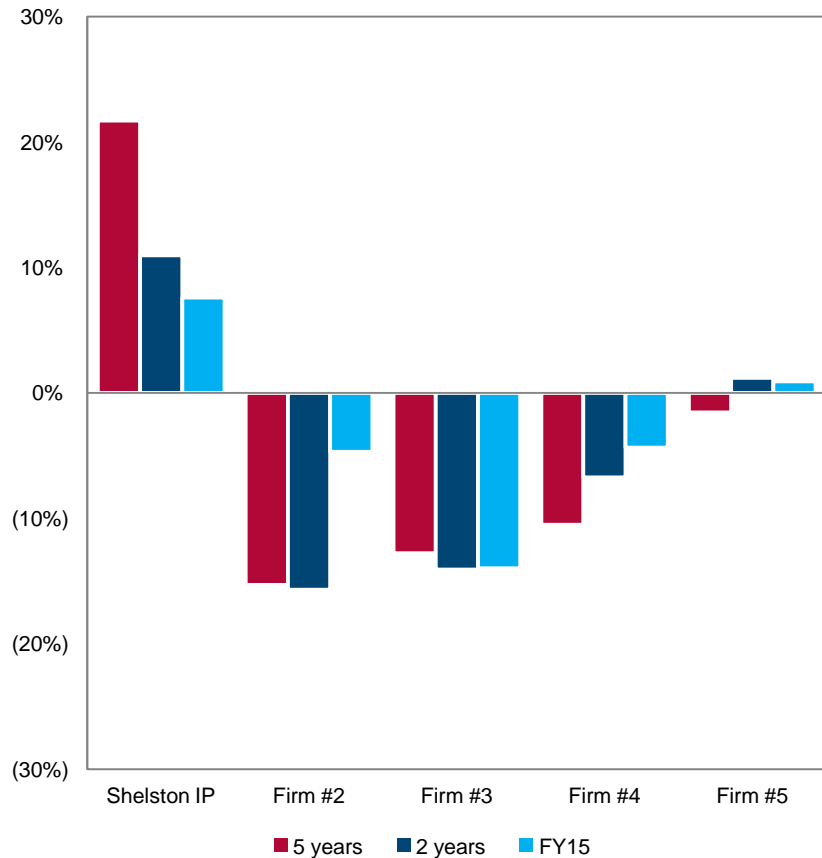
Tenure of top 100 clients



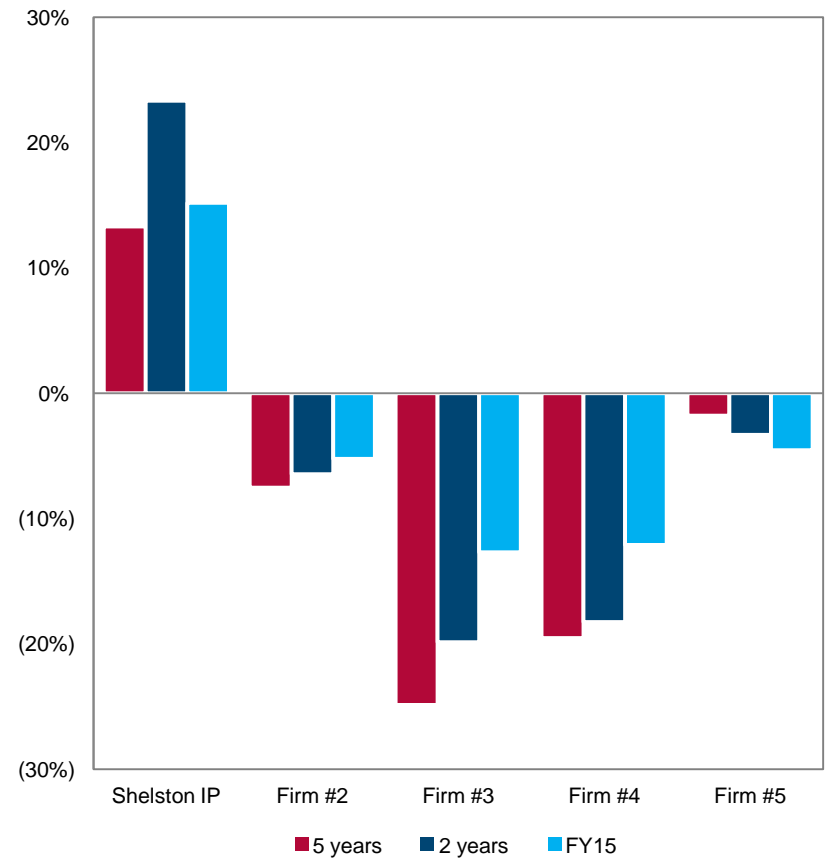
# Xenith's Market Position

**Xenith is the only top 5 full service IP practice to have gained market share in patent and trade market filings in the last 5 years**

Growth in Australian patents market share by top 5 full service IP practices by patent applications filed

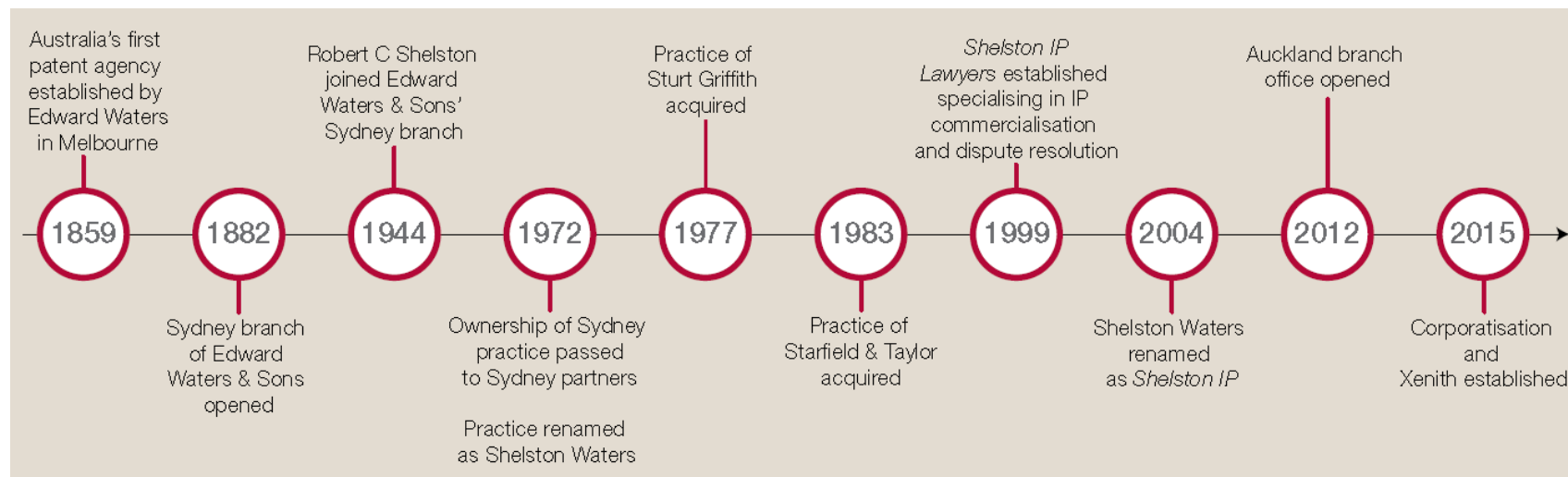


Growth in Australian trade marks market share by top 5 full service IP practices<sup>1</sup>



