

QANTM Intellectual Property Ltd

Binding offer of \$1.817/share accepted

QANTM Intellectual Property Ltd (ASX:QIP) has announced it has entered into a binding Scheme of Arrangement for an entity associated with Adamantem Capital to acquire all its shares for \$1.817/share. Shareholders will have the opportunity to elect to receive 100% cash or a combination of 50% cash, 50% scrip, subject to a scrip issuance cap of 24%. The QANTM board can elect to pay a special dividend of up to \$0.071/share, which will be included in the offer price and enable shareholders who are eligible to benefit from franking credits of up to \$0.03/share. The cash consideration is 1.5% ahead of our DCF valuation and 58% above the last “undisturbed” closing price of \$1.15/share (26 February 2024, which was the last trading day before the Rouse indicative proposal was announced). The QANTM board unanimously recommends that shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to an Independent Expert concluding that the scheme is in the best interests of QANTM shareholders. Adamantem has secured voting commitment deeds from principals within QANTM’s businesses representing 19% of QIP’s shares. The offer price implies an EV/EBITDA multiple of 9.7x QANTM’s FY23a underlying EBITDA and 8.1x our FY24f underlying EBITDA forecast. It also has closed the gap between QANTM and its peers (see below), which are currently trading on a median multiple of 9.3x FY23a EBITDA and a forward multiple of 7.5x.

Business model

QIP has three core offerings: (1) Patent and trade mark attorney services; (2) IP-focused litigation and legal services; and (3) Legal technology services via Sortify’s online trade marks registration platforms and tools. In H1 FY24, QIP produced \$56.8m service revenue from a diverse mix of local and foreign clients (est. ~45%/55% revenue split) with no client accounting for >2%. It has sizeable US\$ exposure (~50% of service charges vs. primarily A\$ costs). QIP generates service charges from event-driven fixed fees (est. ~55%) and hourly rate fees (est. ~45%). Patent applications trigger various workstreams that extend over several years. QIP’s two key areas of strategic focus are: (1) Completing its business transformation programme (tech modernisation and business simplification) and subsequently realising EBITDA margin improvements (low-30s remains the target versus 30.6% in H1 FY24); and (2) Geographical expansion via its Davies Collison Cave/FPA Patent Attorneys brands (Asia focused – medium-to-long-term aim for >25% of revenue from Asia vs. ~7.6% currently) and Sortify’s trade marks platform.

Scheme of Arrangement metrics

We estimate that the \$1.817/share offer price by Adamantem implies an EV/underlying EBITDA multiple of 9.7x FY23 actual and 8.1x FY24 RaaS forecast. Our forecast is based on the guidance provided by management (ASX release 23 January) which implied underlying EBITDA of \$33.5m to \$34.1m for FY24, from which we subsequently adjusted our forecast to \$34.0m from \$31.0m previously. Commentary since then (ASX presentation 19 February) suggests to us the company is on track to meet guidance. The offer price also closes the gap between QANTM IP and a group of Australian and UK companies we consider its peers (ASX:IPH, LON:GTLY, LON:KEYS, and LON:KGHK). This group is currently trading on a median FY23 actual EV/EBITDA of 9.3x and FY24 LSEG consensus EV/EBITDA estimate of 7.5x with IPH on 8.9x for FY24f. We note that in our last report prior to potential M&A activity (22 February) IPH was trading on 10.8x FY24 LSEG consensus EV/EBITDA forecast while QIP traded on 5.5x our FY24 EV/EBITDA forecast. The gap has subsequently narrowed with QIP’s share price gain of ~50% and IPH’s 16% price fall since 21 February.

DCF valuation of \$1.79/share captured by offer

Our existing QIP base-case DCF valuation is \$1.79/share (please see our report of [February 22, 2024](#)). The Adamantem offer price of \$1.817/share implies an EV/underlying FY24x EBITDA multiple of 8.1x, largely in line with our forecast and a little ahead of the LSEG consensus median 7.5x FY24f multiple of its peers. Closest peer, IPH, is trading on an implied LSEG consensus FY24f EBITDA multiple of 8.9x.

