Research as a Service

QANTM Intellectual Property Ltd

Initiation Report

Registering potential operating leverage

Commercial & Professional Services

18 April 2023

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 (H1 FY23) in its key patents segment (68% of revenue) and a diversified mix of local and foreign clients (~45%/55% split; ~50% US$ revenue). QIP produces ~$97m service revenue (3.7% five-year CAGR) primarily via various workstreams underlying the patent and trade marks lifecycles, and has a history of profitability and cash flow generation which facilitates high dividend pay-outs. Its two key areas of strategic focus are: (1) Completing its business transformation programme ($8m-$10m cost) and the subsequent realisation of EBITDA margin expansion (low-30s medium-term target vs. ~27% currently); and (2) A two-pronged geographic expansion via DCC/FPA (Asian region focused) and Sortify's online trade marks platform. Successful execution of these strategies would facilitate increased operating leverage and/or scale.

Scope

This report has been commissioned by QIP to present an independent explanation of the business model to a wider audience and to explore the value created by the company for its stakeholders. The views expressed in this report are those of RaaS and should not be construed as an endorsement by the company.

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 has a diverse mix of local and foreign clients (est. ~45%/55% revenue split) with no client accounting for >2% of service charges. 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 ~80% of the total.

Focus: business transformation programme + Asian expansion

QIP's two key areas of strategic focus are: (1) Completing its current business transformation programme (incorporating technology modernisation [$8m-$10m cost] and business simplification) and subsequent realisation of EBITDA margin expansion (low-30s medium-term target) primarily from productivity-related benefits; and (2) A two-pronged geographic expansion via (a) DCC/FPA (Asian region focused – with a medium to long term aim for >25% of revenue from Asia vs. ~8% currently), and (b) Sortify's online trade marks platform (medium-term aim for ~5% of revenue from Sortify). Successful execution of these strategies would facilitate increased operating leverage and scale and the attendant financial benefits.

DCF valuation of $1.57/share or $217m market cap

Our QIP DCF-based valuation is $1.57/share (9.7% WACC). This implies EV/underlying EBITDA multiples of 8.7x for FY23f and 8.1x for FY24f. As a cross-reference, QIP is trading at FY24f EV/underlying EBITDA discounts of: (1) 60% to its closest peer, the ASX-listed IP services group IPH Ltd (ASX:IPH), on 11.4x (and a 56% P/E discount); and (2) 24% to a group of five UK-listed legal services firms. Meanwhile, applying the FY23f EV/EBITDA multiple implied by IPH's recent Smart & Biggar (Canadian) acquisition gives an equity value of $1.23/share on a minority interest/portfolio basis (7.0x using a 35% control premium).

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

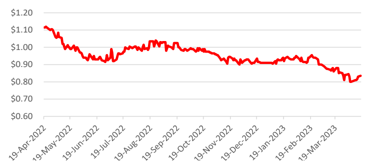
Year end	Revenue	EBITDA adj.*	EBITDA	NPAT	EPS adj.* (c)	P/E adj.* (x)	EV/EBITDA adj.* (x)	Dividend yield (%)
06/22a	127.3	26.3	21.6	7.1	9.3	9.0	5.3	7.8
06/23f	134.8	27.9	23.5	8.2	9.5	8.8	5.1	7.2
06/24f	139.9	29.9	28.4	12.2	11.0	7.6	4.6	9.1
06/25f	145.5	32.4	31.6	14.7	12.3	6.8	4.2	12.1

Sources: Company data; RaaS estimates for FY23f-FY25f; *Adjusted for non-recurring items

Share Details

ASX code	QIP
Share price (17-Apr-23)	$0.835
Market capitalisation	$116M
Shares on issue	138.6M
Net debt at 31-Dec-22	$31.8M
Free float (inc. all vendors/ excl. non-insider vendors)	~55%/ ~74%

Share Performance (12 months)



Upside Case

- Achieves targeted low-30s EBITDA margins by FY26/FY27
- Uptake/expansion of Sortify's online trade marks platform exceeds expectations
- Earning-accretive M&A in Asia

Downside Case

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

Board of Directors / CEO

Sonia Petering	Non-Executive Chair
Craig Dower	CEO & MD
Leon Allen	Non-Executive Director
Gavin Bell	Non-Executive Director
Kathy Gramp	Non-Executive Director

Company Contact

Craig Dower (CEO & MD) +61 3 9254 2666

investor.relations@qantmip.com

RaaS Contacts

Clare Porta, CFA +61 413 040 540
clare.porta@raasgroup.com

Finola Burke +61 414 354 712
finola.burke@raasgroup.com

Research as a Service

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Research as a Service

QANTM Intellectual Property Ltd

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Investment Case

The investment case for QIP reflects the following features and catalysts:

- **Business transformation programme = impetus for EBITDA margin expansion**: QIP continues to progress its multi-year business transformation programme which incorporates technology modernisation and business simplification programmes (with total technology-related cost outlays of $8m-$10m over FY21-FY24). The technology modernisation programme is a key plank underpinning QIP's low-30s EBITDA margin objective in the medium-term (based on service charge revenue). We envisage the programme's benefits will primarily be productivity related (i.e. from future cost and capex containment and possible incremental revenue growth) with direct cost reductions forming a small component. In addition, QIP should benefit as the cash flow impost of the programmes subside from FY24.

- **EBITDA margins – low-30s medium term target:** In August 2022, QIP articulated its aim of delivering low-30s EBITDA margins in the medium-term (based on service charge revenue) compared to 27.2% in FY22. This objective was subsequently reaffirmed in February 2023. The factors and initiatives underpinning the objective are: (1) Organic growth including via rate card adjustments to offset salary increases and other cost inflation, targeted business development, and increased contributions from Sortify and the new DCC Hong Kong office; and (2) The business transformation programme benefits. Our medium-term forecasts assume a progressive increase in EBITDA margins to ~30% in FY26/FY27.

- **Geographic expansion - remains Asia focused**: Geographic expansion in the Asian region remains a key component of QIP's strategy. QIP's aim is for Asian revenue to account for >25% of the total in the medium to longer term (vs. ~8% currently). Jurisdictions of interest include Indonesia, Thailand, Philippines and Vietnam. US$16m (~A$24m) of QIP's US$25.5m (~A$36m) acquisition debt facility remains available and assuming a 60/40 mix of consideration cash/shares, this implies the maximum acquisition consideration QIP would outlay is ~$40m. In addition to pursuing Asian opportunities for DCC/FPA, geographic expansion plans are actively being formulated and executed at Sortify. Whilst further Asian launches are also a focus, we expect Sortify's expansion plans could include countries in other regions such as Europe.

- **Sortify's growth trajectory**: Sortify's automated trade marks registration platforms for self-filers (typically small businesses and start-ups) are available in five countries (Australia, New Zealand, UK, Singapore and Malaysia). In Q2 FY23, it became the largest trade marks filing agent in Australia (moving ahead of DCC) and remained the second largest in New Zealand. It has clear potential to launch in a number of additional markets, including in Asia, at low cost (i.e. scalability). QIP is aiming for Sortify to become a material part of its revenue (est. >$5m [i.e. 5% of total revenue]) in the medium-term (vs. est. ~1% currently).

- **Sortify's technology and automation projects for DCC/FPA**: QIP is leveraging Sortify's automation and IP technology within DCC and FPA (as part of the current technology modernisation programme) in order to: (1) Reduce and streamline administrative tasks thereby deriving productivity gains; and (2) Enhance client service. This was one of the broader strategic underpinnings of the acquisition.
- **Major player in the Australian IP services market:** QIP is a major player in the mature and regulated Australian patent, trade marks and IP legal services market with 16.5% market share (H1 FY23) in its key patents segment (68% of service charge revenue). It is the #1 (Sortify) and #2 (DCC) filer of trade marks in Australia and the #2 filer (Sortify) in New Zealand. DCC Law is a leading Australian IP legal services firm.
- **Patent workstreams and revenue lifecycles**: The filing of patent applications is the trigger for various workstreams (and service fees and charges) from the subsequent stage of prosecution/examination which extends over a number of years. Some applications from local clients generate multiple additional workstreams where foreign IP protection is sought.
- **Diversified, high-quality client base**: DCC and FPA have a diversified mix of local and foreign clients (est. ~45%/55% split) across several industry sectors with no individual client accounting for >2% of revenue.
- **Solid revenue, earnings, and dividend generator.** QIP currently produces ~$97m service revenue (3.7% five-year CAGR) primarily via various workstreams underlying the patent and trade marks lifecycles. The current ~27% underlying EBITDA margins (and ~22% statutory EBITDA margins) enable it to be profitable, cash flow generative, and pay fully franked dividends. QIP has a dividend pay-out policy of 70%-90% of NPATA. Our forecasts incorporate pay-out ratios of 70% in H2 FY23 and FY24, and 80% in FY25. In turn, this should provide a solid dividend stream (7.2% fully franked dividend yield in FY23f and 9.1% in FY24f).
- **Sound financial profile – 1.15x net debt/underlying EBITDA; history of operating and free cash flow**: Although QIP's net debt has increased in recent years (largely to fund the Sortify acquisition), its net debt/underlying EBITDA ratio was 1.15x at 31 December 2022. It has a history of strong cash conversion and operating and free cash flows (e.g. $18.2m and $15.1m FCF in FY21 and FY22 respectively). The weaker cash flow performance in H1 FY23 has been attributed to a combination of several timing issues – and is expected to normalise in H2 FY23.

DCF Valuation and Peer Comparisons

Our **DCF valuation for QIP is $1.57/share** (based on a WACC of 9.7%). We view DCF as an appropriate methodology for valuing QIP given: (1) Its operations are largely mature (and in a regulated industry) and it has a sound earnings and cash flow history and trajectory, and (2) Its capex requirements are relatively low. Our DCF valuation implies EV/underlying EBITDA multiples of 8.7x for FY23f and 8.1x for FY24f.

We have also considered the trading multiples of: (1) IPH Ltd (ASX:IPH), an Australian-based company providing IP services in nine jurisdictions; and (2) Five UK-listed legal services firms. QIP is currently trading at discounts of:

- 60% to IPH on its FY24f EV/underlying EBITDA of 11.4x (and a 56% P/E discount). Whilst there is a significant difference in IPH's revenue and earnings scale relative to QIP, we consider it provides a sound valuation yardstick against an ASX-listed player in the same industry.
- 24% to the group of five UK-listed legal services firms on FY24f EV/underlying EBITDA (6.1x average).

These peer comparisons imply an enterprise value range of $181m-$342m and an equity value of **$1.14-$2.29/share** for QIP on FY24f forecasts.

Meanwhile, applying the FY23f EV/EBITDA multiple implied by **IPH's recent Smart & Biggar acquisition** gives an equity value of **$1.23/share** on a minority interest/portfolio basis (7.0x using a 35% control premium).

Company History

- QIP was incorporated in May 2016 as the holding company for Davies Collison Cave (DCC) and FPA Patent Attorneys (FPA). Both were well-established and profitable Australian IP services firms that had historically operated under partnership structures.[1]
- QIP was admitted to the ASX's Official List in August 2016 after its initial public offering raised $30.8m (before costs) at $2.22 per share, while an accompanying sell-down provided $116m of proceeds to the DCC and FPA vendor partners. QIP has not subsequently raised any capital (see Annexure A for issued capital history).
- **Initial post-IPO strategy**: Post-IPO, QIP's strategy included: (1) Implementing common business processes and reporting systems for DCC and FPA to enable cost reductions (e.g. back-office rationalisation and streamlining, ICT platform roll-out); and (2) Developing an IP services business in Asia following the opening of DCC's Singapore office in 2015. It also sought to generate revenue growth from the existing business models of DCC and FPA, and enhance internal organisation capabilities.
- **Acquisitions:** Since listing, QIP has completed three acquisitions:
  - On 2 July 2018, it acquired **Advanz Fidelis IP Sdn Bhd** ('Advanz' [now branded 'DCC Advanz']), a Malaysian IP services company for total cash consideration of $7.9m.
  - On 22 May 2020, it acquired **Cotters Patent and Trade Mark Attorneys** (Cotters), a Sydney-based specialist patent and trade marks advisory services firm, for total consideration of $5.6m.
  - On 30 September 2021, it acquired **Sortify.tm**, a New Zealand-based legal technology company with online trade marks registration platforms for total consideration of up to $10.7m. See Growth strategy: Sortify acquisition.

  QIP also entered into a scheme of arrangement to merge with the previously ASX-listed Xenith IP Group Limited in 2018. However, this did not proceed after it declined to match the higher offer subsequently made by IPH Ltd (ASX:IPH).
- **New offices**: Since listing, FPA has opened an office in Singapore (2018), while DCC has established an in-country presence in New Zealand (2019) and an office in Hong Kong (August 2022).
- **Change of CEO and Managing Director**: Craig Dower commenced as CEO in January 2020 replacing Leon Allen, QIP's inaugural CEO/MD who is now a Non-Executive Director.
- **Revised strategy**: In August 2020, QIP announced a refined strategy for FY21-FY24 including a multi-year business transformation programme with a total cost of $8m-$10m which is expected to yield benefits from FY24 onwards.

QIP's Operations and Business Model

QIP owns a group of **intellectual property (IP) services businesses** operating under the **three independent brands** of Davies Collison Cave (DCC), FPA Patent Attorneys (FPA) and Sortify.tm (Sortify). Its three core service offerings are:

- **Patent and trade marks attorney services** (88% of FY22 service charge revenue) via DCC (patents and trade marks) and FPA (patents);

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[1] DCC's history originates with the establishment of Collison & Co in 1879 and two subsequent mergers which led to the formation of Davies & Collison in 1929 and DCC in 1991.

FPA's origins lie in the establishment of a patent attorney practice within leading law firm Freehill Hollingdale & Page (now part of Herbert Smith Freehills [HSF]) in 1988. The FPA partnership was formed in 1994, acquired another firm in 2000, and adopted a separate management structure and entered into a relationship agreement with the Freehills partnership in 2012.

- **IP-focused litigation and legal services** (12% of FY22 service charge revenue) via DCC Law; and
- **Legal technology services** via Sortify's automated online trade marks registration platforms and tools.