# Xenith's History

**Xenith is the oldest IP firm in Australia with a proud 156 year history, dating back to its inception as Edward Waters & Sons in Melbourne, in 1859**



# H1 FY16 Financial Results Detail



A blurred image of a financial data table, likely a P&L statement, showing various metrics such as revenue, expenses, and profit. The text is tilted and out of focus, but some numbers and percentages are visible.

Item	Value	Change (%)	Value	Change (%)
	\$ 450			
	\$ 414,973,01			
	\$ 381,992,13	17,1%		
	\$ 140,691,72	18,21%		
	\$ 40,768,31	19,15%	\$60,81	
	\$ 469,064,54	11,58%	\$75,05	75,16
	\$ 868,814,63	29,60%	\$48,95	92,83
	\$ 37,680,88	0,46%	\$87,32	44,62
	\$ 194,91	35,76%	\$2,72	57,50
		35,07%	\$98,35	61,37
		16,94%	\$17,60	12,75
			\$61,91	16,08
				49,19
				2,45

# Summary Income Statement

## H1 of FY16 pro forma income statement compared to FY15 and FY16 forecast

### Pro forma historical and forecast income statement

\$'000	Historical			Forecast	Pro forma	
	June year end	FY13	FY14	FY15	FY16	H1 FY15
<b>Net revenue</b>	<b>25,063</b>	<b>24,532</b>	<b>27,137</b>	<b>29,888</b>	<b>13,452</b>	<b>16,257</b>
Recoverable disbursements	(3,233)	(3,817)	(3,651)	(3,875)	(1,720)	(1,978)
Compensation	(12,608)	(12,578)	(12,883)	(13,418)	(6,183)	(6,775)
Occupancy	(1,428)	(1,430)	(1,430)	(1,467)	(546)	(669)
Other	(3,644)	(3,657)	(3,679)	(3,659)	(2,155)	(1,919)
<b>Total operating expenses</b>	<b>(17,680)</b>	<b>(17,665)</b>	<b>(17,992)</b>	<b>(18,544)</b>	<b>(8,885)</b>	<b>(9,363)</b>
<b>Total expenses</b>	<b>(20,913)</b>	<b>(21,482)</b>	<b>(21,643)</b>	<b>(22,419)</b>	<b>(10,604)</b>	<b>(11,341)</b>
<b>EBITDA</b>	<b>4,150</b>	<b>3,050</b>	<b>5,494</b>	<b>7,469</b>	<b>2,848</b>	<b>4,916</b>
Depreciation and amortisation	(312)	(253)	(263)	(499)	(161)	(230)
<b>EBIT</b>	<b>3,838</b>	<b>2,797</b>	<b>5,231</b>	<b>6,970</b>	<b>2,687</b>	<b>4,686</b>
Interest	(241)	(241)	(241)	(252)	(120)	(122)
<b>NPBT</b>	<b>3,597</b>	<b>2,556</b>	<b>4,990</b>	<b>6,718</b>	<b>2,567</b>	<b>4,564</b>
Income tax expense	(1,079)	(767)	(1,497)	(2,015)	(749)	(1,369)
<b>NPAT</b>	<b>2,518</b>	<b>1,789</b>	<b>3,493</b>	<b>4,703</b>	<b>1,818</b>	<b>3,195</b>

### Commentary

- Key drivers of revenue growth included:
  - America Invents Act\*: the effects of which were realised during the half year;
  - AUD/USD Exchange Rate: favourable movements combined with the transition to USD billing (Prospectus assumption \$0.76); and
  - Raising the Bar: an increase in the number of examinations and a more rigorous examination of Australian patent applications
- Operating expense growth in FY16 driven by incremental increases in occupancy and compensation costs
- Operational leverage results in proportionally greater EBITDA uplift from incremental revenue growth
- Increase in FY16 D&A expense accounted for by investment in IT systems and reconfiguration of existing premises following occupancy reorganisation.



# Key Operating Metrics

## Xenith continues to grow and improve margin performance

### Key pro forma operating metrics

	Historical			Forecast	HY Results	
	FY13	FY14	FY15	FY16	H1 FY16	
Professional fee growth (%)	-	(5.4%)	13.2%	11.3%	20.6%	
EBITDA growth (\$'000)	-	(1,100)	2,444	1,975	2,067	
EBITDA margin (% of professional fees)	19.5%	15.1%	24.1%	29.4%	36.1%	
EBIT growth (\$'000)	-	(1,041)	2,434	1,739	1,998	
EBIT margin (% of professional fees)	18.0%	13.9%	22.9%	27.5%	34.4%	
NPAT growth (\$'000)	-	(729)	1,704	1,210	1,376	

### Commentary

1. Relatively fixed cost base results in significant operating leverage
2. Operational leverage drives a correspondingly larger increase in EBITDA and EBIT relative to increase in professional fees
3. Incremental revenue growth also drives stronger margins.