Historical earnings and RaaS estimates (in A\$m unless otherwise stated)

Year end	Total revenue	EBITDA adj.*	EBITDA rep.	NPAT adj.	EPS adj.* (c)	EPS rep. (c)	P/E adj.* (x)	EV/EBITDA adj.* (x)
06/23a	137.0	28.5	23.4	14.7	10.6	5.3	17.0	9.6
06/24f	146.1	34.0	31.0	18.3	13.1	5.6	13.8	8.0
06/25f	150.9	35.8	35.0	19.9	14.2	10.0	12.7	7.5
06/26f	156.6	38.4	37.6	21.9	15.6	12.4	11.6	6.9

Sources: Company data; RaaS estimates for FY24f-FY25f; *Adjusted for non-recurring items

Scheme of Arrangement

Commercial & Professional Services

17 May 2024

Share Details

ASX code	QIP
Share price (16-May)	\$1.805
Market capitalisation	\$252.9M
Shares on issue	140.1M
Net debt at 31-Dec-2023	\$21.2M
Free float (inc. all vendors/ excl. non-insider vendors)	~55%/ ~74%

Share Performance (12 months)



Company Interview

[QANTM IP RaaS Interview 21 February 2024](#)

[Interview Transcript 21 February 2024](#)

Initiation Report

[QANTM Intellectual Property \(ASX:QIP\) RaaS Initiation Report 18 April 2023](#)

Upside Case

- Meets or exceeds target of low-30s EBITDA margins by FY26/FY27
- Uptake/expansion of Sortify’s online trademarks platform exceeds expectations
- Earning-accretive M&A/expansion in Asia

Downside Case

- Lower-than-expected transformation programme benefits/EBITDA margins
- Prolonged economic downturn → R&D/innovation spend may not be insulated
- Changes to regulation (e.g. local agents)

Board and Management

Sonia Petering	Chair
Craig Dower	Managing Director
Leon Allen	Non-Executive Director
Gavin Bell	Non-Executive Director
Kathy Gramp	Non-Executive Director
Brenton Lockhart	Chief Financial Officer
Krista Stewart	General Counsel

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Scheme of Arrangement Details

Key details and dates surrounding the Scheme of Arrangement are detailed below:

- **\$1.817/share cash price.**
- **Shareholders have an option of taking a 50% cash, 50% scrip combination**, subject to a scrip issuance cap of 24% by the bidder, which is an entity associated with Adamantem Capital.
- **The QANTM board can elect to pay a fully franked special dividend of up to \$0.071/share.** If the special dividend is paid, QANTM shareholders who can utilise franking credits will receive additional benefits from franking credits of up to \$0.03/share, subject to their marginal tax rate. The cash amount payable by Adamantem under the Scheme will be reduced by the cash amount of the special dividend.
- **The QANTM board unanimously recommends shareholders vote in favour of the scheme, in the absence of a superior proposal and subject to an Independent Expert concluding**, and continuing to conclude, that the scheme is in the best interest of QANTM shareholders.
- **Adamantem has secured voting commitment deeds from principals working in QANTM's businesses representing approximately 19% of QIP's shares.** These principals, according to the announcement, have committed to elect to receive the mixed consideration of cash and scrip. Should a superior offer emerge that Adamantem fails to match or exceed or the Independent Expert concludes that the offer is not in the best interests of shareholders, the voting commitment deeds may be terminated.
- **Based on RaaS' FY24 underlying EBITDA estimate and forecast for reported EPS of \$0.10/share, the offer implies an EV/EBITDA multiple of 8.1x and PER of 18.15x.**
- **The Scheme book is due to be dispatched late June**, which among other information will incorporate an independent valuation and opinion on whether the Scheme is in the best interests of shareholders.
- **Shareholder approval will be sought at a scheme meeting in late July.**
- **Assuming a positive shareholder vote the Scheme is set to be implemented in August.**

