

Revised guidance to incorporate scheme costs

QANTM Intellectual Property Ltd (ASX:QIP) has provided an update to the earnings guidance it gave on [23 January](#), incorporating the impact of transaction costs on reported earnings per share (EPS) in FY24. In its ASX release of [23 May](#), QIP said that as a result of transaction costs it expects to incur up to 30 June in relation to the Scheme of Arrangement with Adamantem Capital, FY24 EPS is now expected to be from \$0.075 to \$0.08/share. The company also provided a new underlying EBITDA range of \$33.0m to \$33.5m, noting there has been no material change to underlying trading conditions. The previous guidance was for underlying EBITDA of \$34m and reported EPS of \$0.10/share. We have incorporated the new guidance for both underlying EBITDA and reported EPS. Our new forecast for underlying EBITDA for FY24 is \$33.3m, down from \$34.0m, and our new reported EPS forecast is \$0.078/share, down from \$0.10/share. We have left our FY25 and FY26 forecasts unchanged. As a consequence, our DCF-based valuation has remained unchanged at \$1.79/share.

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.

Revised guidance, next step is the Scheme booklet

The revised guidance for FY24 takes into account the cost of implementing the Scheme of Arrangement which has been proposed by Adamantem Capital. Importantly, in our view, underlying trading conditions remain relatively unchanged. We attribute the small reduction in the underlying EBITDA guidance to the impact of the Scheme on management time and focus. We have estimated this impact to be around \$0.7m. Notably, our revised estimate of \$33.3m for underlying EBITDA implies an EBITDA margin of 30.4% for FY24. The impact on reported EPS has been greater (a 20% to 25% downgrade to guidance) due to the cost of implementing the Scheme. We estimate this to be around \$3.5m and this has brought our forecast for reported EPS back to \$0.078/share from \$0.10/share previously. Our earnings adjustment has only been applied to our FY24 forecast with our estimates for FY25 and FY26 unchanged. The next step in the Scheme process is for the board to issue the Scheme booklet, which is expected to be made available by late June.

DCF valuation of \$1.79/share captured by offer

Our existing QIP base-case DCF valuation is \$1.79/share, unchanged (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 9.1x.

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	5.6	17.0	9.6
06/24f	145.1	33.3	26.7	17.8	12.7	7.8	14.1	8.2
06/25f	150.7	35.8	35.0	19.9	14.2	12.4	12.7	7.5
06/26f	156.6	38.6	37.8	22.1	15.7	13.8	11.5	6.8

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

Commercial & Professional Services

28 May 2024

Share Details

ASX code	QIP
Share price (27-May)	\$1.80
Market capitalisation	\$252.3M
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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Earnings Adjustments

We have adjusted our FY24f forecasts to bring them in line with the company's new guidance and this has resulted in a 2.0% reduction in our underlying EBITDA estimate and a 22% downgrade to our reported EPS forecast. Our EPS underlying forecast has also reduced by 2.6%. We have confined the earnings reduction to FY24 and, as a consequence, our DCF valuation remains unchanged at \$1.79/share.

Exhibit 1: Earnings adjustment (in A\$m unless otherwise stated)			
Year ending June 30	FY24 old	FY24 new	% chg
Total operating revenue	146.1	145.1	(0.7)
Net revenue	114.4	113.8	(0.6)
Total operating costs	(83.4)	(87.1)	4.4
EBITDA statutory	31.0	26.7	(14.0)
EBITDA underlying	34.0	33.3	(2.0)
<i>EBITDA margin (%)</i>	30.9	30.4	(1.4)
NPAT statutory	14.0	10.9	(22.0)
NPAT underlying	18.3	17.8	(2.6)
EPS statutory	10.0	7.8	(22.0)
EPS underlying	13.1	12.7	(2.6)
Source: RaaS estimates			