### Reconciliation of pro forma net revenue to professional fees

\$'000	Historical			Forecast	HY Results	
	FY13	FY14	FY15	FY16	HY15	H1 FY16
Net revenue	25,063	24,532	27,137	29,888	13,454	16,257
Less: recoverable disbursements	(3,233)	(3,817)	(3,651)	(3,875)	(1,720)	(1,978)
Less: sundry income	(539)	(574)	(682)	(643)	(428)	(645)
<b>Professional fees</b>	<b>21,291</b>	<b>20,141</b>	<b>22,804</b>	<b>25,370</b>	<b>11,306</b>	<b>13,634</b>

# Consolidated Balance Sheet

## Consolidated statutory balance sheet

\$'000	Statutory Balance Sheet 30 June 2015	Statutory Balance Sheet 31 December 2015
Cash and cash equivalents	1,403	3,729
Trade and other receivables	7,831	8,575
Other current assets	311	409
<b>Total current assets</b>	<b>9,545</b>	<b>12,712</b>
Total non-current assets	1,023	1,472
<b>Total assets</b>	<b>10,568</b>	<b>14,184</b>
Borrowings	2,000	5,000
Other liabilities	5,978	7,963
<b>Total liabilities</b>	<b>7,978</b>	<b>12,963</b>
<b>Net assets</b>	<b>2,589</b>	<b>1,221</b>
<b>Equity</b>		
Issued capital	1	3,883
Partner loans	4,583	0
Reserves	(3,027)	(2,924)
Retained profits	1,033	262
<b>Total equity</b>	<b>2,589</b>	<b>1,221</b>

## Commentary

1. Balance sheet strength enhanced over the half. Net debt as at 31 December 2015 of \$1.3m, down from \$2.8m at IPO
2. Work in progress (WIP) carefully managed and stands at \$0.65m, equivalent to 8 days professional fee revenue
3. 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.

# Summary Cash Flow Statement

## Statutory cash flow statement

	Statutory Cash Flow HY to 31 Dec 2015
<b>\$'000</b>	
EBITDA	4,089
Non-cash movements	439
Other	(17)
Capital expenditure	(301)
<b>Operating cash flow before interest, financing activities and tax</b>	<b>4,210</b>
Net interest paid	(86)
<b>Net operating cash flow before financing activities and tax</b>	<b>4,124</b>

## Commentary

1. Operating cash flow of \$4.1m is well ahead of the Prospectus forecast, reflecting strong EBITDA uplift in conjunction with high operational leverage.
2. Non-cash movements include depreciation, amortisation and share-based payment plan expenses.

# Statutory – Pro Forma Reconciliation of Income Statement

## Statutory – Pro forma reconciliation of income statement

\$'000	Statutory H1 FY16 Income Statement	Occupancy Reorganisation	Compensation	IPO Related	Pro forma H1 FY16 Income Statement	Prospectus FY16 Forecast
Net revenue	16,471	(214)			16,257	29,888
Recoverable disbursements	(1,978)				(1,978)	(3,875)
Compensation	(6,015)		(761)		(6,775)	(13,418)
Occupancy	(1,286)	618			(669)	(1,467)
Other	(3,103)			1,184	(1,919)	(3,659)
<b>Total operating expenses</b>	<b>(10,404)</b>	618	(761)	1,184	<b>(9,363)</b>	<b>(18,544)</b>
<b>Total expenses</b>	<b>(12,382)</b>	618	(761)	1,184	<b>(11,341)</b>	<b>(22,419)</b>
<b>EBITDA</b>	<b>4,089</b>	<b>404</b>	(761)	1,184	<b>4,916</b>	<b>7,469</b>
Depreciation and amortisation	(338)	108			(230)	(499)
<b>EBIT</b>	<b>3,751</b>	<b>512</b>	(761)	1,184	<b>4,686</b>	<b>6,970</b>
Interest	(86)			(36)	(122)	(252)
<b>NPBT</b>	<b>3,665</b>	<b>512</b>	(761)	1,148	<b>4,564</b>	<b>6,718</b>
Income tax expense	35	(154)	228	(1,478)	(1,369)	(2,015)
<b>NPAT</b>	<b>3,700</b>	<b>358</b>	<b>(533)</b>	<b>(330)</b>	<b>3,195</b>	<b>4,703</b>

# Outlook and Growth Opportunities



# Outlook

## Strong performance in H1 supports confident outlook for FY16

- ✓ Strong performance in H1 positions the business well for H2 of FY16
- ✓ Strong free cash flow and healthy balance sheet are expected to be maintained
- ✓ WIP and debtors continue to be tightly controlled
- ✓ Momentum from Raising the Bar and favourable exchange rates likely to continue as supportive tailwinds (although effects of AIA legislative changes not expected in H2 and potential impact of softening global economic conditions uncertain)
- ✓ Board actively considering FX strategies to mitigate risks and reduce potential for earnings volatility associated with foreign exchange rate movements
- ✓ Company remains confident of achieving FY16 Prospectus forecasts
- ✓ Maiden dividend for FY16 expected to be paid in October 2016, with target dividend payout ratio of 70% - 90% of NPAT.

# Opportunities for Growth

## Xenith is actively pursuing a number of growth opportunities

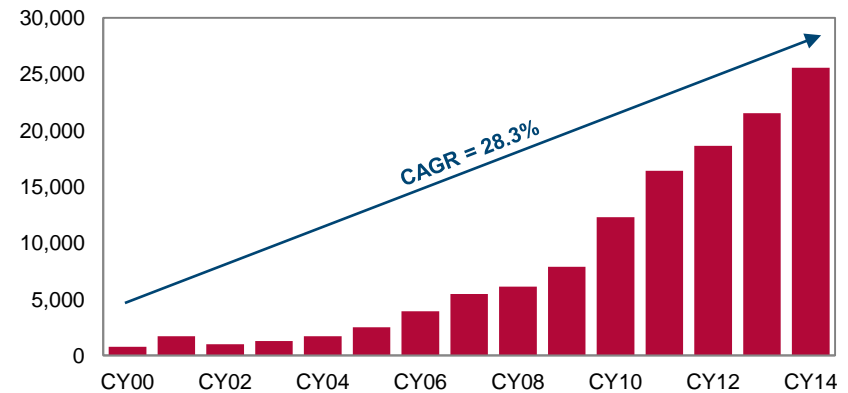
<b>1</b> Increased market share in Australasia	<ul style="list-style-type: none"><li>• The only top 5 full service practice to have organically increased market share in both patents and trade marks in Australia over the last 5 years</li><li>• Further growth forecast from referrals, targeted proposals, tenders and other business development strategies</li></ul>
<b>2</b> Business development in China	<ul style="list-style-type: none"><li>• Continued investment in Chinese business development team</li><li>• First mover advantage in a rapidly growing market segment</li><li>• Xenith has significantly grown its market share of Chinese patent applications filed in Australia in recent years</li><li>• Substantial growth in PCT applications filed by Chinese applicants represents a longer term growth opportunity for Xenith</li></ul>
<b>3</b> Continued technological innovation	<ul style="list-style-type: none"><li>• Ongoing development of the Group's technology platform has potential to enable further process automation and efficiency gains (e.g. streamlining Xenith's digital business-to-government (B2G) interface with IP Australia)</li><li>• Potential for improvement in operating margins while facilitating potential synergies from acquisitions</li></ul>
<b>4</b> Regulatory reform in New Zealand	<ul style="list-style-type: none"><li>• Already an established presence in New Zealand</li><li>• Proposed regulatory changes between Australia and New Zealand may create opportunities for Xenith to expand its market share</li></ul>
<b>5</b> Acquisition opportunities	<ul style="list-style-type: none"><li>• Board members hold significant M&amp;A experience across a range of ASX listed and unlisted companies</li><li>• Business acquisition opportunities in Australia and New Zealand will be a key focus in the short term</li><li>• Fragmented IP market provides an opportunity for larger specialist firms to exploit the consolidation opportunity</li><li>• Acquisitions would deliver operational leverage, economies of scale and cost synergies from existing business processes, management resources and scalable technology platform</li></ul>
<b>6</b> Expansion into Southeast Asia	<ul style="list-style-type: none"><li>• Significant scope to leverage off current technology platform and established agent networks across Southeast Asia</li><li>• Provide existing and potential new clients a pre-packaged all-in-one service for IP protection throughout the region.</li></ul>