Competing Proposals

In the lead-up to accepting the Adamantem offer, QANTM had received other offers including:

- An indicative proposal from UK intellectual property company Rouse International Holdings Ltd (27 February), which led to exclusive discussions.
- On 12 March, Adamantem made a non-binding indicative offer for all the shares in QANTM at \$1.817/share.
- On 14 March, QANTM announced Rouse had withdrawn its non-binding proposal and that QANTM had agreed to give Adamantem Capital exclusive due diligence access to progress its proposal.
- On 1 May, QANTM announced that Adamantem had completed its due diligence and continued to pursue a transaction on the terms set out under its original proposal. QANTM granted Adamantem exclusivity until 15 May to allow it to finalise transaction documentation.
- On 8 May, IPH announced a non-binding indicative bid for QIP to acquire 100% of its shares via a Scheme of Arrangement for 0.291 IPH shares and a fully franked special dividend of up to \$0.11/share cash. Based on IPH's closing price on 7 May, the offer implied a price of up to \$1.90/share (including the \$0.11/share special dividend, which had not been validated by the QANTM board). The IPH proposal was subject to approval from the Australian Competition and Consumer Commission (ACCC) and the New Zealand Consumer Commission (NZCC) as well as other customary conditions.
- QANTM noted in its announcement of 10 May that the necessary approvals from the ACCC and NZCC meant there was significant uncertainty as to whether the IPH proposal was likely to be completed. In addition, the value of the IPH indicative proposal, being primarily scrip-based, was also not certain or fixed and would change with the market price for IPH shares. Based on the IPH closing price on 16 May, the IPH indicative proposal would have implied an offer price of \$1.89/share, but this has been as low as \$1.80/share (based on the IPH closing price of \$5.82 on 10 May).

