Xenith IP Group Limited
1H FY19 Results

27 February 2019

XENITH
IP GROUP

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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.

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

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Agenda

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Highlights

Earnings up 10%, strong cost management, continued progress on innovation

- Griffith Hack and Watermark performing well and to plan
- Proposed merger with QANTM on track
- Asia strategy – late stage conversations with potential strategic partner
- Improved operational performance, strong cost management:
  → employee costs down $1.9m; other expenses down $1.0m on pcp; margins improved
- Underlying EBITDA of $8.2m → up 10% on pcp
- Forecasting stronger H2 supported by: filing momentum, pipeline of work and above forecast trading result in January
- Expect to deliver earnings growth on FY18 (underlying EBITDA $20m - $21m)
- Interim dividend per share (DPS) of 3.25c (v 3.0c pcp) at 90% payout ratio

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Highlights
Financial

	31 Dec 2018 $'000	31 Dec 2017[1] (restated) $'000	Change
Revenues from ordinary activities	**60,236**	63,023	(4%)
Profit from ordinary activities after tax attributable to members	**1,677**	1,560	8%
Net profit for the half-year attributable to members	**1,677**	1,560	8%
Underlying Net Profit after Tax ("NPAT") [2]	**2,801**	2,564	9%
Underlying Net Profit after Tax before Amortisation of acquired intangibles ("NPATA") [2]	**4,331**	4,094	6%
Underlying Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") [2]	**8,169**	7,405	10%

[1] *The adoption of AASB 9 Financial Instruments from 1 July 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The comparative period for the half year ended 31 December 2017 has been restated under the revised accounting policy.*

[2] *Underlying NPAT, NPATA and EBITDA are non-IFRS measures that are presented to provide an understanding of the underlying performance of Xenith IP Group Limited, excluding the impact of significant acquisition, integration and IPO related expenses. Refer to the reconciliation of statutory to underlying results in the Directors' report.*

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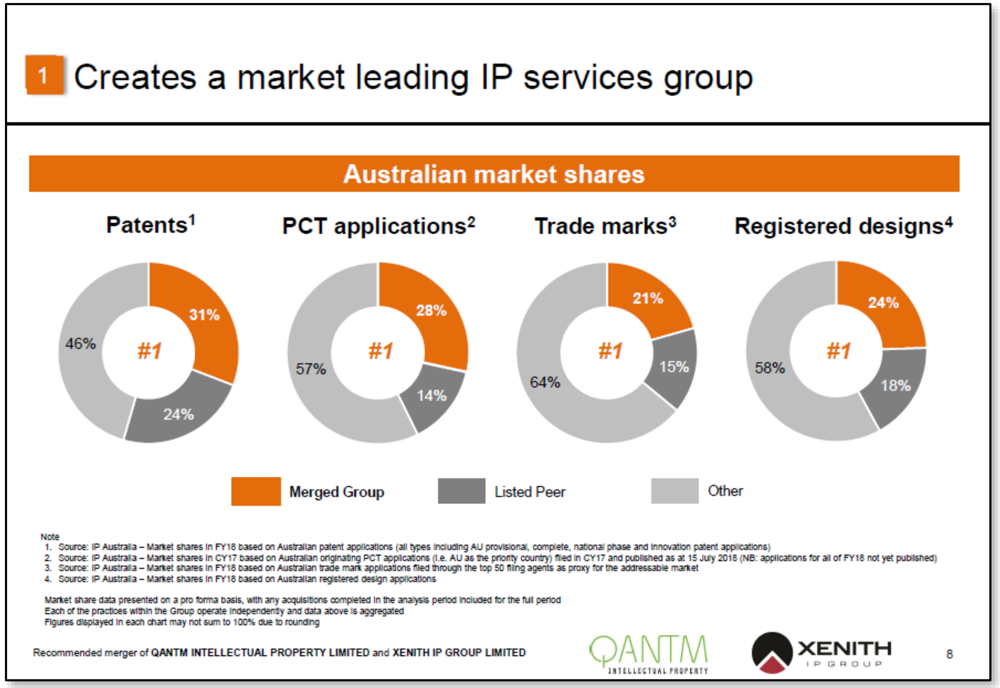
Merger Update

