

# HALF-YEAR RESULTS PRESENTATION

6 MONTHS TO 31 DECEMBER 2019

20 February 2020



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QANTM INTELLECTUAL PROPERTY LIMITED (ASX:QIP)

**Craig Dower, Chief Executive Officer**

**Martin Cleaver, Chief Financial Officer**

**Leon Allen, Former Managing Director and CEO**

# Structure

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1. Business and Financial Summary
2. Market and Business Overview
3. Financial Results
4. Priorities and Outlook

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A close-up, high-angle photograph of a dark blue or grey turbine engine component, showing several circular openings and curved blades. The image is partially obscured by a green horizontal bar at the top and bottom.

# Business and Financial Summary

# Business Summary

## Continued revenue growth trend – relative to strong 1H19

- Revenue growth over four consecutive halves, despite lower half-on-half revenue from trade marks and legal/litigation
- Highest patent revenue (\$41.6 million) achieved since listing
- Asia revenue contribution increased 35% year-on-year; now 7% of total revenue

## Contributions across the business

- Patent service charges increased 9.2% vs 1H19; 4.4% increase 1H20 vs 2H19
- QANTM patent filings up 9.8% vs 1H19; up 8.7% vs 2H19; favourable indicator for future revenues
- Australian patent applications up 2.7% vs Australian market decline of 1.2%; QANTM up 7.1% vs 2H19
- QANTM trade mark service charges down 2.6%
- QANTM Group trade mark filings up 4.9%; QANTM market share up 0.8% vs overall Australian market decline in filings of 1.4%
- Legal/litigation revenue lower vs record 1H19; down 8.7%; 1H20 vs 2H19 revenues increased by 5.0%

## Planned investment in people – higher operating expenses

- Underlying operating expenses increased by 5.7% to \$35.3 million (1H19: \$33.4 million)
- Higher compensation payments: incentive scheme; continued Share Trust contributions; promotion of 13 professionals; realignment of vendor principal remuneration to reflect market relativities and support retention of key talent

# Financial Summary – Underlying Results<sup>1</sup>

- **Total revenue** \$57.6 million, **up 4.2 %** (1H19: \$55.3 million)
- **Service Charges** of \$44.8 million, **up 4.2%** (1H19: \$43.0 million)
- **Foreign Associate Charges** of \$12.8 million, **up 4.1%** (1H19: \$12.3 million)
- **Total Net Revenue** of \$46.6 million, **up 3.3%** (1H19: \$45.1 million)  
(includes other income of \$1.1 million and recoverable expenses of \$12.1 million)
- **Total underlying operating expenses** \$35.3 million, up 5.7% (1H19: \$33.4 million)
- **EBITDA after FX** of \$11.5 million, **down 5.7%** (1H19: \$12.2 million)
- **EBITDA margin** (on Service Charges) 25.7% (1H19: 28.4%)
- **Net Profit after Tax** \$6.8 million, **down 9.3%** (1H19: \$7.5 million)
- **Operating cash flow** of \$5.7 million, up 67.6% (1H19: \$3.4 million)
- **Net debt** \$15.1 million (30 June 2019: \$11.1 million); gearing 18.0% (31 December 2018: 19.0%)
- **Interim dividend** of 3.3 cents per share, 100% franked (1H19 dividend of 3.5 cents, 100% franked)

## Note

<sup>1</sup> A reconciliation of statutory to underlying results is included in Slide 21. The impact of new Accounting Standard AASB16 has been adjusted in the underlying results.

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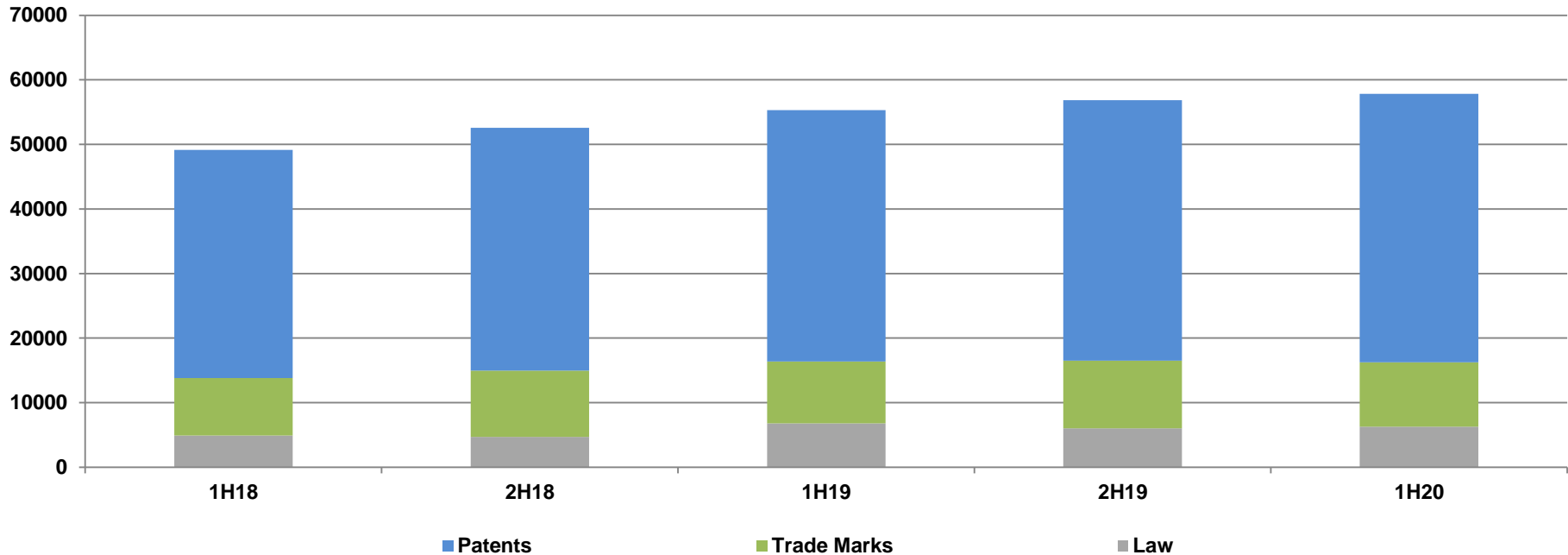
A close-up, dark blue-tinted photograph of a turbine or engine component, showing several circular openings and curved blades. The image is partially obscured by a green horizontal bar at the top and bottom.

