

Xenith IP Group Limited - FY16 Results

Full Year to 30 June 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

1	Highlights	4
2	Business Overview	7
3	FY16 Financial Results Detail	10
4	Acquisitions	18
5	Outlook and Growth Opportunities	21

Appendices

A	Business Overview – Additional Information	23
B	Industry Overview	27

Highlights – Financial and Operational



Financial Highlights

Strong performance for FY16

- ✓ Outperformed Prospectus forecast
 - Pro forma* Revenue of \$32.2m - up 8% on FY16 Prospectus forecast
 - Pro forma* EBITDA of \$9.2m - up 23% on FY16 Prospectus forecast
- ✓ Pro forma* Revenue of \$32.2m - up 19% on FY15
- ✓ Pro forma* EBITDA of \$9.2m - up 67% on FY15
- ✓ Pro forma* NPAT of \$6.0m - up 71% on FY15
- ✓ Pro forma EPS of 18.2 cents – up 71% on FY15
- ✓ Pro forma* EBITDA margin (% of professional fees) of 34% (FY15: 24%)
- ✓ Final fully franked dividend of 7 cents per share
- ✓ Net cash position of \$0.9m (net debt of \$0.6m at 30 June 2015)
- ✓ New \$10m bank debt facility.

Pro forma results (\$m)	FY16	Prospectus	FY15
Revenue	32.2	29.9	27.0
EBITDA	9.2	7.5	5.5
Net profit after tax	6.0	4.7	3.5
EPS (cents)	18.2	14.3	10.6

Operational Highlights

Key milestones

- ✓ Successful corporate restructure and IPO in November 2015
- ✓ Strong performance and growth in core business activities
- ✓ Strong working capital management - WIP of \$0.29 million at 30 June 16 (\$0.28m at 30 June 15)
- ✓ Strengthening of senior management team
- ✓ Acquisition of Watermark announced on 23 August 2016.

Business Overview

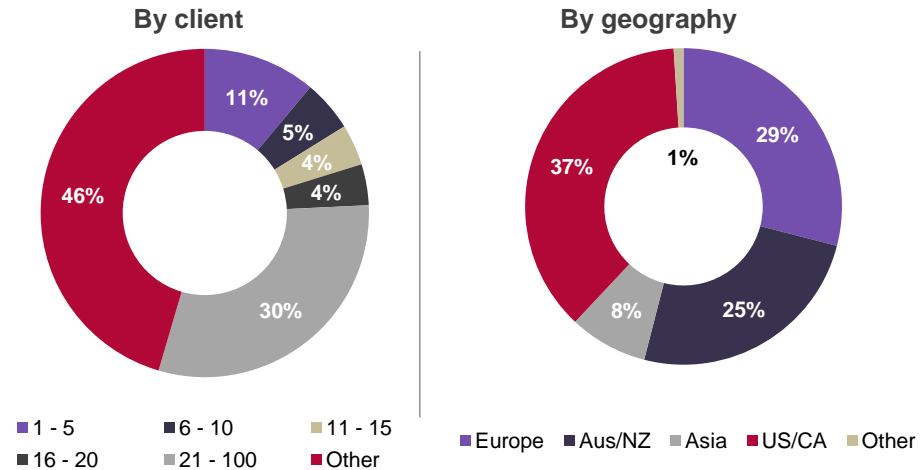


Business Overview

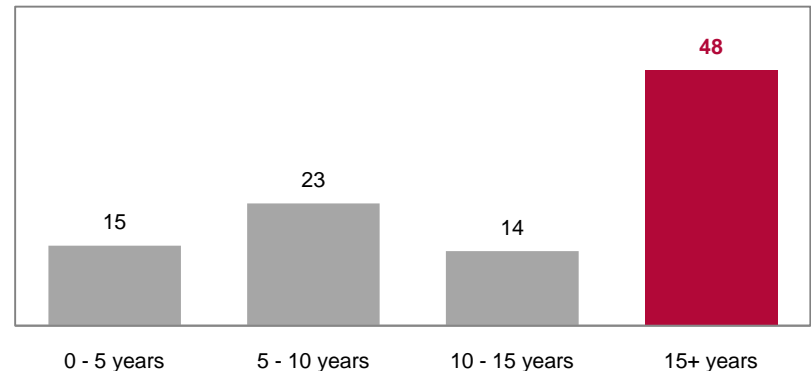
Highly diversified quality revenue base – by client

- 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 24% of revenue
- Xenith has long-term relationships with many of its largest clients:
 - 62 of the top 100 clients with the firm for more than 10 years
 - 48 of the top 100 clients with the firm for more than 15 years.

FY16 revenue by client size and geography

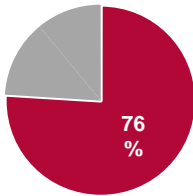
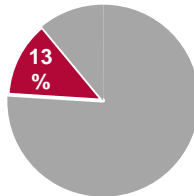
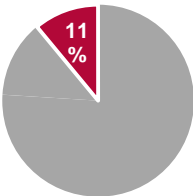
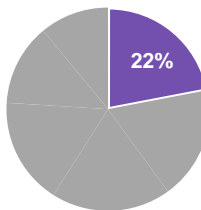
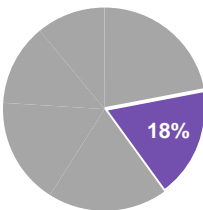
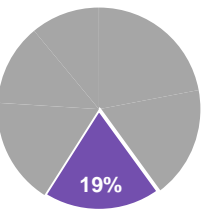
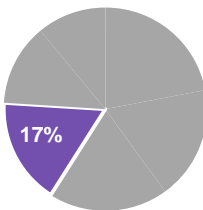
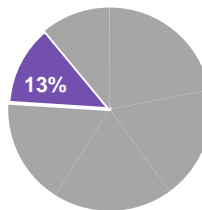
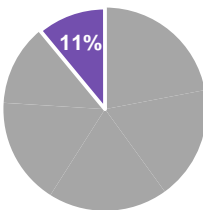


Tenure of top 100 clients



Business Overview

Highly diversified quality revenue base – by industry and service line

By Practice Area						
	Patents and Designs		Trade Marks		Transactions and Disputes	
Overview	Xenith provides a comprehensive range of IP services including registration, management, commercialisation and enforcement of IP rights					
FY16 Prof. fees						
By Practice Group						
	Mechanical	Chem/ Pharma	Biotech/ Pharma	Electrical/ ICT	Trade Marks	Transactions and Disputes
FY16 Prof. fees						
Professionals¹ (including principals)	7 attorneys (2 principals)	5 attorneys (2 principals)	5 attorneys (2 principals)	6 attorneys (2 principals)	6 attorneys (2 principals)	6 lawyers (3 principals)

Note: (1) at 30 June 2016, not including trainees.

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 percentages. The text is tilted and out of focus, but some numbers and symbols are visible.