# Xenith's Focus on China

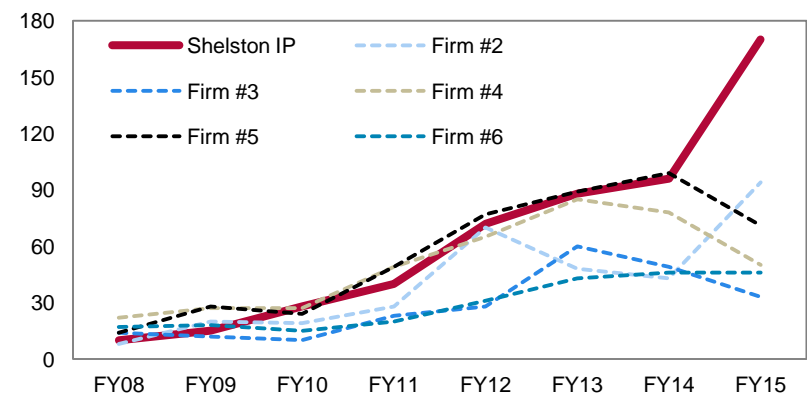
## Xenith is the pre-eminent service provider for Chinese applicants seeking IP protection in AU

- The substantial increase in PCT applications filed by Chinese applicants demonstrates the growth in Chinese-originating patent activity
- Over the last six years, Shelston IP has invested heavily to take advantage of this opportunity, by:
  - Spending more time on the ground in China, with extensive travel outside of the major centres of Beijing and Shanghai
  - Development of dedicated China desk in Sydney office, staffed by Mandarin speaking Chinese nationals
  - Initiating relationships across a broad spectrum of Chinese IP firms, companies and government officials
  - Developing a diversified base of clients from many different industries and geographic areas.
- Shelston IP now represents over 200 diversified Chinese clients, and processed c.18% of all Chinese patent applications filed in Australia in FY15, significantly more than its nearest competitor
- First-mover position and investment in relationships are critical competitive advantages that cannot be replicated in the short term.

Number of PCT<sup>1</sup> applications filed by Chinese applicants



Chinese originating applications filed in Australia by IP firm<sup>2</sup>





# Appendix: Industry Overview

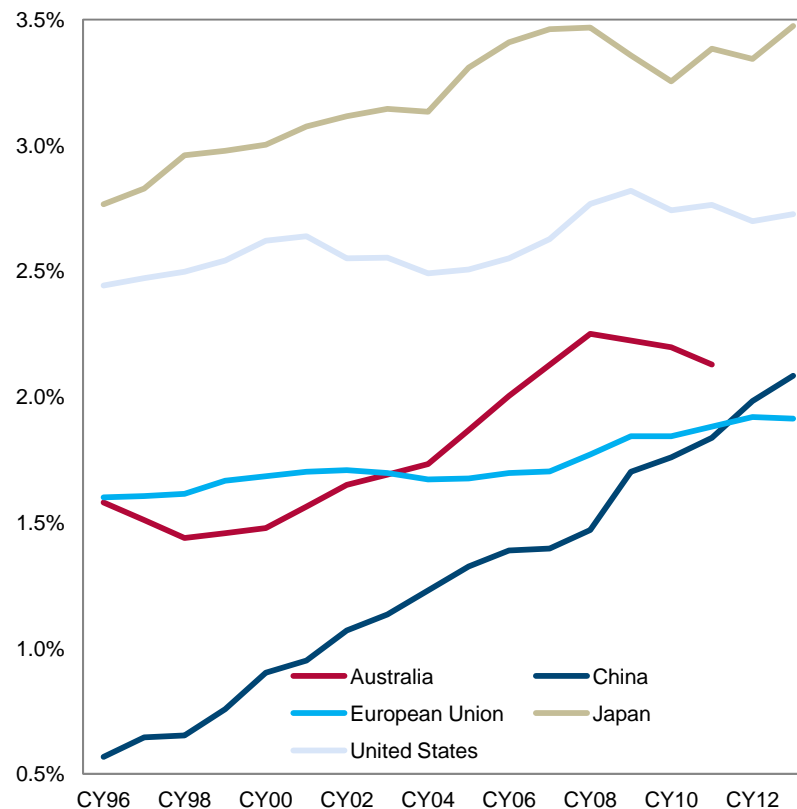


# Why is IP Important?

**IP is becoming an increasingly significant source of commercial value and competitive advantage for organisations and individuals globally**

- IP protection enables companies to capture and more effectively exploit the benefits of substantial investments in product or brand development
- Over the last 20 years, there has been a global and regional increase in investment in research and development expenditure
  - c.35% of US GDP (in 2010) can be accounted for by IP-intensive businesses<sup>1</sup>
  - c.39% of total economic activity in Europe can be attributed to IP-intensive industries<sup>2</sup>
- As research and development expenditure continues to increase, expenditure on protecting the resulting IP is also likely to increase.