Exhibit 1: Financial Summary

QANTM Intellectual Property Ltd						Share price (16 May 2024)						A\$ 1.805			
Profit and Loss (A\$m)						Half yearly (A\$m)									
Y/E 30 June	FY22a	FY23a	FY24f	FY25f	FY26f	H1 FY22a	H2 FY22a	H1 FY23a	H2 FY23a	H1 FY24a	H2 FY24f				
Service charge revenue	96.6	103.8	110.1	114.1	119.0	48.9	47.7	52.0	51.8	56.8	53.3				
Associate revenue	30.7	33.2	35.9	36.7	37.6	10.5	11.1	11.2	12.2	16.0	14.8				
Total revenue	127.3	137.0	146.1	150.9	156.6	12.8	13.5	13.8	14.7	17.3	16.5				
Other income	3.2	2.5	2.1	2.2	2.2	6.2	7.2	6.9	8.7	12.4	10.8				
Recoverable expenses	(29.3)	(31.1)	(33.8)	(34.6)	(36.1)	3.4	3.7	3.4	5.2	7.4	6.6				
Net revenue	101.2	108.3	114.4	118.4	122.6	6.5	6.3	6.7	8.0	9.6	8.7				
EBITDA - statutory	21.6	23.4	31.0	35.0	37.6	2.5	2.8	2.5	3.2	5.3	4.7				
EBITDA - underlying	26.3	28.5	34.0	35.8	38.4	4.7	4.6	4.8	5.8	6.9	6.2				
Depreciation	(1.1)	(1.0)	(1.1)	(0.9)	(1.1)	3.0	3.5	2.8	3.5	4.9	3.5				
Amort (intang & leases)	(7.1)	(6.8)	(6.7)	(6.6)	(6.6)	5.2	6.6	2.2	14.1	10.9	10.1				
EBIT	13.4	15.6	23.3	27.6	29.8	4.6	6.2	(0.1)	13.7	9.7	9.8				
Interest	(2.4)	(3.6)	(3.1)	(2.7)	(2.2)	Segmented (half yearly)	H1 FY22a	H2 FY22a	H1 FY23a	H2 FY23f	H1 FY24a	H2 FY24f			
Tax	(3.9)	(4.2)	(6.2)	(7.5)	(8.3)	Patents	33.5	31.5	35.4	34.5	37.8	35.1			
NPAT - statutory	7.1	7.9	14.0	17.4	19.3	Trade Marks	9.5	10.3	10.4	11.1	11.1	11.9			
NPAT - underlying	12.8	14.7	18.3	19.9	21.9	Legal Services	5.7	6.0	6.2	6.2	7.9	6.3			
Cash flow (A\$m)							Service charge revenue	48.9	47.7	52.0	51.8	56.8	53.3		
Y/E 30 June	FY22a	FY23f	FY24f	FY25f	FY26f	Associate revenue	13.8	16.9	16.6	16.6	17.4	18.5			
EBITDA - statutory	21.6	23.4	31.0	35.0	37.6	Total revenue	62.7	64.6	68.6	68.3	74.2	71.8			
Interest	(1.7)	(2.9)	(2.4)	(2.1)	(1.7)	Other income	1.1	2.1	1.2	1.4	1.2	1.2			
Tax payments	(4.6)	(3.9)	(5.8)	(7.5)	(8.3)	Recoverable expenses	(13.1)	(16.1)	(15.7)	(15.4)	(16.6)	(17.4)			
Working capital chgs	(3.1)	(0.3)	(1.8)	(2.7)	(2.2)	Net revenue	50.6	50.6	54.1	54.3	58.8	55.6			
Operating cash flow	12.2	16.3	21.0	22.8	25.4	Employment	(31.3)	(28.9)	(32.7)	(29.2)	(32.3)	(31.0)			
Capex	(0.5)	(2.1)	(1.1)	(0.8)	(0.8)	Technology	(3.7)	(4.4)	(3.9)	(4.8)	(4.1)	(4.3)			
Capitalised dev costs	(0.4)	(0.6)	(0.5)	(0.6)	(0.6)	Occupancy	(1.1)	(1.0)	(0.9)	(1.4)	(1.4)	(1.2)			
Free cash flow	11.3	13.6	19.4	21.4	24.0	Other costs	(4.1)	(5.2)	(5.3)	(6.2)	(4.9)	(4.2)			
Acquisitions	(6.7)	(0.5)	(0.5)	0.0	0.0	EBITDA - statutory	10.5	11.1	11.2	12.7	16.0	14.8			
Acq'n related costs	(1.1)	(0.1)	0.0	0.0	0.0	EBITDA - underlying	12.8	13.5	13.8	14.7	17.3	16.5			
Cash flow pre financing	3.5	13.0	18.9	21.4	24.0	Growth, Margins, Leverage, Returns									
Equity	0.0	0.0	0.0	0.0	0.0	Service charge rev growth		4.6%	7.4%	6.1%	3.6%	4.3%			
Borrowings (net)	8.2	0.4	(4.0)	(3.5)	(2.0)	Total revenue growth		6.9%	7.6%	6.7%	3.3%	3.8%			
Other financing (leases)	(5.0)	(4.1)	(3.8)	(3.8)	(3.7)	EBITDA margin (underly/service charge)		27.2%	27.4%	30.9%	31.4%	32.3%			
