

ASX Announcement



26 August 2021

QANTM FULL YEAR FINANCIAL RESULTS TO 30 JUNE 2021

Strong Business and Portfolio Performance

- Group Patent applications increased by 11% in FY21
- QANTM Australian Patent applications grew by 9.7%, relative to Australian market growth of 2.4%; while QANTM's non-Australian patent applications grew by 12.9%. Asian patent applications represent 14% of Group total
- DCC retained #1 market position in Australian trade mark filings
- Portfolio strength and client relationships reflected in increase in Service Charges - up 2.3% - and Total Net Revenue growth of 1.7%
- Revenue outcomes adversely impacted by 11% appreciation in average AUD/USD in FY21 vs FY20. On a like-for-like currency basis Service Charges revenue was up 7.3%
- Underlying EBITDA down 2.5% due to planned spend on capability and technology. On a like-for-like currency basis EBITDA up 13.6%
- Patents Service Charges (70% of QANTM total), up 3.5%
- Trade Marks Service Charges (17% of QANTM total), up 0.7%
- Legal Service Charges (13% of QANTM total) 1.6% lower, reflecting lower 2H case load
- Patent application revenue represents 15%-20% of Patent Service Charges; increase in filings indicates that QANTM is growing market share and building a strong pipeline of future revenue-generating business
- Full year dividend up 4.2% with final dividend of 3.4 cents per share, fully franked, full year dividend of 7.4 cents (FY20: 7.1 cents)

Full Year Financial Underlying¹ Results – Summary

| \$m | FY 2021 | FY 2020 | % Change |
|---|-------------|-------------|-------------|
| Service Charges | 92.4 | 90.3 | 2.3 |
| Associate Charges ² | 26.7 | 26.3 | 1.5 |
| Total Revenue | 119.1 | 116.6 | 2.1 |
| Total Net Revenue (incl other income, less recoverable expenses) | 95.6 | 94.0 | 1.7 |
| Operating Expenses | 68.4 | 66.1 | 3.5 |
| EBITDA before FX | 27.2 | 27.9 | -2.5 |
| EBITDA after FX | 26.1 | 27.1 | -3.7 |
| EBITDA margin % (Service Charges) | 28.2 | 30.0 | -6.0 |
| Profit before Tax | 17.2 | 18.8 | -8.5 |
| Net Profit after Tax – underlying | 12.2 | 13.5 | -9.6 |
| Net Profit after Tax – statutory | 10.4 | 9.4 | 10.6 |
| Net Operating Cash Flow | 19.8 | 15.1 | 31.1 |
| Net Debt | 16.2 | 17.4 | -6.9 |
| Gearing % (net debt/net debt + equity) | 18.1 | 19.6 | -7.7 |
| EPS (cps) – statutory | 7.71 | 7.18 | 7.4 |
| Dividend (cps) – 100% franked | 7.4 | 7.1 | 4.2 |

¹The appendix provides a reconciliation from statutory to underlying results for FY21 and FY20.

² Associate Charges relate to revenue from recharging the cost of foreign associates that lodge applications in countries outside those in which QANTM acts.



