

ASX Announcement



23 February 2023

QANTM FINANCIAL RESULTS FOR HALF YEAR ENDED 31 DECEMBER 2022

Strong organic growth in revenue and earnings, margins continuing to improve

- Strong growth in revenue with Service Charges up 6.4%. Total Revenue increased by 9.5%.
 - Patent Service Charges up 5.8% to \$35.4m (1H22: \$33.5m)
 - Trade Marks Service Charges up 9.1% to \$10.4m (1H22: \$9.5m)
 - Legal Service Charges up 8.9% to \$6.2m (1H22: \$5.7m)
- Record number of new patent applications, with Australian patent applications increasing 6.8%. Group patent applications have grown by 6.2%, with 9.8% growth in Rest of World and PCT applications.
- Trade Mark applications up 11.1%. DCC and Sortify are now the joint #1 filers of Trade Marks in Australia.
- **Underlying** EBITDA up 7.6% due to increased revenue growth and cost management initiatives.
- EBITDA margin increased to 26.5% (1H22 26.1%).
- Interim dividend of 2.8 cents per share, fully franked (1H21: 3.0 cents).
- The IP sector continues to be resilient, with steady growth in Australian markets and expanding demand in Asia.

\$m	1H23	1H22	Change
Service Charges	52.0	48.9	6.4%
Total Revenue	68.6	62.7	9.5%
Underlying EBITDA	13.8	12.8	7.6%
Underlying EBITDA margin	26.5%	26.1%	0.4%
Underlying Net Profit after Tax	6.7	6.5	3.8%



Key Financials

- Service Charges of \$52.0m (1H22: \$48.9m), comprising the following main components:
 - Patent Service Charges up 5.8% to \$35.4m (1H22: \$33.5m)
 - Trade Marks Service Charges up 9.1% to \$10.4m (1H22: \$9.5m)
 - Legal Service Charges up 8.9% at \$6.2m (1H22: \$5.7m)
- Total revenue (Service Charges and Associate Charges) increased 9.5% to \$68.6m (1H22: \$62.7m).
- Total net revenue of \$54.1m (1H22: \$50.6m), which includes other income of \$1.2m, and is after recoverable expenses from Associate Charges of \$15.7m.
- Underlying operating expenses of \$40.3m, an increase of \$2.5m (1H22: \$37.8m).
- Underlying EBITDA was \$13.8m (1H22: \$12.8m). EBITDA includes FX Loss of \$0.6m (1H22: FX gain \$0.1m).
- Statutory net profit after tax of \$3.4m (1H22: \$3.4m). Statutory profit includes amortisation of intangibles from acquisitions.
- Underlying net profit after tax of \$6.7m (1H22: \$6.5m). The appendix provides a reconciliation from statutory to underlying NPAT.
- Net Debt to Underlying EBITDA was 1.15 at 31 December 2022 (30 June 2022 0.90). Net debt as at 31 December 2022 was \$31.8m, compared to \$23.1m as at 31 December 2021 and \$23.8m as at 30 June 2022. As at 31 December 2022, cash and equivalents of \$1.7m were held on the balance sheet (31 December 2021: \$8.4m).
- Cash Flow before acquisitions, financing activities and tax was lower at \$3.5m (1H22: \$9.8m) due to: a \$1.6m prepayment not being in the prior comparative period; a \$1.2m in one-off restructuring costs; and \$1.8m in one-off capital projects and higher debtors, which will normalise in H2 FY23.

CEO Commentary

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

"This is a strong first half performance by the QANTM Group, with all of our businesses performing well. We had a very strong finish to the calendar year and that momentum has continued through the start of the new year. Our revenue grew strongly, with organic growth in Australia as well as continued growth in Asia through both local clients and referrals across the network. We grew our Australian patents market share to 16.5%, with the December quarter being our highest since listing. This builds a pipeline of future work, which helps stabilise future revenue and earnings. We are very pleased to see the strong organic growth in Australia and New Zealand, and the increased growth in market share.

We delivered a number of key technology projects during the first half, including the migration of all production systems to Microsoft Azure, supported by a complete network re-design. This provides a highly stable and secure platform, and allows us to begin to decommission our ageing on-premise and hosted data centres. It also reduces the need for future capital spend on equipment, by operating all of our systems in the cloud. Finally, it paves the way for increased innovation through the Microsoft Azure platform.

Sortify continues to grow, having achieved the #1 position in Trade Mark filings in Australia in the December quarter, meaning they have gone from market entry to a market leader in three years. Sortify has plenty of runway - in a market segment that is largely around registered businesses without registered trademarks, Sortify is simplifying the pathway to address that gap. Sortify's UK filings are also growing strongly, with the UK remaining a very large opportunity.

We commented at our full year results in August 2022 that we felt we had turned the corner on margins, and that we expected to see continued improvement moving forward. We are pleased to see that margin growth is continuing and we expect to see that in the period ahead as well. As stated previously, our aim is to deliver EBITDA margins in the low 30's over the medium term.