Item	Value	Percentage	Value	Percentage	Value
\$ 450	\$ 414,973.01	17.1%	\$95		
\$ 381,992.13	18,21%	\$60,81			
\$ 140,691.72	19,15%	\$75,05	75.16		
\$ 40,768.31	11,58%	\$48,95	92.83	0.02	
\$ 469,064.54	29,60%	\$87,32	44.62	0.01	
\$ 868,814.63	0,46%	\$272	57.50	0.01	
\$ 37,680.88	35,76%	\$98,35	61.37	0.01	
\$ 194,91	35,07%	\$17,60	12.75	0.01	
\$ 61,91	16,94%	\$61,91	16.04	0.01	
\$ 2,45			49.19	0.01	

Summary Income Statement – pro forma

Strong growth in revenue and EBITDA

\$'000 Year ended 30 June	Pro forma			
	FY16	FY15	Var	%Var
Revenue	32,171	27,006	5,165	19%
Other income	17	131	(114)	-87%
Recoverable disbursements ¹	(4,321)	(3,651)	(670)	-18%
Compensation	(13,330)	(12,883)	(447)	-3%
Occupancy	(1,479)	(1,430)	(49)	-3%
Other	(3,876)	(3,679)	(197)	-5%
Total operating expenses	(18,685)	(17,992)	(693)	-4%
Total expenses	(23,006)	(21,643)	(1,363)	-6%
EBITDA	9,182	5,494	3,688	67%
Depreciation and amortisation	(377)	(263)	(114)	-43%
Earnings before interest and tax	8,805	5,231	3,574	68%
Interest	(257)	(241)	(16)	-7%
Profit before tax	8,548	4,990	3,558	71%
Income tax expense	(2,564)	(1,497)	(1,067)	-71%
Net profit after tax	5,984	3,493	2,491	71%

Commentary

- Key drivers of revenue growth included:
 - Favourable movements in AUD/USD Exchange Rate and the transition to USD billing; and
 - Raising the Bar: an increase in the number of examinations and a more rigorous examination of Australian patent applications
- Increase in recoverable disbursements expense reflects an increase in outbound IP work from local clients (included in Revenue)
- Other expenses have increased as a result of foreign exchange losses in the current year.

Note: (1) predominately foreign agents fees, foreign patent office fees and barrister fees.

Summary Income Statement – pro forma

Company exceeds Prospectus forecast

\$'000 Year ended 30 June	Pro forma		Prospectus	
	FY16	FY16	Var	%Var
Revenue	32,171	29,888	2,283	8%
Other income	17	-	17	
Recoverable disbursements ¹	(4,321)	(3,875)	(446)	-12%
Compensation	(13,330)	(13,418)	88	1%
Occupancy	(1,479)	(1,467)	(12)	-1%
Other	(3,876)	(3,659)	(217)	-6%
Total operating expenses	(18,685)	(18,544)	(141)	1%
Total expenses	(23,006)	(22,419)	(587)	3%
EBITDA	9,182	7,469	1,713	23%
Depreciation and amortisation	(377)	(499)	122	-24%
Earnings before interest and tax	8,805	6,970	1,835	26%
Interest	(257)	(252)	(5)	-2%
Profit before tax	8,548	6,718	1,830	27%
Income tax expense	(2,564)	(2,015)	(549)	-27%
Net profit after tax	5,984	4,703	1,281	27%

Commentary

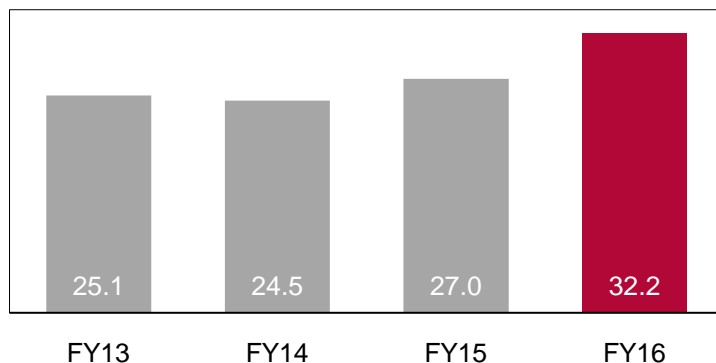
- Key drivers of revenue growth included:
 - Favourable movement in AUD/USD Exchange Rate (average rate of 0.73 in FY16, Prospectus Forecast based on 0.76) and the transition to USD billing; and
 - Raising the Bar: an increase in the number of examinations and a more rigorous examination of Australian patent applications
- Increase in recoverable disbursements expense reflects an increase in outbound IP work from local clients (included in Revenue)
- Other expenses have increased as a result of movements in foreign exchange.

Note: (1) predominately foreign agents fees, foreign patent office fees and barrister fees.

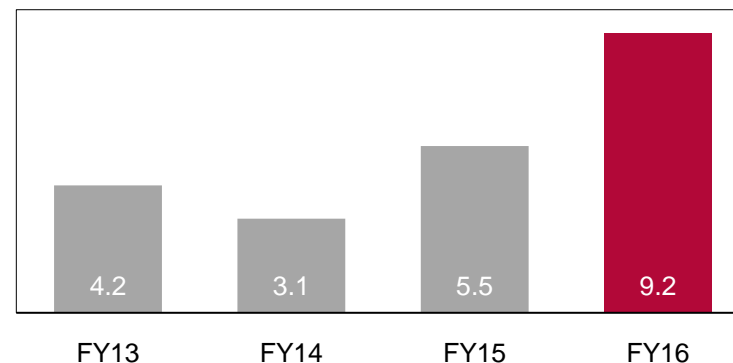
Overview of Financial Performance

Xenith continues to grow and improve margins

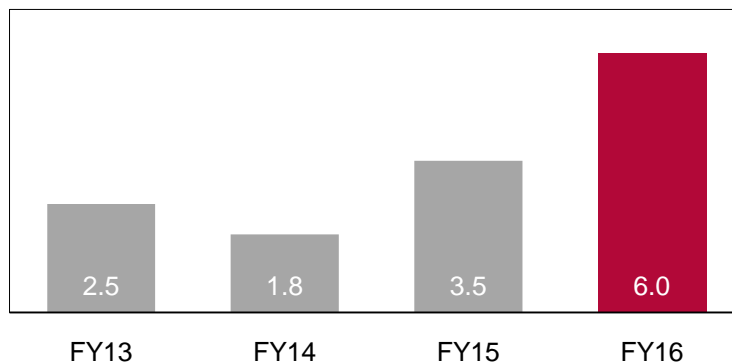
Pro forma revenue (\$m)



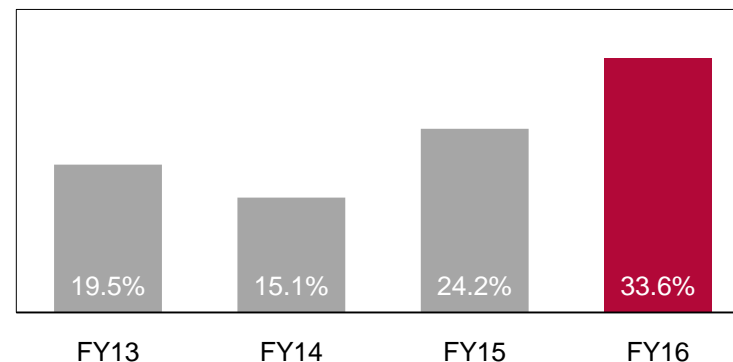
Pro forma EBITDA (\$m)



Pro forma NPAT (\$m)



Pro forma EBITDA margin (% of professional fees)



Key Operating Metrics

Xenith continues to grow and improve margins

Key pro forma operating metrics

	Pro forma	
	FY16	FY15
Professional fees growth (%)	20%	13%
EBITDA growth (\$'000)	3,688	2,444
EBITDA margin (% of professional fees)	34%	24%
EBIT growth (\$'000)	3,574	2,434
EBIT margin (% of professional fees)	32%	23%
NPAT growth (\$'000)	2,491	1,704

Reconciliation of pro forma revenue to professional fees

\$'000	Pro forma	
	FY16	FY15
Revenue	32,171	27,006
Less: recoverable disbursements	(4,321)	(3,651)
Less: other revenue	(531)	(672)
Professional fees	27,319	22,683

Commentary

1. Relatively fixed cost base results in significant operating leverage
2. Operational leverage drives a correspondingly larger percentage increase in EBITDA and EBIT relative to percentage increase in professional fees.