[We use the term 'the **Firms**' to collectively refer to DCC's patent and trade marks practices and FPA throughout this report].

QIP's businesses operate from offices in Australia and New Zealand and three SE Asian countries (Singapore, Malaysia, and Hong Kong). 94% of QIP's FY22 service charge revenue was derived from Australia with the remaining 6% from Asia. QIP had 382 staff (including ~58 principals) at 30 June 2022 and services ~5,000 clients in ~60 countries.

The two **key areas of strategic focus** for QIP are: (1) Completion of its current **business transformation programme** (incorporating technology modernisation and business simplification programmes) and the subsequent realisation of EBITDA margin expansion (low-30s medium-term target); and (2) A **two-pronged geographic expansion of its operations** via the Firms (Asian region focused) and Sortify's online trade marks platform.

A snapshot of QIP's operations is presented in the table below (from both business activity and geographic perspectives). Its corporate structure is set out in **Annexure B**.

See **Industry Overview: IP Services Sector** for an overview of IP rights and the IP services industry.

Exhibit 1: QIP's operations

A. By business activity	Patents	Trade marks	Legal services (IP-focused)
Brands	DCC FPA	DCC Sortify's online brands: Trademarks Online, DIY Trademarks and Trademark Planet	DCC Law
Office locations	Australia New Zealand SE Asia: Singapore, Malaysia, Hong Kong	Australia New Zealand SE Asia: Singapore, Malaysia, Hong Kong UK	Australia
% of service charge revenue (FY22)	**67** ($65m)	**21** ($20m)	**12** ($12m)
Revenue model *Including US$ revenue (est.)*	Est. ~50% hourly rate billing/50% set fees ~50% US$ denominated	DCC: Est. ~50% hourly rate billing/50% set fees ~40%-45% US$ denominated Sortify: Fixed fee per application	Primarily hourly rate billing ~50% US$ denominated
Revenue generation timeframes	Up to six years per application	DCC: Up to ~two years per application Sortify: Upon completion of online application	Up to ~four years for litigation; Shorter for other services
Number of principals (current)	35	14	8
Clients *(~5,000 in total across 60 countries)*	Mix of local and foreign in each location	Mix of local and foreign in each location	Mix of local and foreign
Largest client (% of service charge revenue est.)	<2	<2	<2
Market share and/or position (based on applications/filings) – H1 FY23	Australia: 16.5% DCC: #2 filer FPA: #5 filer	Australia: est. 15% (of top 50 agents) DCC: #1 filer Sortify: #2 filer	A leading IP legal services provider
Regulated profession	✓	✓	✓
Websites	https://dcc.com/ https://www.fpapatents.com/	https://dcc.com/ Sortify: Five sites	https://dcc.com/
B. By Geography	**Australia & New Zealand**	**Asia**	**Other countries**
DCC office locations	✓ Sydney, Melbourne, Brisbane, Wellington	✓ Singapore, Malaysia, Hong Kong	×
FPA office locations	✓ Sydney, Melbourne	✓ Singapore	×
Sortify – online trade marks platforms	✓	✓ Singapore, Malaysia, HK	✓ UK
% of service charge revenue (FY22)	**94**	**6**	**<1 (RaaS est.)**
Staff numbers (est. 30 June 2022)	~341	~41	nil

Sources: QIP announcements and websites, RaaS estimates

Clients

The client bases of the Firms (est. ~2,250 total clients) exhibit the following key features:

- The Firms have a **mix of local and foreign clients**. On our estimates the overall service charge revenue split is currently ~45% local/55% foreign (compared to 37% local/63% foreign in CY15). **Local clients** include corporates, public sector research institutions, universities, and private individuals (in Australia, New Zealand, Singapore, Malaysia and HK).

  Within the **foreign clients** group, ~50% of service charge revenue is from direct client relationships while the other ~50% is from indirect relationships via foreign patent and trade marks attorney firms (i.e. foreign associates) – see Foreign Associates. Meanwhile, Sortify's online model is focused on local customers in each of its geographic markets.

  See **Annexure C** for a sample of the Firms' patent clients.

- They are **unconcentrated** with no client accounting for >~2% of QIP's service charge revenue.
- They are diversified by **industry sector**.

In addition, many client relationships are **longstanding** (five years+).

Revenue model and characteristics

We note the following key revenue characteristics of the Firms' patent and trade marks practices:

- **Registered IP workstreams and lifecycle**: Each patent and trade mark application creates a number of work streams as illustrated in the tables and diagram below. Some applications from local clients generate multiple additional work streams where foreign IP protection is sought (primarily via Patent Cooperation Treaty (PCT) applications and the subsequent applications in individual countries or regions).
- **Patent revenue lifecycle**: Patent applications generate various work streams from the subsequent stages which typically extend over a number of years, namely: (1) 'Prosecution': This includes the examination processes and largely occurs over two to three years post-filing (but can extend up to five years); (2) Grant; and (3) Maintenance/renewal.

  Patent applications typically generate 15%-20% of patent service charges, while the prosecution phase accounts for ~70%-75%, and the remaining ~10-15% is from the grant and maintenance/renewal phases.

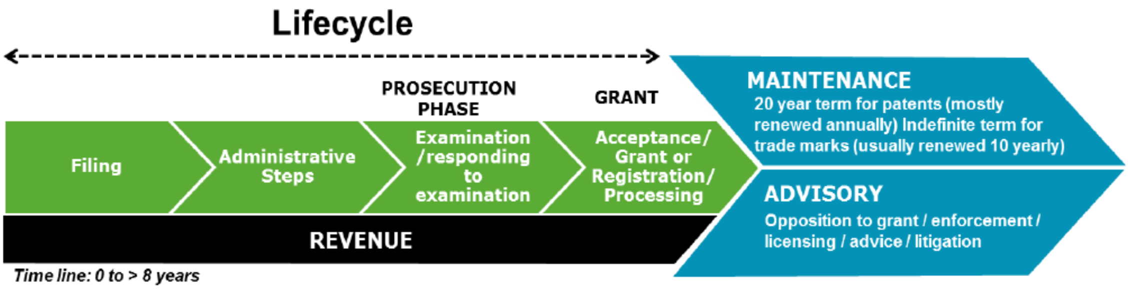
  The Firms currently file ~10k patent applications pa, and we estimate there are another ~30k matters in the prosecution phase (i.e. applications from prior years).

Exhibit 2: Patent attorney services provided by the Firms

Stage	Pre-application filing	Application filing	Prosecution and examination	Post-grant
Patent services	Strategic advice including: • Patentability analysis including prior art searching • Competitor IP analysis • Freedom to operate searching and advice • Patent strategy formulation and filing programmes	• Drafting patent specifications • Filing patent applications (locally and internationally) • Monitoring deadlines • Case management, verification, and reporting	• Initiating examination • Reporting, analysing and responding to official examination reports • Acceptance and grant procedures • Post-acceptance oppositions and re-examinations	• Patent portfolio management and maintenance • Validity and infringement advice • Commercialisation advice • Licensing advice • Assistance with enforcement and defence incl. litigation • Watching services • Renewals
Timeframes	Typically three to six months	Up to three years	Typically two to five years	Up to 20 years

Sources: Company announcements, RaaS

Exhibit 3: Patent lifecycle



Source: QIP; Note: The diagram excludes pre-filing work for new inventions which also generate revenue (see table above)

The following table illustrates the subsequent multi-year revenue generation from the pipeline of annual patent applications (for FY20 to FY26).

Exhibit 4: Patent workstream sources – application filing and prosecution stages

	FY20a	FY21a	FY22a	H1 FY23a	FY23f	FY24f	FY25f	FY26f
1. Patent application filing workstreams	✓	✓	✓	✓	✓	✓	✓	✓
Number of patent applications – chg on pcp	*+3.1%*	*+11%*	*+3.2%*	*+6.2%*				
2. Patent prosecution workstream sources								
• FY20 applications		✓	✓	✓	✓	✓		
• FY21 applications			✓	✓	✓	✓	✓	
• FY22 applications				✓	✓	✓	✓	✓
• H1 FY23 applications						✓	✓	✓
• FY23 applications						✓	✓	✓
• FY24 applications							✓	✓
• FY25 applications								✓

Sources: QIP announcements and RaaS

- **Trade marks revenue lifecycle**: Trade mark applications also create various work streams from the subsequent stages although the timeframe for the prosecution/examination stage is shorter at 12 months.

Exhibit 5: Trade marks attorney services provided by the Firms

Stage	Pre-filing/application	Filing/application	Examination and prosecution	Post-grant
Trade marks services	• Availability searching • Registrability advice • International filing advice • Competitor IP analysis • Freedom to operate searching and advice • Brand strategy formulation	• Drafting specifications • Filing applications (locally and internationally) • Monitoring deadlines • Case management, verification, and reporting	• Reporting, analysing and responding to official examination reports • Acceptance and registration procedures • Post-acceptance oppositions and re-examination	• Trade mark portfolio management • Validity and infringement advice • Commercialisation advice • Enforcement and defence • Watching services • Renewals
Timeframe	Typically three to six months	Up to six months	Up to 12 months	Potentially indefinite

Sources: Company announcements, RaaS

- **Service charge revenue ($101m FY23f):** The revenue generated from the Firms' patent and trade marks services comprises:
  - **Fixed fees** (RaaS est. ~55% of total): These are event-driven charges (e.g. filing an application with IP Australia attracts a fixed fee); and
  - **Hourly rate-based fees** (RaaS est. ~45% of total). For patents, these will vary based on factors such as the complexity of the application, the matters raised in the examination report, and the foreign filing requirements of local clients. For trade marks, they will reflect any matters raised in the examination report and any opposition proceedings.

Turning to **DCC Law**, it generally charges fees based on hourly rates. Billable hours reflect staff utilisation for the relevant period which varies according to case load timing.

Sortify charges a fixed fee per trade mark application.

- **Billing cycles**: Clients are invoiced: (1) On a monthly basis for hourly rate work; and (2) Upon various events throughout the patent and trade marks lifecycles (e.g. filing an application). These billing cycles result in low work in progress (WIP).
- **Associate charges revenue ($34m FY23f):** This represents revenue from recharging (as principal) the cost of engaging foreign agents (associates) to lodge patent and trade marks applications in countries outside those in which the Firms operate (including the US, Europe, and Japan) on behalf of local clients. It includes the fees the foreign associates charge plus a small margin to cover associated administrative costs and foreign currency exposure (given foreign associates primarily invoice the Firms in US$). Meanwhile, the fees charged by the foreign associates to the Firms are recorded as recoverable expenses.

Foreign currency: significant US$ exposure

US$ exposure: ~50% of service charge revenue is generated in US$ whereas the vast majority of QIP's expenses are payable in A$. QIP's US$ revenue generation primarily reflects the US$ invoicing of the significant US client base (both direct clients and foreign associates) where the Firms act as their local agent. In turn, QIP is exposed to A$/US$ exchange rate risk.

QIP has been a beneficiary of the A$/US$ depreciation in FY22 (average rate of ~73c [down 4% yoy]), H1 FY23 (average rate of ~67c [down 8% yoy]) and H2 FY23 to date (down ~2% yoy). Given the EBITDA sensitivity to a 1c movement in the A$/US$ exchange rate was $631k in FY22, we estimate the **service charge revenue sensitivity was ~$750k** (assuming the vast majority flows into EBITDA).

QIP utilises **two strategies** to mitigate a component of its FX risk:

- **Selective use of hedging** for US$ denominated invoices to minimise negative currency movements between invoicing and payment receipt (which is typically 90-120 days). QIP considers entering into three-month FX contracts to set or cap the rate for the prior month's invoices on a rolling basis.
- **US$ denominated loan facility** to partly offset its US$ receivables and cash balances. At 30 June 2022, A$17m of QIP's assets were US$ denominated (i.e. ~37% of the total receivables and cash balances), while US$ denominated borrowings amounted to A$3.4m.

Other currencies: QIP's aggregate exposure to other currencies, such as the Singaporean dollar, is currently immaterial. This is reflective of the ~8% Asian revenue contribution of which est. 60%-70% is from foreign clients (also predominantly invoiced in US$).

Staff

QIP had **382 staff** at 30 June 2022 – and we estimate the headcount is currently ~375. Employee expenses account for **~80% of underlying operating expenses** ($60m in FY22) which reflects QIP's specialised professional services offering. We make the following observations regarding staff composition:

- **Registered patent and/or trade marks attorneys**: There are currently 90 registered attorneys across the Firms.
- **Staff mix – professional vs. support staff**: QIP previously disclosed that its mix of professional to support staff was ~45%/55% (in FY19).[2] We suspect the split remains at similar levels excluding Sortify. Including Sortify (included in support staff), we estimate the mix is ~42% professional/~58% support.[3]

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[2] As a sidenote, the mix had been 36% professional/64% support upon IPO in August 2016. The rebalance followed a restructure in H1 FY18 which led to a notable reduction in the number (and proportion) of support staff.

[3] Professional staff are principals, associates, lawyers, and other direct fee-generating and client-servicing personnel. Support staff includes executive support services at the Firms (including trainees and assistants), back-office services at the Firms and QIP (finance, HR, in-house IT), and Sortify's staff.

Within the current total there are 57 principals, est. ~102 other fee-earners and est. ~216 support staff.

Exhibit 6: Current staff numbers (est.)

Firm	Principals	Other professional staff	Total professional staff	Support staff	Total staff
DCC (incl. Malaysia & QIP head office)	46*	~82	~128	~163**	~291**
FPA	11	~20	~31	~39	~70
Sortify	-	-	-	14	14
QIP total	**57**	**~102**	**~159**	**~216**	**~375**

Sources: QIP websites and announcements, RaaS estimates; *Includes one client liaison principal co-ordinating China inbound work; **Also includes QIP head office staff

- **Staff retention rates**: QIP disclosed a 92% retention rate in FY21. In relation to FY22, QIP stated that its employee retention remained high.[4]

- **Principals – promotions and retirements/departures:** Since listing (six-and-a-half years ago), QIP has regenerated its ranks of principals. 27 new principals have been appointed over this time (on a net basis – i.e. appointments less retirements/role changes/departures) - via internal promotions, lateral hires, and the Cotters acquisition. There are currently 57 principals, up 27% from 45 principals at listing.