Proposed Merger with QANTM Intellectual Property Limited

- Proposed merger of equals announced on 27 November 2018
- Merger ratio of 1.22 QIP shares for each XIP share (values XIP shares at $2.09 as at 26 February)
- Strategic rationale
  - Creates market leading player in Australia (#1 in patents, trade marks, designs)
  - EPS accretive and expected to deliver pre tax cost synergies of $7m pa, with full run rate expected to be achieved at the end of year 3
  - Enlarged scale enhances opportunity for technology transformation and innovation
  - Expanded and unique service offering
  - Strong cultural and strategic alignment
  - Late stage expansion opportunities within Asia (in addition to established QIP footprint)
  - Deeper and more diverse career development opportunities for our people
- Scheme progressing
  - ACCC review well advanced
  - Scheme booklet, including Independent Expert's Report, released on 20 February 2019
  - Scheme implementation meeting scheduled for 3 April 2019
  - Strong support from employee shareholders who are key value drivers of the business
  - Integration planning underway – aim to hit the ground running
  - Joint investor update planned for March



Merger Update

Proposed Merger with QANTM Intellectual Property Limited

- IPH announced on 13 February that it had acquired a 19.99% stake in XIP; no prior communication
- Both Xenith IP and QANTM are continuing to implement the proposed merger
  - We believe in the strong strategic and cultural alignment of our two companies – we have been developing this for over 12 months
  - We believe the merger is good for the industry – it creates a company with substantial scale, a leading market position in Australia, a differentiated competitor to IPH, and diverse career development opportunities for our people
  - Both XIP and QIP are subject to “no shop, no talk” provisions in the Scheme Implementation Deed
  - In the absence of a Superior Proposal the independent expert’s report from Lonergan Edwards & Associates Limited concluded the Scheme is in the best interests of Xenith shareholders
  - Strong internal support for proposed merger
- IPH has indicated that it does not intend to vote in favour of the merger
  - No formal offer has yet been presented to either XIP or QIP by IPH
  - The ACCC is investigating whether IPH is in breach of competition law
  - IPH acquisitions to date have been much smaller and less complex than either QIP or XIP
- The Directors of Xenith are unanimously in favour of the proposed merger, on the basis that it is in the best interests of our shareholders, our employees, our clients and the industry
- Absent a superior proposal, the Directors intend to vote in favour of the merger at the meeting

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XENITH IP GROUP

1H FY19 Financial Results

1H FY19 Financial Results

Underlying Income Statement

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	1H FY19 $'mil	1H FY18 $'mil	Variance $'mil	Variance %
Service fee	**42.3**	44.4	(2.1)	(5%)
Recoverable disbursements	**17.9**	18.6	(0.7)	(4%)
Revenue	**60.2**	63.0	(2.8)	(4%)
Other income	**0.0**	0.0	(0.0)	
Expenses				
Employee Benefits	**(25.1)**	(27.0)	1.9	7%
Recoverable disbursements	**(17.9)**	(18.6)	0.7	4%
Occupancy expense	**(3.9)**	(3.8)	(0.1)	(4%)
Net foreign exchange gain/loss	**0.1**	(0.1)	0.2	216%
All other expenses	**(5.2)**	(6.1)	0.9	14%
EBITDA	**8.2**	7.4	0.8	10%
Depreciation and Amortisation	**(3.4)**	(3.2)	(0.2)	(6%)
Net interest expense	**(0.6)**	(0.5)	(0.1)	(7%)
Net (loss)/profit before tax	**4.2**	3.7	0.5	14%
Income Tax Expense	**(1.4)**	(1.1)	(0.3)	(26%)
Net profit after tax	**2.8**	2.6	0.2	9%
NPATA	**4.3**	4.1	0.2	6%
EPS (cents per share)	**3.2**	2.9	0.3	9%

Footnote:
Refer to reconciliation of statutory to underlying results included as an Appendix 1 to this presentation
The 1H FY18 results have been restated for the adoption of AASB 9

Service fee revenue

- First half service fees of $42.3m (1H FY18: $44.4m) - a decrease of $2.1m pcp
- Soft start to the year in Shelston and Glasshouse Advisory
- Favourable FX tailwinds of $1.3m partially offset the decrease in service fee revenue of $3.4m on a constant currency basis

Employee benefits

- The $1.9m reduction in employee benefits results from restructuring of the Shelston and Griffith Hack businesses at the end of FY18 and optimisation of the talent pyramid