Summary Cash Flow Statement

High cash conversion

\$'000	Statutory FY16
EBITDA	7,401
Non-cash movements	(50)
Changes in working capital	(544)
Capital expenditure	(460)
Cash flow before financing activities and tax	6,347
Cash conversion ratio	86%
Net interest paid	(193)
Income taxes paid	-
Free cash flow	6,154
Distributions to former partners	(4,470)
Share placement (net of costs)	3,831
Net borrowings repayment	(2,583)
Net cash flow	2,932

Commentary

1. High cash conversion rate of 86% in FY16
2. Non-cash movements include share-based payment expenses and unrealised foreign exchange gains
3. Free cash flow in FY17 will be impacted by catch-up tax payments as XIP enters provisional tax payments system.

Consolidated Balance Sheet

Strengthening of financial position

\$'000	Statutory as at	
	30-Jun-16	30-Jun-15
Cash and cash equivalents	4,911	1,403
Trade and other receivables	8,340	7,552
Work in progress	290	279
Other current assets	278	311
Total current assets	13,819	9,545
Property, plant and equipment	911	970
Deferred tax asset	1,355	-
Other non current assets	35	52
Total non-current assets	2,301	1,022
Total assets	16,120	10,567
Trade and other payables	2,438	1,717
Borrowings	4,000	2,000
Income tax payable	1,318	-
Deferred tax liability	332	-
Employee benefits	2,252	1,892
Provisions	981	2,117
Other liabilities	314	252
Total liabilities	11,635	7,978
Net assets	4,485	2,589
Equity		
Issued capital	3,883	1
Partner loans	-	4,583
Reserves	(2,496)	(3,027)
Retained earnings	3,098	1,032
Total Equity	4,485	2,589

Commentary

1. Balance sheet strengthened. Net cash \$0.9m (2015: net debt \$0.6m).
2. Work in progress (WIP) carefully managed: \$0.3m at 30 June 2016 (\$0.3M at 30 June 2015)
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
4. The reduction in the provision balance of \$1,136K in the current year arises from the reduction in lease provisions (incentive and make good) on surrender of leased space – relinquished due to improved operational efficiency.

Reconciliation of Statutory to Pro forma

\$'000 Year ended 30 June	Statutory Profit and loss FY16	Non-recurring costs				Notional adjustments		Pro forma Profit and loss FY16
		Lease Surrender	Compensation	IPO related	Acquisitions	Compensation	Public Co	
Revenue	32,171	-	-	-	-	-	-	32,171
Other income	142	(125)	-	-	-	-	-	17
Recoverable disbursements ¹	(4,321)	-	-	-	-	-	-	(4,321)
Compensation	(12,994)	-	525	-	-	(861)	-	(13,330)
Occupancy	(2,070)	591	-	-	-	-	-	(1,479)
Other	(5,527)	-	-	1,630	321	-	(300)	(3,876)
Total operating expenses	(20,591)	591	525	1,630	321	(861)	(300)	(18,685)
Total expenses	(24,912)	591	525	1,630	321	(861)	(300)	(23,006)
EBITDA	7,401	466	525	1,630	321	(861)	(300)	9,182
Depreciation and amortisation	(377)	-	-	-	-	-	-	(377)
Earnings before interest and tax	7,024	466	525	1,630	321	(861)	(300)	8,805
Interest	(194)	-	-	-	-	-	(63)	(257)
Profit before tax	6,830	466	525	1,630	321	(861)	(363)	8,548
Income tax expense	(295)	(140)	(158)	-	(96)	258	109	(2,564)
Net profit after tax	6,535	326	367	1,630	225	(603)	(254)	5,984

Non-recurring items include:

- One-off impact of lease surrender transaction.
- Share based payments expense re one-off Issue of Retention Rights at IPO.
- Transactions costs, including stamp duty on business restructure and IPO.
- Costs associated with acquisition of Watermark business incurred in current year.

Notional adjustments relating to period pre restructure and IPO include:

- Principal salary costs including leave entitlements and on costs.
- Incremental costs of operating as a publicly listed entity.
- Incremental costs of debt/equity structure of the business.

Tax expense:

Pro forma tax expense for FY16 of \$2,564K includes an additional pro forma adjustment (not disclosed in reconciliation) to increase tax expense by \$2,242K. This relates to the tax exempt income in the current year relating to partnership profit before the date of restructure and the impact of the initial recognition of deferred tax balances relating to the opening provision balances on entry to the tax consolidated group

Note: (1) predominately foreign agents fees, foreign patent office fees and barrister fees.

Acquisitions



Watermark



- ✓ Acquisition of Watermark announced on 23 August 16
- ✓ Purchase consideration of \$19.5 million:
 - Cash \$9.5m
 - 2,064,634 XIP shares issued at \$3.50 (2 year escrow)
- ✓ Cash component funded by:
 - Institutional Placement of 2,064,634 shares at \$3.35 per share raising \$6.9m
 - Draw down on bank debt (see SPP below)
- ✓ SPP announced 23 August 16:
 - Proceeds predominately to repay bank debt used for Watermark acquisition
 - Providing additional flexibility for future acquisitions
- ✓ Circa 4% market share¹ bringing combined market share to circa 10%
- ✓ Transaction EPS accretive on an underlying basis²
- ✓ Future maintainable EBITDA of c\$2.5m on Revenue of \$12m-\$13m
- ✓ Expected completion in October 2016.

Watermark

Overview

- ✓ Watermark is one of the longest established national IP practices in Australia
- ✓ 90 staff over three offices – Melbourne, Perth and Sydney

Operating Model

- ✓ Watermark will continue to run as a standalone operating business, maintaining its independent brand
- ✓ Synergies derived from shared “back office” functions including IT platforms following staged integration

Strategic Benefits

- ✓ **Geographic reach** – Increased national scale and reach, with the combined group having an expanded geographical presence across Australia and New Zealand;
- ✓ **Complementary service lines** – Opportunity to build on strategically important adjacent service lines (including R&D tax incentives, IP valuation and competitive business intelligence analytics)
- ✓ **Scale** – Broader base of personnel and other resources to pursue growth initiatives, together with an expanded referral network for the Company’s Southeast Asian strategy;
- ✓ **Operational efficiencies** – Opportunities for improved utilisation, operational efficiency and profitability through leveraging corporate services, IT systems, resources and other infrastructure across the group.

Outlook and Growth Opportunities



Outlook

Confident outlook for FY17

- ✓ Strong performance positions the business well for FY17
- ✓ Strong free cash flow and healthy balance sheet
- ✓ Development of back office integration plans for Watermark a key priority
- ✓ Fragmentation of Australian IP market provides opportunity for further consolidation
- ✓ Southeast Asian Strategy a key focus
- ✓ Continued focus on business development in China to build on current momentum
- ✓ Continued development of technology platform to improve operational efficiency
- ✓ Future dividends at target payout ratio of 70% - 90% of NPAT.