  We have compared the current principals to those upon listing and found that 62% (28 principals) remain with QIP and 38% (17) have retired or departed. DCC experienced a lower level of principal retirements/departures (30%) than FPA (75%) over this period.

Exhibit 7: Principals – movements since IPO

	Principals upon IPO or acq'n	Departed principals	Remaining principals (from IPO or acq'n)	New principals (net)	Current principals
DCC	37	11	26*	17	43
As a % of principals on IPO		*30*	*70*		
FPA	8	6	2	7	9
As a % of principals on IPO		*75*	*25*		
Total DCC & FPA (excl. Advanz & Cotters)	**45**	**17**	**28**	**24**	**52**
Acquisitions					
Advanz (Malaysia)	1	1**	0	3	3
Cotters	4	2	2	0	2
Total QIP	**50**	**20**	**30**	**27**	**57**

Sources: QIP announcements and websites; *One of DCC's principals is now a principal with FPA in Singapore; **Mr Chuah is now a consultant to Advanz

Industry Overview: IP Services Sector

A brief overview of IP focusing on registered IP rights (which account for virtually all of QIP's revenue) and the role of patent and trade marks attorneys is provided below, followed by a discussion of the registered IP services sector in Australia (~93% of QIP's revenue) covering the industry participants (in Australia/NZ) and market size.

Of note, registered IP rights are **underpinned by legislation** in all five jurisdictions in which QIP operates, as are the roles of registered attorneys (firms and individuals). There is a requirement to provide a local address for service for registered IP rights applications in Australia, NZ and Singapore which typically results in non-resident applicants appointing a local agent. In Malaysia, non-residents are obligated to appoint a local agent.

[4] By way of comparison, (1) The broader legal profession has been experiencing higher turnover rates. For instance, a 2021 survey by the Australasian Legal Practice Management Association indicated that turnover rates were averaging 21% for fee earners and 26% for support staff; and (2) IPH disclosed that its group wide FY22 voluntary staff turnover was 13%.

Intellectual Property – Background and Industry Overview

Background and regulation

Intellectual property (IP) is an umbrella term used to describe property rights created through intellectual efforts and encompasses patents, trade marks, designs, copyright, trade secrets, confidential information, and domain names.

Internationally, IP is regulated via a combination of country specific legislation and case law together with various international treaties and conventions. Government bodies are typically appointed to administer registered IP together with the registrations and professional conduct of patent and trade marks attorneys (for instance, IP Australia and the Trans-Tasman IP Attorneys Board).

Registered IP rights

In most countries, including Australia, certain intellectual property rights must be registered with relevant government bodies to come into legal effect, namely patents, trade marks, designs, and plant breeder's rights (i.e. registered IP rights). This obligates applicants for registered IP rights to satisfy the relevant legislative requirements in each jurisdiction in which they seek protection (or relevant region if they opt to utilise one of the regional arrangements in place covering parts of the EU, Eurasia, and Africa). Meanwhile, copyright is protected via legislation and the remainder of IP rights (including trade secrets and confidential information) are created by agreement or under common law.

An overview of the two key types of registered IP rights in Australia is set out in the table below. IP Australia is the independent government agency responsible for administering the Australian rights and legislation for patents, trade marks, and designs. International IP treaties are administered by the World Intellectual Property Organisation (WIPO), a self-funding agency of the UN.

Exhibit 8: Registered IP rights

IP right	Patent	Trade marks
Nature	Exclusive right granted for an invention (i.e. a commercial monopoly) – for 20 years in Australia*	Exclusive rights to use a trade mark on an ongoing basis once registered (subject to renewal every 10 years)
Rationale for right	To encourage inventive activity (R&D, innovation) that inventors might not otherwise have been willing to undertake, and sharing of technical information (which can be used by others after the patent expires) → contributes to technological development and productivity growth	To provide brand protection (legally deter others from using the mark) and enhance transparency between consumers and producers/sellers
Statutory requirements (Australia)	Four key requirements: • Patentable subject matter ('method of manufacture' requirement) • Novel (new)** • Useful • Involves an inventive step**	Key requirements: • Cannot be deceptively or confusingly similar to prior registered or pending marks • Must be distinctive and non-descriptive of the good/services • Cannot be offensive or a sign prohibited from registration.
Relevant legislation (Australia)	*Patents Act 1990* (Cth) Notable amendments: • Effective April 2013: To align with international standards regarding inventive step (per "Raising the Bar Act 2012") • Effective 25 August 2021: Applications for innovation patents (lower inventive step threshold and eight-year term) ceased	*Trade Marks Act 1995* (Cth)
Key int'l treaties	**Patent Co-operation Treaty (PCT)**: Process for filing international patents	**Madrid Protocol**: Framework for int'l trade mark registration
Application and registration process		
-For Australia	There are two paths: (1) Standard patent application; and (2) Provisional application (i.e. 'placeholder'): Optional step before converting to a 'complete' standard application or PCT application up to 12 months later	Standard application process
-For Australian residents applying internationally / For non-residents applying in Australia	There are two paths: • Directly through the country or (if available) regional IP office • Via the PCT. Requires: (1) Filing a single 'international' application (covers ~155 countries) via a country or regional IP office; and (2) Subsequent conversion of PCT application to national applications in each country (or regional IP office if available) where patent protection is sought (aka "entering the national phase")	There are two paths: • Directly through the country or (if available) regional IP office • Via the Madrid System: Requires (1) Filing a domestic application with a 'home' country IP office (e.g. IP Australia); and (2) Filing a single 'international' application nominating: (a) the 'home' country for application examination (e.g. Australia); and (b) the designated countries (of the ~128 available)#
-Timeframes	**Standard patents:** Typically two-five years **PCT:** Up to six years: Up to 2.5 years before and 2.5-3.5 years after "entering the national phase"	Up to 12 months
Other background information	Patent specifications must be filed with standard applications in the following format: • Background (including description of prior art) • Description of the invention • Claims (precise definition of the invention – i.e. scope of the right) • Drawings	Trade marks act as a badge of commercial origin to distinguish products and services from similar offerings. They can be used to protect a logo, phrase, word, letter, colour, sound, smell, picture, movement, aspect of packaging or any combination of these
Registers/ publication	For Australian publications see: IP Australia: AusPat For applications filed via the PCT process see: WIPO IP Portal	For Australian applications and registrations see: IP Australia | Trade Mark Search

Sources: IP Australia, WIPO, QIP; *20 years from filing date (subject to payment of renewal fees throughout the term). The exception is pharmaceutical patents which can be for up to 25 years; **Novelty and inventive step requirements are with reference to the prior art (evidence that the invention is already known); #The IP office in each designated country undertakes its examination and must grant or refuse trade mark registration within a given time limit (12-18 months)

Patent and trade marks attorneys

The primary role of patent and trade marks attorneys is to assist clients with the writing and filing of applications for patents, trade marks and designs, and the subsequent registration processes. In addition, patent and trade marks attorneys are routinely appointed to act as the local agent for non-resident applicants. The complexity of both the laws and processes relating to registrable IP and the variances across jurisdictions underpins the demand for the services of patent and trade marks attorneys (and the firms employing them).

Of note, in Australia and NZ, **only registered patent attorneys are entitled to provide specified services** including patent specification drafting and acting as a local agent for non-resident patent applications (and to call themselves 'patent attorneys').[5] Alternatively, there is no legislative requirement to be registered as a trade marks attorney to practice in the area of trade marks (i.e. lawyers can and do also provide trade marks-related services). However, only registered trade marks attorneys are entitled to hold themselves out as a 'trade marks attorney'.[6]

The Trans-Tasman IP Board[7] is the government body that administers the registration of patent and trade marks attorneys and monitors their subsequent professional conduct under the *Code of Conduct for Trans-Tasman Patent and Trade Marks Attorneys 2018*.

We also note that it is not mandatory for a patent applicant to use the services of a patent attorney (i.e. there is the option to 'self-file' registrable IP rights[8]). Similarly, it is not mandatory for a trade mark applicant to use the services of a trade marks attorney (noting that Sortify [via Trademark Planet Limited] facilitates self-filing of trade marks and is not a registered trade mark attorney firm in Australia and New Zealand).

Australian IP Services Industry

The Australian IP services industry (including patent and trade marks attorneys) is anticipated to generate $1.2b of revenue in 2023, down 1.5% on 2022 (Source: IBIS World). This figure encompasses broader IP services such as advice regarding copyright and confidentiality agreements (which are offered by many commercial legal firms).

Patent and trade marks services: demand drivers

The demand drivers for patent and trade marks services both domestically and globally are set out below.

Exhibit 9: Patent and trade marks services sector – key demand drivers

Key demand drivers
• **For patents**: Global R&D dynamics which reflect R&D sentiment, budgets, government investment/incentives/initiatives (e.g. Chips Act in the US), outlook for key filing industries (e.g. US tech sector, global pharmaceutical companies), high-growth industries, and emergence of new industries and technologies
• **For trade marks**: Broader economic conditions, particularly changes in household disposable income and new business registrations
• Inventors seeking IP protection in additional countries and regions (e.g. post new Free Trade Agreements or in countries exhibiting high economic growth)
• Complexity of the laws and processes relating to registrable IP and the variances across jurisdictions → Ongoing need for highly specialised skills and knowledge in patent specification drafting and registration processes
• Legislative underpinnings particularly for certain patent attorney services (e.g. drafting patent specifications can only be done for gain by patent attorneys)
• Direct and indirect costs and risks of failing to secure IP protection

Sources: WIPO, IP Australia, company announcements, RaaS

Key players

The key players in the IP services market (split into sub-segments of patents, trade marks, IP legal services and specific service providers) are set out in the table below followed by a review of the participants in the patent and trade marks segments. QIP's offerings span all four sub-segments of the IP services market and are skewed to patents and trade marks (~88% of service charge revenue).

[5] To practice as a patent attorney, individuals (and the firms employing or engaging them) must be registered under the *Patents Act*. The registration requirements for individuals are: (1) An approved qualification in a technical field of science, engineering, or technology; (2) Completion of an approved IP law course; and (3) Two years of practical experience working under the supervision of a patent attorney with at least five years' post-qualification experience.

[6] To practice as a trade marks attorney, individuals (and the firms employing or engaging them) must be registered under the *Trade Marks Act*. For individuals, this requires: (1) An approved qualification; (2) Completion of an approved IP law course; and (3) To be of good fame and character.

[7] There is a single regulatory regime for patent attorneys in Australia and New Zealand.

[8] The Department of Industry, Science, Energy and Resources Patents Accessibility Report (February 2021) stated that "*the number of self-filing patent applicants remains very low.*"

Exhibit 10: Key players – Australian IP services industry

Segment	Large specialist firms	Smaller specialist firms and sole practitioners	IP groups or specialist individuals within commercial law firms	Specific service providers
Patents	✓ e.g. IPH's firms – see table below	✓ see table below		
Trade marks	✓	✓	✓	
IP legal services				
-Patent and trade marks focus	✓	✓	✓ (typically trade marks and IP disputes/litigation)	
-Other IP focus (copyright, trade secrets etc)			✓	
Specific services (e.g. renewals)		✓		✓*

Sources: Company announcements; *E.g. CPA Global provides renewal services and inovia (owned by AIM-listed RWS Holdings plc) provides PCT national phase entry filing services

Patent and trade marks industry participants: Australasia's patent and trade marks attorney firms have been through a period of consolidation over the past decade led by ASX-listed IPH. Nonetheless, the industry remains relatively fragmented and there is substantial competition amongst the participants.

There were 86 incorporated registered attorney firms and 1,526 registered attorneys (including those individuals employed or engaged by incorporated registered attorney firms) at 30 June 2022.[9] During FY22, there was a net 3% decrease in registered attorneys (with 70 new registrations offset by 91 removals). Both incorporated and individual registered attorney numbers appear to have increased in FY23 to date – to 93 (+8%) and 1,586 (+4%) respectively.

The table below sets out the firms that we have identified as key competitors to QIP in the Australasian market. Registered patent and trade marks attorney numbers are used as the measurement metric for these purposes.

We note that:

- **IPH is the largest player** with 173 registered attorneys (10.9% of the Australia/NZ total) and a presence spanning four firms (following the integration of a number of its acquisitions into these firms over the past ~six years – e.g. Shelston IP was integrated into Spruson & Ferguson effective November 2021).
- **QIP is in second place** with a total of 90 registered attorneys (5.7% of the Australia/NZ total).
- At an individual firm level, IPH-owned Spruson & Ferguson is the largest (71 attorneys) followed by DCC (69 attorneys).
- FB Rice is the next largest player behind IPH and QIP with 67 registered attorneys followed by Phillips Ormonde & Fitzpatrick (46 registered attorneys).
- Wrays and Madderns have strong presences in Perth and Adelaide respectively.
- The 12 individual firms listed in the table account for 30% of registered attorneys. Akin to the broader legal profession, this leaves a long tail of ~1,100 individuals working for smaller firms or as sole practitioner attorneys.

[9] Includes single-registered patent and trade marks attorneys and dual registered patent and trade marks attorneys.