Exhibit 2: Financial Summary

QANTM Intellectual Property Ltd						Share price (27 May 2024)						A\$ 1.800					
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	109.5	114.1	119.2	48.9	47.7	52.0	51.8	56.8	52.7						
Associate revenue	30.7	33.2	35.6	36.6	37.4	10.5	11.1	11.2	12.2	16.0	10.6						
Total revenue	127.3	137.0	145.1	150.7	156.6	12.8	13.5	13.8	14.7	17.3	16.0						
Other income	3.2	2.5	2.1	2.2	2.2	6.2	7.2	6.9	8.7	12.4	6.6						
Recoverable expenses	(29.3)	(31.1)	(33.5)	(34.5)	(36.0)	3.4	3.7	3.4	5.2	7.4	3.7						
Net revenue	101.2	108.3	113.8	118.4	122.8	6.5	6.3	6.7	8.0	9.6	8.2						
EBITDA - statutory	21.6	23.4	26.7	35.0	37.8	2.5	2.8	2.5	3.2	5.3	2.6						
EBITDA - underlying	26.3	28.5	33.3	35.8	38.6	4.7	4.6	4.8	5.8	6.9	5.9						
Depreciation	(1.1)	(1.0)	(1.1)	(0.9)	(1.1)	3.0	3.5	2.8	3.5	4.9	2.8						
Amort (intang & leases)	(7.1)	(6.8)	(6.7)	(6.6)	(6.6)	5.2	6.6	2.2	14.1	10.9	9.1						
EBIT	13.4	15.6	18.9	27.6	30.0	4.6	6.2	(0.1)	13.7	9.7	8.7						
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)	(4.9)	(7.5)	(8.3)	Patents	33.5	31.5	35.4	34.5	37.8	35.1					
NPAT - statutory	7.1	7.9	10.9	17.4	19.5	Trade Marks	9.5	10.3	10.4	11.1	11.1	11.8					
NPAT - underlying	12.8	14.7	17.8	19.9	22.1	Legal Services	5.7	6.0	6.2	6.2	7.9	5.8					
Cash flow (A\$m)						Service charge revenue						48.9	47.7	52.0	51.8	56.8	52.7
Y/E 30 June	FY22a	FY23f	FY24f	FY25f	FY26f	Associate revenue	13.8	16.9	16.6	16.6	17.4	18.2					
EBITDA - statutory	21.6	23.4	26.7	35.0	37.8	Total revenue	62.7	64.6	68.6	68.3	74.2	70.9					
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)	(4.5)	(7.5)	(8.3)	Recoverable expenses	(13.1)	(16.1)	(15.7)	(15.4)	(16.6)	(17.1)					
Working capital chgs	(3.1)	(0.3)	0.2	(4.0)	(2.2)	Net revenue	50.6	50.6	54.1	54.3	58.8	55.0					
Operating cash flow	12.2	16.3	20.0	21.5	25.5	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	18.4	20.1	24.1	Other costs	(4.1)	(5.2)	(5.3)	(6.2)	(4.9)	(7.7)					
Acquisitions	(6.7)	(0.5)	(0.5)	0.0	0.0	EBITDA - statutory	10.5	11.1	11.2	12.7	16.0	10.6					
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	16.0					
Cash flow pre financing	3.5	13.0	17.9	20.1	24.1	Growth, Margins, Leverage, Returns						FY22a	FY23a	FY24f	FY25f	FY26f	
Equity	0.0	0.0	0.0	0.0	0.0	Service charge rev growth		4.6%	7.4%	5.5%	4.3%	4.4%					
Borrowings (net)	8.2	0.4	(4.0)	(3.5)	(2.0)	Total revenue growth		6.9%	7.6%	6.0%	3.9%	3.9%					
Other financing (leases)	(5.0)	(4.1)	(3.8)	(3.8)	(3.7)	EBITDA margin (underly/service charge)		27.2%	27.4%	30.4%	31.4%	32.4%					
Dividends paid	(8.7)	(8.7)	(11.7)	(11.4)	(14.8)	EBITDA margin (underlying/total rev)		20.7%	20.8%	23.0%	23.8%	24.6%					
