ASX Announcement

QANTM INTELLECTUAL PROPERTY

27 August 2020

QANTM FULL YEAR FINANCIAL RESULTS TO 30 JUNE 2020

RESILIENT FULL YEAR BUSINESS AND FINANCIAL OUTCOMES

Highlights for FY2020

- Total net revenue growth of 4.1%, underpinned by QANTM's ownership of a group of leading intellectual property (IP) services businesses (DCC, FPA, Advanz Fidelis, Cotters Patent and Trade Mark Attorneys).

- Patent service charges up 7.3%. Overall Group patent application growth of 3.1%; represents 15% growth over 3 years – strong pipeline for prosecution and advisory revenues. Above market Australian patent applications growth trend continued, up 0.9% (relative to overall market decline of 0.6%).

- Trade mark service charges up 0.6%, with strengthening 2H20 outcome (up 7.1% 2H20 vs 1H20), with stable year-on-year Group trade mark filings, despite a 5.5% decline in Australian Group trade mark filings. DCC's leading market share was maintained in Australia.

- Legal/litigation revenue down 3.8%, relative to record FY19. Strengthened DCC Law 2H20 performance, offset by lower Advanz Fidelis contribution (impacted by COVID-19 restrictions in Malaysia).

- Successful transition to servicing of client requirements in COVID-19 environment. Rapid upgrade of IT infrastructure. Implementation of flexible work practices. Implementation of numerous new support initiatives for our people.

- Unfavourable FX outcome and higher operating investment in personnel (remuneration and incentives for fee-earners), as well as business transformation investment, contributed to lower EBITDA and net profit.

- Continued investment in people, business transformation and growth; strategy refinement and focus on business transformation and growth initiatives. Cotters acquisition completed in May 2020.

- Final dividend of 3.8 cents, fully franked; FY2020 dividend payments of 7.1 cents (2019: 8.3 cents).

- Balance sheet strong with leverage ratio below 1.0.

- Operating cash flow increased by 3.4% to $15.1 million (2019: $14.6 million).

Full Year Financial Underlying[1] Results – Summary

$m	FY 2020	FY 2019	% Change
Service Charges	90.3	86.5	4.4
Associate Charges[2]	26.3	25.7	2.3
Total Revenue	116.6	112.2	3.9
Total Net Revenue (incl other income, less recoverable expenses)	**94.0**	**90.3**	**4.1**
Operating Expenses	71.0	67.1	5.8
EBITDA before FX	**23.0**	**23.2**	**-0.9**
EBITDA after FX	**22.2**	**24.0**	**-7.5**
EBITDA margin % (total revenue)	19.0	21.4	-11.2
EBITDA margin % (service charges)	24.6	27.7	-11.2
Profit before Tax	19.3	20.8	-7.2
Net Profit after Tax	**14.0**	**14.8**	**-5.4**
Net Operating Cash Flow	15.1	14.6	3.4
Net Debt	17.4	11.1	56.8
Gearing % (net debt/net debt + equity)	19.6	13.6	44.1
EPS (cps) – statutory	7.18	8.42	-14.7
Return on shareholders' equity % – statutory	13.2	16.9	–21.9
Return on shareholders' equity % – underlying	19.7	21.0	-6.2
Dividend (cps) – 100% franked	7.1	8.3	-14.5

