RaaS
Research as a Service

QANTM Intellectual Property Ltd

Company Update

FY23 peer metrics underscore QIP's relative value

QANTM Intellectual Property Ltd (ASX:QIP) owns a group of intellectual property (IP) services businesses operating under the independent brands of Davies Collison Cave (DCC), FPA Patent Attorneys, and Sortify.tm. It is a major player in the mature and regulated Australian patent, trade marks and IP legal services market with ~16.5% market share (FY23) in its key patents segment (67% of revenue) and a diversified mix of local and foreign clients (~45%/55% split; ~50% US$ revenue). We have reviewed recent results from the listed Australian and UK companies that we consider to be peers and have found that QIP mostly outperformed the group in terms of EBITDA margin expansion in FY23. Its UK peers experienced across-the-board margin contraction as did several Australian peers, despite healthy growth in both revenue and EBITDA for the year. QIP is trading at a significant discount (36%) to the peer group on an FY23 EV/EBITDA basis and 11% discount on a FY23 PER basis. Our DCF valuation of $1.65/share implies an EV/EBITDA multiple of 8.9x FY23a and 8.2x FY24f which would still put QIP at a discount to this group. We are of the view that this underscores QIP's relative value.

Business model

QIP has three core offerings: (1) Patent and trade mark attorney services (88% of service charge revenue); (2) IP-focused litigation and legal services (12% of service charge revenue); and (3) Legal technology services via Sortify's online trade marks registration platforms and tools. QIP produces ~$104m service revenue from a diverse mix of local and foreign clients (est. ~45%/55% revenue split) with no client accounting for >2%. It has sizeable US$ 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. On the cost side, employees account for ~78% of the total. 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 medium-term target vs. ~27.4% currently); and (2) Geographic expansion via DCC/FPA (Asia focused – medium-to long-term aim for >25% of revenue from Asia vs. ~8% currently) and Sortify's trade marks platform.

Growing EBITDA margin is against the peer trend

QANTM Intellectual Property last month reported a better-than-forecast FY23 result with a positive outlook, with a small positive uplift to underlying EBITDA margin, taking it to 27.4%. The company also reaffirmed its target for low-30s EBITDA margin medium-term. We have undertaken an analysis of the FY23 results thus far reported by its Australian and UK peers which underscores that QIP went against a broader trend of margin contraction in the professional services space. This, however, is not being reflected in the company's current trading multiples. QANTM IP continues to trade at a discount to its peers on an EV/EBITDA and PER basis while delivering a higher dividend yield.

DCF valuation of $1.65/share

Our QIP DCF valuation remains at $1.65/share and is based on a WACC of 10.2% incorporating a beta of 1.09 and a RFR of 4.0%. This implies EV/underlying EBITDA multiples of 8.2x for FY24f and 7.5x for FY25f. As a cross-reference, QIP is trading at FY24f EV/underlying EBITDA discount of 52% to its closest peer, the ASX-listed IP services group IPH Ltd (ASX:IPH), on 11.6x. In our view, continued demonstration of EBITDA margin improvement and earnings growth should help close this valuation gap.

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

Year end	Revenue	EBITDA adj.*	EBITDA rep.	NPAT adj.	EPS adj.* (c)	P/E adj.* (x)	EV/EBITDA adj.* (x)	Dividend yield (%)
06/23a	137.0	28.5	23.4	14.7	10.6	8.9	5.4	6.7
06/24f	142.4	31.0	27.0	16.2	11.6	8.1	4.9	6.7
06/25f	148.1	33.8	33.0	18.4	13.1	7.2	4.3	8.0
06/26f	153.4	36.4	35.6	20.3	14.5	6.5	3.8	8.0

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

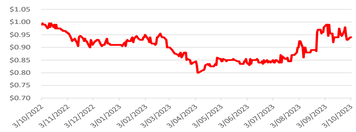
Commercial & Professional Services

3 October 2023

Share Details

ASX code	QIP
Share price (3-Oct)	$0.94
Market capitalisation	$130.3M
Shares on issue	138.6M
Net debt at 30-Jun-2023	$24.2M
Free float (inc. all vendors/ excl. non-insider vendors)	~55%/ ~74%

Share Performance (12-months)



Company Interview

QANTM IP RaaS Interview 30 August 2023

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)