Appendix A: Business Overview

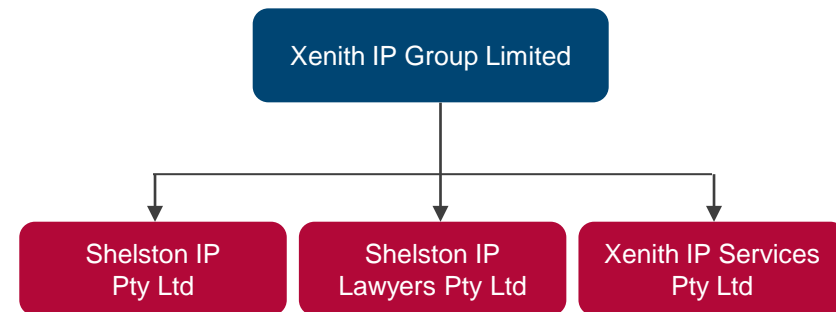


Overview of Xenith IP Group

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
- Shelston IP is consistently recognised as one of the leading Australian specialist IP firms, with a rich 157-year history dating back to 1859
- The Group employs over 110 personnel, including over 40 patent and trade mark attorneys and IP lawyers (excluding the recently announced acquisition of Watermark)
- Majority of revenue is derived from foreign clients (75% in FY16), with the remainder (25% in FY16) sourced from Australia and New Zealand.

Xenith group structure overview

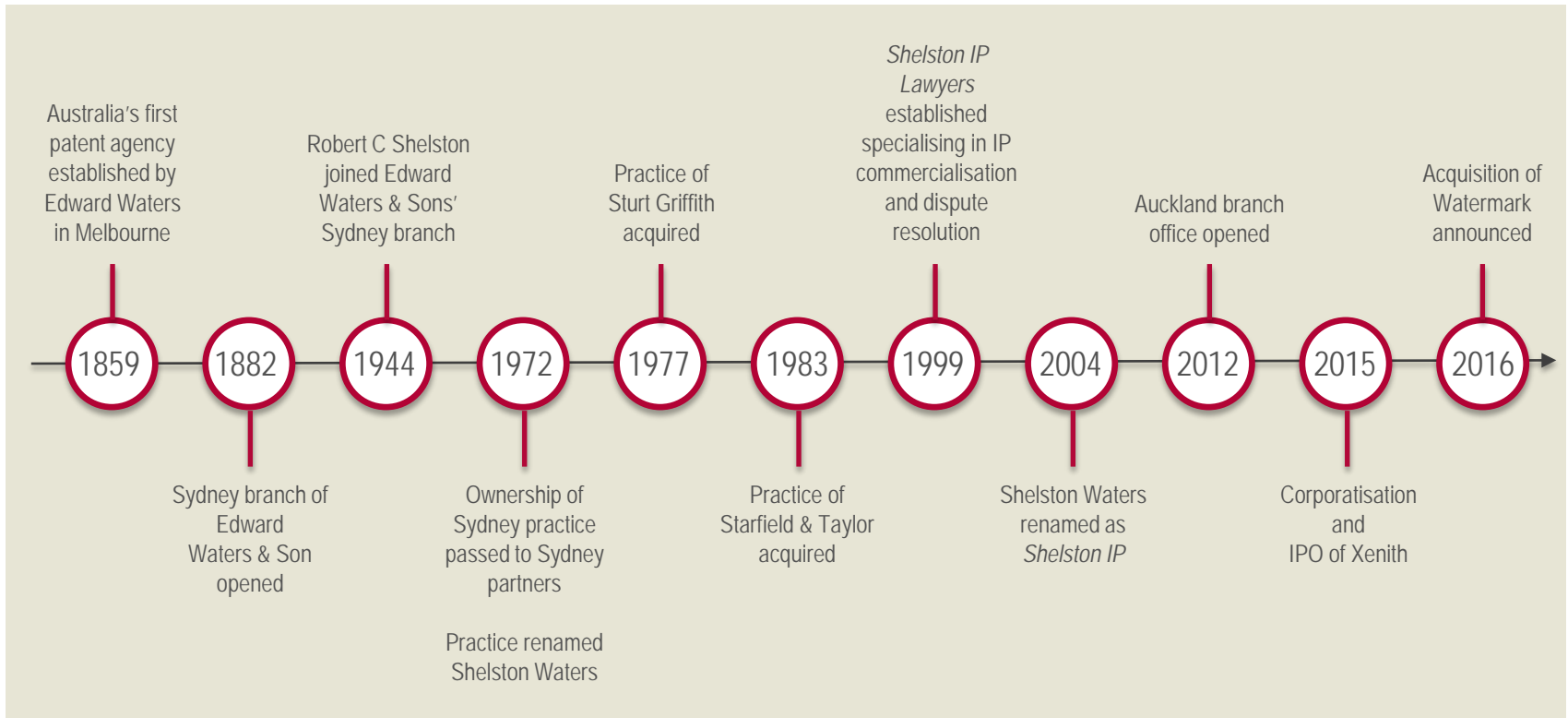


Recent awards and acknowledgements



Xenith's History

Xenith holds the oldest IP firm in Australia with a proud 157 year history, dating back to its inception as Edward Waters & Sons in Melbourne, in 1859

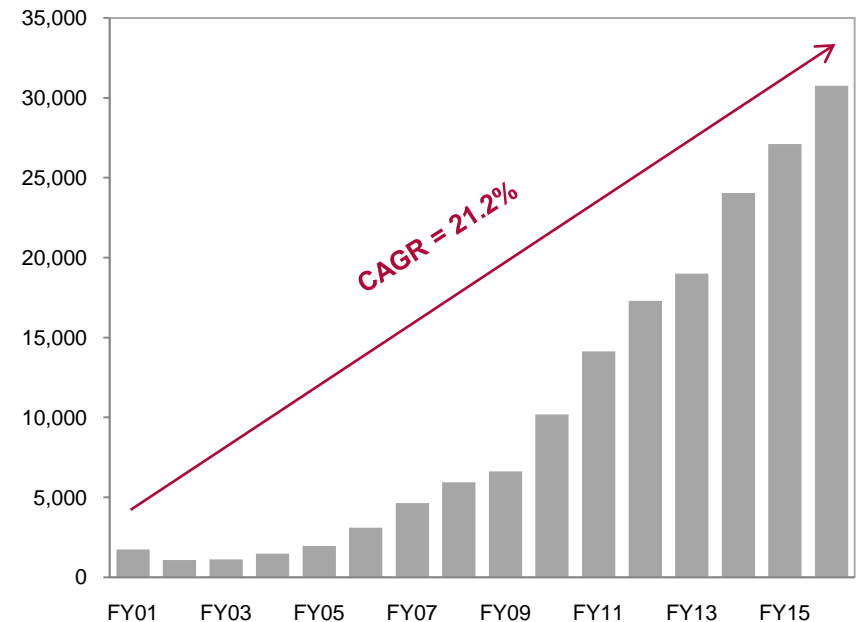


Xenith's Focus on China

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

- Substantial increase in PCT applications filed by Chinese applicants demonstrates the growth in Chinese-originating innovation and patent activity
- As a medium term strategic growth initiative, Shelston IP has targeted this opportunity, by:
 - Extensive travel by China business development team throughout the country
 - Establishment of dedicated China desk in Sydney, staffed by Mandarin speaking Chinese nationals
 - Initiating relationships across a broad spectrum of Chinese IP firms, companies and government agencies
 - Development of a diversified base of clients across a broad spectrum of industries and geographical areas
 - Successfully positioning Shelston IP as the preeminent firm representing Chinese patent applicants in Australia – a “ground floor” position with long term development potential.