Key Features

- Total revenue (service charges and associate charges) increased by 3.9% to $116.6 million. Revenue in FY2020 includes an initial contribution of $0.2 million by Cotters Patent and Trade Mark Attorneys, acquired effective 22 May 2020.
- Total net revenue of $94.0 million, which includes other income of $2.1 million, and is after recoverable expenses from associate charges of $24.0 million, increased by 4.1%.
- Service charges increased by 4.4% to $90.3 million, comprising the following main components:
  - Patent service charges (68% of total QANTM service charges) increased by 7.3% to $62.1 million (2019: $57.9 million)
  - Trade marks service charges (18% of QANTM's service charges) increased by 0.6% to $15.7 million (2019: $15.6 million)
  - Legal revenue (14% of QANTM's total) decreased by 3.8% to $12.5 million (2019: $13.0 million).
- Total operating expenses were $71.0 million, a $3.9 million or 5.8% increase, reflecting higher expenditure related to fee-earner remuneration and performance based incentives, as well as higher corporate costs associated with investment in processes to transform the business, partially offset by lower occupancy, travel and other costs.
- Underlying EBITDA, after a foreign exchange (FX) was $22.2 million (2019: $24.0 million). The $1.8 million lower EBITDA is in the context of an unfavourable FX movement of $1.6 million year-on-year, as well as higher investment in fee-earner remuneration and business transformation, both of which are expected to be remunerative in future years. EBITDA margin (on Service Charges) was 24.6%.
- Statutory net profit after tax was $9.4 million (2019: $11.2 million), a 16.1% decrease. Underlying net profit after tax was $14.0 million (2019: $14.8 million), a 5.4% decrease. Refer Appendix 1 for a reconciliation from statutory to underlying NPAT.

[1] Underlying results are shown to facilitate comparisons period-to-period. The appendix provides a reconciliation from statutory to underlying results for FY2020 and FY2019.
[2] Associate Charges relate to revenue from recharging the cost of foreign associates that lodge applications in countries outside those in which QANTM acts; the revenue is offset by recoverable expenses as detailed.

- Net debt as at 30 June 2020 was $17.4 million, compared to $11.1 million as at 31 December 2019 and $8.3 million as at 30 June 2019. Gearing (net debt/net debt + equity) was 19.6% as at 30 June 2020.

CEO Commentary

Craig Dower, QANTM's Chief Executive Officer, stated:

"QANTM's FY2020 full year results reflected a resilience in our industry and our business model, given the challenging business, societal and economic conditions associated with the global Coronavirus (COVID-19) pandemic. Overall, the Group performed solidly, with service charges increasing by 4.4% and total net revenue up by 4.1%. With the exception of a weaker second half performance in parts of the Asian business, Group business has not been significantly adversely affected, to this stage, by the COVID-19 pandemic. Our activity levels have remained high, albeit that there has been a slight drop-off in filings in the period from March to June.

Our approach is to be flexible and responsive to emerging business conditions. The organisation has adapted to servicing clients remotely and in different ways. This will continue to form part of the business transformation we are undertaking. We have invested in initiatives focused on supporting our people through the first five months of the pandemic, including accelerating the first phase of our technology modernisation program, as well as implementing several health and well-being programs in support of the dramatic disruption of "normal" work practices. These have all been very well received and our people are to be congratulated for their outstanding resilience and contribution over the past six months.

We recognise that in the context of a possible weakening in revenues, operating expenditures will need to be closely managed to mitigate potential impacts. We have developed several scenario plans which will help us to match capacity to workload, if and when this varies in the year ahead. At the same time, it is essential to continue appropriate levels of investment in areas central to the delivery of profitable growth and competitive advantage for QANTM. These are: the investment in our people and organisational culture, which includes professional development, personal well-being and retention; in business transformation through business processes and systems; re-imagining work practices in a post-COVID world; and in business and market development, most notably building a greater involvement in the Asian region.

QANTM's total Australian patent application growth was again above overall market trends, with overall Group patent service charges up 7.3%. DCC's trade mark business achieved a 0.6% increase in service charges, with a second half strengthening in revenue. DCC Law's revenue was 5.1% lower year-on-year, in in comparison to a record 2019 outcome. Overall legal revenues, including Advanz Fidelis, declined by 3.8%. Nonetheless, DCC Law recorded a strengthening second half performance.

Advanz Fidelis in Malaysia recorded a 22.0% increase in total revenue, compared with 2019, despite a markedly softer second half performance associated with significant COVID-19 induced business restrictions in Malaysia. This adverse second half business impact upon AFIP has now been lessened, with the Malaysian COVID 19 restrictions now being steadily reversed.