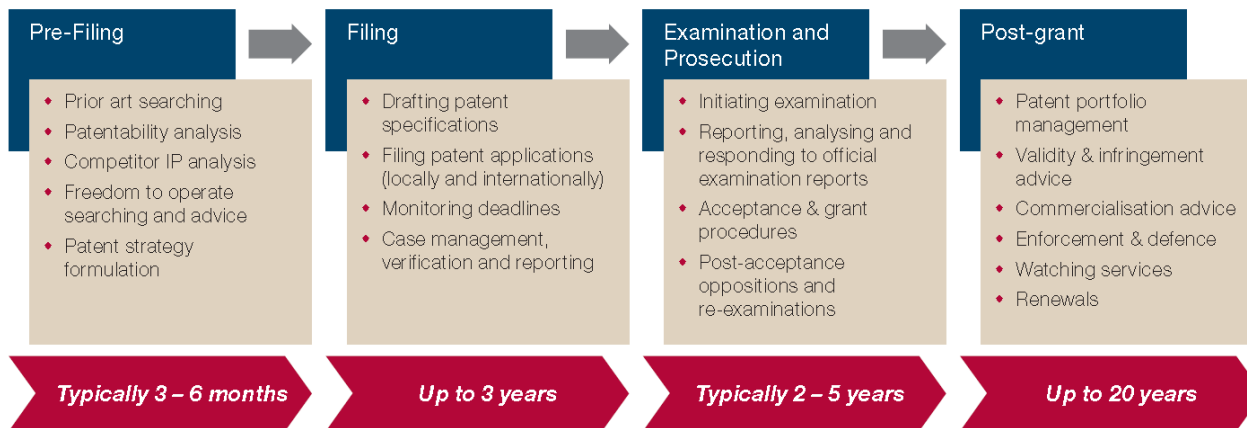
Research and development expenditure as a % of GDP<sup>3</sup>



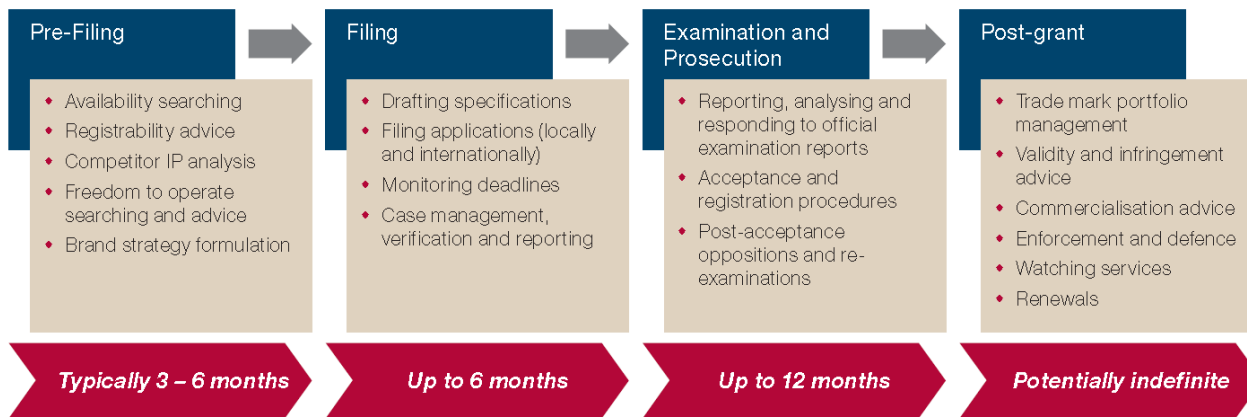
# The IP Life Cycle

Xenith is involved at each stage of the IP life cycle, generating annuity-style revenue streams

## Patent life cycle



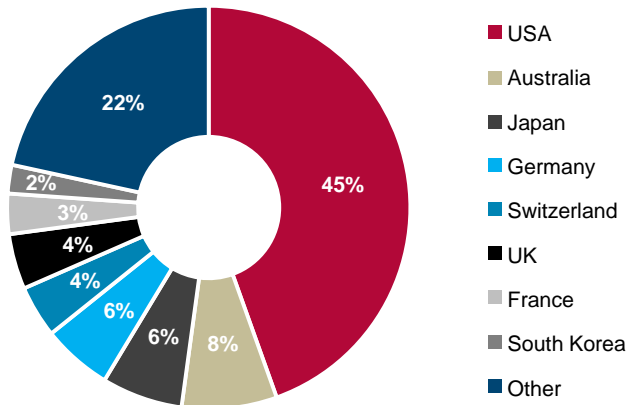
## Trade mark life cycle



# Patent Filings in Australia

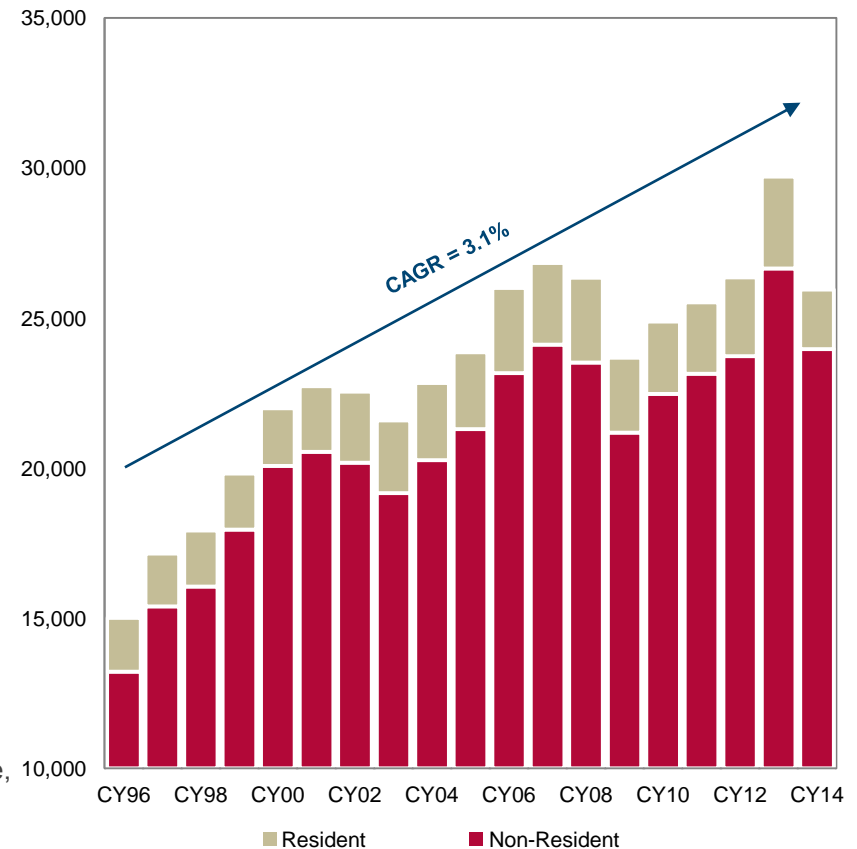
Patent filings in Australia have nearly doubled in the last 20 years, with the total number of patents in force totalling c.142,000

Applicant country of origin for patent applications filed in Australia (CY14)<sup>1</sup>



- On average, over 90% of AU patent applications are filed by non-residents; predominantly from US, Europe and Japan
- Growth in patent filings often reflects underlying global economic conditions or legislative/ regulatory changes
- The 14% increase in filings in CY13 and 13% decrease in filings in CY14 reflected the impact of the “Raising the Bar” legislative change, which brought forward a significant number of patent applications into CY13.