RaaS Research as a Service

Exhibit 11: Key players - Australia/NZ registered patent and trade marks attorneys

	Name	Ownership	Registered attorneys*	% of total registered attorneys	Firm website
1	Spruson & Ferguson	IPH	71	4.5	https://www.spruson.com/
2	Griffith Hack	IPH	44	2.8	https://www.griffithhack.com/
3	Pizzeys	IPH	11	0.7	https://www.pizzeys.com.au/
4	AJ Park (NZ)	IPH	47	3.0	https://www.ajpark.com/
	IPH total		**173**	**10.9**	
5	Davies Collison Cave	QIP	69	4.4	https://dcc.com/
6	FPA Patent Attorneys	QIP	21	1.3	https://www.fpapatents.com/
	QIP total		**90**	**5.7**	
7	FB Rice	Private	67	4.2	https://www.fbrice.com.au/
8	Phillips Ormonde & Fitzpatrick	Private	46	2.9	https://www.pof.com.au/
9	Wrays	Private	29	1.8	https://www.wrays.com.au/
10	James & Wells Intellectual Property	Private	26	1.6	https://www.jamesandwells.com/au/
11	Madderns	Private	22	1.4	https://madderns.com.au/
12	Allens Patent & Trade Mark Attorneys	Attorney practice within leading law firm, Allens	21	1.3	https://www.allens.com.au/sectors-services/services/patentattorneys
	Total – larger firms (exc. IPH & QIP firms)		**211**	**13.3**	
	Total – top 12 firms		**474**	**29.9**	
	Outside top 12 firms		1,112	70.1	
	Total		**1,586***		

Sources: Trans-Tasman IP Attorneys Board (TIPAB), company and firm websites. *Includes single-registered patent and trade marks attorneys, and dual registered patent and trade marks attorneys. Based on a TIPAB website search in early April 2023. **vs. 1,526 total registrations at 30 June 2022

Market share: Based on Australian **patent applications** (which is used by the industry as a key indicator of market share), QIP disclosed that its estimated H1 FY23 market share was 16.5% (FY22: 15.0%). This has increased ~three percentage points over the past ~four years to its highest level since listing (from a low of 13.8% in FY18). Market leader IPH's market share is around double at 32% (down from a high of 38% in FY20).

Competitive dynamics: The competitive forces listed below influence QIP's market share.

Exhibit 12: Patent and trade marks services sector competitive dynamics

Competitive dynamic	Comments re QIP
Breadth and depth of services	Overall the Firms provide a full service offering across patents, trade marks and designs, and related IP legal services. The patent practices of both DCC and FPA have several specialist industry groups. Services are provided to a diverse local client base – from large corporates and government agencies to individual inventors – via geographic presence on the east coast (and a small New Zealand presence for DCC). The Firms also act as the local agent for inbound filings and prosecution work from non-residents.
Expertise (highly specialised skills and knowledge of staff) and reputation	A total of 90 registered attorneys are employed across the Firms. DCC Law employs ~22 practising lawyers . The Firms' patent practices employ numerous PhD and masters level qualified staff in technical fields who also have comprehensive knowledge of the relevant legislation, treaties, and registration processes (via formal legal and/or IP training and in-house training).
Client relationship history and relationship management	QIP provides services to ~5,000 clients (including Sortify) or ~2,500 clients (excluding Sortify – i.e. for the Firms). The Firms have numerous long-standing relationships spanning many years with both direct clients and foreign associates, and also undertake business development initiatives to establish new relationships. Client service is a key focus for the Firms and QIP is investing in new CRM systems and client-facing systems and tools to further enhance client service levels and engagement.
Pricing	The Firms offer a premium service within the market and have been able to implement price increases in FY22 and FY23 across parts of the client base. The Trans-Tasman IP Attorneys Board indicates that the average fee is $400-$700 per hour for a patent attorney.

Sources: RaaS, QIP announcements, TIPAB

Australian patent market size and trends

Patent-related services are the **key driver of QIP's service charge revenue** accounting for ~68% of the total. Whilst they only account for ~15%-20% of QIP's patent service charge revenue (and presumably a similar proportion for the broader patent attorney sector), **patent applications** are considered to provide a **proxy for market size and trends and market share**.

Exhibit 13: Patent applications filed in Australia

	Filings (CY22)	*% of total*	Five-year CAGR (%)	10-year CAGR (%)	CY22 vs. CY21 (% chg)	CY21 vs. CY20 (% chg)
Standard patent applications	32,252		2.2	2.0	(0.5)	10.6
Comprising:						
- Resident/local applicants	*2,506*	*8*	0.0	(0.5)	(15.5)	25.3
*- Non-resident/foreign applicants**	*29,746*	*92*	2.4	2.3	1.0	9.3
PCT applications	1,578		(1.4)	0.3	0.3	2.1
Provisional applications	4,035		(4.9)	(3.3)	(6.1)	(11.7)
***Non-resident applicants by country (with >1,000 applications)**						
United States	14,720	*49.5*	1.9	2.6	2.4	11.1
China	2,184	*7.3*	15.4	15.7	(5.8)	0.3
Japan	1,588	*5.3*	(0.4)	(0.9)	3.9	(7.2)
UK	1,552	*5.2*	4.6	3.2	16.3	10.6
Germany	1,382	*4.6*	0.7	(1.4)	2.2	4.0
Switzerland	1,240	*4.2*	2.9	0.8	4.8	24.1
Top 6	**22,666**	***76.2***				

Sources: IP Australia and WIPO reports and databases

We make the following observations regarding the composition of **Australian patent application filings and filing trends**:

- Just over **32k standard patent applications** were filed in Australia in both CY21 and CY22 (with a ~92% skew to non-resident applicants). Standard applications are now the only form of application following the cessation of innovation patent applications in August 2021. Including innovation patents in the CY21 figures, total CY21 applications increase to 40k (driven by a surge in pre-deadline applications from Chinese and Indian filers).

- Two further statistics provide an insight into future standard patent filings by Australian residents (noting that local clients, particularly those seeking international patent protection, are an important driver of QIP's patent revenue):

  - **Patent Cooperation Treaty (PCT) applications (aka 'international' applications) filed via IP Australia**: ~1,500 pa in recent years. These applications are filed by Australian entities operating or seeking to operate internationally, and can facilitate a more streamlined process of country specific patent applications in the PCT signatory countries in which the applicant wishes to seek patent protection. See Annexure D.

  - **Provisional ('placeholder') applications:** ~4,000 pa in recent years of which residents are the predominant filers (~94%). These are akin to a 12-month placeholder during which time the applicant can elect to convert it into a standard patent application or allow it to lapse.

- **Longer-term CAGR = ~2%:** The Australian patent market is mature which is reflected in the standard patent applications CAGR over five and 10 years of 2.2%[10] and 2.0% respectively - and this growth is attributable to foreign applicants (2.4% five-year CAGR and 2.3% 10-year CAGR). Meanwhile, applications by Australian residents were flat over the past five years and down marginally over 10 years.

- **Key recent trends – CY21 and CY22**: Following solid yoy growth in CY21 (up 11% - with a 25% increase in resident applications and 9% for non-residents), standard applications fell marginally in CY22 (down 0.5% yoy) as a 15.5% decline in resident applications offset the 1.0% growth from non-residents.

[10] QIP has noted that CAGR was 1.8% measured over the FY18-FY22 period (per FY22 results commentary).

These recent swings are likely to be somewhat reflective of anomalies associated with the innovation patents phase-out arrangements.[11] The 11% growth in CY21 has also been attributed to the relative resilience of global innovation and R&D spend during COVID-19 when compared to previous periods of global economic downturn.[12]

- **Top filing countries – US #1, China #2:** 46% of total applications and almost 50% of non-resident applications (15k) originate from the United States. These US applicants increased filings by 2.4% in CY22 and have generated five- and 10-year CAGRs of 1.9% and 2.6% respectively. China is the second-largest foreign filer with 2,184 applications in 2022. Whilst applications from this source declined by 6% yoy in CY22 and were flat in CY21, the CAGR is ~15% on both a five- and 10-year basis. Japan and the UK follow in third and fourth place with ~1,600 applications each.

Further **statistics of interest** (from IP Australia and WIPO reports and data for **CY21**) are in Annexure E.

QIP's Business Units

This section provides some further background to QIP's operations, namely its three business units (patents, trade marks, and legal services), its foreign associate relationships, and its SE Asian operations.

Patents (DCC and FPA) – 67% of FY22 service charges

Patent service charge revenue history: H1 FY23 marked a stronger performance for patents than the two previous halves in FY22 (up 5.8% vs. 4.8% in H1 FY22 and the 2.5% decline in H2 FY22).

Exhibit 14: Patents – service charge revenue for FY18 to H1 FY23 (in A$m unless otherwise stated)

	FY18a	FY19a	FY20a	H1 FY21a	H2 FY21a	FY21a	H1 FY22a	H2 FY22a	FY22a	H1 FY23a
Patents service charge revenue	52.6	57.9	62.1	31.9	32.3	64.2	33.5	31.5	65.0	35.4
Change on pcp (%)	*(8.7)**	*10.1*	*7.3*	*3.2*	*3.5*	*3.4*	*4.8*	*(2.5)*	*1.2*	*5.8*
Change on pcp ($m)	*(5.0)**	*5.3*	*4.2*	*1.0*	*1.1*	*2.1*	*1.6*	*(0.8)*	*0.8*	*1.9*
% of QIP's total service revenue	69	67	69	68	71	70	69	66	67	68

Source: QIP financial statements; *vs. FY17 pro-forma results

Patent applications (FY21-H1 FY23): As abovementioned, patent applications are a lead indicator of future patent service charges, whilst also typically generating ~15%-20% of patent service charges. However, QIP has previously cautioned that applications filings can fluctuate on a half yearly basis due to filing timing issues.

QIP reported growth in patent applications for the Firms in both FY22 and H1 FY23 (up 3.2% and 6.2% respectively). In terms of the composition, FY22 filings were split 57% Australia, 24% Rest of World (i.e. local clients filing overseas – primarily in US and Europe), 16% Asia and 3% from Australian PCT applications.

Exhibit 15: Patent filings/applications – DCC and FPA

	H1 FY21a	H2 FY21a	FY21a	H1 FY22a	H2 FY22a	FY22a	H1 FY23a
Total patent applications – DCC/FPA	**4,462**	**5,028**	**9,490**	**4,993**	**4,799**	**9,792**	**5,304**
Growth (%) on pcp	*(1.6)*	*25*	*11**	*11.9*	*(4.6)*	*3.2*	*6.2*
Growth (#) on pcp	*(73)*	*1,014*	*941*	*531*	*(229)*	*302*	*311*

Source: QIP announcements; *Includes Cotters acquisition (~350 applications)

Within **Asian patent filings,** Singapore files ~800 pa, Advanz accounts for ~300-400 pa, and the remaining 300-400 are from other Asian countries (i.e. filings via foreign associates in countries where the Firms do not have a local presence).

We note the following factors influencing the growth in patent applications for the Firms in FY22 and FY23 to date:

[11] More specifically, CY21 applications were boosted by Australian residents filing a significant number of standard applications during August 2021 (~550 vs. ~200 in the pcp), which IP Australia believes likely reflected the bringing forward of filings by applicants wishing to retain the option of converting or dividing their applications to innovation patents at a later date (available for standard patents filed before 25 August 2021).

[12] Per IP Australia commentary in its *2022 Australian Intellectual Property Report*.

- **Market share**: The Firms' H1 FY23 Australian filings growth of 6.8% reflected market-share gains (16.5% vs 15.0% in FY22) given the broader market fell by 4.3%. More generally, the Firms' Australian market share in patent filings has been positive over the past three years (up ~two percentage points).

- **Industry sub-segments**: Anecdotal evidence and IP Australia data indicate that patent applications in the following industry sub-segments have exhibited strength in FY22 and FY23 to date.

Exhibit 16: Industry sectors

- IT/technology including cloud computing, quantum computing, machine learning, neural networks, fintech, blockchain, VR/AR
- Medical devices
- Environmental and cleantech technologies (e.g. battery technologies, solar, green hydrogen)*
- Mining technology
- Biotech (e.g. vaccine development technology)
- Agricultural products
- Psychedelic/cannabis products

Source: RaaS; *FPA recently predicted that "*significant patent activity in batteries and other energy storage technologies will continue over the coming years*" (Battery technology patent growth charges up - FPA Patent Attorneys (fpapatents.com))

- **New business** introduced via the business development strategies targeting clients in the US and mainland China.

Trade marks (DCC and Sortify) – 21% of FY22 service charges

Trade marks are the second-largest business area accounting for 21% of service charge revenue in FY22 and 20% in H1 FY23. This encompasses the trade marks operations of DCC (in Australia, Singapore and Malaysia) and Sortify's online trade marks registration platforms (from 1 October 2021) which we discuss in detail below. DCC manages the trade marks portfolios of several large Australian corporations (e.g. Telstra) both locally and internationally and files applications as local agent for foreign clients (e.g. Microsoft).

The FY22 growth in trade marks service charge revenue (up 25.3% or $4.0m on the pcp) reflected strong market conditions and the nine-month initial contribution of Sortify (est. $0.8m). The segment reported 9.1% ($0.9m) yoy growth in H1 FY23 (including est. $0.7m from Sortify vs. est. $0.25m three-month contribution in the pcp) despite the softer market backdrop which reflected both slower economic conditions and challenging comparables. We note that trade marks applications are somewhat leveraged to broader economic conditions, particularly changes in household disposable income[13] and new business registrations.[14]

In terms of trade marks applications, DCC and Sortify filed a combined total of 5,840 applications in FY22 (with Sortify included from 1 October 2021) and 2,963 applications in H1 FY23.

Exhibit 17: Trade marks – service charge revenue for FY18 to H1 FY23 (in A$m unless otherwise stated)

	FY18a	FY19a	FY20a	H1 FY21a	H2 FY21a	FY21a	H1 FY22a	H2 FY22a	FY22a	H1 FY23a
Trade marks services revenue	14.3	15.6	15.7	7.9	7.9	15.8	9.5	10.3	19.8	10.4
Change on pcp (%)	*2.9**	*9.1*	*0.6*	*3.9*	*(2.5)*	*0.6*	*20.9*	*29.8*	*25.2*	*9.1*
Change on pcp ($m)	*0.4**	*1.3*	*0.1*	*0.3*	*(0.2)*	*0.1*	*1.6*	*2.4*	*4.0*	*0.9*
% of QIP's total service revenue	19	18	17	17	17	17	20	22	21	20

Source: QIP financial statements; *vs. FY17 pro-forma results

IP-related legal services (DCC Law) – 12% of FY22 service charges

QIP's legal services segment reflects the operations of DCC Law. It is a separate commercial law firm within DCC's Australian operations and provides IP legal and litigation services as well as broader commercial legal services. The segment's contribution to QIP's service charge revenue has ranged from 11% to 15% since listing. More specifically, DCC Law's services encompass:

[13] A 2004 Melbourne Institute Working Paper estimated that a 10% increase in household disposable income is associated with a 20% rise in trade marks filings by local companies.