# Market and Business Overview

# Revenue by Source of Business

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**QANTM REVENUE HALF YEAR TREND  
1H18 - 1H20**



Highest half year total revenues; despite lower trade marks and legal/litigation

- 1H20 total revenue of \$57.6m increased by 4.2% vs 1H19 (\$55.3m) and 1.2% vs 2H19 (\$56.9m)
- Service charges of \$44.8m increased by 4.2% vs \$43.0m in 1H19 and 3.0% vs 2H19 (\$43.5m)
- Associate charges revenue of \$12.8m increased by 4.1% vs 1H19 (\$12.3m)

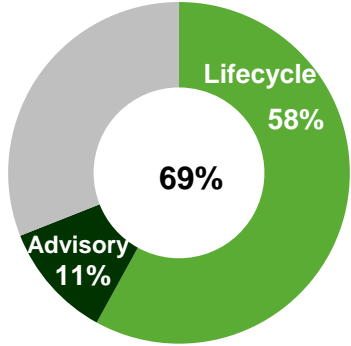
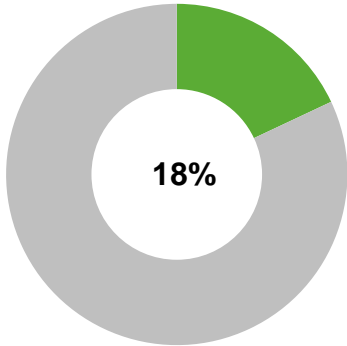
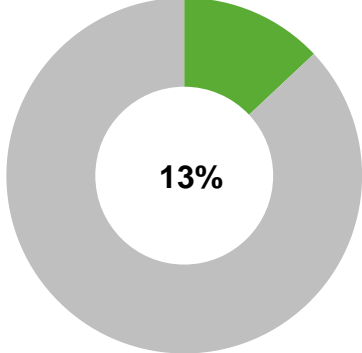
**Note:**

Includes both service charges and foreign associate charges.



# Business Overview

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BUSINESS AREAS	PATENTS AND DESIGNS LIFECYCLE/ADVISORY	TRADE MARKS	LEGAL / LITIGATION
<p><b>Percentage of aggregate QANTM Service Charges revenue 1H20<sup>1</sup></b></p> 			
<p><b>1H20 vs 1H19</b></p> <ul style="list-style-type: none"> <li>• Service Charges</li> <li>• Service Charges and Foreign Associates Charges</li> </ul>	<p>\$30.9m vs \$28.3m</p> <p>\$41.6m vs \$38.4m</p>	<p>\$7.6m vs \$7.8m</p> <p>\$9.7m vs \$10.0m</p>	<p>\$6.3m vs \$6.9m</p>
<p><b>Main Factors</b></p>	<ul style="list-style-type: none"> <li>• Higher QANTM Australian and foreign sourced patent business; benefit of prior period growth.</li> <li>• QANTM group patent applications up 9.8%</li> <li>• QANTM Australian patent applications up 2.7% in context of 1.2% decline in total Australian market</li> </ul>	<ul style="list-style-type: none"> <li>• Lower trade mark revenue</li> <li>• QANTM group filings up 4.9%</li> <li>• Total Australian market filings - 1.4% decline</li> <li>• QANTM's Australian market share increased 0.8%; DCC retains leading market position</li> </ul>	<ul style="list-style-type: none"> <li>• Lower legal/litigation revenue relative to record 1H19</li> <li>• 1H20 increase from 2H19</li> <li>• Inclusive of AFIP advisory services (\$0.4 m vs \$0.1m)</li> </ul>

Source: DCC, FPA and AFIP management analysis

**Note:**

<sup>1</sup> Excludes Associate Charges

# Patents and Designs Life Cycle / Advisory

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■ QANTM total patent revenues (service charges and associate charges) increased by 8.3% vs 1H19

- Patent service charges increased by 9.2% (4.4% increase 1H20 v 2H19)
- Patent associate charges increased 5.9%