Number of PCT¹ applications filed by Chinese applicants



Appendix B: Industry Overview

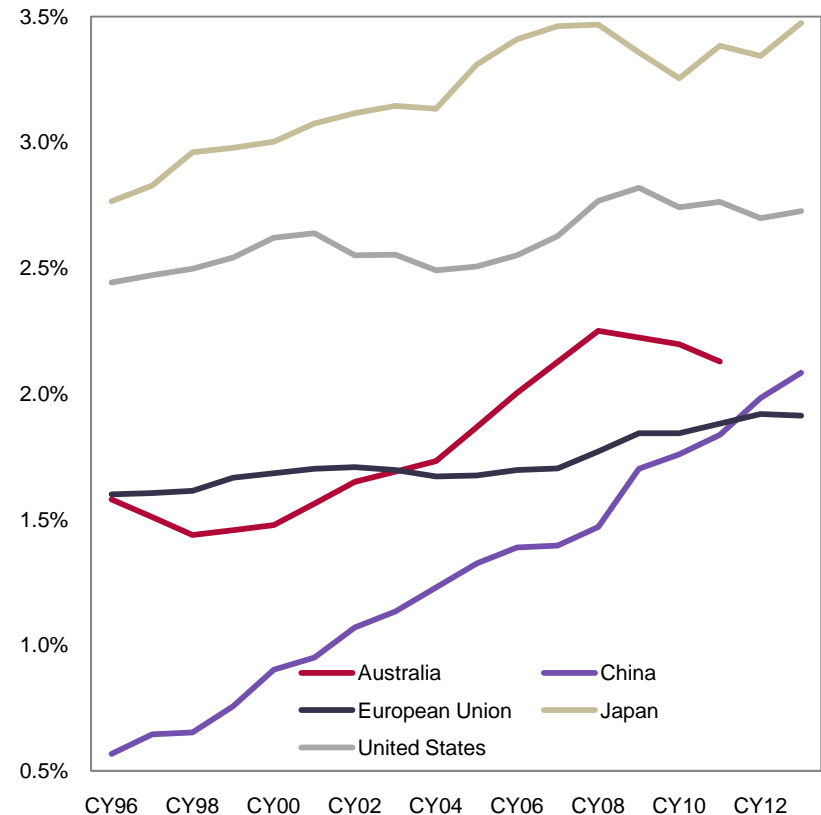


Why is IP Important?

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

- IP protection enables companies to capture and more effectively exploit the benefits of substantial investments in research and development (R&D)
- Over the last 20 years, there have been substantial global and regional increases in R&D expenditure, both in absolute terms and as a percentage of GDP
 - c.35% of US GDP (in 2010) can be accounted for by IP-intensive businesses¹
 - c.39% of total economic activity in Europe can be attributed to IP-intensive industries²
- As R&D expenditure continues to increase, investment in protection of the resulting IP also tends to increase.

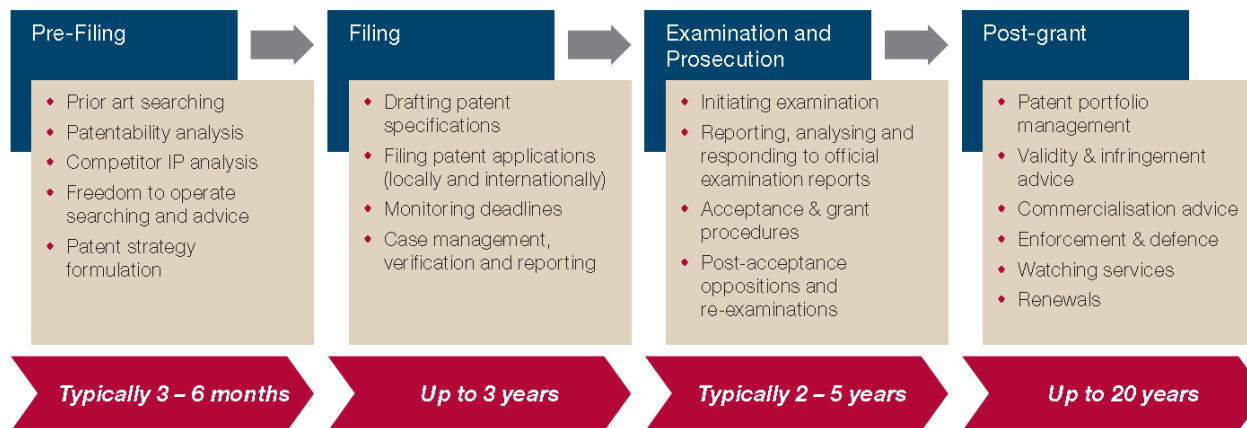
Research and development expenditure as a % of GDP³