[14] Total trade mark applications filed by the top 50 agents in Australia rose ~7% yoy in FY22 and fell 12.6% yoy in H1 FY23 (vs. 13.6% growth in H1 FY22). New business numbers were up 29% yoy in FY22, and down 12% in H1 FY23 (Source: ABS).

- **Litigation services** for all forms of IP including patents, designs, trade marks and copyright (~55% of DCC Law's revenue - RaaS est.).
- **IP-related commercial legal advice** including in relation to IP licensing agreements, R&D agreements, copyright, trade secrets, IP due diligence, joint-venture agreements, technology acquisition and divestment agreements, IP portfolio audits, and privacy and data protection advice.
- **General corporate, commercial and tax legal advice.** These services have been provided since July 2018 following the recruitment of three principals.
- **IP business advisory services** (DCC Advisory formerly known as ipervescence – formed in July 2019). Primarily tailored IP consulting services (re strategic value and risk), and flexible IP resourcing solutions.

Client base and referrals: DCC Law's services are provided to both local and foreign clients (with foreign clients primarily requiring advice and representation for infringement disputes regarding their Australian patents). Foreign clients (current and past) include Energy Beverages LLC, Illinois Tool Works Inc, Pfizer, GSK, and Bayer Pharma AG.

DCC's patent and trade marks practices provide client referrals to DCC Law which we expect delivers a significant case-flow source.

Competition: DCC Law's competitors comprise other specialist IP legal services firms (including several boutiques associated with other patent attorney firms), and IP groups within large commercial law firms (e.g. HSF's IP litigation practice).

Revenue history: In light of the significance of its litigation work (and the associated case-load work timing around court timelines and events), the legal services segment exhibits more revenue variability than the patents and trade marks segments – and this has been more pronounced on a half-yearly basis. Segment revenue ranged from a low of $9.6m reported in FY18 to a record $13.0m in FY19, and then declined modestly over each of the three subsequent years (to $11.7m in FY22). The FY19 high-point was attributable to the revenue generated from several major Federal Court trials in H1 FY19.

Exhibit 18: IP legal services – service charge revenue for FY18 to H1 FY23 (in A$m unless otherwise stated)

	FY18a	FY19a	FY20a	H1 FY21a	H2 FY21a	FY21a	H1 FY22a	H2 FY22a	FY22a	H1 FY23a
IP legal services revenue	9.6	13.0	12.5	6.8	5.4	12.2	5.7	6.0	11.7	6.2
Change on pcp (%)	*7.9**	*35.4*	*(3.8)*	*7.9*	*(12.9)*	*(1.6)*	*(16.2)*	*11.1*	*(4.4)*	*8.9*
Change on pcp ($m)	*(0.7)**	*3.4*	*(0.5)*	*0.5*	*(0.8)*	*(0.3)*	*(1.1)*	*0.6*	*(0.5)*	*0.5*
% of QIP's total service revenue	13	15	14	15	12	13	12	12	12	12

Source: QIP financial statements; *vs. FY17 pro-forma results

Foreign associates

The Firms have relationships with a range of foreign associates in various countries which are usually reciprocal in nature. These arrangements are commonplace in the IP industry internationally and we understand that they are relatively informal and non-exclusive in nature. More specifically, these relationships generate the following revenue streams:

- **Inbound revenue (associates engaging the Firms):** Foreign associates will engage the Firms to act on behalf of their local clients who are seeking patent and/or trade marks protection in jurisdictions in which the Firms operate. This is a significant revenue stream for QIP (RaaS estimate: ~24% of total service charge revenue) and is higher margin than local client work owing to its more administrative nature and the support and instructions provided by the foreign associate throughout the process.
- **Outbound revenue (the Firms engaging associates):** The Firms engage foreign associates to act as agent on behalf of their local clients seeking patents and/or trade marks in countries outside those in which the Firms operate (including the US, Europe and Japan). This generates associate charges revenue (equating

to the recharging of the foreign agents' fees plus a small margin) together with recoverable expenses. Whilst it is low-margin administrative-type activity in itself, we note that:

- The Firms also generate service charges for supporting and instructing foreign associates throughout the prosecution stage.
- The typical reciprocity of the associate relationships combined with the relative volumes of inbound and outbound foreign filings (with significantly more applications from non-residents filing in Australia than vice versa) is beneficial for the Firms.

Exhibit 19: Associate charges revenue for FY18a to H1FY23a (in A$m unless otherwise stated)

	FY18a	FY19a	FY20a	H1 FY21a	H2 FY21a	FY21a	H1 FY22a	H2 FY22a	FY22a	H1 FY23a
Associate charges revenue	25.2	25.7	26.3	12.0	14.8	26.7	13.8	16.9	30.7	16.6
Change on pcp (%)	*14.2**	*2.0*	*2.3*	*(6.6)*	*9.4*	*1.6*	*15.4*	*14.3*	*14.8*	*20.5*
Change on pcp ($m)	*3.1**	*0.5*	*0.6*	*(0.8)*	*1.3*	*0.4*	*1.8*	*2.1*	*4.0*	*2.8*
% of QIP total revenue	25	23	23	20	24	22	22	26	24	22

Source: QIP financial statements; *vs. FY17 pro-forma results

SE Asian operations

Since listing, QIP has modestly increased its Asia-Pacific presence through: (1) Its Malaysian acquisition (Advanz) in July 2018; and (2) Organic growth via new office openings. Most recently, DCC opened an office in Hong Kong in August 2022. FPA established a small office in Singapore in 2018.

We make the following observations in relation to the financial contribution of the Asian operations:

- They contributed 6.4% ($6.2m) and 7.6% ($4.0m) of QIP's service charge revenue in FY22 and H1 FY23 respectively.
- There was a ~nine percentage point differential between their FY22 share of QIP's total patent filings (16%) and service revenue (~8%).
- They recorded a strong 44% EBITDA margin in FY22 (almost as high as the 47% EBITDA margin disclosed by IPH for its Asian operations for both FY22 and 1H FY23) which fell back to 33% in H1 FY23. The higher margins are a function of the skew to foreign inbound filings work, and the relative cost base (no corporate overheads allocation).
- Recent service charge revenue growth (14% in FY22 and 35% in H1 FY23) was largely driven by Singapore. Referred filings (including via the Australian offices) have also increased.
- Advanz generated $2.2m of revenue in FY19 (its first full year under QIP's ownership) and EBITDA of $900k (41% EBITDA margin). We estimate that its revenue remains around these levels.

Exhibit 20: Asian segment – revenue and earnings (in A$m unless otherwise stated)

	FY18a	FY19a	FY20a	H1 FY21a	H2 FY21a	FY21a	H1 FY22a	H2 FY22a	FY22a	H1 FY23a
Service charge revenue	3.3	5.0	5.9	2.6	2.8	5.4	2.9	3.3	6.2	4.0
Service revenue growth (%)	*n.d.*	*51.5*	*19.3*	*(18.7)*	*4.6*	*(8.1)*	*12.1*	*15.6*	*13.9*	*35.0*
Service revenue growth ($)	*n.d.*	*1.7*	*1.0*	*(0.6)*	*0.1*	*(0.5)*	*0.3*	*0.4*	*0.8*	*1.0*
% of QIP's total service revenue	***4.3***	***5.7***	***6.6***	***5.6***	***6.2***	***5.9***	***6.0***	***6.8***	***6.4***	***7.6***
Associate charge revenue	0.4	1.1	2.2	0.9	1.2	2.1	0.8	0.9	1.7	1.3
Total revenue	**3.7**	**6.1**	**8.1**	**3.5**	**4.1**	**7.5**	**3.8**	**4.2**	**7.9**	**5.3**
Other income	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.4	0.6	0.2
Recoverable expenses	(0.4)	(1.1)	(2.2)	(0.8)	(1.2)	(2.1)	(0.8)	(0.8)	(1.6)	(1.1)
Net revenue	**3.2**	**5.1**	**6.0**	**2.7**	**2.9**	**5.7**	**3.2**	**3.7**	**6.9**	**4.3**
Overheads	(3.0)	(4.0)*	(4.6)	(2.1)	(2.0)	(4.1)	(2.0)	(2.1)	(4.1)	(3.0)
EBITDA**	0.2	1.0	1.4	0.6	1.0	1.6	1.1	1.6	2.8	1.3
EBITDA margin (% service rev)	***6.6***	***21.1***	***22.9***	***23.9***	***34.9***	***29.6***	***38.4***	***49.9***	***44.4***	***33.4***

Source: QIP financial statements; *Excludes start-up costs for FPA's Singapore office ($342k); **Excludes deferred consideration for the Advanz acquisition which was classified as a remuneration/employment expense

Strategy

QIP first outlined its strategy for FY21-FY24 in August 2020. Notably, the strategy includes a **multi-year business transformation programme** together with the refinement of its earlier post-listing strategy. The strategic initiatives, which are in five areas, are set out below.

Exhibit 21: QIP's strategy for FY21 to FY24+

Strategic initiatives	Key components
1. Technology	• Technology modernisation programme (see below)
2. Process	• Business process simplification including via automation projects
3. Growth and scale	Geographic and service offering expansion via organic growth and acquisitions (Asian focused): • e.g. Development of Sortify (post its September 2021 acquisition – launched in Malaysia and Singapore) • e.g. DCC Hong Kong office opening (August 2022), BD strategies (incl. DCC's China-focused BD principal)
4. People (staff)	• Offices/workspaces upgrades and consolidation (several new office leases in FY23 and FY24) • Professional development / new learning management system (LMS) launched
5. Clients	Service clients more effectively and efficiently: • Improved account planning • New CRM and data and analytics tools (part of technology modernisation programme)

Source: QIP announcements

Business Transformation Programme

QIP continues to progress its **multi-year business transformation programme**. It has three key components as set out below.

Exhibit 22: Business transformation programme

Component	Key projects and initiatives
Technology modernisation	• Cloud migration • IP management platforms upgrade • Automation projects (using Sortify) • Building internal systems / integrating disparate systems • Client engagement and collaboration platform and tools
Business simplification	• Offices/workspaces upgrades and consolidation (several new office leases in FY23 and FY24) • Brand simplification/streamlining: Cotters integration into FPA/DCC* and Advanz integration into DCC • Restructuring (employees) in late H1 FY23**
Process optimisation	• Business process simplification and optimisation - automation projects (using Sortify)

Sources: QIP FY22 annual report and QIP announcements; *Effective 1 July 2022 Cotters was integrated into FPA (for patents) and DCC (for trade marks). Due to its relative size, the magnitude of direct cost savings is expected to be minimal (and similarly for Advanz);**Per $1.2m restructuring costs reported in H1 FY23

Technology modernisation programme

The technology modernisation programme is of particular significance in light of both the material upfront cost outlay and potential future benefits which support QIP's medium-term low-30s EBITDA margin objective.

QIP has stated that the **total cost of the technology modernisation programme** is $8m-$10m over ~four years (FY21-FY24). Given outlays of $6.2m were made between FY21 and H1 FY23, the project spend is now ~65% complete and should be ~80% complete by 30 June 2023. The costs primarily pertain to upfront implementation of various systems, tech infrastructure, and other initiatives (e.g. Microsoft Azure migration, Sortify's initial automation projects for the Firms, new SaaS platforms) - and have predominantly been expensed (which QIP removes in calculating underlying EBITDA).

QIP has also flagged that it is a 'front-loaded' programme given the **associated benefits** are expected to be realised over a medium-term timeframe commencing in H2 FY23 and increasing to $2m-$3m in FY24 followed by $4m+ annual recurring benefits from FY25 onwards.[15] We expect the benefits will primarily be **productivity related** (by containing future cost inflation together with some incremental revenue growth) as opposed to

[15] Per H1 FY23 results presentation.

direct reductions in the existing cost base (which we currently estimate will form a smaller component [est. ~20% of the initial benefits]).

Exhibit 23: Technology modernisation programme - costs and benefits (in A$m unless otherwise stated)

	FY21a	FY22a	FY23	FY24+	TOTAL
Costs*	1.8	3.2	2.5 - 3.0**	1.0-2.0	8.0-10.0
Benefits expected			**H2 FY23**: *"Some financial benefits starting to flow"*	**FY24**: 2.0-3.0 **FY25+**: 4.0+ pa	

Source: QIP announcements; *FY21 includes $1.1m SaaS costs and $0.3m transformation costs (per "statutory to underlying" reconciliation) and FY22 reflects $3.2m SaaS costs (per reconciliation); **QIP incurred $1.2m of SaaS costs relating to the programme in H1 FY23 (per reconciliation). The $1.2m of restructuring payments (employees) were not part of the programme's costs

At the recent H1 FY23 result, QIP re-iterated that it is *"[c]urrently on track to realise $4m+ per annum in technology-related gains by FY25 and beyond"* and that it expects "*to see some modest financial gains starting to emerge in the second half*" [of FY23] from productivity and client services.

At the November 2022 AGM, QIP also advised that it expected "*to see modest gains of up to $1m*" **in H2 FY23** from the broader business transformation programme (i.e. tech modernisation and the business simplification and optimisation measures). We expect the majority of these anticipated gains will be derived from the restructuring component of the business simplification measures.

A summary of the various projects within the technology modernisation programme is set out below together with QIP's latest technology modernisation programme slide (February 2023).