■ Stronger revenue growth reflects combination of factors

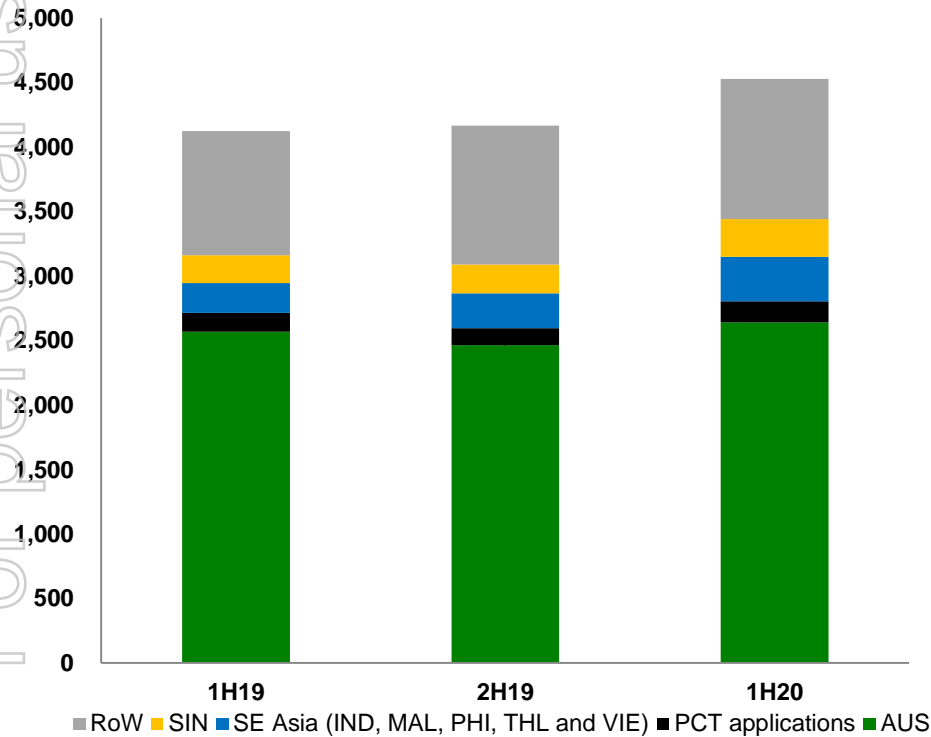
- Overall Group patent applications up 9.8%
- QANTM Australian patent applications (58% of QANTM total) growth of 2.7%, compared to an overall market decline of 1.2%
- Benefits of marketing and business development focus over past 18–24 months; four consecutive half year periods of Australian patent application growth (total 22.5% increase since 2H17)
- Strengthening of contribution from Asian business, patent applications up 42.8%
- Strong patent franchise, with market share growth over four consecutive half year periods

■ PCT and Rest of World patent application performance

- Reflects strong domestic client base
- Combined represent 28% of QANTM patent applications
- PCT applications up 13.8%
- RoW applications up 12.7%

# Patent Applications – Group

**QANTM GROUP  
TOTAL NEW PATENT CASES  
1H19 – 1H20**



Strong growth, above market trend

Relative to 1H19:

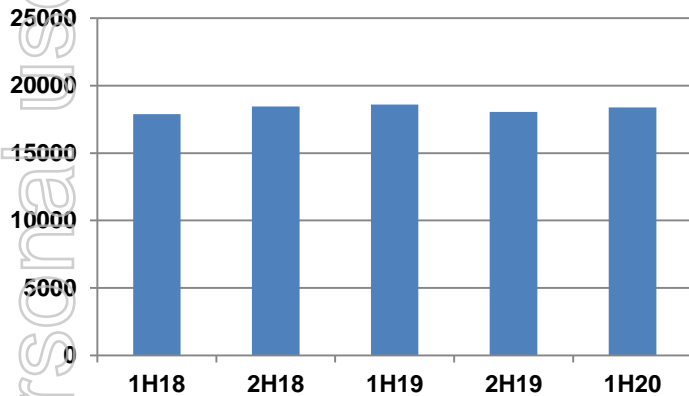
- QANTM Group patents up 9.8% (with contribution from AFIP in FY19 and FY20)
- QANTM Australian patents up 2.7%; Australian market down 1.2%
- QANTM Asian patents (inc AFIP) up 42.8%
- QANTM RoW applications up 12.7%; PCT applications up 13.8%

Patent applications are a lead indicator for future period patent service charges. Revenue derived from patent applications typically constitutes ~10% of QANTM's annual patents service charges.