Patent applications filed in Australia<sup>1</sup>

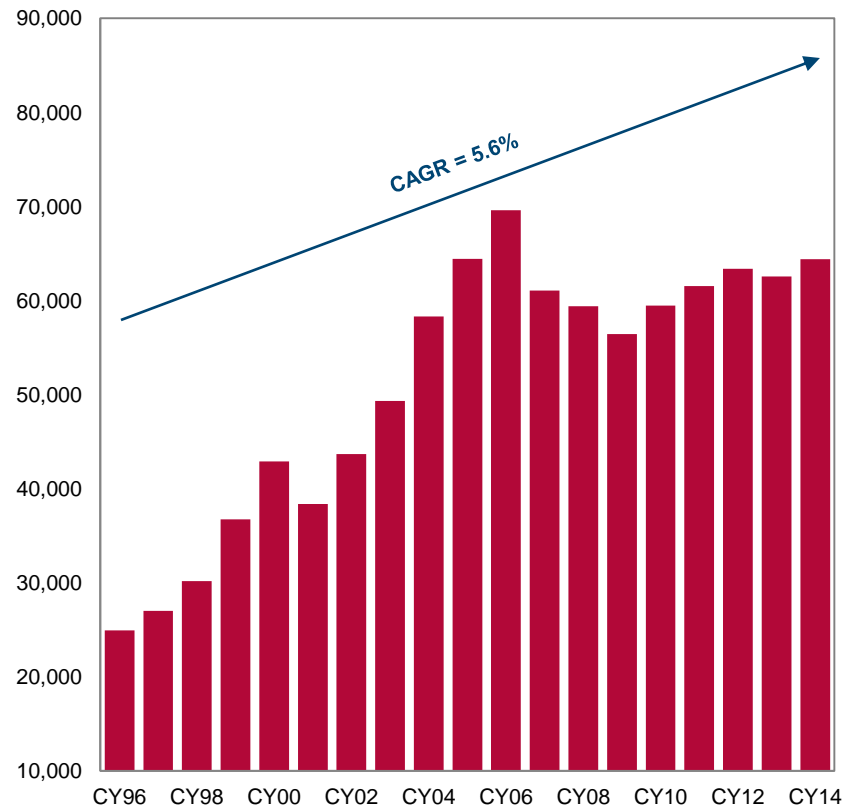


# Trade Mark Filings in Australia

Trade mark filing rates in Australia have more than doubled in the last 20 years

- Trade mark filings have broadly tracked economic growth in recent years
  - Increasing diversity of goods and services has led to an increase in the number of trade mark applications filed
  - There was a downturn in trade mark applications filed following the GFC, consistent with the downturn in global economic growth
- The indefinite duration of trade mark rights provides opportunities for additional, recurring revenue through renewals, enforcement and portfolio management.

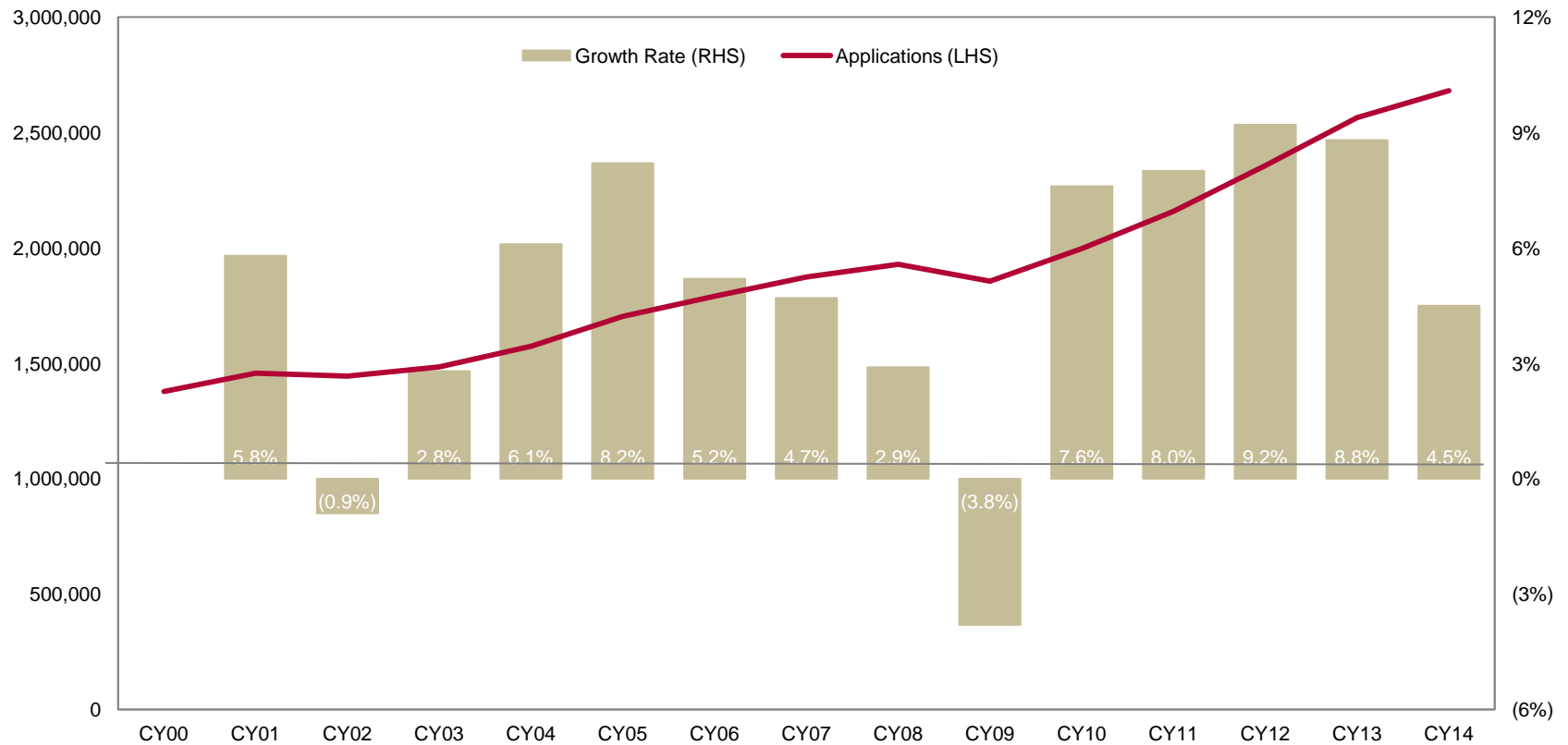
Trade mark applications filed in Australia<sup>1</sup>