Exhibit 24: Technology modernisation programme - overview of key individual projects

Projects	Completed project	Est. completion timing	Nature of benefits		
			Direct future cost savings	Incremental revenue	Future cost containment
1. Cloud migration					
• Migration of core infrastructure to Microsoft Azure	✓ H1 FY23		✓		✓
• Network infrastructure re-design and upgrades	✓ H1 & H2 FY23		✓		✓
• On-premise and hosted data centres decommissioning	×	H2 FY23	✓		✓
• Integration layer added for automation tools in upgraded IP mgmt platform	×	H2 FY23			✓
2. Upgrade IP management platform to latest version of Clarivate's platform	×	H2 FY23 / H1 FY24		✓	✓
3. Automation projects	Ongoing via Sortify	Two projects completed; Two under way; others in planning		✓	✓
4. Building internal systems / integrating disparate systems					
• New human resources information system (HRIS) platform	✓ H1 FY22			✓	✓
• Case management system upgrade	✓ H2 FY22			✓	✓
• New finance platform	×	FY23: Vendor selection FY24: Implementation			✓
5. IT support					
• Transition to global service provider (Fujitsu)	✓ H1 FY22		✓		
6. Client service capabilities					
• CRM	×	FY23: Vendor selection		✓	✓
• Mobile applications suite	×	FY24+		✓	✓
• Data and analytics	×	FY24+		✓	✓
• Client tools	×	FY24+		✓	✓

Sources: QIP announcements, RaaS

Exhibit 25: QIP's technology modernisation programme

TECHNOLOGY MODERNISATION

	Phase 1: Foundations FY21	Phase 2: Resilience FY22	Phase 3: Growth FY23	Phase 4: Optimise FY24+
Projects	▪ Laptop program ▪ Collaboration platforms ▪ Flexible work policies ▪ High-level IT planning ▪ Cyber security upgrade	▪ Vendor assessment ▪ Technical architecture ▪ Partner selection ▪ Program planning ▪ Client engagement platform ▪ Sortify acquisition	▪ **Migration to Microsoft Azure** ▪ IP platform upgrades ▪ **Automation projects** ▪ Finance platform selection ▪ End-user tools	▪ Further integrations ▪ Further automation ▪ Mobile applications suite ▪ Digitisation ▪ Data and analytics
Impacts	▪ Work from anywhere ▪ Stability and growth through COVID ▪ Security enhanced ▪ New work practices ▪ Greater collaboration	▪ Clear pathway ahead ▪ Technical hurdles identified and addressed ▪ Unique capability established (Sortify)	▪ Improved workflow and productivity ▪ Reduced cost of support ▪ Greater stability and scalability ▪ Improved client service	▪ Increased productivity ▪ Reduced cost of operations ▪ Greater scalability at lower cost ▪ Improved client service ▪ Improved margins ▪ Data as a strategic capability
Costs	$1.8m	$3.2m	$2.5–$3.0m	$1.0–$2.0m
Benefits	Business resilient during COVID	New capabilities established (partners, software development)	Some financial benefits starting to flow in 2023 (productivity, client service)	Major benefits being delivered Competitive advantage $2m - $3m gains in FY24 $4m+ per annum gains in FY25 and beyond

Currently on track to realise $4m+ per annum in technology-related gains by FY25 and beyond

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Source: QIP

Benefits

As abovementioned, we anticipate that **productivity improvements** are likely to generate the vast majority of the expected benefits, and that they will be two-fold:

- **Incremental revenue benefits** (RaaS est: ~10%-15% of the benefits from FY25): These could flow from increased time available to pursue business development activities, and improvements in staff utilisation rates. Using the 15% of benefits estimate and assuming a high incremental margin, this could add $0.3m-$0.5m pa to EBITDA from FY25.
- **Future cost containment benefits** (RaaS est: ~80% of the initial benefits/85%-90% of benefits from FY25): Employee cost growth containment would be the key benefit as productivity gains yield utilisation rate improvements and minimise headcount growth (i.e. improved scalability and operating leverage). Using the 85% of benefits assumption, this implies that cost growth would be curtailed by $3.2m-$3.6m pa from FY25 (i.e. cost inflation of ~4.5% pa that would otherwise have occurred [on the FY22 underlying operating cost base of ~$75m] could be avoided). We note that our scenario analysis in relation to the EBITDA margin objective also implies that cost growth over the coming years would be well controlled (i.e. that QIP would experience 1.5%-2.3% pa increases rather than the 'standard' 4%-5% pa) – see below.

  In addition, the cloud computing infrastructure obviates future capex requirements for data centre upgrades.

The remaining est. 20% of initial benefits are expected to arise from **direct cost operating reductions** via initiatives such as the move to the outsourced IT support provider (completed in FY22) and cloud computing rather than data centre infrastructure. On our 20% assumption, this would remove ~$0.6m-$0.8m of annualised costs primarily over the course of FY23 and FY24.

EBITDA Margins: Low-30s Medium-term Target

In August 2022, QIP articulated its aim of delivering **medium-term EBITDA margins in the low-30s** (based on service charge revenue[16]) compared to 27.2% in FY22. This objective was subsequently reaffirmed in November 2022 and February 2023.

The factors and initiatives underpinning the objective are:

- **Organic growth** via: (1) Rate-card adjustments where appropriate to offset salary increases and other cost inflation; (2) General cost efficiencies; (3) Targeted business development; and (4) Increased contributions from Sortify (as its online trade marks platform reaches sufficient scale to become EBITDA positive) and the new DCC Hong Kong operation.
- The **technology modernisation programme benefits** (via initial direct cost savings and medium-term future cost containment and revenue benefits – see above). This includes expected benefits from Sortify's initial automation projects for the Firms.

New office leases: At the November 2022 AGM, QIP also provided guidance regarding the expected **cost savings** as it enters into **new office leases** - with up to $500k in FY23 and $1.5m-$2.0m from FY24. This reflects FPA's new Melbourne office lease, the end of the Cotters lease and some sub-leasing (all in H1 FY23), and upcoming new lease arrangements in H2 FY23 and FY24 (for DCC Sydney from May 2023 and DCC Melbourne [the largest office in the group] from mid-2024). However, we expect any EBITDA benefit will be minor given the savings would primarily be reflected in right-of-use asset amortisation and finance costs (per AASB 16) rather than occupancy costs.

DCC/FPA integration scenario appears unlikely: During H1 FY23, QIP integrated the staff and operations of Cotters (acquired in May 2020) into FPA (for patents) and DCC (for trade marks), and largely integrated Advanz (acquired in July 2018) into DCC Asia. Meanwhile, DCC and FPA operate as independent firms within the QIP group. We do not envisage this will change for the foreseeable future given we suspect the risks associated with a merger/integration scenario either essentially offset or outweigh the potential upside.

Scenario analysis – EBITDA margin objective

The following table sets out some EBITDA scenarios based on low-30s underlying EBITDA margins (on service charge revenue) in FY26 using various net revenue growth assumptions. This indicates that in order to achieve low-30s underlying EBITDA margins in FY26, QIP's FY22 underlying cost base (of $75m) would need to experience minimal growth (1.5%-2.3% pa).

If net revenue grows at ~4% pa[17] to $117m by FY26, EBITDA margins in the low-30s imply that underlying EBITDA would be in the range of $35.0m-$37.3m (vs. $26.3m FY22). The underlying cost base would be in the range of $80m-$82m in this scenario (i.e. CAGR of 1.5%-2.3% from FY22 levels of $75m). This ties into the expected benefits from the technology modernisation programme – and our expectation that they will primarily arise from productivity-driven future cost containment (i.e. that ~4%-5% pa cost growth that would otherwise have occurred is curtailed).

[16] On a total revenue basis, this translates to est. ~25%.

[17] For the purposes of impairment testing at 30 June 2022, QIP's cash flow projections assumed revenue growth rates of ~4% pa for the Firms.

Exhibit 26: Underlying EBITDA margin scenarios – FY26 (in A$m unless otherwise stated)

	Underlying EBITDA at 31% margin	Underlying EBITDA at 32% margin	Underlying EBITDA at 33% margin
Net revenue growth* (FY22-26 CAGR)			
1% (FY26: $104m)	31.2	32.2	33.2
2% (FY26: $108m)	32.4	33.5	34.5
3% (FY26: $113m)	33.7	34.8	35.9
4% (FY26: $117m)	35.0	36.2	37.3

Source: RaaS estimates; *Reflects growth in service and associate charges and commission income at relevant CAGR less recoverable expenses (95% of associate charges)

Growth Strategy: Sortify Acquisition

Effective 30 September 2021, QIP acquired Sortify, a New Zealand-based legal technology company that provides online trade marks registrations and automated intellectual property solutions. The company was incorporated in May 2017 by three experienced IP lawyers (Claire Foggo, Alan Potter and Narly Kalupahana).

Acquisition consideration: QIP acquired Sortify for total consideration of up to A$10.7m (with a cash/shares split of 72%/28%). This includes up to $3.0m in contingent payments subject to achieving certain hurdles over the two years following completion. The first contingent consideration payment of $1.5m was made in November 2022 and the second $1.5m payment will made around November 2023 (assuming the requisite hurdles are satisfied).

QIP's acquisition rationale:

- High-growth online platform with the potential to launch in a number of additional markets, particularly in Asia at low cost (i.e. scalability).
- Exposure to the self-filers segment of the trade marks market which QIP views as high growth.
- The broader strategic benefit of Sortify's automated technology platform and skill set to QIP. It has a team of nine full-time software developers (all located in New Zealand) with machine-learning and AI expertise – and Sortify's tools and staff are now being utilised for several automation projects for the Firms.

Sortify's client base of self-filing SMEs and start-ups is distinct from that of DCC's trade marks practice (e.g. domestic and foreign corporates and research institutions) - and it is not expected to cannibalise DCC's business.

Acquisition metrics: Given Sortify is a high-growth legal technology company, we suspect the consideration was determined based on NPV and an assessment of its strategic value to QIP's broader internal automation and process simplification projects.

Operations: The three components of Sortify's operations are:

- **Online automated trade marks registration platforms for self-filers** (typically small businesses and start-ups) in five countries (Australia, New Zealand, UK, Singapore, and Malaysia). In Q2 FY23, Sortify became the largest trade marks filing agent in Australia (moving ahead of DCC) and remained the second largest in New Zealand. It filed a total of 2,733 applications across these two markets in CY22 (up 16% on the pcp). This gave it a 4.8% market share of the combined Australian and New Zealand markets (based on total trade marks applications). Sortify has also gained momentum in the UK market where filings increased by 250% in CY22 (RaaS est. ~400 applications).

  The fees from these platforms currently generate virtually all of Sortify's revenue. We estimate that: (1) Sortify produced ~$1.0m revenue in FY22 (~$0.8m nine-month contribution to QIP); (2) Its revenue will grow by 40% to $1.4m in FY23 (~1.5% of QIP's service charge revenue); and (3) The average fee per trade mark filing (excluding official government registration fees) across the five countries will be ~A$370 in FY23.[18]

Exhibit 27: Sortify's trade marks registration platforms and brand names*

Country	Brand name	Website	Years in market	Trade marks applications (CY22)	Market rank (based on applications filed)
Australia	Trademarks Online	www.trademarksonline.com.au/	~3.5 years	2,733 (Aust. & NZ)	#1 in Q2 FY23 (from #3 in Q2 FY22 and market entrant in 2019)
New Zealand	DIY Trademarks	www.diytm.co.nz/	~six years	2,733 (Aust. & NZ)	#2 (behind AJ Park [IPH] at #1)
UK	Trademarks Online	www.trademarksonline.co.uk/	~three years	~400 (RaaS est.)	
Singapore	Trademarks Online	www.trademarksonline.com.sg/	~nine months Since June 2022	~100 (est. SG and MY)	
Malaysia	Trademarks Malaysia	www.trademarksmalaysia.my/	~seven months Since August 2022	~100 (est. SG and MY)	
Total				**~3,233 (est.) (up est. ~35% on CY21)**	

Sources: QIP announcements, Sortify's websites, RaaS estimates; *The agent name appearing on trade marks applications and registrations in most jurisdictions is "Trademark Planet Limited" (Sortify's subsidiary). Sortify is not an incorporated registered trade marks attorney in any of the jurisdictions in which it operates

- **Technology and automation projects for QIP:** Applying Sortify's automation and IP technology within the Firms (including the current technology modernisation programme) in order to: (1) Reduce and streamline administrative tasks (e.g. provision of filing receipts) thereby deriving productivity gains; and (2) Enhance client service.

  Some deployments of **Sortify automation tools** were completed in H1 FY23, several projects are currently in train, and further projects will be scoped for implementation in FY24 and FY25. Several members of Sortify's tech team are currently engaged in the provision of projects for the broader QIP business and we expect this resource allocation will continue into FY24 and beyond.

- **Provision of a suite of productivity tools for trade marks attorneys and lawyers** (known as "Sortify Attorney"). From a revenue perspective, this is now a small component of Sortify's operations comprising existing subscriptions (primarily from some Canadian law firms). Some of the tools within the Sortify Attorney suite have been deployed within DCC's trade marks practice. Sortify has also developed a "China Drafter" tool which finds the correct China-approved trade marks terms and overlays China's goods and services sub-classification system.

Outlook and scenarios: At its November 2021 AGM, QIP stated that "*[w]hilst it is a relatively small business today, in revenue terms, its high growth and ability to open up new markets will lead to it becoming a material part of our revenues and a significant contributor to growth over the next several years*" (emphasis added). This was reiterated in the FY22 results (*"Sortify is a high-growth business which will become a significant contributor to our financial performance over the next several years"* [emphasis added]), and results presentation ("*aim to become a significant part of the QANTM portfolio over next 3-4 years)*". More recently (in February 2023), it noted that "*Sortify has plenty of runway - in a market segment that is largely around registered businesses without registered trademarks, Sortify is simplifying the pathway to address that gap. Sortify's UK filings are also growing strongly, with the UK remaining a very large opportunity*.")

In order for Sortify to become a material part of QIP's revenue by FY26-FY27 (either on a service charge or total revenue basis and using a 5% materiality threshold), this would require it to scale to $5m-$6m of annualised revenue (RaaS est. 13,000-15,000 applications pa). For the purposes of impairment testing of intangibles at 30 June 2022, QIP utilised a five-year revenue CAGR of 40% (which implies FY27 revenue of $5.4m based on Sortify's est. $1.0m FY22 revenue). Some scenarios are set out below.