Business Performance

We have delivered continued strong growth in Patents, period-on-period:

- Patents Service Charges (which comprises 68% of the Group's service charges), increased by 5.8%;
- Group patent applications increased 6.2%, with Australian applications (56% of the Group total) up 6.8% on the prior period. This increase compares with an overall Australian market decrease (excluding innovation patents) of 4.3%;
- QANTM's overall market share increased from 14.8% for the prior corresponding period to 16.5%, with a particularly strong second quarter market share of 17.0%;
- Asian patents (15.1% of the Group total) were at a similar level to the prior corresponding period (which had been a record high period for the Group) and were up 10.4% on the immediately preceding half;
- Rest of World and PCT applications (29% of the Group total) were up 9.8%.

Trade Marks recorded a strong 9.1% increase in Service Charges (20% of the Service Charges):

- Trade mark applications for the Group increased by 11.1%;
- Australian trade mark applications (58% of the Group total) increased by 4.7%;
- New Zealand applications (16% of the Group total) remained stable period-on-period.

DCC and Sortify shared the #1 position in Trade Marks filings in Australia during the half.

Legal and litigation services revenue contribution (12% of total service charges) increased by 8.9% relative to pcp.

Conclusion and Outlook

At our FY22 full-year results update, we spoke of the progress being made across our various strategic initiatives, and this progress continues. We completed several significant technology modernisation milestones in the first half of FY23, and we are on track to deliver several further milestones in the second half. Our technology modernisation program will ultimately improve our overall operating environment, our competitiveness, and our margins, as well as the productivity of our people. We expect to see some modest financial gains starting to emerge in the second half.

Combined with a continued focus on cost management, these initiatives are all helping to improve margins - we have delivered two consecutive periods of margin growth and we expect that to continue. Our target EBITDA margins (as a percentage of service charges) is in the low 30's over the medium term.

We have commenced the process of re-imagining our office layouts post-COVID, with FPA moving into new Melbourne premises in October 2022. These initiatives will continue over the next year or so, delivering improved and more collaborative working environments and a reduction in premises costs.

We have grown market share in both patents and trade marks over the past six months, and our filing volumes remain strong, which bodes well for future prosecution revenue.

We continue to invest in our people, on multiple fronts, as they are what our businesses are all about. We are very pleased with the progress we are making on a number of Diversity and Inclusion programs across the Group, with DCC being recognised on the recent annual Diversity Council Australia Inclusive Employer Index.

We continue to explore a number of targeted merger and acquisition opportunities, ensuring that they meet our strict eligibility criteria (e.g. culture, strategy, people, client reputation, earnings-accretive).

We have started the new calendar year well, with momentum from the December quarter continuing and activity levels across the group remaining high. Overall, against challenging broader market conditions, we are confident that we can continue to grow our revenue and our earnings over the period ahead, and the long term prognosis for the IP sector and QANTM continues to be one of steady, consistent growth."

QANTM INTELLECTUAL PROPERTY LIMITED ASX ANNOUNCEMENT

Dividends

The Board has approved an interim dividend of 2.8 cents, fully franked, with a payment date of 5 April 2023 for shareholders registered as at 1 March 2023. This is at the midpoint of the 70% to 90% of NPATA range, which reflects a number of factors including strategic investments and the increasing cost of debt, as part of our ongoing capital management plan.

QANTM's Appendix 4D, Half Year Financial Report for the year ended 31 December 2022, and the Half Year Investor Presentation, provide more detailed information on the Company's half year results, and are available at www.qantmip.com.

This announcement has been authorised by the QANTM Board for release through the ASX Market Announcements Platform.

For further information, please contact:

Craig Dower
CEO and Managing Director

Tel: +61 3 9254 2666
www.qantmip.com

Krista Stewart
General Counsel and Company Secretary

WEBCAST AND INVESTOR TELECONFERENCE DETAILS

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

DATE AND TIME

Thursday, 23 February 2023 at 11:00am Australian Eastern Daylight Time

PRESENTERS

Craig Dower, CEO and Managing Director and Brenton Lockhart, Chief Financial Officer

DIAL-IN DETAILS

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

Conference ID: 6958468

Participant Dial-In Numbers

Australia	1800 571 226	New Zealand	+64 800 005 652
Singapore	+65 3159 1234	Hong Kong	+852 800 960994
US & Canada	(800) 715-9871	UK	+44 800 260 6466

Any other country or mobile phone: +61 2 8088 0946

WEBCAST

The presentation will be webcast live. You can pre-register for the webcast via this link <https://webcast.openbriefing.com/qip-hyr-2023>

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, Malaysia and Hong Kong under key brands Davies Collison Cave, DCC Advanz Malaysia, Davies Collison Cave Law, FPA Patent Attorneys, and Sortify.tm Ltd (including Sortify's brands – DIY Trademarks, Trademarks Online and Trademark Planet). With more than 150 highly qualified professionals, the businesses within the QANTM Group have 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

	Half Year Ended	
	31-Dec-22	31-Dec-21
	\$'000	\$'000
Statutory NPAT	3,395	3,408
add: interest	1,830	1,129
add: depreciation and amortisation	4,332	4,297
add: tax	1,688	1,666
EBITDA	11,245	10,500
add: retention/restructuring payments	1,154	87
add: SaaS expenses	1,229	1,428
add: business acquisition costs	144	768
Underlying EBITDA	13,772	12,783
less: depreciation and amortisation	(2,906)	(3,082)
less: interest	(1,572)	(1,129)
less: tax	(2,594)	(2,121)
Underlying NPAT	6,700	6,451

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