Other operating expenses within EBITDA

- Other operating expenses decreased by $1.0m due to strong expense management and improved debtor collections
- The Group continues to effectively hedge working capital movements

Depreciation and amortisation

- Current period includes
  - Amortisation on acquired intangibles of $2.2m (1H FY18: $2.2m)
  - Depreciation and amortisation $1.2m (1H FY18: $1.0m) – increased by $0.2m mainly due to additional investment in computer equipment and software

1H FY19 Financial Results

Underlying EBITDA Bridging analysis

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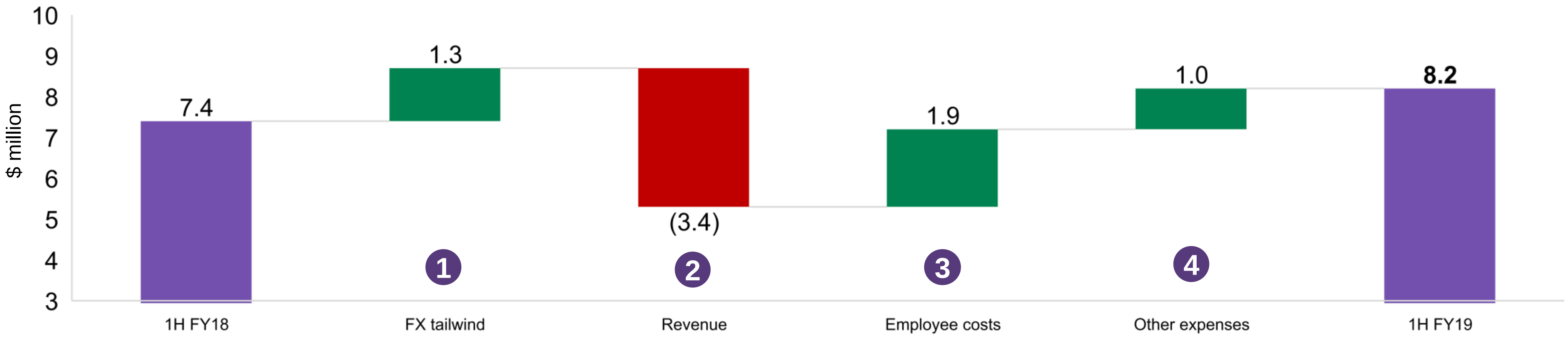

1. Increase in revenue of $1.3m due to a softening in the AUD against the USD and EUR exchange rates relative to pcp. Average AUD:USD exchange rate in 1H FY19 of 0.73 against 1H FY18 of 0.78
2. On a constant currency basis, after adjusting for the favourable FX tailwinds noted above, revenue was down $3.4m due to a temporary decline in filing and other revenue activities
3. Benefits from the restructuring activities toward the end of FY18 was realised in the current period with employee costs decreasing by $1.9m
4. Other expenses reduced by $1.0m due to ongoing integration and rationalisation initiatives across the group in areas such as IT licensing costs, online research subscriptions and the like along with improved debtor collections

1H FY19 Financial Results

Cash Flow

	1H FY19 $'mil	1H FY18 $'mil	Variance $'mil	%
Statutory EBITDA	**6.6**	6.3	0.3	5%
Non-cash Movements	**(0.0)**	0.2	(0.2)	(102%)
Working capital movements	**1.0**	1.5	(0.5)	(32%)
Cash flow before financing, investing and tax	**7.6**	8.0	(0.4)	(5%)
Cash conversion ratio	***116%***	*127%*		
Capital expenditure	**(3.2)**	(1.1)	(2.1)	(183%)
Net interest paid	**(0.5)**	(0.5)	-	(8%)
Tax paid	**(1.5)**	(5.4)	3.9	72%
Free cash flow	**2.4**	1.0	1.4	144%
Other financing and investing activities				
Purchase of controlled entities	**-**	(2.7)	2.7	100%
Capital raisings / shares acquired on market	**(0.4)**	-	(0.4)	(2625%)
Net debt drawdown	**3.0**	4.3	(1.3)	(29%)
Dividends paid	**(4.0)**	(3.0)	(1.0)	(33%)
Revaluation of cash	**-**	(0.1)	0.1	100%
Net cash flow for the period	**1.0**	**(0.5)**	**1.5**	(257%)
Cash on hand	**3.8**	3.0	1.8	61%

