

# ASX Announcement



25 February 2021

## QANTM FINANCIAL RESULTS FOR HALF YEAR ENDED 31 DECEMBER 2020

### RESILIENT PERFORMANCE; BUSINESS TRANSFORMATION UNDERWAY

- Strong financial performance, with net revenue growth, EBITDA (pre FX) growth and stronger operating cash flows. A higher AUD resulted in adverse FX movement period-on-period, which reduced comparative EBITDA and NPAT after FX.
- Service Charges increased for all three main service offerings: Patents increased by 3.2% (68% of total Group Service Charges), Trade Marks increased by 3.9% (17% of Group total) and Legal/Litigation increased by 7.9% (15% of Group total).
- Operating expenses increased by 2.4%, reflecting increased investment in key roles to support the Group's business transformation program, increased provisions for employee leave during COVID-19, and the acquisition of the Cotters business.
- Substantial progress made on technology modernisation, with several foundation projects completed and more underway.
- Interim dividend of 4.0 cents, fully franked (1H20: 3.3 cents).

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

\$m	1H21	1H20	% Change
Service Charges	46.6	44.8	4.0
Associate Charges <sup>2</sup>	12.0	12.8	-6.3
Total Revenue	58.6	57.6	1.7
<b>Total Net Revenue</b> (incl other income, less recoverable expenses)	<b>48.3</b>	<b>46.6</b>	<b>3.6</b>
Operating Expenses	33.8	33.0	2.4
<b>EBITDA before FX</b>	<b>14.5</b>	<b>13.6</b>	<b>6.6</b>
EBITDA after FX	13.5	13.8	-2.2
EBITDA margin % (Service Charges)	29.0	30.8	-5.8
EBITDA margin % (Total Revenue)	23.0	24.0	-4.2
Profit before Tax	9.1	9.5	-4.2
<b>Net Profit after Tax</b>	<b>6.5</b>	<b>6.6</b>	<b>-1.5</b>
Statutory Net Profit after Tax	6.0	4.4	36.4
Operating Cash Flow	9.2	5.7	61.4
Net Debt	17.2	15.1	13.9
Gearing % (net debt/net debt + equity)	18.9	18.0	5.0
Return on shareholders' equity %			
– statutory annualised	16.2	12.8	-26.6
Return on shareholders' equity %			
– underlying annualised	17.6	18.5	-4.9
Dividend (cps) – 100% franked	4.0	3.3	21.2

<sup>1</sup> Underlying results are shown to facilitate comparisons period-to-period. The appendix provides a reconciliation from statutory to underlying results for 1H21.

<sup>2</sup> Associate charges arise from recharging the cost of foreign agents engaged by QANTM businesses to lodge applications in countries outside those in which QANTM acts; the revenue is offset by recoverable expenses.



## **Key Features**

- Service Charges of \$46.6 million increased by \$1.8 million or 4.0%, reflecting increased:
  - Patent Service Charges of \$31.9 million, up \$1.0 million or 3.2%;
  - Trade Mark Service Charges of \$7.9 million, up \$0.3 million or 3.9%; and
  - Legal/Litigation revenue of \$6.8 million, up \$0.5 million or 7.9%.
- Total Net Revenue of \$48.3 million increased by 3.6% (1H20: \$46.6 million).
- Total operating expenses of \$33.8 million, up 2.4% (1H20: \$33.0 million). The main contributing factors included costs of key corporate roles supporting the Group's business transformation program, increased provisions for employee leave (with a reduction in leave taken during COVID 19); and the acquisition of the Cotters business.
- EBITDA before FX increased by 6.6% to \$14.5 million (1H20: \$13.6 million).
- EBITDA, after an adverse FX movement of \$1.0 million (1H20: gain of \$0.2 million), was \$13.5 million (1H20: \$13.8 million), a 2.2% decline.
- Operating cash flow increased by 61.4% to \$9.2 million (1H20: \$5.7 million)
- Underlying net profit after tax was \$6.5 million, a 1.5% decline (1H20: \$6.6 million). Refer to the Appendix for a reconciliation from statutory to underlying net profit.
- Net debt as at 31 December 2020 was \$17.2 million, compared to \$15.1 million at from 31 December 2019 and \$17.4 million at 30 June 2020. Gearing (net debt/net debt + equity) at 31 December 2020 was 18.9%, compared with 18.0% at 31 December 2019, and 19.6% at 30 June 2020.

## **CEO Commentary**

Craig Dower, QANTM's Chief Executive Officer and Managing Director stated:

"QANTM's half year results are a highly encouraging start to the financial year, especially in the context of a challenging and unpredictable business environment. The results reinforce that the QANTM business model is highly resilient, with a diverse and stable client base, across a broad range of sectors, industries and geographies, and a continued reputation for high-quality service.

During the half, the QANTM portfolio has delivered growth in revenue across all three main service offerings - patents, trade marks and legal/litigation – as well as higher operating cash flow and cash conversion.

Despite almost a year of remote working arrangements, business activities have continued – in almost all cases – at or above pre-COVID levels, even in the substantial Melbourne offices of DCC and FPA, which spent most of the half in degrees of lockdown. Our people, across all parts of the business, maintained their commitment to high levels of client service.

