ASX Announcement

22 February 2018

QANTM HALF-YEAR FINANCIAL RESULTS TO 31 DECEMBER 2017

Half-Year Financial Underlying[1] Results – Summary

$m	1H 2018	1H 2017	% Change
Service Charges Revenue	38.0	40.2	(5.5)
Total Revenue	49.2	51.5	(4.5)
Operating Expenses	30.3	31.0	(2.3)
EBITDA pre FX	9.4	11.2	(16.1)
EBITDA after FX	9.4	11.8	(20.3)
EBITDA margin % (service revenue)	24.7%	29.4%	(16.0)
Net Profit after Tax	5.5	7.1	(22.5)
Operating Cash Flow	8.3	10.8	(23.1)
Net Debt	6.7	12.4	(46.0)
Gearing % (net debt/net debt + equity)	9.1%	15.4%	(40.9)
Interim dividend (cps) – 100% franked	2.8c	3.6c	(22.2)

QANTM Intellectual Property Limited (ASX:QIP) today announced its results for the half-year ended 31 December 2017. Total revenue for the 6 months to 31 December declined by 4.5% mainly due to weaker patent prosecution and advisory revenues, partially offset by higher trade mark and legal/litigation business revenues.

The underlying EBITDA before foreign exchange was $9.4 million, a decline of 16% from the first half of 2017. Operating costs were lower period-on-period. Underlying NPAT was $5.5 million, a 22.5% decline.

Operating cash flow of $8.3 million was generated; net debt declined by 46% from the prior corresponding period, with a gearing ratio (net debt/net debt + equity) of 9.1%.

A 2.8 cents fully franked dividend was declared, representing 90% of NPAT before amortisation.

Other Features of the Results

Other key features for the half year results included:

- lower total revenue mainly reflects lower patent business revenue, in line with an overall Australian market trend in the period, which included lower patent application filings;
- QANTM's patent revenue, declined from $38.7 million to $35.4 million, mainly related to a lower level of foreign derived, Australian prosecution business; partially offset by higher trade mark revenues of $8.9 million (1H 17: $8.6 million) and higher legal/litigation revenues of $4.9 million (1H 17: $4.2 million);
- QANTM derived service charges revenue of $38.0 million (1H 17: $40.2 million); associate charges revenue of $11.2 million (1H 17: $11.2 million), for which recoverable expenses of $10.5 million were deducted (1H 17: $10.2 million) and other income of $1.0 million (1H 17: $0.9 million);
- operating expenses were 2.3% lower at $30.3 million (1H 17: $31.0 million); and
- restructuring costs of $1.9 million were incurred associated with business reconfiguration activities undertaken in the half. These initiatives are expected to generate annualised cost savings from the 2019 financial year of approximately $3.9 million.

[1] A reconciliation of Statutory to underlying results is included in Appendix 1. Underlying results are shown to facilitate comparisons period-to-period, given first half 2017 included significant IPO and other listing related expenses, which make a statutory account comparison period-on-period difficult. First half 2018 figures above exclude restructuring costs of $1.9 million and share based payments of $0.6 million.

Managing Director Commentary

QANTM's Managing Director, Leon Allen, commenting on the results stated:

"Despite positive trends in the Company's trade mark and legal/litigation businesses, which saw revenue increase in these two sectors, the overall financial results were adversely affected by lower patent revenues, mainly related to offshore derived patent work into Australia during the half. This weaker trend was most evident in November and December 2017.

Lower patent revenues in the half reflected overall weaker Australian market activity, with QANTM's decline mainly related to lower prosecution and advisory revenues. QANTM's trade mark business continued to display solid growth, capitalising on its market leading position, while legal/litigation revenues reflected a material increase in the case load of client work undertaken during the half. The solid first half characteristics of these businesses are expected to be maintained in the second half of 2018.

Management acted during the half to both adjust the configuration and cost base of the business, as well as continue its focus on generating revenue opportunities.