- Strong cash flow conversion ratio of 116% of EBITDA
  - Working capital management continued to improve with collection of two large debtors that were outstanding at the end of FY18
- Capex spend of $3.2m includes
  - $3.0m in fit-out and make good costs in relation to the Shelston office relocation of which $2.1m will be refunded from the landlord as an incentive payment expected this month
  - The contemporary and collaborative floor plan of the new premises will deliver cost savings and establishes the blueprint for future opportunities
- Tax paid of $1.5m includes
  - $0.2m refunded from the FY18 tax year
  - $1.7m incurred in relation to the current tax year
- Shares acquired on-market
  - Shares were acquired on-market to settle the third and final tranche of the retention rights from the IPO
- Net debt drawdown
  - Net $3.0m drawn on the finance facilities used to fund the Shelston fit-out with $2.0m intended for repayment upon receipt of the landlord incentive

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1H FY19 Financial Results

Balance Sheet

	31-Dec-18 $'mil	30-Jun-18 $'mil	Variance $'mil	%
Cash and cash equivalents	**3.8**	2.8	1.0	36%
Trade and other receivables	**25.9**	28.4	(2.5)	(9%)
Work in progress	**6.5**	4.1	2.4	58%
Prepayments	**2.5**	2.0	0.5	14%
Property, plant and equipment	**8.3**	6.0	2.3	39%
Intangible assets	**135.2**	137.4	(2.2)	(2%)
Income tax receivable	**1.7**	0.3	1.4	566%
Total assets	**183.9**	**181.0**	**2.9**	2%
Liabilities				
Trade and other payables	**7.9**	7.8	0.1	(1%)
Provisions	**9.3**	9.7	(0.4)	5%
Other liabilities	**9.5**	7.7	1.8	(24%)
Borrowings	**18.9**	15.8	3.1	(19%)
Deferred tax liability	**15.6**	14.7	0.9	(6%)
Total liabilities	**61.2**	**55.7**	**5.5**	(10%)
Net assets	**122.7**	**125.3**	**(2.6)**	(2%)
Equity				
Issued capital	**144.5**	144.5	-	0%
Reserves	**0.1**	0.9	(0.8)	(90%)
Retained earnings	**(21.9)**	(20.1)	(1.8)	(9%)
Total equity	**122.7**	**125.3**	**(2.6)**	(2%)

Key balance sheet movements include

- Trade and other receivables includes
  - Trade receivables of $23.5m (30 June 18: $28.1m), a decrease of $4.6m from continued improvement in debtor collections along with the increase in WIP for the half year
  - Other receivables increased by $2.1m as a result of the incentive receivable from the landlord in relation to the new Shelston lease
- WIP increased by $2.4m predominantly in the less than 90 day category
- Property, plant and equipment is up $2.3m with $3.0m attributable to the Shelston fit-out
- Intangibles decreased $2.2m predominantly due to amortisation
- $1.7m tax receivable due to scheduled tax instalments
- Other liabilities of $9.5m is up by $1.8m, mainly due to the lease incentive arising on the Shelston office relocation

Net debt

- Net debt has increased by $2.1m to $15.1m (30 June 18: $13.0m) due mainly to additional capex spend for the Shelston fit-out
- Leverage ratio is 1.1 (30 June 18: 1.0); comfortably within covenant of <2 times
- Facility limit of $50 million ($30 million undrawn) - expiry 1 February 2020

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Business Update

Business Update

Continued Investments in Growth & Innovation

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- **Artificial Intelligence:** completion of AI proof of concept around augmented support of patent drafting through joint research with University of Technology Sydney → moving to client trials
- **Asia expansion**: late stage conversations with potential strategic partner in Asia → strong cultural and strategic alignment, outstanding team of professionals, strong growth track-record
- **Continued optimisation of IT platforms**:
  - further automation and integration of processes across the Group
  - launch of Watermark Digital platform, providing access the IP services for micro-small businesses