Catalysts

- Sustained progress with EBITDA margin expansion/transformation programme benefits
- Sustained operating and free cash-flow growth (as transformation programme spend ↓ and benefits ↑) leading to ↑ DPS and/or ↑ capital management opportunities
- Material accretive expansion via acquisition and/or organic growth

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Peer FY23 Results Performance

We have reviewed the FY23 results of the Australian listed peers – IPH Ltd (ASX:IPH), Kelly Partners Group (ASX:KPG), Omni Bridgeway (ASX:OBL) and Shine Justice (ASX:SHJ) – and the UK listed peers which have thus far reported their FY23 results. These are DWF Group (LON:DWF), Gateley Holdings (LON:GTLY), Keystone Law Group (LON:KEYS), and Knights Group Holdings (LON:KGHK). In this analysis, we have considered the year-on-year revenue and underlying EBITDA growth, noted the FY23 underlying EBITDA margin, and considered whether it had grown or contracted over FY22. While QIP's revenue growth in FY23 fell below the median growth rate of 15.9%, the growth it achieved in underlying EBITDA of 8.2% was ahead of the median of the overall group. It is fair to say, though, that the range in the EBITDA growth rate was very wide. The EBITDA margin growth generated by QIP in FY23 also outperformed the median, which was a decline of 5.7%. Only two other players generated positive margin growth, IPH and Knights Group Holdings.

Exhibit 1: Peer revenue, EBITDA and EBITDA margin growth in FY23 vs FY22

Company	Stock Code	Revenue growth yoy (%)	Underlying EBITDA growth yoy (%)	Underlying EBITDA margin (%)	Margin growth (%)
QANTM Intellectual Property Ltd	**QIP**	**7.6**	**8.2**	**27.4**	**0.2**
IPH Ltd	IPH	27.0	28.0	34.7	0.8
Kelly Partners Group Holdings Ltd	KPG	33.3	(1.6)	22.7	(26.3)
Omni Bridgeway Ltd	OBL	51.0	31.0	35.1	(13.1)
Shine Justice Ltd	SHJ	7.7	(2.4)	26.6	(9.3)
DWF Group PLC	DWF	8.6	4.3	15.4	(3.9)
Gateley (Holdings) PLC	GTLY	18.6	11.1	15.4	(6.1)
Keystone Law Group PLC	KEYS	8.1	1.1	12.3	(5.4)
Knights Group Holdings PLC	KGHK	13.1	21.7	23.5	7.5
Median		**15.9**	**7.7**	**23.1**	**(5.7)**
Australian peer median		30.1	13.2	30.6	(11.2)
UK peer median		10.9	7.7	15.4	(4.6)

Source: Refinitiv, RaaS analysis

From an EV/EBITDA and PER ratios perspective, QANTM Intellectual Property is trading at a discount to its relevant peers, and the discount is particularly evident against its closest peer, IPH, and the Australian peer group median. This discount is difficult to justify when comparing QIP's return on invested capital (ROIC) metric against most of its peers. The company's FY23 dividend yield of 7.5% (based on FY23 closing price) is well ahead of the median of 4.0% for the whole group, and the Australian peer median of 2.3%, and only matched by one peer, DWF Group.

Exhibit 2: Peer EV/EBITDA, PER, Dividend yield, ROE and ROIC analysis for FY23

Company	Stock Code	EV/EBITDA (x)	PER (x)	Dividend yield* (%)	ROE (%)	ROIC (%)
QANTM Intellectual Property Ltd	**QIP**	**5.4**	**8.9**	**7.5**	**10.9**	**8.8**
IPH Ltd	IPH	12.4	16.9	3.2	12.8	9.5
Kelly Partners Group Holdings Ltd	KPG	13.7	47.3	1.3	19.0	8.5
Omni Bridgeway Ltd	OBL	9.1	n/a	-	(9.3)	-
Shine Justice Ltd	SHJ	3.5	9.8	7.2	1.2	1.6
DWF Group PLC	DWF.L	7.4	10.0	7.5	19.8	6.7
Gateley (Holdings) PLC	GTLY.L	9.2	9.7	5.1	16.2	12.0
Keystone Law Group PLC	KEYS.L	13.8	20.2	3.7	36.6	35.5
Knights Group Holdings PLC	KGHK.L	4.5	10.0	4.2	8.9	6.2
Median		**9.2**	**10.0**	**4.0**	**14.5**	**7.6**
Australian peer median		10.8	16.9	2.3	7.0	5.1
UK peer median		8.3	10.0	4.7	18.0	9.4

Source: Refinitiv, RaaS analysis; *At financial year end share price (prices at 26 Sept)

DCF Valuation

Using the discounted cash-flow methodology, our valuation of QIP is **$1.65/share,** which implies an underlying EV/EBITDA multiple of 8.2x and a P/E multiple of 14.2x for FY24f.