As foreshadowed at QANTM's half year results announcement, increased investment in the organisation was a feature of the 2020 financial year, reflected in an increase in operating expenditure. Increase investment occurred in two areas: fee-earner remuneration, aimed at rewarding performance and driving retention, and corporate costs associated with investments to transform the Group's business systems and processes."

Market Conditions – Intellectual Property

"The global COVID-19 pandemic and its effect on every aspect of societal and economic activity, may represent one of the most fundamental societal and economic challenges of our lifetimes. Understanding the course of the pandemic and its short and longer term structural implications for any business sector remains highly problematic. To date, the QANTM business entities have not observed a material effect on the flow of work, while the ability of our workforce to adapt to remote working arrangements has meant that our client servicing arrangements have continued smoothly.

There are numerous factors that suggest that intellectual property (IP), and QANTM, may represent a relatively defensive business. IP in all of its manifestations remains the cornerstone of brand, franchise and commercial activity of a range of companies and organisations; the continued protection of these elements through what represents a relatively minor, but strategic expenditure, can be expected to be maintained. The diversity of our portfolio, as to areas of service provision, geography and nature of client businesses and sectors, is also likely to afford some differentiation.

Medium term, it may be expected that the dislocation caused by COVID-19 may create favourable outcomes for IP-related activity in numerous sectors (pharmaceuticals and health care, consumer services, telecommunications, IT-related sectors), while the need to innovate in how many aspects of everyday life are conducted may also represent an opportunity for the QANTM-entities to work with existing and new clients on the IP development requirements of the future.

QANTM is well-positioned to work through many scenarios that may occur in response to COVID-19. The business model provides resilience and defensiveness; including strength of local originating business. QANTM has a diverse portfolio, with leading market positions in patents, trade marks, IP law, as well as a diverse client and geographical spread, with limited key client exposure. Above market patents growth (Australia and PCT) over the last three years provides recurring future revenue generation. Furthermore, the Group displays capital structure strength, through its balance sheet, operating cash flow, interest coverage ratios and with no discernible increase in WIP or bad debts.

Patents

The patent service offering of DCC, FPA and AFIP recorded another solid performance, with combined service charges increasing by 7.3%. Patents contribute 68% of Group revenue. The result reflects overall QANTM Group patent application growth of 3.1%, while new Australian patent applications increased 0.9%, in the context of an overall Australian patent market decline of 0.6%. QANTM recorded its third consecutive annual increase in patent market share growth in Australia, with its market share increasing to 14.2%, compared to 14.0% in the prior year. QANTM Group patent applications in Asia increased by 25.9% and now represent 13% of Group patent applications.

QANTM's 2H20 Group patent applications, relative to 1H20, declined by 7.5%. QANTM's 2H20 Australian patent applications also declined, down 3.3% in the context of an overall Australian market application decline of 2.0%.

Trade Marks

QANTM's Group full year trade mark service charge revenue increased by 0.6%. Trade marks experienced a stronger second half performance in FY2020, with total trade marks service charges increasing by 7.1% compared to 1H20. Trade marks contributed 18% of Group revenue. QANTM's total Group trade mark filings were stable year-on-year. In Australia, QANTM's trade mark filings decreased by 5.5%. Despite this, DCC maintained its leading market share amongst the top 50 filers.

Legal

Legal service charges (which include advisory services provided by AFIP) declined by 3.8%, relative to the 2019 financial year, which had a record first half revenue outcome. DCC Law's revenues strengthened in the second half of FY2020, although offset by a weaker AFIP legal advisory contribution.

Asia

Asia region revenues from DCC, FPA and AFIP across patents, trade marks and advisory services increased by 34.0%. Asia now constitutes 7.0% of QANTM's total revenues, and this level is expected to continue to grow. As indicated, Asia patent applications increased by 25.9%; a favourable indicator for future revenue generation.