Business Update

Continued Improvements in Business Operations

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- **Efficient premises model:** Shelston successful move to new premises with optimised footprint, reduced cost base and improved productivity and collaboration; blueprint for the entire Group as opportunities arise
- **Strengthened Glasshouse Advisory Leadership:** recruitment of deeply experienced international professional to lead Innovation Incentives practice; increased emphasis on cross-brand business development; several new client wins
- **Practice Management:** standardised approach to KPIs; recruitment of external practice group leaders within Griffith Hack, with deep general management experience in a variety of professional service firms

Business Update

Continued Investments in People & Culture

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- **Leadership development:** developing new leadership framework; piloted executive coaching program for Principals
- **Training:** launch of Xenith IP's online learning and development platform; accessible to all employees, any time, any device; enthusiastic employee take-up
- **Total Rewards Strategy:** broad-based incentive scheme linked to business results; new Principal remuneration framework linked to growth and business performance

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Market and Industry Update

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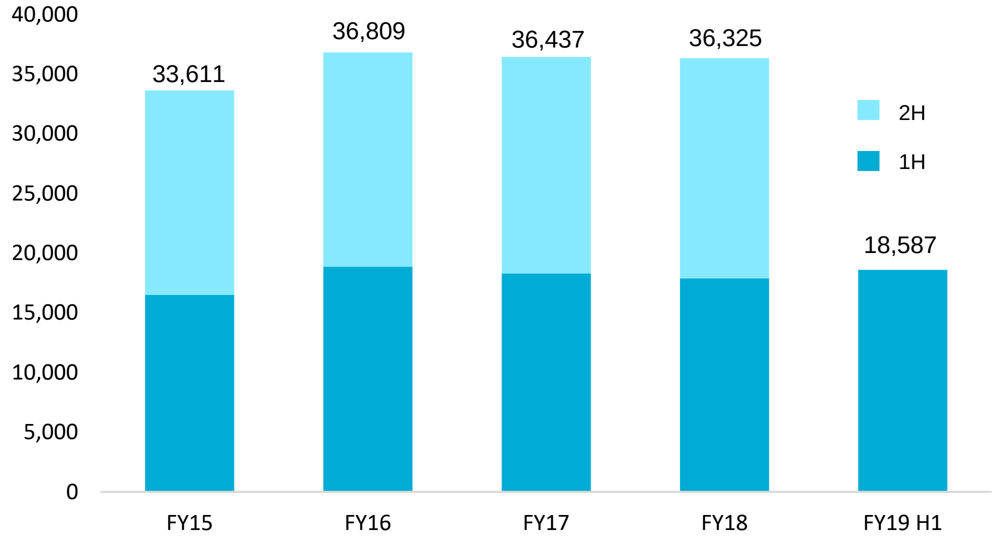
Market Update

Australian Patent Filings

Industry



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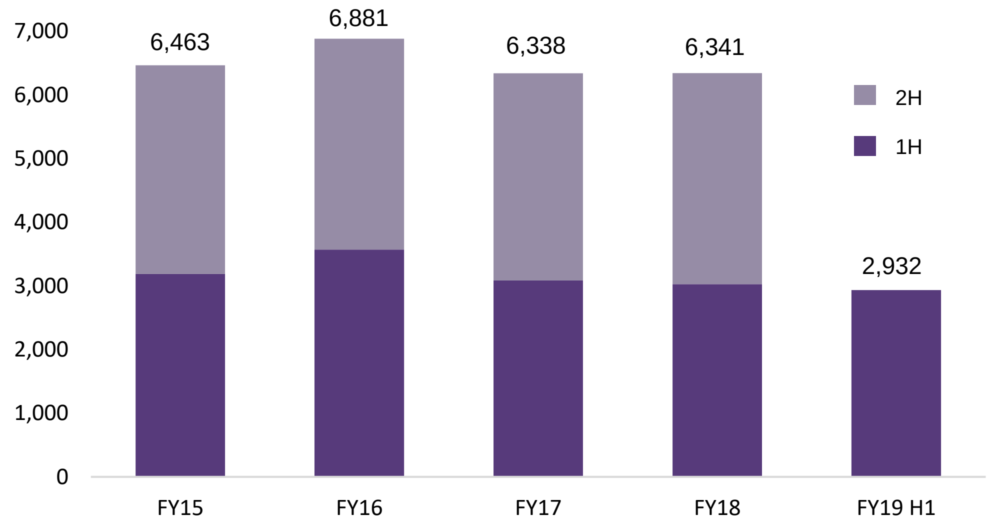