We view DCF as an appropriate methodology for valuing QIP at this point in its lifecycle given its current operations are largely mature (and in a regulated industry), it has a sound earnings and cash-flow history and trajectory (on our forecasts), and its capex requirements are relatively low. This valuation also captures the forecast EBITDA margin expansion (to ~30% in FY26f-FY28f) as the heightened spend associated with the current business transformation programme draws to a close and the envisaged gains (primarily staff productivity based) ensue.

The implied underlying EV/EBITDA multiples appear reasonable relative to IPH's ~11.6x trading multiple (i.e. ~30% discount to IPH).

Exhibit 3: DCF valuation

Parameters	Outcome
Discount rate / WACC*	10.2%
Beta**	1.1
Terminal growth rate assumption	2.2%
Sum of PV (10-year forecast period) ($M)	130.0
PV of terminal value ($M)	122.7
PV of enterprise ($M)	**252.8**
Net debt - 30 June 2023 ($M)	24.2
Net valuation – equity ($M)	**228.5**
No. of shares on issue - 30 June 2023 (M)	138.6
NPV/share	**$1.65**

Source: RaaS estimates, Refinitiv; *Discount rate incorporates risk-free rate (RfR) of 4.0% and an equity risk premium of 6.5%; **vs. Refinitiv's observed beta of 0.76x based on its five-year monthly beta methodology

Exhibit 4: Financial Summary

QANTM Intellectual Property Ltd					
Profit and Loss (A$m)					
Y/E 30 June	**FY22a**	**FY23a**	**FY24f**	**FY25f**	**FY26f**
Service charge revenue	96.6	103.8	107.8	112.4	117.3
Associate revenue	30.7	33.2	34.6	35.6	36.2
Total revenue	**127.3**	**137.0**	**142.4**	**148.1**	**153.4**
Other income	3.2	2.5	2.1	2.2	2.2
Recoverable expenses	(29.3)	(31.1)	(32.5)	(33.6)	(34.8)
Net revenue	101.2	108.3	112.0	116.7	120.8
EBITDA - statutory	**21.6**	**23.4**	**27.0**	**33.0**	**35.6**
EBITDA - underlying	**26.3**	**28.5**	**31.0**	**33.8**	**36.4**
Depreciation	(1.1)	(1.0)	(1.1)	(0.9)	(1.1)
Amort (intang & leases)	(7.1)	(6.8)	(6.7)	(6.6)	(6.6)
EBIT	**13.4**	**15.6**	**19.2**	**25.6**	**27.8**
Interest	(2.4)	(3.6)	(3.0)	(3.0)	(2.5)
Tax	(3.9)	(4.2)	(4.9)	(6.8)	(7.6)
NPAT - statutory	**7.1**	**7.9**	**11.3**	**15.8**	**17.7**