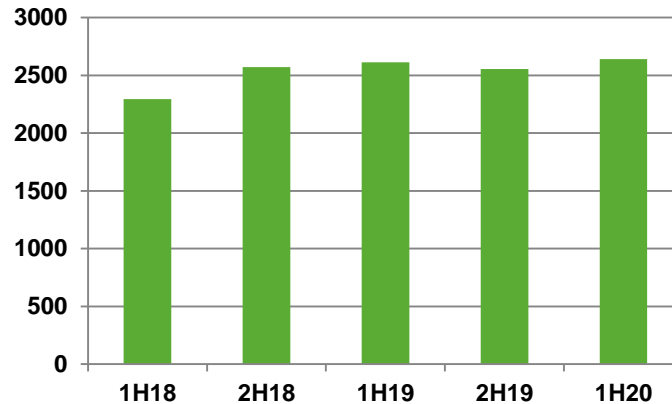
Source: DCC and FPA management analysis

# Patent Applications – Australia

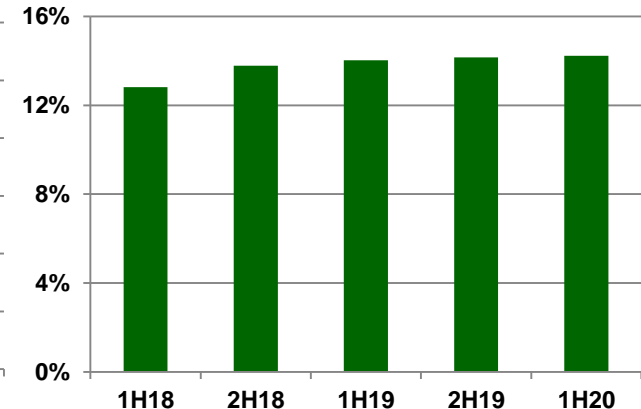
**TOTAL PATENT APPLICATIONS FILED IN AUSTRALIA 1H18 – 1H20**



**QANTM PATENT APPLICATIONS FILED IN AUSTRALIA 1H18– 1H20**



**QANTM PATENT FILINGS TOTAL MARKET SHARE 1H18 – 1H20**



- Total market patent applications declined by 1.2% vs pcp; 1H19 a strong half for patent applications; recovery from subdued 1H18
- 1.8% increase in patent applications 1H20 vs 2H19

- 2.7% growth vs pcp; in excess of market growth
- 8.7% increase in patent applications 1H20 vs 2H19; ahead of market growth

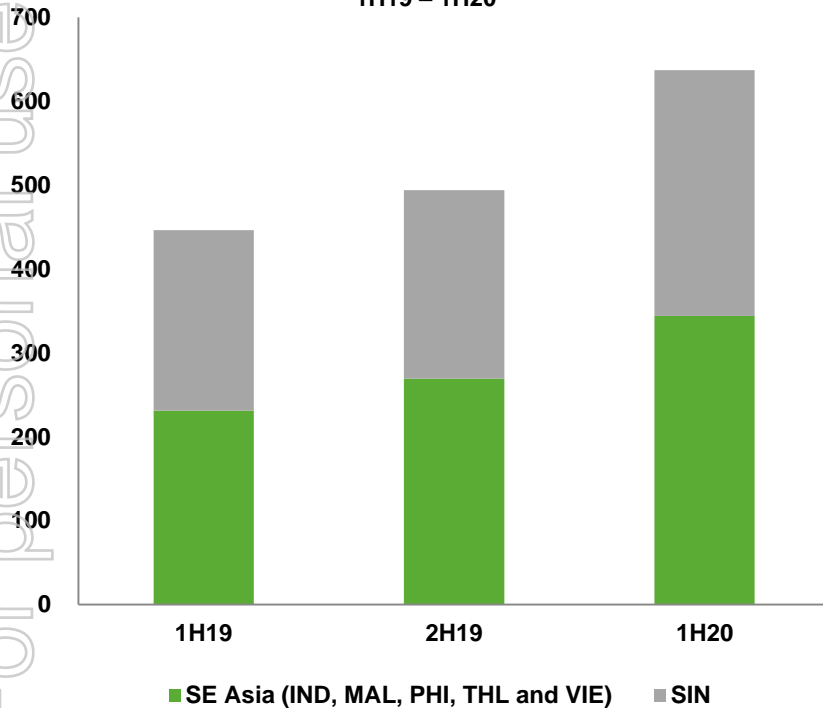
- Increase from 14.0% to 14.2% QANTM market share from 1H19
- Four half year periods of strengthening market share trend

Source: Management analysis based on IP Australia data

# Patent Applications – Asia

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**QANTM  
ASIA NEW PATENT CASES FILED  
1H19 – 1H20**