Dividends paid	(8.7)	(8.7)	(11.7)	(12.2)	(14.2)	EBITDA margin (underlying/total rev)		20.7%	20.8%	23.3%	23.7%	24.5%			
Net cash flow	(2.1)	0.6	(0.6)	1.9	4.0	EBITDA margin (stat/service charge)		22.3%	22.5%	28.1%	30.7%	31.6%			
Balance sheet (A\$m)							EBIT margin (stat/total revenue)		10.5%	11.4%	15.9%	18.3%	19.0%		
Y/E 30 June	FY22a	FY23a	FY24f	FY25f	FY26f	NPAT margin (stat/service charge)		7.4%	7.6%	12.7%	15.2%	16.2%			
Cash	7.4	8.0	7.1	9.4	13.4	Net Debt		23.8	24.2	20.4	14.6	8.5			
Accounts receivable	38.2	41.4	43.4	45.3	47.0	Net debt/underlying EBITDA (x)		0.9	0.9	0.6	0.4	0.2			
Other current assets	2.6	2.7	3.3	3.3	3.3	ND/ND+Equity (%)		24.8%	25.1%	21.4%	15.4%	9.1%			
Total current assets	48.2	52.2	53.8	57.9	63.7	EBIT interest cover (x)		5.7	4.3	7.6	10.2	13.5			
PPE	1.6	2.8	2.2	2.1	1.8	ROA		12.4%	10.8%	16.1%	19.2%	20.7%			
Goodwill	54.8	54.4	54.4	54.4	54.4	ROE		9.9%	10.9%	19.0%	22.4%	23.3%			
Intangibles	29.4	26.5	22.2	19.4	16.8	N TA (per share)		(9.0)	(6.2)	(1.2)	4.6	10.0			
Other non current assets	8.7	9.9	10.9	9.7	7.5	Working capital		24.0	25.7	28.0	29.7	31.1			
Total non current assets	94.6	93.5	89.7	85.6	80.5	WC/Sales (%)		18.9%	18.8%	19.2%	19.7%	19.9%			
Total Assets	142.8	145.7	143.4	143.5	144.2	Pricing									
Accounts payable	14.1	15.7	15.4	15.5	15.9	No of shares (y/e)	(m)	137	139	140	140	141			
Current debt	3.6	3.0	2.9	2.9	2.9	Weighted Av Dil Shares	(m)	139	139	142	142	141			
Lease liabilities (current)	3.6	3.3	3.7	3.7	3.7	EPS (statutory)	cps	5.3	5.6	10.0	12.4	13.7			
Other curr liab (inc AL prov)	9.5	11.2	11.1	11.1	11.1	EPS (underlying)	cps	9.3	10.6	13.1	14.2	15.6			
Total current liabilities	30.9	33.2	33.0	33.2	33.5	EPS growth (statutory)		(31.1%)	6.6%	77.5%	23.8%	10.6%			
Non-current debt	27.6	29.2	24.5	21.0	19.0	EPS growth (underlying)		(6.0%)	13.6%	23.3%	8.7%	9.5%			
Other non current liabs	12.4	11.0	10.9	9.1	6.4	PE (x) - statutory		34.1	32.0	18.0	14.6	13.2			
Total long term liabilities	39.9	40.2	35.4	30.1	25.4	PE (x) - underlying		19.4	17.0	13.8	12.7	11.6			
Total Liabilities	70.8	73.4	68.4	63.3	58.9	DPS	cps	6.5	6.3	8.4	9.7	10.6			
Net Assets	71.9	72.3	75.0	80.3	85.3	DPS Growth		(12%)	(3%)	33%	15%	9%			
Share capital	298.9	300.1	301.7	301.7	301.7	Dividend yield		3.6%	3.5%	4.7%	5.4%	5.9%			
Retained earnings	(3.4)	(4.2)	(2.4)	2.9	8.0	Dividend imputation		100%	100%	100%	100%	100%			
Reserves	(223.2)	(223.2)	(224.3)	(224.3)	(224.3)	EV/EBITDA (x) - underlying		10.3	9.6	8.0	7.5	6.9			
Minorities	(0.4)	(0.4)	0.0	0.0	0.0	FCF/Share	cps	8.1	9.8	13.7	15.0	17.0			
Total Shareholder funds	71.9	72.3	75.0	80.3	85.3	Price/FCF share (x)		22.2	18.5	13.2	12.0	10.6			
						Free cash flow Yield		4.5%	5.4%	7.6%	8.3%	9.4%			

Sources: Company data, RaaS Advisory estimates

FINANCIAL SERVICES GUIDE

RaaS Research Group Pty Ltd

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