For the half, operating costs were reduced, reflecting major components of the company's costs – technology and occupancy – being 5.4% lower, as a result of prior period initiatives. Staff costs reduced 2.2% despite the accommodation of CPI-related salary increase, lateral appointments and the strengthening of some corporate functions, reflecting the benefit of 2017 and current half year initiatives. The company made an increased commitment to business development and marketing expenditure in the period as a means to attract and retain new business in the future.

Further business reconfiguration and efficiency initiatives were implemented, designed to align business resourcing to market conditions and facilitate career succession within the company. The measures are expected to generate annualised cost savings of approximately $3.9 million from the 2019 financial year. Restructuring costs of $1.9 million were incurred during the period associated with these reconfiguration initiatives.

QANTM's emerging Singapore business, while operating from a comparatively low revenue base, increased revenue by 44% and grew its trade mark revenue from a negligible base in the first half of 2017. The business also generated a positive EBITDA contribution and is positioned in the top 10 patent filing companies in Singapore.

In line with QANTM's incremental business approach, the lateral recruitment of two experienced Australian industry teams occurred. New business development and marketing initiatives were commenced, focussing upon business generation in specific geographies and sectors, as well as through the generation of additional work from existing clients. Broadening the group's business in South East Asia remains a focus. It is expected that these activities will contribute to revenue generation in future periods."

Outlook

As QANTM advised in its ASX Release of 13 February 2018, the company expects revenue and EBITDA to be higher in the second half, with a forecast full year EBITDA after foreign exchange and before restructuring costs expected to be in the range of $19.0 to $22.0 million. This range assumes no material adverse movement in the AUD/USD exchange rate.

Dividend Details

Directors determined to pay a 2.8 cents interim dividend, fully franked, with a payment date of 28 March for shareholders registered as at 28 February.

QANTM's Appendix 4D, Half-year Financial Report for the Half-year ended 31 December 2017 and Results Slides, available at www.qantmip.com, provide more detailed information on the company's half-year results.

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QANTM Results Teleconference

QANTM will be holding a results teleconference today, 22 February 2018 at 10.00am Australian Eastern Daylight Time (AEDT). Details are as follows:

10:00am – 11:00pm AEDT on Thursday 22 February 2018

Conference ID: 7586776

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)	800 908 865
UK (toll free)	0808 234 0757	US (toll free)	1855 293 1544

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

About QANTM Intellectual Property

QANTM Intellectual Property Limited (ASX: QIP) is a listed intellectual property company which owns Davies Collison Cave Pty Ltd (DCC) and FPA Patent Attorneys (FPA). Through these two leading intellectual property firms, QANTM provides services in relation to the creation, protection, commercialisation, enforcement of intellectual property for a range of Australian and international clients, including Fortune 500 corporations, Australian listed companies, research institutions and universities. The company also provides services in relation to patents, designs and trademarks and through DCC, a litigation service in relation to patent and trade mark protection.

Appendix 1: Statutory NPAT for the half-year to underlying NPAT

The reconciliation table below reconciles statutory NPAT for the half year to underlying NPAT.

Statutory NPAT to Underlying NPAT reconciliation	Half Year ended 31 Dec 2017 $'m	Half Year ended 31 Dec 2016 $'m
Statutory NPAT	**3.6**	**(0.1)**
add: DCC and FPA pre acquisition NPAT	-	(2.3)
NPAT	**3.6**	**(2.4)**
add: interest	0.4	0.4
add: depreciation and amortisation	1.1	0.8
add: tax	1.8	(0.2)
EBITDA	**6.9**	**(1.4)**
add: IPO expenses	-	6.5
add: share based payments	0.6	1.0
add: retention bonuses	-	4.5
add: reorganisation expenses	-	0.7
add: initial recognition Principal LSL	-	1.7
add: partnership expenditure	-	0.2
less: notional remuneration adjustment	-	(1.4)
add: restructuring costs	1.9	-
Underlying EBITDA	**9.4**	**11.8**
less: depreciation and amortisation	(1.1)	(0.9)
less: interest	(0.4)	(0.5)
less: tax	(2.4)	(3.3)
Underlying NPAT	**5.5**	**7.1**