Balance Sheet and Debt

QANTM's balance sheet remains in a strong position with net debt of $17.4 million at a gearing ratio of 19.6%. Cash flows from operations increased to $15.1 million and the company has increased its cash balances at year end to $6.2 million. As a result dividends are able to be paid out at 90% of NPATA, providing shareholders with an attractive dividend yield.

Dividends

Directors have approved a final dividend of 3.8 cents, fully franked, with a payment date of 1 October 2020 for shareholders registered as at 3 September 2020. The total FY2020 dividend payment is 7.1 cents, fully franked (2019: 8.3 cents, fully franked).

QANTM's Appendix 4E, Financial Report for the full year ended 30 June 2020, and the FY2020 Investor Presentation, provide more detailed information on the Company's full year results, and are available at www.qantmip.com.

For further information, please contact:

Martin Cleaver
Chief Financial Officer and Company Secretary
Tel: +61 3 9254 2666
www.qantmip.com

WEBCAST AND INVESTOR TELECONFERENCE DETAILS

You are invited to join QANTM's CEO, Craig Dower, and CFO, Martin Cleaver, for a presentation and discussion of the results.

DATE AND TIME

Thursday, 27 August 2020 at 10:00am Australian Eastern Standard Time

PRESENTERS

Craig Dower, CEO and Managing Director
Martin Cleaver, Chief Financial Officer

DIAL-IN DETAILS

TELECONFERENCE DIAL-IN DETAILS (required to participate in Q&A)

Conference ID: **5038806**

Participant Dial-In Numbers:

Australia (toll free) 1800 123 296
free) 800 616 2288
UK (toll free) 0808 234 0757

New Zealand (toll free) 0800 452 782 Singapore (toll
Hong Kong (toll free) 30082034
US (toll free) 1855 293 1544

Any other country or mobile phone: +61 2 8038 5221

WEBCAST

The presentation will be webcast live. You can pre-register for the webcast via this link https://webcast.openbriefing.com/6490/

About QANTM Intellectual Property

QANTM Intellectual Property Limited (QANTM, ASX: QIP) is the owner of a group of leading intellectual property (IP) services businesses operating in Australia, New Zealand, Singapore and Malaysia under four key brands - Davies Collison Cave, FPA Patent Attorneys, Cotters Patents & Trademark Attorneys, Advanz Fidelis IP Sdn Bhd , and is the majority shareholder in an IP consultancy company, ipervescence Pty Ltd. With more than 140 highly qualified professionals, the QANTM Group has a strong track record in providing a comprehensive suite of services across the IP value chain to a broad range of Australian and international clients, ranging from start-up technology businesses to Fortune 500 multinationals, public research institutions and universities.

Appendix: Statutory NPAT to underlying NPAT

The reconciliation table below reconciles statutory net profit after tax (Statutory NPAT) to underlying NPAT:

	Year ended	
	30 Jun 20 $m	**30 Jun 19 $m**
Statutory NPAT	**9.4**	**11.2**
add: interest	1.5	1.0
add: depreciation and amortisation	6.8	2.3
add: tax	4.9	5.5
EBITDA – QANTM Group	**22.6**	**20.0**
add: remuneration related to business acquisition	1.9	3.1
add: new business establishment costs	0.3	0.5
less: AASB 16 occupancy expenses add back	(4.9)	-
add: one-off retention payments	0.9	-
less: scheme of arrangement break fee		(1.6)
add: business acquisition costs	1.4	2.1
Underlying EBITDA – QANTM Group	**22.2**	**24.1**
less: depreciation and amortisation	(6.8)	(2.3)
add: AASB 16 amortisation and interest add back	5.4	-
less: interest	(1.5)	(1.0)
less: tax	(5.3)	(6.0)
Underlying NPAT - QANTM Group	**14.0**	**14.8**