NPAT - underlying	12.8	14.7	16.2	18.4	20.3
Cash flow (A$m)					
Y/E 30 June	**FY22a**	**FY23f**	**FY24f**	**FY25f**	**FY26f**
EBITDA - statutory	21.6	23.4	27.0	33.0	35.6
Interest	(1.7)	(2.9)	(2.4)	(2.3)	(2.0)
Tax payments	(4.6)	(3.9)	(4.9)	(6.8)	(7.6)
Working capital chgs	0.7	(0.3)	(2.6)	(2.4)	(2.1)
Operating cash flow	**16.0**	**16.3**	**17.2**	**21.5**	**23.9**
Capex	(0.5)	(2.1)	(0.8)	(0.8)	(0.8)
Capitalised dev costs	(0.4)	(0.6)	(0.6)	(0.6)	(0.6)
Free cash flow	**15.1**	**13.6**	**15.9**	**20.1**	**22.5**
Acquisitions	(6.7)	(0.5)	(0.5)	0.0	0.0
Acq'n related costs	(1.1)	(0.1)	0.0	0.0	0.0
Cash flow pre financing	7.3	13.0	15.4	20.1	22.5
Equity	0.0	0.0	0.0	0.0	0.0
Borrowings (net)	8.2	0.4	(1.5)	(3.5)	(2.0)
Other financing (leases)	(5.0)	(4.1)	(3.8)	(3.8)	(3.7)
Dividends paid	(8.7)	(8.7)	(8.8)	(9.5)	(11.1)
Net cash flow	**1.7**	**0.6**	**1.3**	**3.3**	**5.7**
Balance sheet (A$m)					
Y/E 30 June	**FY22a**	**FY23a**	**FY24f**	**FY25f**	**FY26f**
Cash	7.4	8.0	9.3	12.6	18.3
Accounts receivable	38.2	41.4	43.0	44.8	46.4
Other current assets	2.6	2.7	2.7	2.7	2.7
Total current assets	*48.2*	*52.2*	*55.1*	*60.1*	*67.4*
PPE	1.6	2.8	2.2	2.1	1.8
Goodwill	54.8	54.4	54.4	54.4	54.4
Intangibles	29.4	26.5	22.2	19.4	16.8
Other non current assets	8.7	9.9	10.9	9.7	7.5
Total non current assets	*94.6*	*93.5*	*89.7*	*85.6*	*80.5*
Total Assets	**142.8**	**145.7**	**144.7**	**145.7**	**147.9**
Accounts payable	14.1	15.7	15.4	15.3	15.6
Current debt	3.6	3.0	3.0	3.0	3.0
Lease liabilities (current)	3.6	3.3	2.9	2.9	2.9
Other curr liab (inc AL prov)	9.5	11.2	9.8	9.8	9.8
Total current liabilities	*30.9*	*33.2*	*31.1*	*31.1*	*31.4*
Non-current debt	27.6	29.2	27.7	24.2	22.2
Other non current liabs	12.4	11.0	11.6	9.8	7.1
Total long term liabilities	*39.9*	*40.2*	*39.3*	*34.0*	*29.3*
Total Liabilities	**70.8**	**73.4**	**70.5**	**65.1**	**60.7**
Net Assets	**71.9**	**72.3**	**74.2**	**80.6**	**87.3**
Share capital	298.9	300.1	301.2	301.2	301.2
Retained earnings	(3.4)	(4.2)	(1.7)	4.6	11.3
Reserves	(223.2)	(223.2)	(224.7)	(224.7)	(224.7)
Minorities	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Total Shareholder funds	**71.9**	**72.3**	**74.4**	**80.7**	**87.3**