Observations

- Australian patent application volumes grew in 1H FY19 vs 1H FY18 (+3.9%)
- Australian patent application volumes grew in 1H FY19 vs 2H FY18 (+0.8%)

Observations

- Xenith filings softened in 1H FY19 vs 1H FY18 (-3.1%) following strong growth in H2 FY18
- In recent years Xenith has observed stronger patent filings in H2 vs H1

Footnotes:
1. Source: Management estimates based on IP Australia data – Total Australian patent applications (all types including AU provisional, complete, national phase and innovation patent applications) domestic and foreign applicants
2. Source: Management estimates based on IP Australia data – Data for Xenith presented on pro forma basis - assuming Xenith entities owned throughout each reporting period

Market Update

Australian Patent Process Pipeline

Observations

- All pipeline stages showed marked softness in Q1 (Industry and Xenith)
- Xenith observed significant strengthening of patent process pipeline volumes in Q2
- With strongest Q2 momentum evident in the substantive examination stage
- This is expected to translate into strengthening patent prosecution revenues in 2H FY19, and beyond

Footnotes:

1. Source: Management estimates based on IP Australia data – Data for Xenith presented on pro forma basis, assuming Xenith entities owned throughout each reporting period

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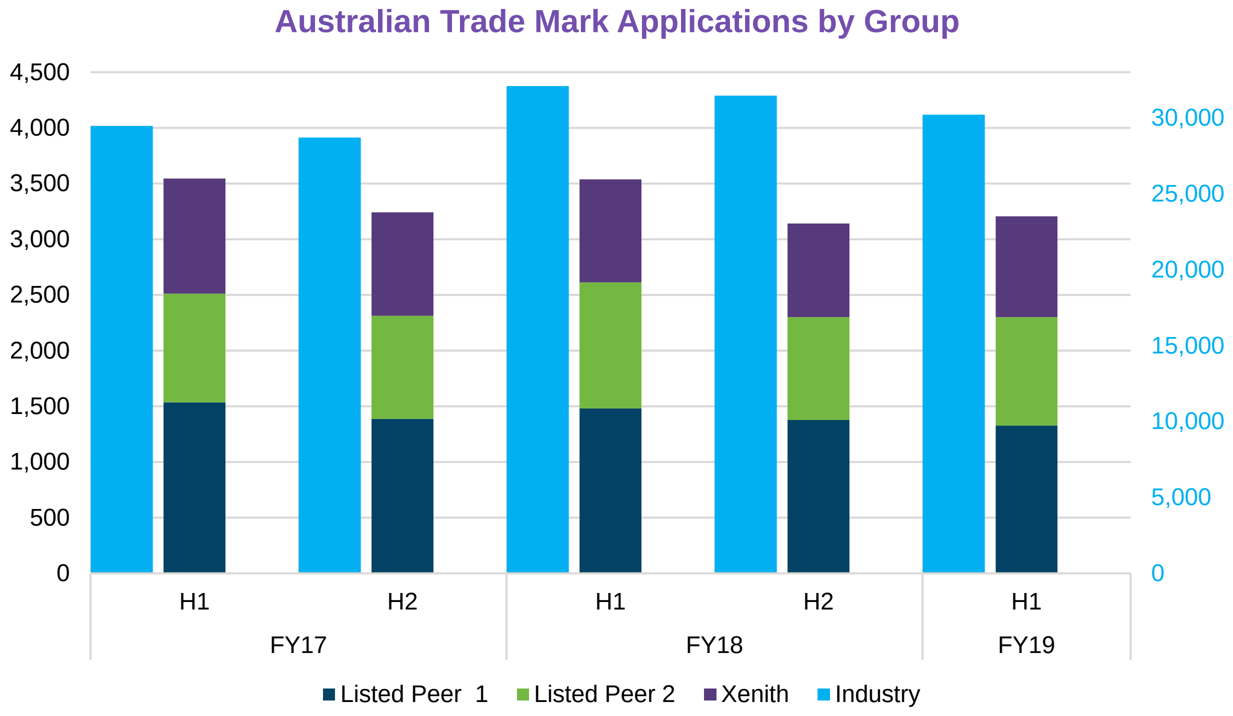
Market Update