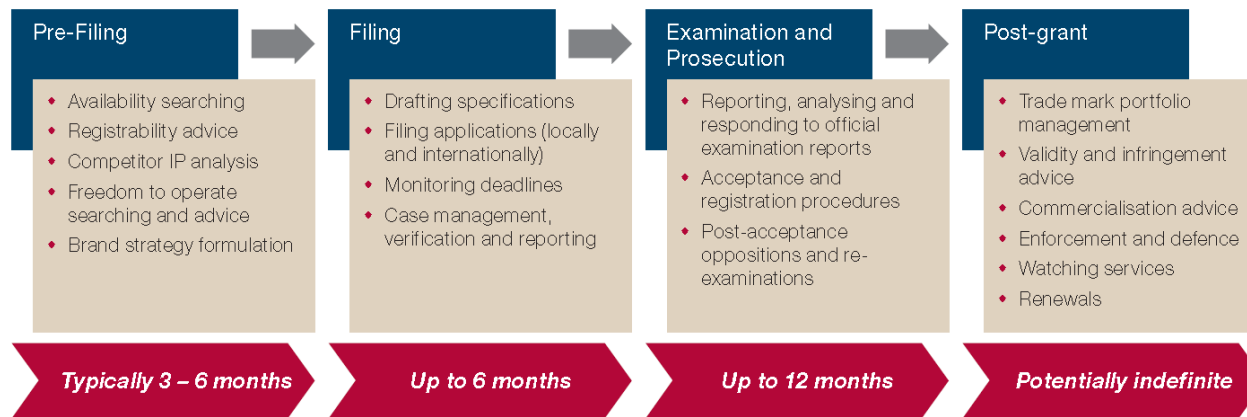
The IP Life Cycle

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

Patent life cycle



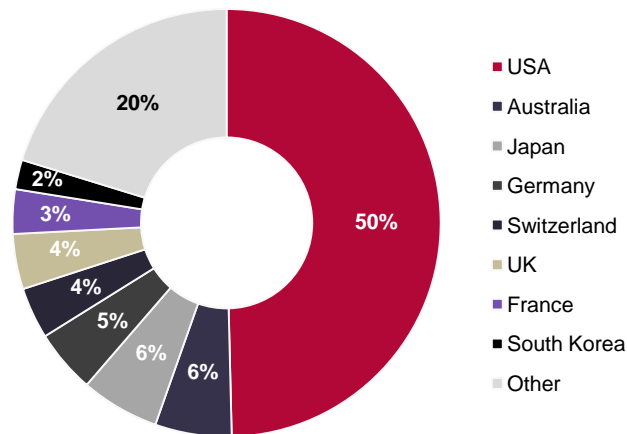
Trade mark life cycle



Patent Filings in Australia

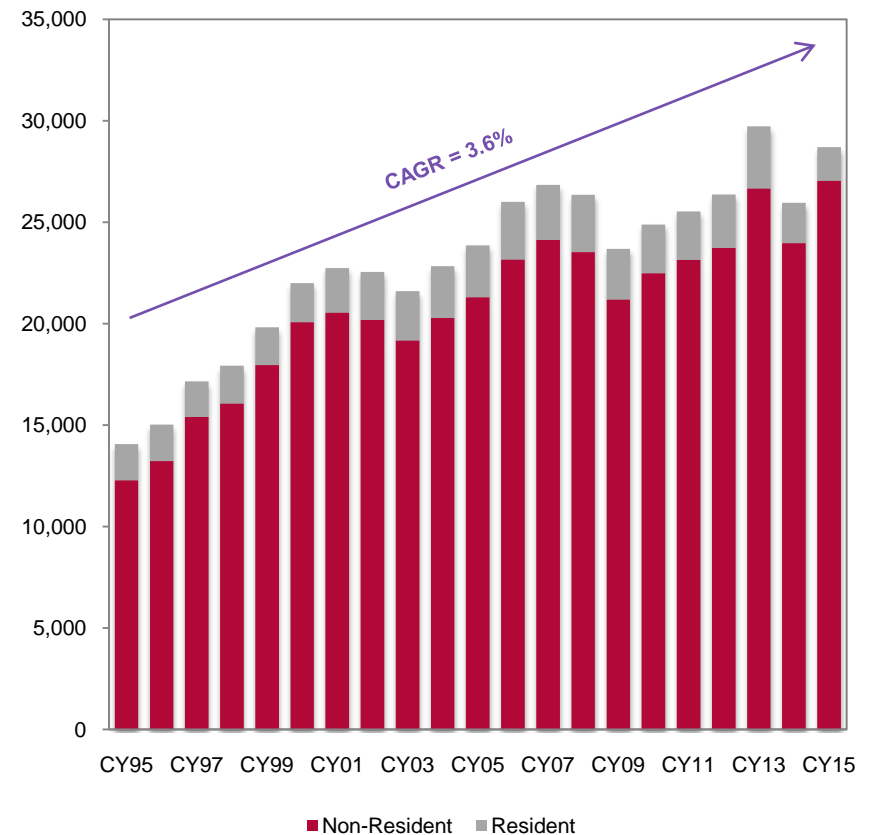
The rate of patent filings in Australia has approximately doubled over the last 20 years

Applicant country of origin for patent applications filed in Australia (CY15)¹



- On average, over 90% of AU patent applications are filed by non-residents; predominantly from US, Europe and Japan
- Growth in patent filings tends to reflect underlying global economic conditions and relevant 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, with levels normalising in CY15.

Patent applications filed in Australia¹

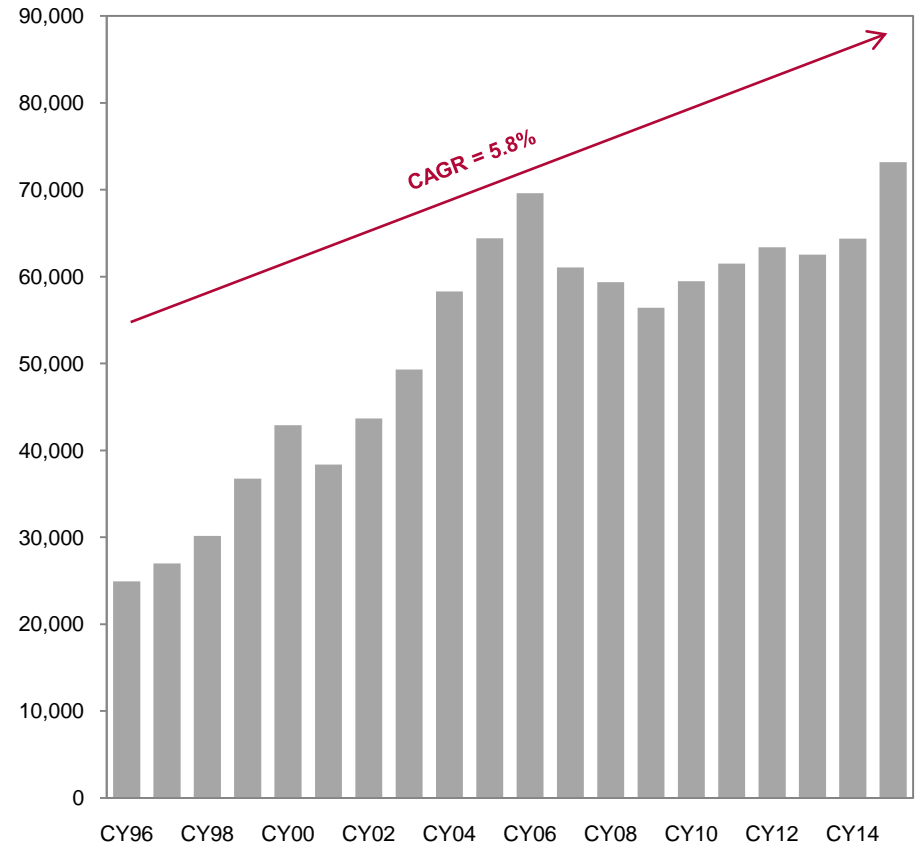


Trade Mark Filings in Australia

The rate of trade mark filings in Australia has almost tripled over 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 rate of Australian trademark filings has shown steady growth from CY09 since the GFC, reaching an all-time high in CY15
- The indefinite duration of trade mark rights provides opportunities for additional, recurring revenue through renewals, advisory services, enforcement and portfolio management.