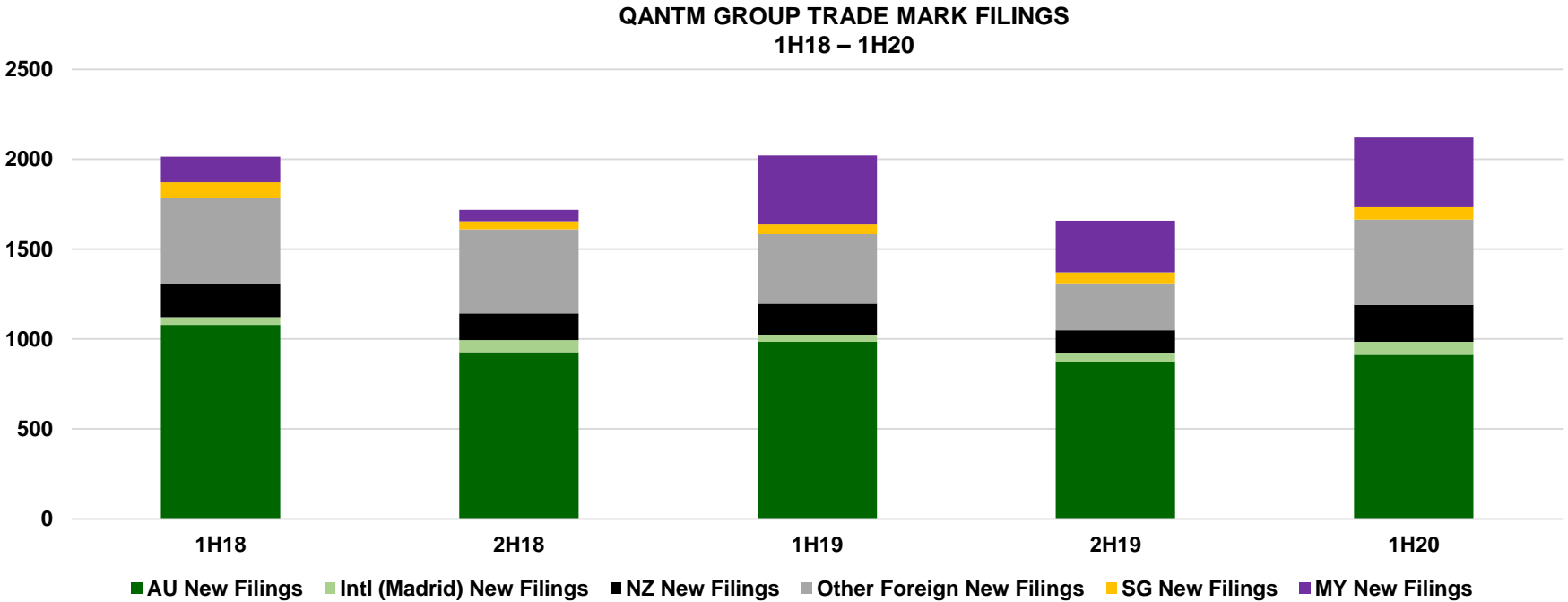


- Total QANTM Asia patent filings up 42.8% 1H20 vs 1H19
- Total QANTM Asia patent applications up 28.9% 1H20 vs 2H19
- AFIP patent filings FY19 represent ~37% of total QANTM Asia filings
- Major contributor to Asia service charges growth of 34.3%; represents 7.2% of Group service charges
- Ongoing focus on building earnings contribution from foundation established in Asia

Source: QANTM management information

# Trade Mark Filings – Group

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Source: QANTM management information

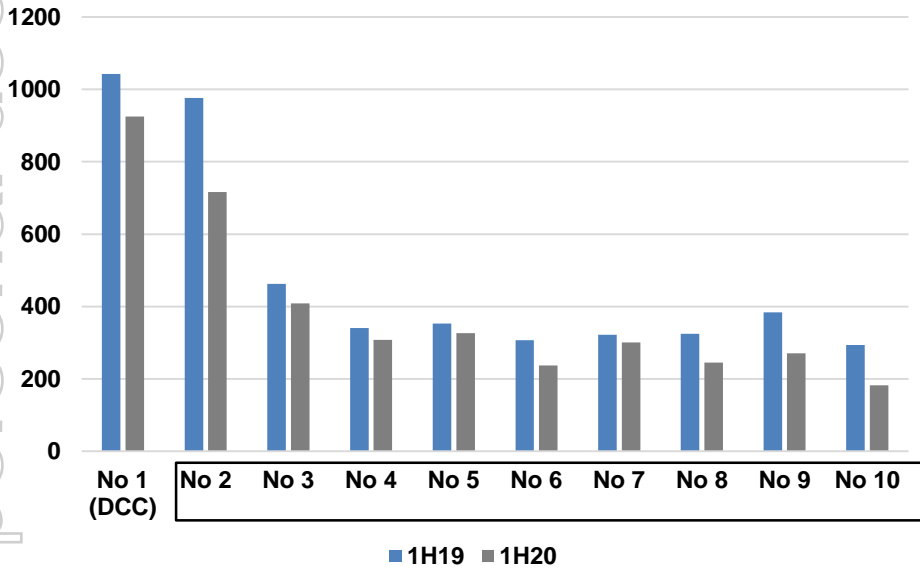
- Total QANTM Group trade mark filings increased 4.9% 1H20 v 1H19; 27.9% increase 1H20 v 2H19
- QANTM Australian trade mark filings declined 7.2% 1H19 to 1H20; relative to Australian market decline of 1.4% in the context of a total 10.5% decline in number of applications with the top 50 agents during 1H20
- 4.5% increase in QANTM Australia trade mark filings 1H20 v 2H19
- Asia filings up 4.3%; New Zealand filings up 19.8%