Australian Trade Mark Applications



Observations

- Xenith saw solid growth in Australian trade mark applications in 1HFY19 vs 2H FY18 (+7.6%)
- Across the industry, Australian trade mark applications declined in 1H FY19 vs 1H FY18 (-5.9%)
- Xenith's Australian trade mark applications declined in 1H FY19 vs 1H FY18, but significantly less than broader market (-2.3%)
- Across the industry, Australian trade mark applications also declined in 1HFY19 vs 2H FY18 (-4.0%)

Footnotes:
1. Source: Management estimates based on IP Australia data – Total Australian trade mark applications filed directly with IP Australia, based on lodgement date (excluding foreign originating international applications filed via Madrid Protocol)
2. Source: Management estimates based on IP Australia data – Data for listed groups presented on pro forma basis - assuming current subsidiary entities were owned throughout each reporting period

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Summary and Outlook

Summary and Outlook

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- ❑ Executing against plan
  - Griffith Hack and Watermark performing well
  - Shelston expecting strong second half
  - Improving operational performance: practice development, business disciplines, cost control, improved margins
  - Asia strategy: late stage discussions with potential strategic partner
  - Further investments in innovation in IT underway across the Group

- ❑ Proposed merger process underway
  - On track for proposed QIP merger: excellent collaborative relationship
  - Commenced integration planning, building on experience gained in earlier acquisitions
  - Strong cultural and strategic alignment between both companies
  - Would create a company with substantial scale, a market leading position in Australia, and a platform for further expansion into Asia
  - Scheme implementation meeting scheduled for 3 April 2019
    - Approval thresholds: at least 75% of votes cast must be in favour, and at least 50% of the shareholders who vote must vote in favour

- ❑ Outlook
  - Forecasting continued operational improvement and a stronger second half
  - Expect growth in earnings in FY19 over FY18 (underlying EBITDA $20m - $21m vs $18.1m pcp)

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Appendix

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Appendix

Statutory to Underlying Income Statement Bridge

	H1 FY19					1H FY18 (restated)					
	Statutory $'mil	M&A expenses $'mil	Restructuring $'mil	IPO related expenses $'mil	Underlying $'mil	Statutory $'mil	Integration expenses $'mil	Acquisition expenses $'mil	Restructuring $'mil	IPO related expenses $'mil	Underlying $'mil
Service fee	**42.3**	-	-	-	**42.3**	44.4	-	-	-	-	44.4
Recoverable disbursements	**17.9**	-	-	-	**17.9**	18.6	-	-	-	-	18.6
Revenue	60.2	-	-	-	60.2	63.0	-	-	-	-	63.0
Other income	0.0	-	-	-	0.0	0.0	-	-	-	-	0.0
Expenses											
Employee Benefits	(25.5)	0.0	0.3	0.1	(25.1)	(27.8)	-	-	0.4	0.4	(27.0)
Recoverable disbursements	(17.9)	-	-	-	(17.9)	(18.6)	-	-	-	-	(18.6)
Occupancy expense	(3.9)	-	-	-	(3.9)	(3.8)	0.0	-	-	-	(3.8)
Net foreign exchange gain/loss	0.1	-	-	-	0.1	(0.1)	-	-	-	-	(0.1)
All other expenses	(6.4)	1.0	0.2	-	(5.2)	(6.4)	0.2	0.1	-	-	(6.1)
EBITDA	6.6	1.0	0.5	0.1	8.2	6.3	0.2	0.1	0.4	0.4	7.4
Depreciation and Amortisation	(3.4)	-	-	-	(3.4)	(3.2)	-	-	-	-	(3.2)
Net interest expense	(0.6)	-	-	-	(0.6)	(0.6)	-	0.1	-	-	(0.5)
Net (loss)/profit before tax	2.6	1.0	0.5	0.1	4.2	2.4	0.3	0.2	0.4	0.4	3.7
Income Tax Expense	(0.9)	(0.3)	(0.2)	(0.0)	(1.4)	(0.9)	(0.1)	-	(0.1)	-	(1.1)
Net (loss)/profit after tax	1.7	0.7	0.3	0.1	2.8	1.6	0.2	0.2	0.3	0.3	2.6
NPATA	3.2	0.7	0.4	0.1	4.3	3.1	0.2	0.2	0.3	0.3	4.1