Advanz Fidelis (Malaysia) recorded lower 2021 first half revenue, associated with COVID-19 restrictions, which reduced levels of business activity in Malaysia compared to a record 1H20. We are, however, seeing signs of recovery of business activities for Advanz.

## **Intellectual Property Market Conditions**

QANTM's Group patent applications (excluding innovation patents<sup>1</sup>) decreased by 1.6% in the first half of 2021, compared with the prior corresponding period, but increased 8.7% on 2H20. Group Australian patent applications (including Cotters but excluding innovation patents) were at the same level as the prior corresponding half year, which itself represented a five year high in the level of QANTM's patent applications, but increased 6.0% on 2H20. The Cotters business, acquired in May 2020, contributed ~5% of QANTM Group patent applications in the half. Australian patent applications represent 58% of the Group total. The stability in QANTM's Australian patent applications is in the context of an overall decline in total Australian market patent applications (excluding innovation patents) of 0.6%.

<sup>1</sup> Innovation patents are excluded from this analysis, given recent market factors that have stimulated activity in this area, including that innovation patents are being phased out in August 2021; their longevity; generally lower enforceability arrangements and the fact that the fees associated with innovation patents are usually materially less than standard patents.

## **QANTM INTELLECTUAL PROPERTY LIMITED** **ASX ANNOUNCEMENT**

The main trends in the Group's patent applications outside of Australia (42% of the Group total) included an increase in PCT applications; offset by a decrease in the level of Asian applications and lower Rest of World applications.

QANTM's Australian trade mark filings (56% of the Group total) increased by 15.4%. Group trade mark filings overall decreased by 12.1% relative to 1H20, but increased by 10.5% compared to 2H20. The trends in trade mark filings outside of Australia included an overall decline of 33%, arising mainly from lower Malaysian filings.

It should be noted that applications and filings can fluctuate in any reporting period, and that it is important to look at longer term trends. Applications and filings also constitute a relatively small proportion (varying between 10% to 15%) of overall portfolio revenues.

### **Business Priorities**

Encouraging progress was made during the half in terms of the design and implementation of the Group's business transformation agenda.

Our technology modernisation program is designed to improve client engagement and servicing, empower employees with new tools and skills, and deliver process and systems efficiencies, as well as to create a path for continued innovation, leveraging a move to cloud-based platforms. During the half the overall technology strategy was developed and approved by the Board, with several milestones achieved and major projects now underway.

An M&A Strategic Plan has been developed which focuses upon various horizons (existing business focus; adjacent and complementary activities and potentially step-out and transformative business opportunities). We are continuing to develop and pursue a pipeline of opportunities across these horizons.

As previously outlined, the advancement of these areas of strategic priority will entail further investment, reflected in part of the higher operating expenditure in the half, as well as capital expenditure (\$1.2m in the half) on improved IT systems and capabilities. We are making great progress and are prepared for the journey ahead. We are extremely pleased with the way our team is responding to continued changing market and operating conditions as well as embracing our transformation agenda. We want to thank all of our people for their outstanding contributions to a strong first-half result as well as all of our clients and shareholders for their continued support."

### **Dividends**

Directors approved an interim dividend of 4.0 cents, fully franked, with a payment date of 31 March 2021 for shareholders on the register as at 4 March 2021.

QANTM's Appendix 4D, Half Year Financial Report for the year ended 31 December 2020 and Investor Presentation, provide more detailed information on the Company's half year results, and are available at [www.qantmip.com](http://www.qantmip.com).

### **For further information, please contact:**

#### **Martin Cleaver**

Chief Financial Officer and Company Secretary

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[www.qantmip.com](http://www.qantmip.com)

**WEBCAST AND INVESTOR TELECONFERENCE DETAILS**

QANTM will deliver a presentation and host a discussion of the results via teleconference. The presentation will also be accessible via webcast.

**DATE AND TIME**

Thursday, 25 February 2021 at 11:00am Australian Eastern Daylight Time

**PRESENTERS**

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

**TELECONFERENCE DIAL-IN DETAILS**

**Conference ID: 7747446**

Australia:	1800 123 296	New Zealand:	0800 452 782
Singapore:	800 616 2288	Hong Kong:	30082034
UK:	0808 234 0757	US:	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/7114/>

**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 Patent and Trade Mark Attorneys and Advanz Fidelis IP. QANTM is also the majority owner of an IP business advisory 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**

	Half Year ended	
	31-Dec-20	31-Dec-19
	\$m	\$m
<b>Statutory NPAT</b>	<b>6.0</b>	<b>4.4</b>
add: interest	0.7	0.9
add: depreciation and amortisation	3.7	3.4
add: tax	2.4	2.7
<b>EBITDA – QANTM Group</b>	<b>12.8</b>	<b>11.4</b>
add: remuneration related to business acquisition	-	1.2
add: new business establishment costs	-	0.3
add: retention payments	0.3	0.3
add: transformation costs	0.3	-
add: business acquisition costs	0.1	0.6
<b>Underlying EBITDA – QANTM Group</b>	<b>13.5</b>	<b>13.8</b>
less: depreciation and amortisation	(3.7)	(3.4)
less: interest	(0.7)	(0.9)
less: tax	(2.6)	(2.9)
<b>Underlying NPAT - QANTM Group</b>	<b>6.5</b>	<b>6.6</b>