**Note:**  
International Registration Designating Australia (IRDA) data not included

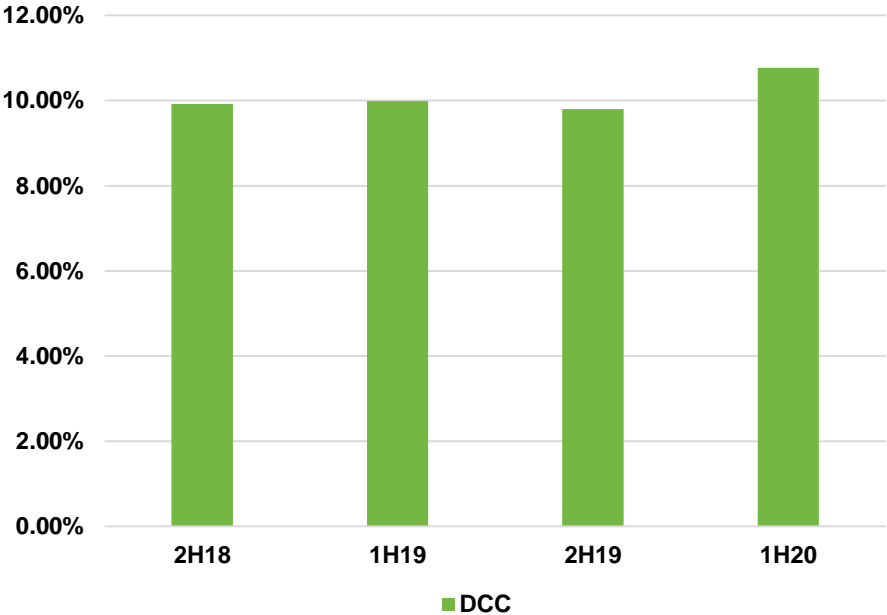
# Australian Trade Mark Filings

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**AUSTRALIAN TRADE MARK FILINGS  
BY TOP 10 FIRMS  
1H19 - 1H20**



**TRADE MARK MARKET SHARE OF NATIONAL  
APPLICATIONS FOR TOP 50 AGENTS (excl IRDA) <sup>1</sup>  
2H18 - 1H20**



**Note:**  
<sup>1</sup> International Registration Designating Australia (IRDA) data not included

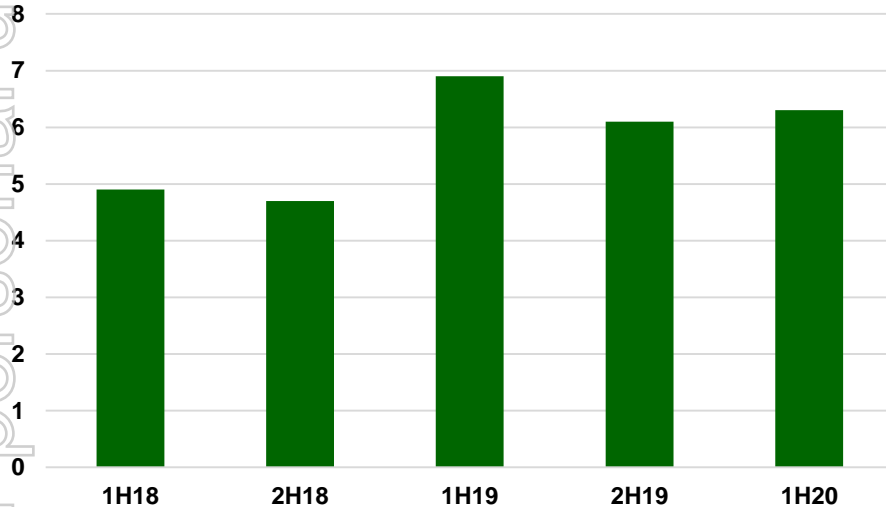
- DCC maintained No.1 market share in Australia for trade mark filings
- QANTM 0.8% increase in trade mark market share vs pcp

Source: Management analysis based on IP Australia data

# Legal/Litigation Services

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**QANTM GROUP LEGAL REVENUE TREND (\$m)**  
1H18 – 1H20



- Legal/litigation revenues decreased by 8.7% to \$6.3 million (1H19: \$6.9 million) following record 1H19 performance for DCC Law
- 1H20 revenue increase of 5.0% relative to 2H19; includes AFIP advisory revenues
- Stable case load