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Key Features

- Total revenue (Service Charges and Associate Charges) increased by 2.1% to \$119.1 million.
- Total net revenue of \$95.6 million, which includes other income of \$1.9 million, and is after recoverable expenses from Associate Charges of \$25.4 million, increased by 1.7%.
- Service Charges of \$92.4 million, comprising the following main components:
 - Patent Service Charges of \$64.3 million (FY20: \$62.1 million)
 - Trade Marks Service Charges of \$15.8 million (FY20: \$15.7 million)
 - Legal Service Charges of \$12.3 million (FY20: \$12.5 million)
- Total underlying operating expenses were \$68.4 million, a \$2.3 million or 3.5% increase (FY20: \$66.1 million). Higher underlying expenditure related to a \$3.6 million increase in employee benefits costs including fee earner remuneration, performance based incentive expenses, the establishment of a US sales office, and investment in corporate resources. The addition of the Cotters business also contributed \$1.3 million to staff costs. In addition there was a \$0.5 million increase in technology expenses associated with investment in and support of remote working arrangements. These increases were partially offset by a \$1.8 million reduction in other expenses, mainly related to a reduction in travel.
- Underlying EBITDA, after foreign exchange (FX) was \$26.1 million (FY20: \$27.1 million). The \$1.0 million lower EBITDA is in the context of a loss on FX movement of \$0.3 million year-on-year, and a \$4.5 million lower revenue on a like-for-like currency basis. EBITDA margin (on Service Charges) was 28.2%.
- Statutory net profit after tax of \$10.4 million (FY20: \$9.4 million), a 10.6% increase. Underlying net profit after tax was \$12.2 million (FY20: \$13.5 million), a 9.6% decrease. Refer Appendix 2 for a reconciliation from statutory to underlying NPAT.
- Operating cash flow increased by 31.1% to \$19.8 million (FY20: \$15.1 million).
- Net debt as at 30 June 2021 was \$16.2 million, compared to \$17.2 million as at 31 December 2020 and \$17.4 million as at 30 June 2020. Gearing (net debt/net debt + equity) was 18.1% as at 30 June 2021.

CEO Commentary

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

"QANTM's financial year 2021 results reflect the underlying strength of the QANTM business model. The team has continued to perform exceptionally well under continued challenges related to the COVID pandemic. Our continued emphasis on support for our people, including an emphasis on flexibility and wellness, has resulted in high engagement, excellent retention levels and the attraction of new talent.

The growth in patent applications, particularly in Australia, where QANTM Group's total applications grew by 9.7 per cent compared to the market growth of 2.4% – in rest of world applications (up 11.1 per cent), in Asia (up 14 per cent) and in Patent Cooperation Treaty filings (up 20 per cent) – all attest to the IP strength of the franchise and its ability to generate strong organic growth, even if the revenue and earnings outcome in this period was mitigated by adverse foreign currency movements.

QANTM Group's patent applications are at their highest levels since IPO in 2016 and have been accompanied by further growth in the market shares of DCC and FPA in Australia. Trade marks had continued growth, with DCC maintaining its leading market position. Legal services, after two strong prior years, had a slight moderation in overall revenues, mainly reflecting the timing of case load work in the second half of the financial year.

Given the lifecycle characteristics in both patents and trade marks, QANTM is building a solid base of future revenue generation which flows through prosecution, advisory and renewal businesses, as well as associated legal and litigation services. It is our objective to broaden this revenue base through our business technology and business development activities, continued growth in our Asian presence, as well as targeted M&A.

Advanz Fidelis had a challenging year with its business activities curtailed by COVID-19 related restrictions for most of the year in Malaysia. In the circumstances, its performance was creditable, with a 10 per cent decline in Service Charges, although with a strengthening in its second half performance. Cotters Patent and Trade Mark Attorneys, acquired in May 2020, had a challenging year, with its smaller scale and SME-industry orientation more impacted by COVID. Its contribution was lower than expected but it represents an appropriate diversifying source of future business for the Group and has had a strong recovery over the last quarter.

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As previously forecast, continued investment in our people and their capabilities, as well as technology modernisation expenditure, represents the major reason for the higher year-on-year operating expenditure. The generation of efficiencies, costs savings and revenue growth potential is expected to be evident from financial year 2023, with non-financial benefits already being delivered.”

Strategic Initiatives

“I have previously detailed our key business priority areas. These include our people and the continued enhancement of skills, capabilities and leadership; investment in technology, including platforms and systems to create competitive advantages and new revenue streams; in simplifying our business processes; and through these means and others, in enhancing our client interface, collaboration and quality of service offering; as well as the evaluation and pursuit of appropriate and value-adding merger and acquisition opportunities.

The company commenced its investment in these areas as fundamental bases for material growth in the business and the expansion of our international business presence, particularly in Asia. A DCC sales office was established in the US during the year. We are implementing a world-class client engagement platform, backed by our investment in technology, people and processes. The pilot is complete and the platform is being progressively implemented across our offices.