# Patent Applications Globally

Patent applications globally have grown steadily since the end of the GFC (CY09)

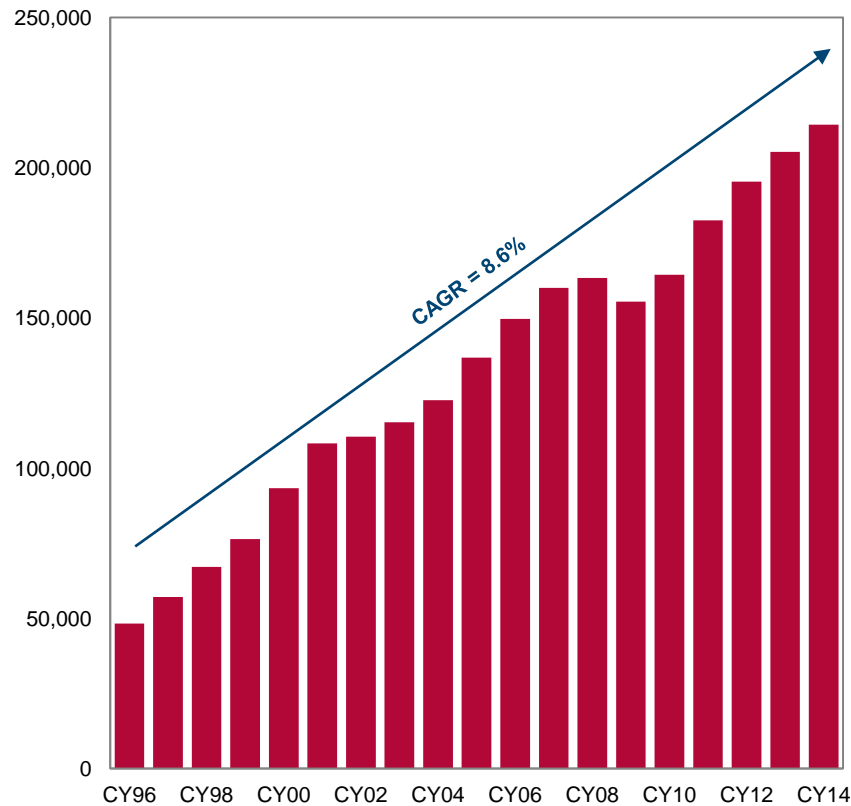
Total patent applications filed globally<sup>1</sup>



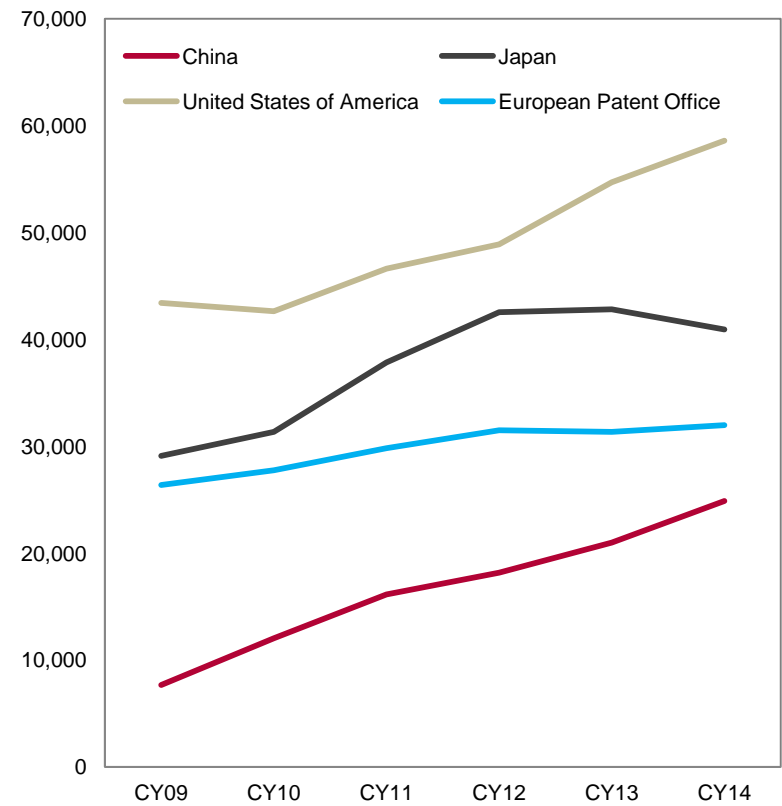
# PCT Applications by Resident Applicants

**PCT applications in primary IP markets also continue to grow, and provide a leading indicator for subsequent national phase filings in secondary IP markets (including AU and SE Asia)**