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# Financial Results

# Summary Profit and Loss

Half-year ended 31 December 2019	Statutory	Adj	AASB16	Underlying	Statutory	Adj	Underlying	1H20 v 1H19
\$m	1H20			1H20	1H19		1H19	% Change
Revenue								
Service charges	44.8			44.8	43.0		43.0	4.2%
Associate charges	12.8			12.8	12.3		12.3	4.1%
<b>Total Revenue</b>	<b>57.6</b>			<b>57.6</b>	<b>55.3</b>		<b>55.3</b>	<b>4.2%</b>
Other income excl FX	1.1			1.1	1.1		1.1	-
Recoverable expenses	(12.1)			(12.1)	(11.3)		(11.3)	7.1%
<b>Net Revenue</b>	<b>46.6</b>			<b>46.6</b>	<b>45.1</b>		<b>45.1</b>	<b>3.3%</b>
Operating expenses								
Compensation	27.8	(1.8)		26.0	25.8	(1.7)	24.1	7.9%
Occupancy	1.1		2.4	3.5	3.4		3.4	2.9%
M&A	0.7	(0.7)		-	1.2	(1.2)	-	-
Other	5.8			5.8	5.9		5.9	(1.7%)
<b>Total Operating expenses</b>	<b>35.4</b>	<b>(2.5)</b>	<b>2.4</b>	<b>35.3</b>	<b>36.3</b>	<b>(2.9)</b>	<b>33.4</b>	<b>5.7%</b>
<b>EBITDA before FX</b>	<b>11.2</b>	<b>2.5</b>	<b>(2.4)</b>	<b>11.3</b>	<b>8.8</b>	<b>2.9</b>	<b>11.8</b>	<b>(4.2%)</b>
Foreign exchange	0.2			0.2	0.5		0.5	(60.0%)
<b>EBITDA after FX</b>	<b>11.4</b>	<b>2.5</b>	<b>(2.4)</b>	<b>11.5</b>	<b>9.3</b>	<b>2.9</b>	<b>12.2</b>	<b>(5.7%)</b>
Dep'n and amort'n	3.4		(2.1)	1.3	1.1		1.1	18.2%
Interest	0.9		(0.4)	0.5	0.5		0.5	0.0%
<b>Profit before tax</b>	<b>7.1</b>	<b>2.5</b>	<b>0.1</b>	<b>9.7</b>	<b>7.7</b>	<b>2.9</b>	<b>10.6</b>	<b>(8.5%)</b>
Tax expense	2.7	0.2		2.9	3.1		3.1	(6.5%)
<b>Net profit after tax</b>	<b>4.4</b>	<b>2.3</b>	<b>0.1</b>	<b>6.8</b>	<b>4.6</b>	<b>2.9</b>	<b>7.5</b>	<b>(9.3%)</b>
Amortisation	0.6			0.6	0.6		0.6	0.0%
<b>NPATA</b>	<b>5.0</b>	<b>2.3</b>	<b>0.1</b>	<b>7.4</b>	<b>5.2</b>	<b>2.9</b>	<b>8.1</b>	<b>(8.6%)</b>
EBITDA % after FX - service charges	25.4%			25.7%	21.6%		28.4%	(9.5%)
EBITDA % after FX - total revenue	19.8%			20.0%	16.8%		22.1%	(9.5%)

## COMMENTS

### Revenue

- Service charges growth of 4.2%, 3.1% growth on 2H19
- Patent revenue increase of 9.2% with filings growth well above market
- Offset by lower trade mark and legal revenues
- Asia service charges growth of 34.3%, AFIP exceeding expectations
- Favourable FX environment

### Expenses

- Operating expenses 5.7% higher than pcp, mainly in staff costs 7.9% increase due to:
  - Realignment of vendor principal salaries to market
  - Promotion of professional staff
  - Introduction of short term incentive scheme
  - New principals added to EST scheme
  - Investment in corporate resources
- Other expenses include IT spend, accounting and legal, travel and marketing. Spend in line with pcp
- Consequential EBITDA margin decrease to 25.7%

**Note:** Figures may vary from those shown in the financial statements due to rounding.

A reconciliation of statutory to underlying results is included at Slide 21. Adjustments to statutory results include contingent payments for a business acquisition accounted for as remuneration business acquisition costs and AASB16 adjustments.

# Cash Flow Statement

Half-year ended 31 December 2019

\$m

1H20

1H19

## COMMENTS

Receipts from customers	63.1	59.1
Payment to suppliers and employees	(53.2)	(50.1)
Interest and costs of finance paid	(0.9)	(0.5)
Income tax paid	(3.3)	(5.1)
<b>Net cash provided by operating activities</b>	<b>5.7</b>	<b>3.4</b>
Payments for property, plant and equipment	(0.4)	(0.3)
Payments for intangible assets	-	(0.9)
Payments to acquire investments	-	(3.1)
Business acquisition related costs	(0.7)	(1.2)
<b>Net cash used in investing activities</b>	<b>(1.1)</b>	<b>(5.5)</b>
Payment of lease liability	(2.4)	-
Proceeds from bank borrowings	6.9	7.3
Repayment of bank borrowings	(1.0)	-
Dividends paid	(6.4)	(5.7)
<b>Net cash provided by / (used in) finance activities</b>	<b>(2.8)</b>	<b>1.6</b>
<b>Net increase / (decrease) in cash</b>	<b>1.8</b>	<b>(0.5)</b>

### Cash provided by operating activities

- Operating cash flows of \$5.7m
- Reversion to normal level of tax payments after higher pcg

- Reclass of occupancy expenses to finance activities

- One-off retention payments of \$1.3m

### Cash used in investing activities

- Lower capital outlay to prepare for transformation spend in future

- Lower outlay on external M&A related costs

### Cash used in financing activities

- First half historically more cash intensive due to payment of final dividend and EST contributions

- Dividend paid at 88% NPATA

Note: Figures may vary from those shown in the financial statements due to rounding

