

ASX Announcement



25 May 2017

TRADING UPDATE

Intellectual property firm QANTM Intellectual Property Limited (QANTM) provides the following trading update to the market.

In its first half results presentation, QANTM noted the historic seasonality in its service charge revenue and the softness experienced in the first half in its legal and advisory services. In the period from the first half results to 30 April 2017, QANTM has experienced the following key revenue trends:

- legal and advisory service charges have remained below the prospectus forecast level;
- patent prosecution revenue, which was expected to increase this year following strong filing numbers in recent years, has fallen behind expectations and the company has seen an unexpected decline in activity. Leading indicators of patent case progress suggest this decline is a timing issue in the ongoing prosecution of patents and that this shortfall should be made up in future periods;
- as also noted at the half year, there has been a slight weakening in Australian patent filings versus the last corresponding period (consistent with the market). This has partly strengthened but remains below the level forecast in the prospectus.

With respect to operating expenses:

- management has successfully implemented ongoing operational cost savings that were not forecast in the prospectus, including the launch of a common ICT platform and back office rationalisation;
- the reduced operating expenses in QANTM's updated guidance (below) reflect cost synergies that have been achieved that were not forecast in the prospectus. The updated guidance includes only a part year impact of these synergies. With a full year contribution in FY18, an additional \$1.8 million of cost savings in processing efficiencies, IT synergies and accommodation are expected.

As a result of these trends, QANTM provides the following updated earnings guidance for FY17:

(\$million)	FY17 Pro Forma Prospectus Forecast	Updated FY17 Earnings Guidance – range
Service Charges	86.0	78.0 – 79.5
Associate Charges	26.1	22.0 – 22.5
Total Revenue	112.1	100.0 – 102.0
Other income	2.0	2.7
Operating expenses	62.8	60.7 – 60.2
Recoverable expenses	23.8	20.0 – 20.5
Total Expenses	86.6	80.5 – 80.7
EBITDA	27.5	22.0 – 24.0

Key assumptions set out on Page 2



Commenting on the updated guidance, Managing Director Leon Allen said, "We are obviously very disappointed to be providing the market with this update, particularly in our first year as a listed company. At the half year our expectation was that the costs we have taken out of the business would offset any softness experienced in our revenues. A decline in activity since this time, however, has resulted in today's update."

"We remain highly confident in our business which has a history of over 130 years. Our patent filing levels have been at historically high levels in recent years and, while we have not generated the service charges we expected in this period, these patents remain in the system and are expected to support our revenue into the future. In addition, since our listing, we have retained all our senior staff and major clients and our market share of Australian patent filings has remained consistent. We continue to grow our Singapore business, with a recent senior lateral hire and we expect additional senior lateral hires in the near future."

The Company's updated guidance, which includes actual results to 30 April 2017, assumes a continuation of the Company's performance between February and April 2017 at the bottom end of the range, and has regard to monthly billable hour budgets of client facing staff, a bottom up estimate of client revenues for May and June, and the billing uplift which has historically occurred in May and June at the top end of the range.

The Company believes that the full year dividend forecast outlined in the prospectus of 5.3c per share (8.9c total less H1FY17 dividend of 3.6c) remains achievable subject to trading results until the end of the year and the Board's consideration at the time.

Otherwise, QANTM maintains a strong free cashflow profile and a healthy balance sheet with debtors tightly controlled.

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