[18] Sortify also collects and pays the official registration fees to the local IP office (e.g. IP Australia) on behalf of the applicant. These government registration fees are not included in either total revenue or recoverable expenses

Exhibit 28: Sortify's trade marks registration platforms – revenue scenarios

Number of applications pa	5,000	7,500	10,000	15,000	20,000
Applications growth (#) vs. CY22 applications	*1,767*	*4,267*	*6,767*	*11,767*	*16,767*
Revenue at A$370/application average (A$m)	1.9	2.8	3.7	5.6	7.4
As a % of QIP's FY22 service charge revenue	*1.9*	*2.9*	*3.8*	*5.7*	*7.7*
Revenue at A$400/application average (A$m)	2.0	3.0	4.0	6.0	8.0
As a % of QIP's FY22 service charge revenue	*2.1*	*3.1*	*4.1*	*6.2*	*8.3*

Source: RaaS estimates

Sortify's future growth is expected to occur via a combination of:

- **New markets:** Sortify plans to expand into two-three new markets during the remainder of CY23, and we envisage that further markets will be added in subsequent years. We suspect that it will consider entering additional Asian markets such as Hong Kong, Indonesia, Philippines, India, as well as selected countries in Europe. Individual market nuances which are assessed for each potential market include: (1) The technology interface into and sophistication of the IP office; and (2) Any local agent and other regulatory requirements which would necessitate local arrangements (and higher costs).
- **Existing geographic markets**: Sortify is gaining traction in the UK market and it has only launched in Singapore and Malaysia relatively recently. Consequently, we anticipate these markets will deliver the strongest filings growth rates into FY24 and FY25.
- Turning to **Australia and New Zealand**, we note that: (1) Sortify has attained significant market share in the self-filing segments of these markets (as well as the overall market); and (2) Subdued economic conditions led to a tapering in H1 FY23 - with Sortify's Australian filings down est. 9% on the pcp (vs. 25% for the broader market) against a strong comparable period. Nonetheless, in the medium term, Sortify is positioned to benefit from any growth in the self-filing segment (i.e. increased adoption of trade mark protection by self-filers/SMEs). QIP has noted that the vast majority of SME owners do not apply for trade mark registration due to cost and/or the perception of complexity – and that Sortify's offering addresses both of these obstacles (it is cost effective and provides an automated online guided process).

Competition: Sortify has several competitors in the online trade marks registration space in each of its markets. In Australia, some of these offerings appear to provide assisted services rather than fully automated online registration (e.g. LegalVision which offers trade marks registration services as part of its membership packages, and Applied Marks[19]). Trama, a European-based company, offers online originated trade marks registration packages in the UK, EU, US, and Australia. This includes the involvement of lawyers and a three-five day process once an order is submitted. Trama received €7m of funding in July 2022 from Vision Ventures.

Digip AB appears to be a more comparable company (and a potential competitor). It is a Swedish legal technology company providing on-demand trade marks registration and protection services that are designed to be accessible and affordable. Digip offers trade marks registrations and subsequent trade marks monitoring via monthly or annual subscriptions (~A$750 pa). The company launched in late 2020 and provides services to customers in over 26 countries. Whilst it appears to be focused on European registrations, it states that it can provide registrations and monitoring globally including in China and the US. In June 2021, Digip completed a €2m funding round at a valuation of ~€6m (~A$10m) led by Industrifonden and with participation from SeedX, Antler and angel investors to "*further drive geographical expansion, product development and continue the mission to automate trademark management*" including translation into languages such as Spanish.

[19] It also operates the LegalNow website. IPH acquired Applied Marks Pty Ltd on 1 July 2021 for total consideration of up to $7.04m ($5m cash upfront plus ~$2.04m contingent consideration). IPH noted that the acquisition has enabled it to create a "*Digital Services function which is focused on harnessing digital expertise and software tools to generate growth and efficiencies for our teams and clients in each of the regions in which we operate*."

Operating costs: Sortify's cost base primarily comprises: (1) Employee expenses (14 staff based in New Zealand); (2) Advertising/marketing costs (primarily SEM/SEO plus some direct marketing and referrals); and (3) New market entry costs.

EBITDA: Turning to EBITDA, we estimate that: (1) Sortify will move to operating EBITDA breakeven towards the end of FY24 as the platform continues to scale (excluding costs allocated to automation projects for the Firms); (2) Its EBITDA loss for FY22 was sub-$500k; (3) Another sub-$500k loss will be incurred in FY23f; and (4) It has the potential to achieve 30%-35% margins once it reaches ~8,000 applications pa (~150% above CY22 levels) and 50%+ margins once it attains 15,000 applications pa (assuming a cost base of ~$2.5m at that juncture). If operating leverage of this order transpires, it would assist QIP in achieving its low-30s medium-term EBITDA margin objective.

Growth Strategy: Geographic Expansion - Remains Asia Focused

Geographic expansion in the Asian region remains a key component of QIP's strategy (as has been the case since listing). This would enable QIP to leverage its existing SE Asian presence and the Firms' existing relationships with regional and multinational company clients seeking IP protection in the region.

QIP has made the following statements regarding its acquisition strategy over the past ~seven months:

- **February 2023**: *"We continue to explore a number of targeted merger and acquisition opportunities, ensuring that they meet our strict eligibility criteria (e.g. culture, strategy, people, client reputation, earnings-accretive)."*
- **FY22 Annual Report:** "*Our Asian patent applications grew at 16% during FY22, and Asia is now contributing around 7% of our overall revenue. We expect this growth to continue, and are aiming for revenues in Asia to be over 25% of group total in the medium to longer term*" (emphasis added).
- **August 2022**: *"[c]ontinued evaluation of suitable merger and acquisition opportunities was undertaken with the advancement of several opportunities to an investment case stage*."

In addition to pursuing Asian opportunities for the Firms, geographic expansion plans are actively being formulated and executed at Sortify. Whilst further Asian launches are also a focus for Sortify, we expect its expansion plans could include countries in other regions such as Europe.

Acquisition funding facility: QIP stated (in August 2022) that *"the M&A opportunities that we're looking at are all able to be funded through the existing arrangements that we've got in place*". US$16m (~A$24m) of the US$25.5m (~A$36m) acquisition facility remains available and assuming a 60%/40% mix of consideration cash/shares, this implies that the maximum acquisition consideration QIP would outlay is ~$40m. If the entire acquisition facility was utilised: (1) Net debt/EBITDA would increase to ~2x (the top end of QIP's target range); and (2) We estimate that acquired service charge revenue and EBITDA would be ~$20m and ~$7m respectively (assuming an average 6x EBITDA multiple). In turn, this magnitude of revenue would increase the Asian revenue contribution to >20% (if it occurred in the next few years).

Countries of interest: As disclosed upon listing, the other jurisdictions of interest to QIP are Indonesia, Thailand, Philippines, and Vietnam. We suspect that India may also be a target. Turning to China, the recently opened DCC Hong Kong office establishes a beachhead into the mainland which we expect will facilitate increased inbound and outbound workflows.

Separately, IPH's acquisition of leading Canadian IP services firm Smart & Biggar could enliven interest from other Canadian firms in the Australian-listed firm model which may also present opportunities for QIP in the medium to long term.

In relation to **Australia/NZ,** QIP commented (in August 2022) that "*[w]e wouldn't rule out doing anything in Australia - our assessment has been that there aren't really significant opportunities in Australia at present."*

Acquisitions in New Zealand also appear to be a less likely scenario (noting IPH has previously acquired the two dominant firms).

Exhibit 29: QIP - Potential geographic expansion (QIP disclosure and RaaS views)

Country/region	DCC existing	FPA existing	Sortify trade marks platform
Australia	✓	✓	✓
New Zealand	✓	✓	✓
Singapore	✓	✓	✓
Hong Kong	✓	×	✓
Malaysia	✓	×	✓
UK	×	×	✓
Country/Region	**DCC (and/or FPA) - potential markets**		**Sortify trade marks platform - potential markets**
Indonesia	✓		✓
Philippines	✓		✓
Thailand	✓		✓
Vietnam	✓		✓
India	✓		✓
China (PRC)	DCC HK office = beachhead for PRC		Possibly but lower priority
UK	Unlikely		Existing presence
Selected European countries	Unlikely		✓
Canada	Possibly but lower priority		Possibly but lower priority
United States	Unlikely		Less likely

Sources: QIP announcements and RaaS

Exhibit 30: IP services market overviews – India, Indonesia, Thailand, Philippines, and Vietnam

	India	Indonesia	Thailand	Philippines	Vietnam
IP office	Office of the Controller General of Patents, Designs & Trade Marks	Directorate General of Intellectual Property	Department of Intellectual Property	Intellectual Property Office of the Philippines	Intellectual Property Office of Vietnam
Relevant regulations	✓	✓	✓	✓	✓
Attorney registration requirements	✓	✓ (~1,100 attorneys)	✓	✓	✓
IP service providers – some key players	Local firms – e.g. Anand and Anand, K & S Partners, Lakshmikumaran & Sridharan	Spruson & Ferguson (IPH - since 2016), Rouse (in association with Suryomurcito), Hadiputranto Hadinoto & Partners (Baker McKenzie)	Spruson & Ferguson (IPH - since 2016), Rouse, Baker McKenzie, ZICO IP, Domnern Somgiat & Boonma Law Office, Satyapon & Partners, Tilleke & Gibbins	Angara Abello Concepcion Regala & Cruz Law Offices (ACCRALAW); Baranda & Associates (an affiliated law firm to Rouse), Quisumbing Torres	Rouse, Pham & Associates, Tilleke & Gibbins, Baker McKenzie, INVESTIP
Standard patent applications – CY21	43,163	8,800	8,242	4,393	8,534
- Resident/local applicants	*26,267 (61%)*	*1,397 (16%)*	*867 (11%)*	*490 (11%)*	*1,066 (12%)*
*- Non-resident/foreign applicants**	*16,896 (39%)*	*7,403 (84%)*	*7,375 (89%)*	*3,903 (89%)*	*7,468 (88%)*
Patent application growth rates (%)					
CY21 vs. CY20	13.9	7.8	9.5	10.0	10.9
Five-year CAGR	10.8	(1.8)	1.1	5.1	10.3
10-year CAGR	10.5	4.2	7.7	3.2	9.1
***Non-resident applicants – Top 3+Au**					
United States	11,410	1,156	1,103	1,047	1,258
China	3,989	1,216	873	400	1,441
Japan	4,617	2,101	2,921	734	1,620
Australia	313	68	53	44	43

Sources: WIPO reports and databases, country IP office websites

Other IP services firms operating regionally in Asia: IPH's Spruson & Ferguson has a strong presence in the region (particularly in Singapore), while Rouse (a UK-based IP services firm focused on emerging markets including Asia) also has a network of offices. Meanwhile, some other IP service firms have established a presence in China in recent years[20] but have not expanded into SE Asia.

[20] In 2021, Taylor Wessing launched an IP agency in Beijing and Gowling WLG launched a Shanghai office focused on providing IP services.

Financial Statement Analysis

QIP's half-yearly financials for FY22 and H1 FY23 together with our forecasts for H2 FY23/FY23 are set out below followed by a review of the FY22/H1 FY23 components. Our full-year forecasts for FY23-FY25 are detailed in P&L Forecasts below.

Exhibit 31: Half-year P&L and key cash flow statement forecasts (in A$m unless otherwise stated)

	H1 FY22a	H2 FY22a	FY22a	H1 FY23a	H2 FY23f	FY23f	*% chg on pcp (H1)*	*% chg on pcp (H2)*	*% chg on pcp (FY)*
Profit & Loss Statement									
Service charge revenue									
-Patents	33.5	31.5	65.0	35.4	32.8	68.2	*5.8*	*4.3*	*4.9*
-Trade Marks	9.5	10.3	19.8	10.4	10.2	20.6	*9.1*	*(1.0)*	*3.8*
-Legal Services	5.7	6.0	11.7	6.2	6.1	12.3	*8.9*	*2.1*	*4.9*
Total service charge revenue	**48.9**	**47.7**	**96.6**	**52.0**	**49.0**	**101.0**	***6.4***	***2.8***	***4.6***
Associate charge revenue*	13.8	16.9	30.7	16.6	17.1	33.8	*20.5*	*1.5*	*10.0*
Total operating revenue	**62.7**	**64.6**	**127.3**	**68.6**	**66.2**	**134.8**	***9.5***	***2.5***	***5.9***
Other income (inc. FX gains)	1.1	2.1	3.2	1.2	1.0	2.1	*12.2*	*(55.2)*	*(32.9)*
Recoverable expenses*	(13.1)	(16.1)	(29.3)	(15.7)	(15.9)	(31.6)	*19.9*	*(1.8)*	*7.9*
Net revenue	**50.6**	**50.6**	**101.2**	**54.1**	**51.3**	**105.4**	***6.9***	***1.4***	***4.1***
Operating costs									
- Employment	(31.3)	(28.9)	(60.1)	(32.7)	(29.6)	(62.3)	*4.6*	*2.6*	*3.7*
- Technology	(3.7)	(4.4)	(8.1)	(3.9)	(3.7)	(7.7)	*6.4*	*(15.3)*	*(5.5)*
- Occupancy	(1.1)	(1.0)	(2.0)	(0.9)	(1.1)	(2.0)	*(12.0)*	*11.7*	*(0.8)*
- Other expenses (inc. FX losses)	(4.1)	(5.2)	(9.3)	(5.3)	(4.5)	(9.9)	*28.4*	*(14.2)*	*5.5*
Total operating costs (statutory)	**(40.1)**	**(39.5)**	**(79.6)**	**(42.8)**	**(38.9)**	**(81.9)**	***6.8***	***(1.4)***	***2.8***
EBITDA - statutory	**10.5**	**11.1**	**21.6**	**11.2**	**12.3**	**23.5**	***7.1***	***11.3***	***8.7***
Statutory EBITDA margin (%) – on service charge revenue	*21.5*	*23.2*	*22.3*	*21.6*	*25.1*	*23.2*	*0.1 pts*	*1.9 pts*	*0.9 pts*
Add back: Non-recurring costs	2.3	2.4	4.7	2.5	1.8	4.4	*10.7*	*(27.8)*	*(6.8)*
EBITDA - underlying	**12.8**	**13.5**	**26.3**	**13.8**	**14.1**	**27.9**	***7.6***	***4.3***	***6.0***
Underlying EBITDA margin (%) - on service charge revenue	*26.1*	*28.3*	*27.2*	*26.5*	*28.7*	*27.6*	*0.4 pts*	*0.4 pts*	*0.4 pts*
Underlying EBITDA – excl. FX gain/loss	12.7	12.7	25.4	14.4	14.3	28.8	*13.3*	*12.5*	*13.3*
Depreciation and amortisation	(4.3)	(3.9)	(8.2)	(4.3)	(3.9)	(8.3)	*0.8*	*0.8*	*0.8*
EBIT (statutory)	**6.2**	**7.2**	**13.4**	**6.9**	**8.4**	**15.2**	***11.4***	***17.1***	***13.6***
Net interest	(1.1)	(1.2)	(2.4)	(1.8)	(1.7)	(3.5)	*62.1*	*37.2*	*49.1*
Net profit before tax	**5.0**	**5.9**	**11.0**	**5.1**	**6.7**	**11.7**	***0.2***	***12.9***	***6.0***
Income tax expense	(1.7)	(2.2)	(3.9)	(1.7)	(1.8)	(3.5)	*1.3*	*(18.0)*	*(9.7)*
Net profit after tax - statutory	**3.4**	**3.7**	**7.1**	**3.4**	**4.9**	**8.2**	***(0.4)***	***31.2***	***14.5***
Net profit after tax - underlying	**6.5**	**6.3**	**12.8**	**6.7**	**6.4**	**13.1**	***3.8***	***1.1***	***2.5***
EPS - statutory (cents)	2.5	2.8	5.3	2.5	3.5	5.9	*(1.2)*	*25.2*	*10.9*
EPS - underlying (cents)	4.7	4.6	9.3	4.8	4.6	9.5	*2.8*	*0.3*	*1.6*
DPS (cents) - based on NPATA**	3.0	3.5	6.5	2.8	3.2	6.0	*(6.7)*	*(8.6)*	*(7.7)*
Dividend pay-out ratio (% of NPATA)	*90*	*90*	*90*	*80*	*70*	*74*			
Key Cash flow Statement Figures									
Net operating cash flow	7.3	8.7	16.0	2.2	12.4	14.6	*(69.9)*	*48.1*	*(5.6)*
Capitalised tech dev. spend and capex	(0.5)	(0.4)	(0.9)	(2.3)	(0.4)	(2.7)	*334.0*	*5.3*	*186.4*
Free cash flow	**6.8**	**8.3**	**15.1**	**(0.1)**	**11.9**	**11.9**	***(100.9)***	***43.6***	***(21.3)***
Net debt at end of period	23.1	23.8	23.8	31.8	25.6	25.6	*37.7*	*7.6*	*7.6*