Net cash flow	(2.1)	0.6	(1.6)	1.4	3.6	EBITDA margin (stat/service charge)		22.3%	22.5%	24.4%	30.7%	31.7%					
Balance sheet (A\$m)						EBIT margin (stat/total revenue)		10.5%	11.4%	13.0%	18.3%	19.2%					
Y/E 30 June	FY22a	FY23a	FY24f	FY25f	FY26f	NPAT margin (stat/service charge)		7.4%	7.6%	10.0%	15.2%	16.3%					
Cash	7.4	8.0	6.0	7.8	11.4	Net Debt		23.8	24.2	21.4	16.1	10.5					
Accounts receivable	38.2	41.4	42.9	44.7	46.4	Net debt/underlying EBITDA (x)		0.9	0.9	0.6	0.5	0.3					
Other current assets	2.6	2.7	3.3	3.3	3.3	ND/ND+Equity (%)		24.8%	25.1%	22.9%	17.1%	11.3%					
Total current assets	48.2	52.2	52.2	55.7	61.1	EBIT interest cover (x)		5.7	4.3	6.2	10.2	13.5					
PPE	1.6	2.8	2.2	2.1	1.8	ROA		12.4%	10.8%	13.2%	19.5%	21.2%					
Goodwill	54.8	54.4	54.4	54.4	54.4	ROE		9.9%	10.9%	15.2%	23.2%	24.2%					
Intangibles	29.4	26.5	22.2	19.4	16.8	N/A (per share)		(9.0)	(6.2)	(3.3)	3.1	8.2					
Other non current assets	8.7	9.9	10.9	9.7	7.5	Working capital		24.0	25.7	26.1	29.1	30.6					
Total non current assets	94.6	93.5	89.7	85.6	80.5	WC/Sales (%)		18.9%	18.8%	18.0%	19.3%	19.5%					
Total Assets	142.8	145.7	141.8	141.3	141.6	Pricing						FY22a	FY23a	FY24f	FY25f	FY26f	
Accounts payable	14.1	15.7	16.7	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	7.8	12.4	13.8					
Other curr liab (inc AL prov)	9.5	11.2	11.1	11.1	11.1	EPS (underlying)	cps	9.3	10.6	12.7	14.2	15.7					
Total current liabilities	30.9	33.2	34.4	33.2	33.5	EPS growth (statutory)		(31.1%)	6.6%	38.5%	58.7%	11.4%					
Non-current debt	27.6	29.2	24.5	21.0	19.0	EPS growth (underlying)		(6.0%)	13.6%	20.1%	11.6%	10.2%					
Other non current liabs	12.4	11.0	10.9	9.1	6.4	PE (x) - statutory		34.0	31.9	23.0	14.5	13.0					
Total long term liabilities	39.9	40.2	35.4	30.1	25.4	PE (x) - underlying		19.3	17.0	14.1	12.7	11.5					
Total Liabilities	70.8	73.4	69.8	63.3	58.9	DPS	cps	6.5	6.3	7.7	10.0	10.9					
Net Assets	71.9	72.3	72.0	78.1	82.8	DPS Growth		(12%)	(3%)	21%	31%	9%					
Share capital	298.9	300.1	301.7	301.7	301.7	Dividend yield		3.6%	3.5%	4.3%	5.6%	6.1%					
Retained earnings	(3.4)	(4.2)	(5.3)	0.8	5.4	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	8.2	7.5	6.8					
Minorities	(0.4)	(0.4)	0.0	0.0	0.0	FCF/Share	cps	8.1	9.8	12.9	14.1	17.1					
Total Shareholder funds	71.9	72.3	72.0	78.1	82.8	Price/FCF share (x)		22.1	18.4	13.9	12.7	10.5					
						Free cash flow Yield		4.5%	5.4%	7.2%	7.9%	9.5%					

Sources: Company data, RaaS Research Group estimates

FINANCIAL SERVICES GUIDE

RaaS Research Group Pty Ltd

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