Total PCT patent applications filed globally



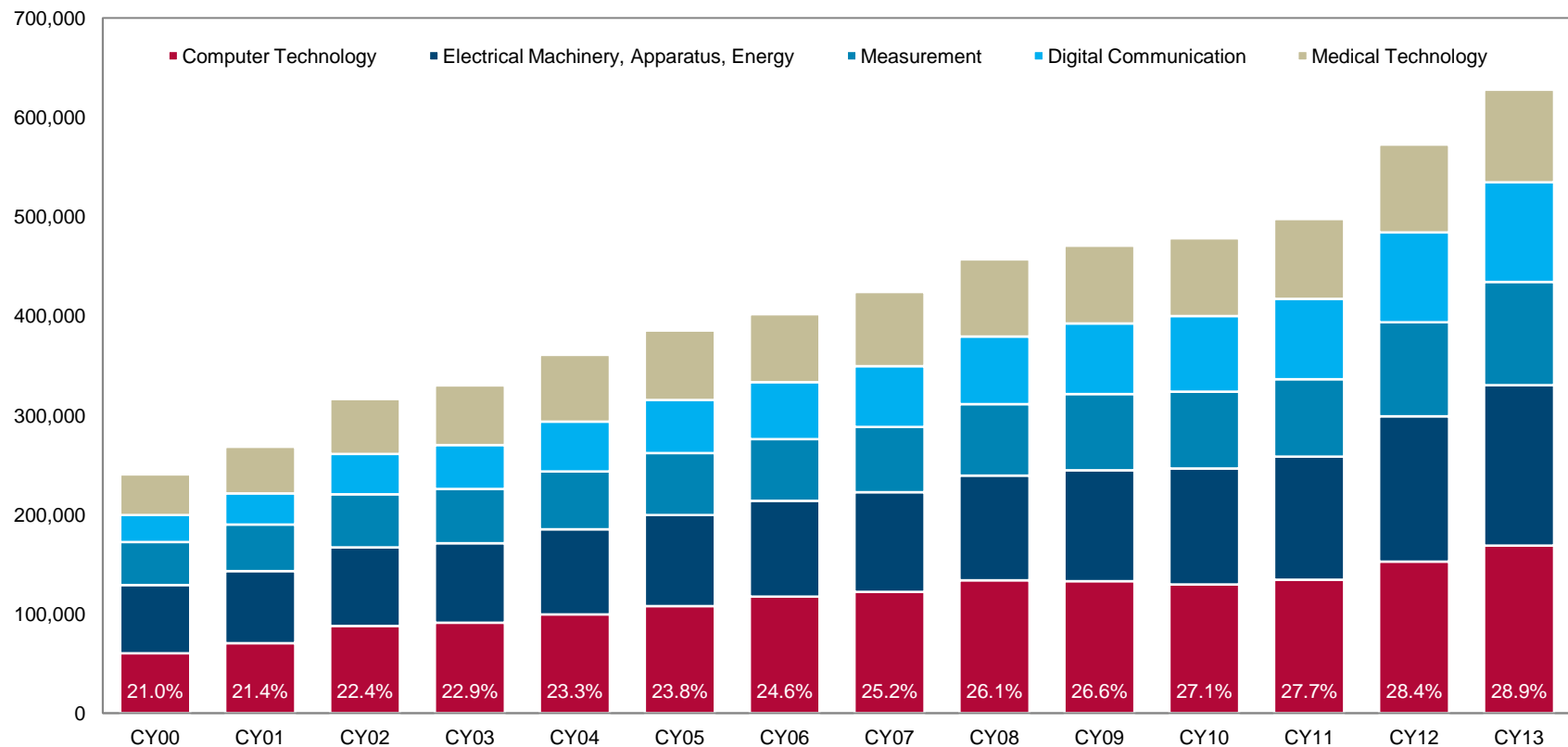
PCT international applications filed in CN, JP, US and EP offices by resident applicants



# Patent Trends in Top 5 Technical Fields

The top 5 technology fields currently account for c.30% of all patent applications filed

Trend in patent applications for the top 5 technology fields<sup>1,2</sup>

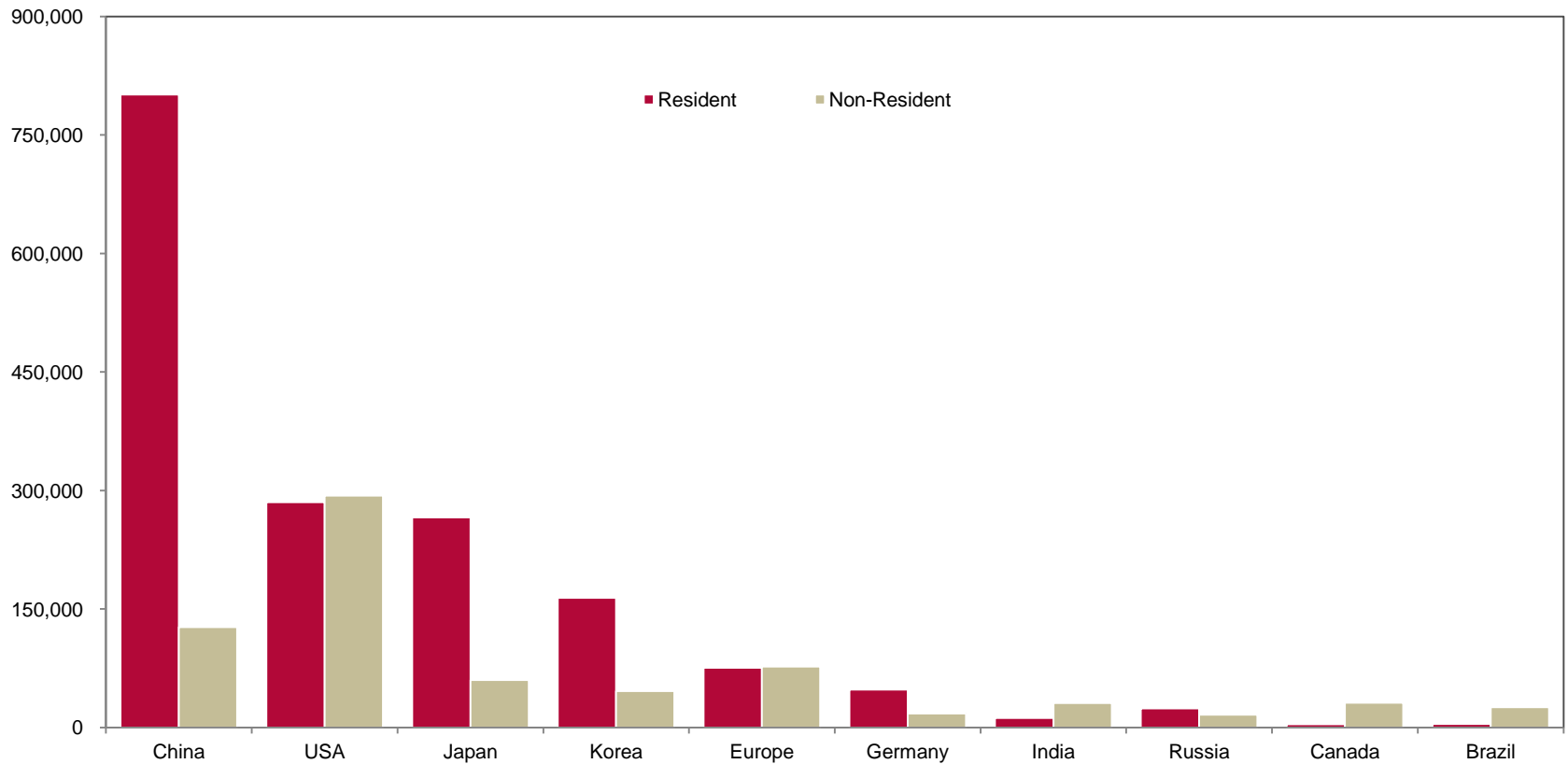




# Top 10 Patent Offices in 2014

China is emerging as an important market for the creation of IP

Patent applications filed at the top 10 patent offices in 2014



# PCT Applications by Country of Origin

An indication of geographical concentration of patent-related IP origination

Patent applications filed through the PCT system<sup>1,2</sup>