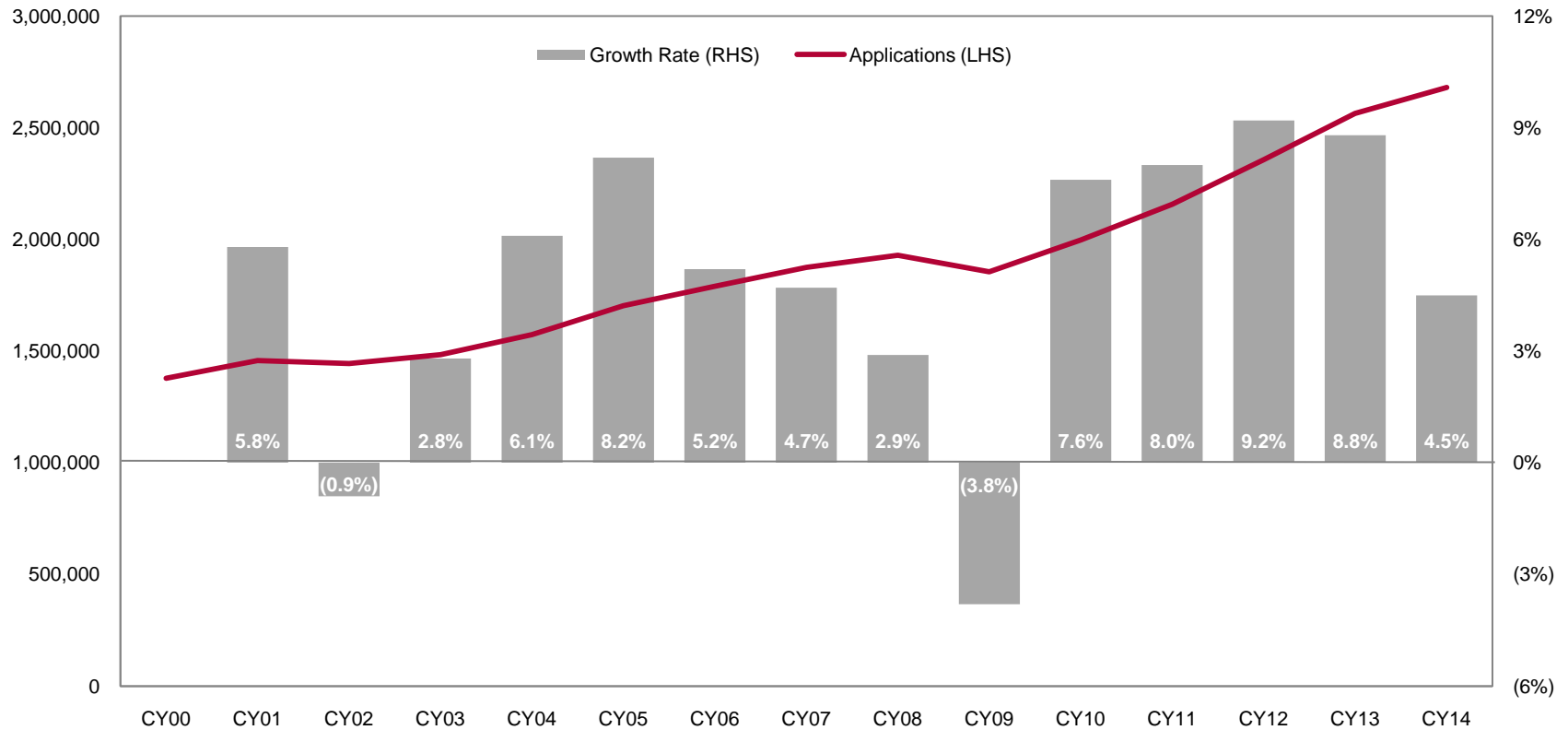
Trade mark applications filed in Australia¹



Patent Applications Globally

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

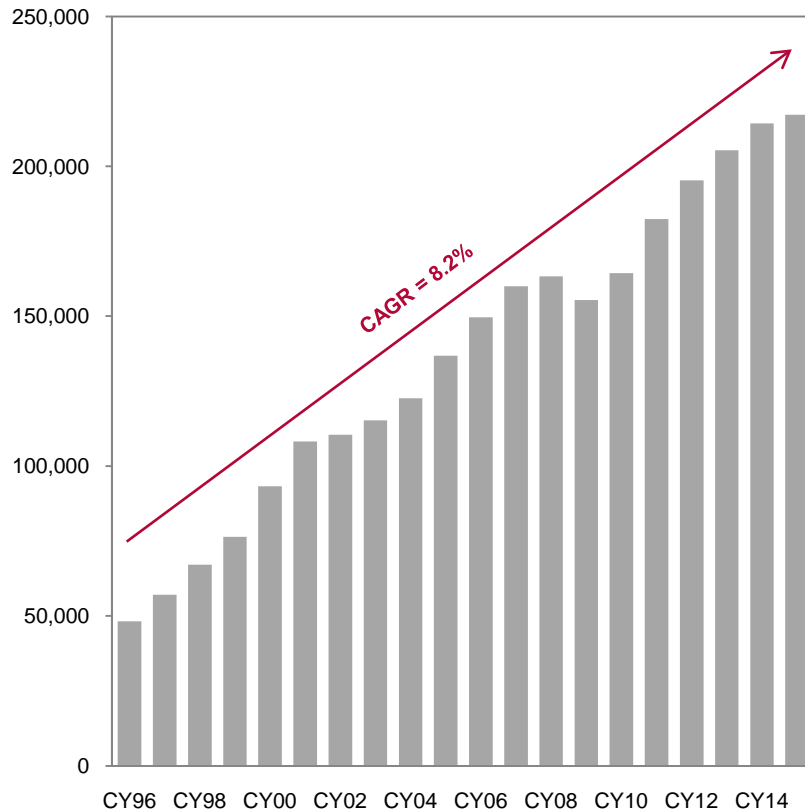
Total patent applications filed globally¹



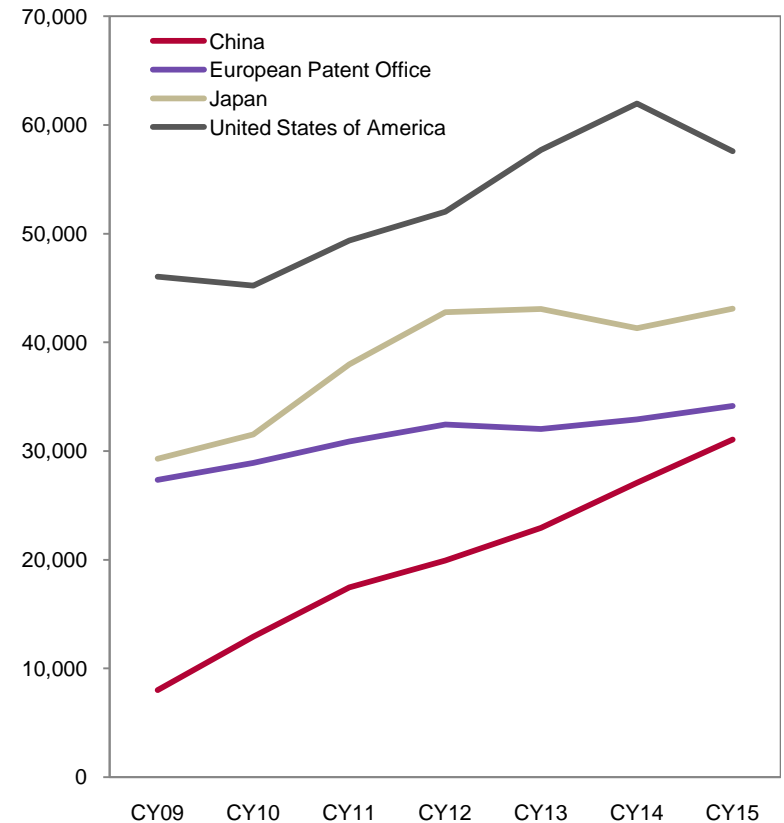
PCT Applications by Resident Applicants

PCT applications in primary IP markets continue to grow, providing an indirect leading indicator for subsequent national phase filings in secondary IP markets (including AU)