# Summary Balance Sheet

As at 31 December 2019

\$m	31-Dec-19	30-Jun-19
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	3.0	1.2
Trade and other receivables	30.4	32.0
Other assets	3.7	1.5
<b>TOTAL CURRENT ASSETS</b>	<b>37.1</b>	<b>34.7</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	2.0	2.5
Intangible assets	69.1	69.9
ROU Assets	17.4	-
<b>TOTAL NON-CURRENT ASSETS</b>	<b>88.5</b>	<b>72.4</b>
<b>TOTAL ASSETS</b>	<b>125.6</b>	<b>107.1</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	7.6	9.5
Provisions	8.5	8.0
Borrowings	-	0.1
Current tax and other liabilities	0.2	2.5
Lease liability	2.2	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>18.5</b>	<b>20.1</b>
<b>NON-CURRENT LIABILITIES</b>		
Provisions	0.5	3.1
Borrowings	18.1	12.2
Deferred tax liabilities	2.3	1.1
Lease liability	17.6	-
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>38.5</b>	<b>16.4</b>
<b>TOTAL LIABILITIES</b>	<b>57.0</b>	<b>36.5</b>
<b>NET ASSETS</b>	<b>68.6</b>	<b>70.6</b>
<b>EQUITY</b>		
Issued capital	294.1	294.1
Reserves	(222.9)	(222.9)
Retained earnings	(2.6)	(0.6)
<b>TOTAL EQUITY</b>	<b>68.6</b>	<b>70.6</b>

## COMMENTS

### Balance sheet strength

- Balance sheet grossed up for AASB 16 effect
- Net debt of \$15.1m, an increase from \$11.1m at 30 June 2019, but down from \$16.2m at Dec 2018
- Current banking facilities extended to 31 Jan 2021 include:
  - \$25m working capital facility (\$9.0m undrawn)
  - \$30m acquisition facility (\$27.9m undrawn)
- Good quality debtor book with low levels of bad and doubtful debts. Improvement in DSO
- Current provisions increased due to the contingent consideration on business acquisition
- Non current provisions decreased due to reclass of lease incentive provisions to ROU assets

# Income Statement Reconciliation

## Statutory to underlying

### Statutory NPAT to Underlying NPAT reconciliation

	Half-year ended	
	31-Dec-19	31-Dec-18
	\$m	\$m
<b>Statutory NPAT</b>	<b>4.4</b>	<b>4.6</b>
add: interest	0.9	0.5
add: depreciation and amortisation	3.4	1.1
add: tax	2.7	3.1
<b>EBITDA</b>	<b>11.4</b>	<b>9.3</b>
add: remuneration related to business acquisition	1.2	1.7
add: new business establishment costs	0.3	-
less: lease payments (AASB16)	(2.4)	-
add: retention payments	0.3	-
add: business acquisition costs	0.7	1.2
<b>Underlying EBITDA</b>	<b>11.5</b>	<b>12.2</b>
less: depreciation and amortisation	(3.4)	(1.1)
add: AASB16 amortisation and interest add back	2.5	-
less: interest	(0.9)	(0.5)
less: tax	(2.9)	(3.1)
<b>Underlying NPAT</b>	<b>6.8</b>	<b>7.5</b>

Note: Figures may vary from those shown in the financial statements due to rounding

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4

A close-up, dark blue-tinted photograph of a turbine or engine component, showing several circular openings and curved surfaces.

# Priorities and Outlook

# Priorities and Approach

## **Period of extensive internal and external engagement**

- All offices – Australia, Singapore and Malaysia

## **Review of main pillars of strategic framework**

- March board and executive strategy sessions (at 3 years post-listing)
- Expectation that main elements of strategy will be continued
- Likely refinement regarding some elements of analysis, execution and accountabilities

## **Growth opportunities – evaluation of main options**

- Business and market development, including lateral hires
- Evaluation of mid-late stage M&A opportunities; refinement of evaluation of other logical, financially appropriate opportunities

## **Technology road map – to guide technology investment over 2 – 3 years**

- Details to be shared at full year results presentation

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# Business Transformation

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2016

**IPO**

2020

## PROGRESS

- Appointment of Chief Transformation Officer
- High level Transformation Plan created and socialised with business (detailed and costed plan will be finalised by August 2020)
- Review of IT Enterprise Architecture underway
- Scoping of transformation projects has commenced

Future

## BUSINESS PROCESSES AND SYSTEMS TRANSFORMATION

- Improvements in core network infrastructure and cloud platforms
- Implementation of cloud based business applications – case management, CRM and ERP
- Review and refresh processes in line with technology improvements
- Shared Services Strategy
- Learning Academy
- Continue to develop industry leading people strategies



# People and Culture

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**DIVERSITY AND INCLUSION STRATEGY**



**RECRUITMENT AND ONBOARDING SOFTWARE**

**PROMOTION OF 7 PRINCIPALS** ACROSS THE GROUP INCLUDING 3 PRINCIPALS AT AFIP IN MALAYSIA



**INVESTMENT IN LEADERSHIP DEVELOPMENT**

**WELLBEING STRATEGY**



**FLEXIBLE WORK PROGRAMS**



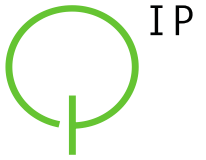
**LEARNING AND DEVELOPMENT PROGRAMS**



# Outlook – Key Factors

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- Expected strengthening of 2H20 revenues relative to 1H20
- Moderate growth in patent revenues at or above market trend
- Trade mark and legal revenue – stable to modest growth relative to 1H20
- Continued investment in people, organisational capabilities; business transformation
- Investment phase for expected growth in revenues and margin over the medium term
- Further Asia expansion, technology and transformation remain key focus



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