Progress on our technology modernisation program is well advanced, with human resources and finance platforms underway; a case management platform at final scoping stage which, we expect, once implemented, to contribute to both process efficiencies, cost reductions and improved client service.

Continued progress is being made in the advancement of all strategic initiatives. Continued evaluation is occurring of suitable merger and acquisition opportunities to an investment case stage.”

Dividends

Directors have approved a final dividend of 3.4 cents, fully franked, with a payment date of 7 October 2021 for shareholders registered as at 2 September 2021. The total full year dividend payment is 7.4 cents, fully franked (2020: 7.1 cents, fully franked).

QANTM’s Appendix 4E, Financial Report for the full year ended 30 June 2021, and the Full Year 2021 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:

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Peter Loosmore
Chief Financial Officer

WEBCAST AND INVESTOR TELECONFERENCE DETAILS

You are invited to join QANTM’s CEO, Craig Dower, and CFO, Peter Loosmore, for a presentation and discussion of the results.

DATE AND TIME

Thursday, 26 August 2021 at 11:00am Australian Eastern Standard Time

PRESENTERS

Craig Dower, CEO and Managing Director
Peter Loosmore, Chief Financial Officer

DIAL-IN DETAILS

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

Conference ID: **9145967**

Participant Dial-In Numbers:

| | |
|------------------------------------|--------------------------------------|
| Australia (toll free) 1800 123 296 | New Zealand (toll free) 0800 452 782 |
| Singapore (toll free) 800 616 2288 | Hong Kong (toll free) 30082034 |
| UK (toll free) 0808 234 0757 | 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/7584/>

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.

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Appendix 1: Like for Like Revenue and EBITDA

| Year ended 30 June 2021 \$m | Underlying FY21 | Currency Adjustment | Adjusted FY21 | Underlying FY20 | FY % Change |
|---------------------------------|--------------------|------------------------|------------------|--------------------|----------------|
| Revenue | | | | | |
| Service charges | 92.4 | 4.5 | 96.9 | 90.3 | 7.3% |
| Associate charges | 26.7 | | 26.7 | 26.3 | 1.5% |
| Total Revenue | 119.1 | 4.5 | 123.6 | 116.6 | 6.0% |
| Other income excl FX | 1.9 | | 1.9 | 2.1 | -9.5% |
| Recoverable expenses | (25.4) | | (25.4) | (24.7) | 2.8% |
| Net Revenue | 95.6 | 4.5 | 100.1 | 94.0 | 6.5% |
| Total Operating expenses | 68.4 | | 68.4 | 66.1 | 3.5% |
| EBITDA | 27.2 | 4.5 | 31.7 | 27.9 | 13.6% |

Appendix 2: Statutory NPAT to underlying NPAT

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

| Statutory NPAT to Underlying NPAT reconciliation | Year ended | |
|---|------------------|------------------|
| | 30-Jun-21 \$m | 30-Jun-20 \$m |
| Statutory NPAT | 10.4 | 9.4 |
| add: interest | 1.6 | 1.5 |
| add: depreciation and amortisation | 7.3 | 6.8 |
| add: tax | 4.4 | 4.9 |
| EBITDA – QANTM Group | 23.7 | 22.6 |
| add: remuneration related to business acquisition | - | 1.9 |
| add: new business establishment costs | - | 0.3 |
| add: retention payments | 0.6 | 0.9 |
| add: SaaS costs | 1.1 | - |
| add: transformation costs | 0.3 | - |
| add: business acquisition costs | 0.4 | 1.4 |
| Underlying EBITDA – QANTM Group | 26.1 | 27.1 |
| less: depreciation and amortisation | (7.3) | (6.8) |
| less: interest | (1.6) | (1.5) |
| less: tax | (5.0) | (5.3) |
| Underlying NPAT - QANTM Group | 12.2 | 13.5 |