Total PCT patent applications filed globally



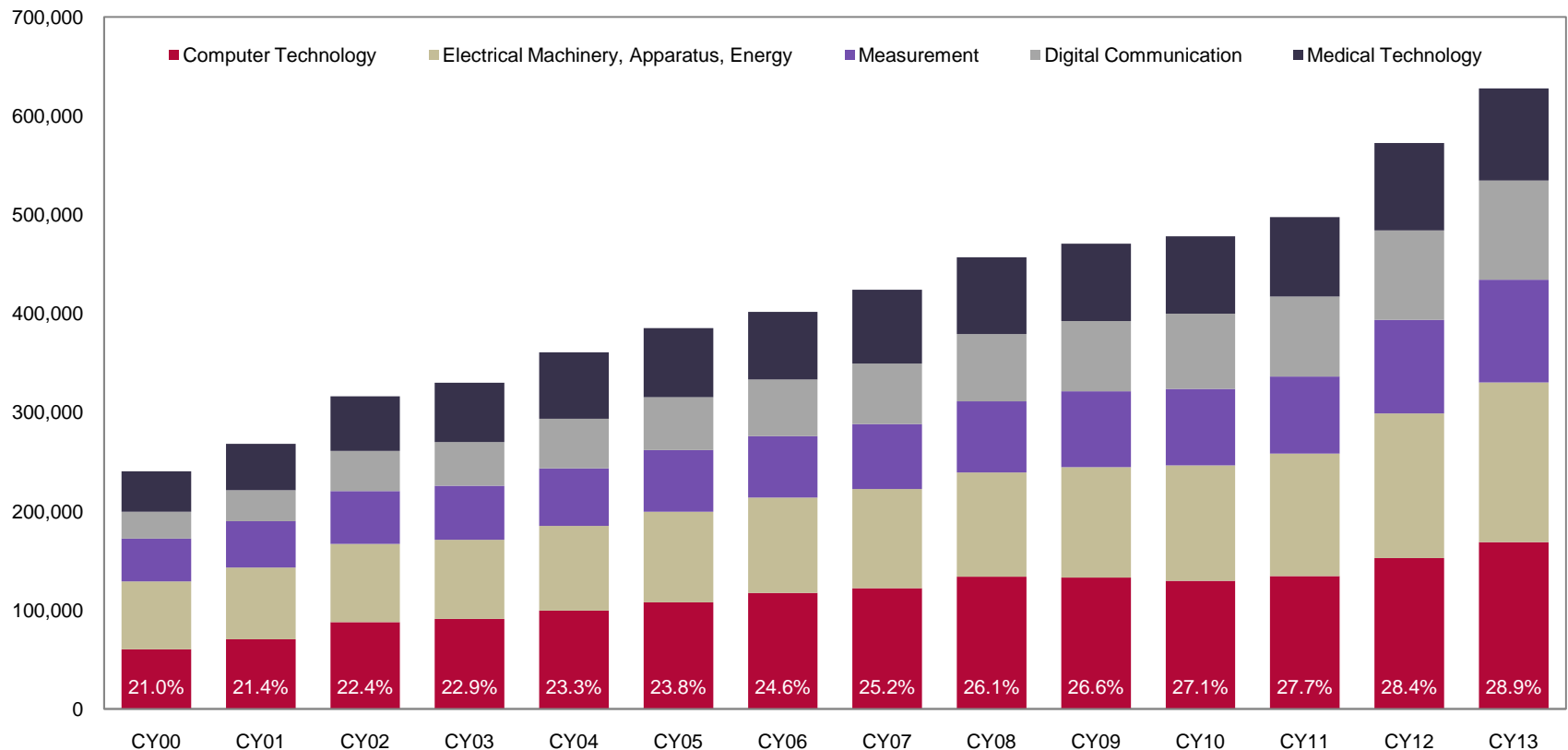
PCT international applications filed in CN, JP, US and EP offices by resident applicants



Patent Trends in Top 5 Technical Fields

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

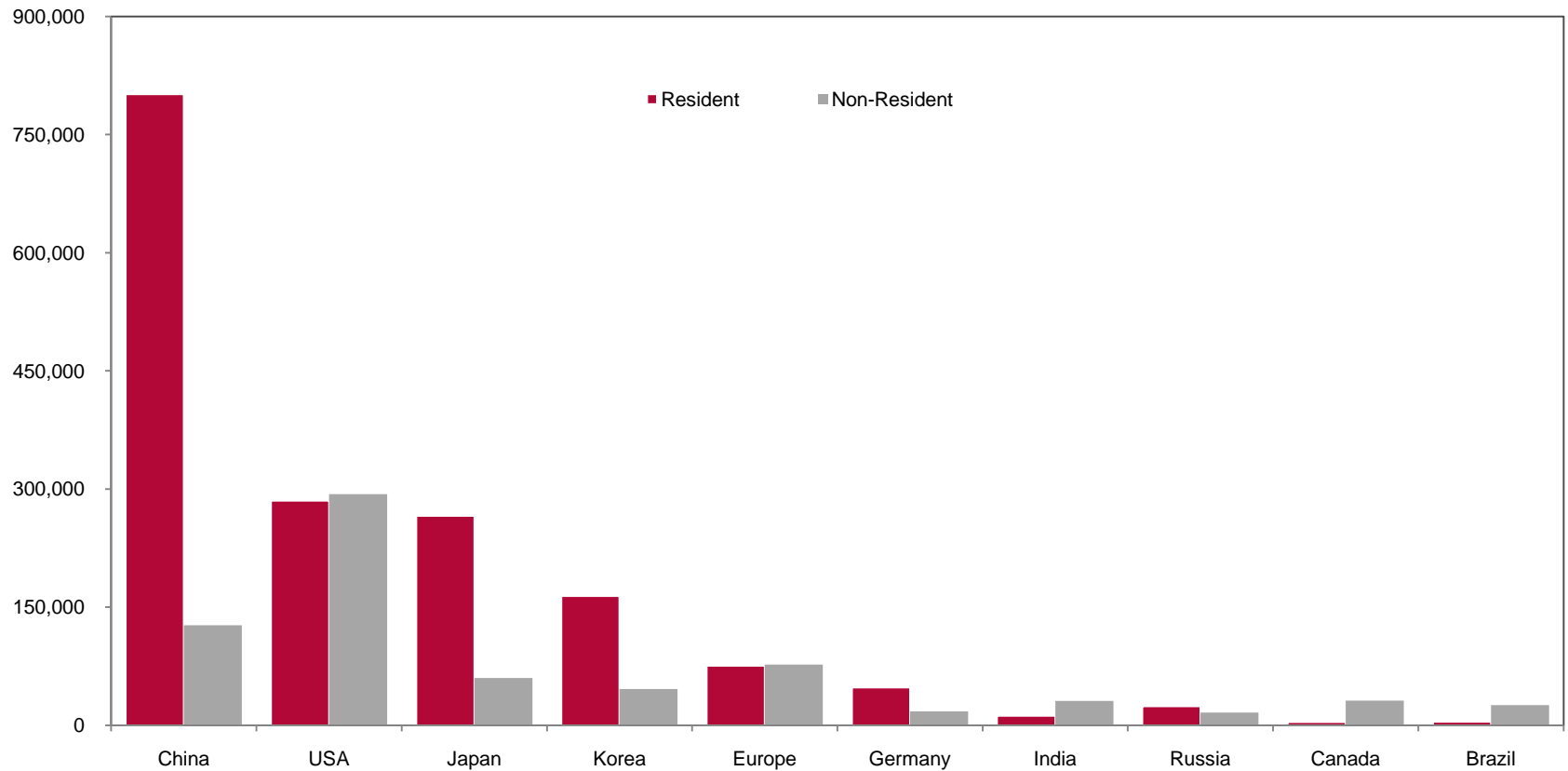
Trend in patent applications for the top 5 technology fields^{1,2}



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^{1,2}