Share price (3 October 2023)						A$ 0.940
Half yearly (A$m)	**H1 FY22a**	**H2 FY22a**	**H1 FY23a**	**H2 FY23a**	**H1 FY24f**	**H2 FY24f**
Service charge revenue	48.9	47.7	52.0	51.8	54.5	53.3
EBITDA - statutory	10.5	11.1	11.2	12.2	12.2	14.8
EBITDA - underlying	**12.8**	**13.5**	**13.8**	**14.7**	**15.0**	**16.0**
EBIT - statutory	6.2	7.2	6.9	8.7	8.4	10.7
NPAT - statutory	**3.4**	**3.7**	**3.4**	**5.2**	**4.9**	**6.5**
NPAT - underlying	6.5	6.3	6.7	8.0	7.9	8.3
EPS (reported)	2.5	2.8	2.5	3.2	3.5	4.6
EPS (underlying)	4.7	4.6	4.8	5.8	5.7	5.9
Dividend (cps)	3.0	3.5	2.8	3.5	2.8	3.5
Operating cash flow	7.3	8.7	2.2	14.1	4.0	13.2
Free Cash flow	6.8	8.3	(0.1)	13.7	3.1	12.8
Segmented (half yearly)	**H1 FY22a**	**H2 FY22a**	**H1 FY23a**	**H2 FY23f**	**H1 FY24f**	**H2 FY24f**
Patents	33.5	31.5	35.4	34.5	37.1	35.1
Trade Marks	9.5	10.3	10.4	11.1	11.1	11.9
Legal Services	5.7	6.0	6.2	6.2	6.3	6.3
Service charge revenue	**48.9**	**47.7**	**52.0**	**51.8**	**54.5**	**53.3**
Associate revenue	13.8	16.9	16.6	16.6	16.8	17.8
Total revenue	**62.7**	**64.6**	**68.6**	**68.3**	**71.3**	**71.2**
Other income	1.1	2.1	1.2	1.4	1.0	1.2
Recoverable expenses	(13.1)	(16.1)	(15.7)	(15.4)	(15.8)	(16.7)
Net revenue	50.6	50.6	54.1	54.3	56.4	55.6
Employment	(31.3)	(28.9)	(32.7)	(29.2)	(31.0)	(31.0)
Technology	(3.7)	(4.4)	(3.9)	(4.8)	(4.8)	(4.3)
Occupancy	(1.1)	(1.0)	(0.9)	(1.4)	(1.4)	(1.2)
Other costs	(4.1)	(5.2)	(5.3)	(6.2)	(7.0)	(4.2)
EBITDA - statutory	**10.5**	**11.1**	**11.2**	**12.7**	**12.2**	**14.8**
EBITDA - underlying	12.8	13.5	13.8	14.7	15.0	16.0
Growth, Margins, Leverage, Returns		**FY22a**	**FY23a**	**FY24f**	**FY25f**	**FY26f**
Service charge rev growth		4.6%	7.4%	3.9%	4.3%	4.3%
Total revenue growth		6.9%	7.6%	4.0%	4.0%	3.6%
EBITDA margin (underly/service charge)		27.2%	27.4%	28.7%	30.1%	31.0%
EBITDA margin (underlying/total rev)		20.7%	20.8%	21.8%	22.8%	23.7%
EBITDA margin (stat/service charge)		22.3%	22.5%	25.0%	29.4%	30.3%
EBIT margin (stat/total revenue)		10.5%	11.4%	13.5%	17.3%	18.1%
NPAT margin (stat/service charge)		7.4%	7.6%	10.5%	14.1%	15.1%
Net Debt		23.8	24.2	21.4	14.6	6.9
Net debt/underlying EBITDA (x)		0.9	0.9	0.7	0.4	0.2
ND/ND+Equity (%)		24.8%	25.1%	22.4%	15.4%	7.4%
EBIT interest cover (x)		5.7	4.3	6.4	8.6	11.3
ROA		12.4%	10.8%	13.2%	17.6%	18.9%
ROE		9.9%	10.9%	15.5%	20.4%	21.1%
NTA (per share)		(9.0)	(6.2)	(1.7)	4.9	11.4
Working capital		24.0	25.7	27.6	29.4	30.7
WC/Sales (%)		18.9%	18.8%	19.4%	19.9%	20.0%
Pricing		**FY22a**	**FY23a**	**FY24f**	**FY25f**	**FY26f**
No of shares (y/e)	(m)	137	139	140	140	141
Weighted Av Dil Shares	(m)	139	139	141	141	141
EPS (statutory)	cps	5.3	5.6	8.1	11.3	12.6
EPS (underlying)	cps	9.3	10.6	11.6	13.1	14.5
EPS growth (statutory)		(31.1%)	6.6%	44.0%	39.2%	11.7%
EPS growth (underlying)		(6.0%)	13.6%	9.5%	13.2%	10.3%
PE (x) - statutory		17.8	16.7	11.6	8.3	7.4
PE (x) - underlying		10.1	8.9	8.1	7.2	6.5
DPS	cps	6.5	6.3	6.3	7.5	8.3
DPS Growth		(12%)	(3%)	0%	19%	11%
Dividend yield		6.9%	6.7%	6.7%	8.0%	8.8%
Dividend imputation		100%	100%	100%	100%	100%
EV/EBITDA (x) - underlying		5.8	5.4	4.9	4.3	3.8
FCF/Share	cps	10.9	9.8	11.3	14.3	16.0
Price/FCF share (x)		8.6	9.6	8.3	6.6	5.9
Free cash flow Yield		11.6%	10.4%	12.0%	15.2%	17.0%

Sources: Company data, RaaS Advisory estimates

FINANCIAL SERVICES GUIDE

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BR, RaaS, its directors and related parties have no associations or relationships with any product issuers other than when advising retail clients to invest in managed funds when the managers of these funds may also be clients of BR. RaaS's representatives may from time to time deal in or otherwise have a financial interest in financial products recommended to you but any material ownership will be disclosed to you when relevant advice is provided.

Complaints

If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR's internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren't satisfied with an outcome, you may contact AFCA, see below. BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.
Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)
In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorised representatives.

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