Sources: QIP financial statements and announcements, and RaaS forecasts; *Recoverable expenses are on-charged to clients and reflected in Associate charge revenue; **Adds back acquisition-related intangibles amortisation

Revenue Growth and Composition

QIP's current **service charge revenue is ~$100m** (based on FY23f). Its five-year service charge revenue CAGR (to FY22) was 3.7% and, on a constant currency basis, we estimate it was 3.2%.

Total **operating revenue of ~$135m** (for FY23f) includes the low-margin associate charge revenue. **Net revenue** ($105m for FY23f) captures service charges, the small margin on associate charges, a commission stream from a patent renewals service, and any FX gains.

QIP's recent **service charge revenue growth and composition** can be considered from four perspectives, namely: (1) Organic vs. acquisition (Sortify); (2) Constant currency; (3) Business segment (patents, trade marks and IP legal services); and (4) Geographic segment (Australia vs. Asia).

- **Organic vs acquisition growth**: QIP's service charge revenue benefited from Sortify's first-year contributions in FY22 (nine months) and H1 FY23 (full six months vs. three in the pcp). On our estimates, Sortify's first-year revenue contribution comprised ~$0.8m in FY22 (nine months) and ~$0.4m in Q1 FY23. Adjusting for this, QIP's service charge revenue growth was 3.8% in FY22 and 5.8% in H1 FY23 (vs. the reported growth rates of 4.5% and 6.4%).
- **Constant currency revenue growth**: On a constant currency basis, we estimate that service charge revenue was ~$2m lower in both FY22 and H1 FY23 attributable to the A$/US$ depreciation. In turn, estimated constant currency revenue growth rates were 2.0% and 2.5% for FY22 and H1 FY23 respectively (vs. QIP's reported growth rates of 4.5% and 6.4% inclusive of the currency benefit).

  Given QIP's rate cards increased for segments of its client base during H1 FY23 (for an estimated overall average increase of ~2.5%), this implies that average overall workload/case volumes were flattish during the half.
- **Business segment**: QIP discloses the composition of its revenue by its three business lines (patents, trade marks, and IP legal services). The recent drivers for each are set out below.

Exhibit 32: Revenue drivers - H1 FY23 and FY22

Segment	H1 FY23 chg vs. pcp	Drivers	FY22 chg vs. pcp	Drivers
Patents	✓ ↑ 5.8%	• Rate card/fee ↑ for some clients • Currency benefit (est. ~$1.4m) • Market share ↑ = 6.8% Aust filings growth • Small initial contribution from HK office	✓ ↑ 1.2%	• Market share ↑ • Currency benefit (est. ~$1.4m)
Trade marks	✓ ↑ 9.1%	• Full six-month contribution from Sortify (vs. three months in pcp) + filings growth driven by UK • DCC rate card/fee ↑ (est. ~3% on pcp) • Currency benefit (est. ~$0.4m) • Australian market share ↑ for Sortify and DCC in a declining market (economic environment and cycling high comparables)	✓ ↑ 25.2%	• Nine-month initial contribution from Sortify (est. $0.8m) • Filings ↑ for DCC → market-share gains in a strong market for trade marks • Currency benefit (est. ~$0.4m)
Legal services	✓ ↑ 8.9%	• Higher litigation case loads vs. pcp • Currency benefit – foreign client skew	✗ ↓ 4.4%	• Lower case loads vs. pcp offset currency benefit
Total service charges	✓ ↑ 6.4%		✓ ↑ 4.5%	
Associate charges	✓ ↑ 20.4%	• Reflects RoW filings growth (local clients filing overseas = foreign associates appointed as agents) • Currency benefit – on-charging of US$ denominated invoices from associates	✓ ↑ 14.9%	• Reflects RoW filings growth • Currency benefit – on-charging of US$ denominated invoices from associates
Total operating revenue	↑ 9.5%		↑ 6.9%	

Sources: QIP announcements, RaaS

- **Australia vs. Asia**: Australia is QIP's dominant service revenue source accounting for ~93% of the total in both FY22 and H1 FY23. The remaining ~7% is from Asia.

Operating Cost Composition

QIP's **underlying operating cost base** was $74.9m in FY22 (up $5.4m or 7.8% on FY21) and will increase to $77.5m in FY23 on our forecasts (including $40.3m reported in H1 FY23). The 3.5% forecast yoy growth largely reflects a combination of salary inflation, increased business development and travel spend, and the $0.6m H1 FX loss.

We highlight the significance of **employment costs** which constitute 80% of the total.

The FY22 **statutory operating cost base** of $79.6m was $4.7m higher than underlying due to the sizeable spend for the technology modernisation programme and acquisition-related expenses (largely for Sortify). We expect there will be a similar differential in FY23 given $2.5m of adjustments were recorded in H1 FY23 and we expect a further $1.8m outlay for the technology modernisation programme in H2 (upper end of the $2.5m-$3.0m FY23 cost guidance).

Exhibit 33: Operating costs (underlying) for FY18 to H1 FY23 (in A$m unless otherwise stated)

	FY18a	FY19a	FY20a	H1 FY21a	H2 FY21a	FY21a	H1 FY22a	H2 FY22a	FY22a	H1 FY23a
Operating costs (underlying)										
1. Employment	43.9	48.7	53.0	28.2	28.4	56.5	30.6	29.1	59.7	31.6
Change on pcp (%)		*10.9*	*8.8*	*8.0*	*5.5*	*6.6*	*8.5*	*2.4*	*5.7*	*3.1*
2. Technology	3.3	3.5	3.7	1.9	2.4	4.3	2.6	2.3	4.9	2.7
Change on pcp (%)		*4.5*	*5.1*	*11.8*	*21.2*	*16.2*	*35.0*	*(3.2)*	*13.3*	*3.3*
3. Marketing, travel, and entertainment*	3.9	4.3	2.7	n.d.	n.d.	1.2	n.d.	n.d.	2.8	n.d.
Change on pcp(%)		*11.0*	*(37.2)*			*(56.2)*			*138.5*	
4. Occupancy**	6.5	6.7	2.0	1.0	0.9	2.0	1.1	1.0	2.0	0.9
Change on pcp (%)		*2.9*	*(69.4)*	*(9.1)*	*(2.6)*	*(0.0)*	*3.3*	*5.9*	*2.5*	*(13.7)*
5. Other	3.5	3.9	4.7	2.7*	2.9*	4.4	3.6*	4.7*	5.4	4.5*
Change on pcp (%)		*12.0*	*19.8*			*(6.7)*	*(3.4)*	*64.8*	*23.4*	*27.9*
Total operating costs (underlying excl. FX losses)	**61.1**	**67.1**	**66.1**	**33.8**	**34.6**	**68.4**	**37.8**	**37.1**	**74.9**	**39.7**
Change on pcp (%)		*9.8*	*(1.5)*	*2.6*	*4.3*	*3.5*	*11.7*	*7.3*	*9.5*	*5.0*
Change on pcp ($m)		*6.0*	*(1.0)*	*0.8*	*1.4*	*2.3*	*4.0*	*2.5*	*6.5*	*1.9*
Add: FX loss	-	-	0.8	1.0	0.1	1.1	-	-	-	0.6
Total operating costs (underlying incl. FX losses)	**61.1**	**67.1**	**66.9**	**34.8**	**34.7**	**69.5**	**37.8**	**37.1**	**74.9**	**40.3**
Change on pcp (%)		*9.8*	*(0.3)*	*5.6*	*2.1*	*(3.8)*	*8.5*	*7.0*	*7.8*	*6.6*
Change on pcp ($m)		*6.0*	*(0.2)*	*1.8*	*0.7*	*(2.6)*	*3.0*	*2.4*	*5.4*	*2.5*
Total operating costs (underlying – pre-AASB 16 basis)#	**61.1**	**67.1**	**71.8**	**37.7**	**37.0**	**74.7**	**40.7**	**39.4**	**80.1**	**42.4**
Change on pcp (%)		*9.8*	*7.0*	*6.5*	*1.6*	*4.0*	*7.9*	*6.4*	*7.2*	*4.1*

Sources: QIP financial statements and announcements, RaaS estimates; *Not separately disclosed in half-yearly reports - included in other costs for half years; **AASB-16 is adopted from FY20; #RaaS estimated operating costs including occupancy/lease costs on a pre-AASB-16 basis for FY20-H1 FY23

- **Employee expenses ($60m / 80% of FY22 costs/ 62% of service charge revenue)**

  Employee expenses grew by $3.2m (5.7%) yoy in FY22 primarily as a result of: (1) The Sortify acquisition (which added 14 staff for ~nine months [est. $1.5m]); and (2) Salary inflation and the higher super guarantee charge (SGC).

  In H1 FY23, the $1.0m (3.1%) yoy increase reflected similar factors – with Sortify included for the full six months (vs. three months in the pcp), further salary increases and another SGC increase. In addition, the Hong Kong office opening added three staff (including two principals) for ~five months.

  Within the totals, the **share-based payment expenses** (valuation of performance rights issued to KMP and other senior executives) were $240k in FY22 and $87k in H1 FY23.

  QIP also incurred ~$1.1m of employee-related **restructuring costs** towards the end of H1 FY23 (included in statutory employment costs) which we estimate related to ~10 staff. In FY22, employee-related restructuring costs were $0.4m.

  An overview of the various factors that have driven the increases in underlying employment costs since FY18 is included in Annexure F.

QIP's three other notable categories of expenditure are:

- **Technology expenses ($4.9m/ 7% of FY22 costs/ 5% of service charges):** These accounted for 7% of operating costs in FY22 and H1 FY23 and include SaaS subscription fees, cyber security costs, and costs associated with its data centres (which will be decommissioned during H2 FY23). All costs related to the technology modernisation programme are excluded from underlying costs. The $0.7m yoy increase in FY22 included tech resilience and cyber security spend.

- **Marketing, travel, and entertainment ($2.8m/ 4% of FY22 costs/ 3% of service charges):** These expenses were ~$4m pa prior to FY20 and are now returning towards these levels. The FY22 spend of $2.8m includes the resumption of some marketing and travel activities in H2, and QIP noted that H1 FY23 business development expenses increased by $0.6m yoy. QIP's activities include attendance at various industry conferences (domestic and international).

- **Occupancy expenses ($2.0m/ 3% of FY22 costs):** Occupancy costs have been ~$2m pa (following the introduction of AASB 16 – with a further ~$5m pa of lease-related costs recognised in amortisation and interest charges).

In addition, **other expenses** (7% of total) amounted to $5.4m in FY22 (up $1m on the pcp).

Other P&L items

- **Other income – commission:** QIP receives other income of ~$2m pa (with $2.2m in FY22 and $1.2m in H1 FY23) which is predominantly commissions from DCC's arrangement with CPA Global Limited (owned by Clarivate plc [NYSE:CLVT] since 2020). DCC offers CPA's patent and trade marks renewal and maintenance services to its clients and receives commissions based on the fees these services generate for CPA.

- **FX gain/loss P&L line items**: The FX gain or loss reported in QIP's P&L reflects any A$/US$ movement between revenue recognition and the receipt of payment from the client (after adjusting for the impact of any hedging that was implemented). A $912k gain was reported in FY22 while a $600k loss was incurred in H1 FY23 (noting that hedging capped some of the potential gains vs. an unhedged strategy).

- **Depreciation and amortisation (D&A):** QIP reported an $8.2m D&A expense in FY22 (up from $7.3m in the pcp) and $4.3m in H1 FY23 (flat on the pcp). The four components (in order of magnitude) are:
  - **Amortisation of leases** (under AASB 16) of **~$3.5m-$4m pa**.
  - **Amortisation of $30m of identifiable intangible assets** (value of customer relationships and Sortify's software). These assets are straight-line amortised over 16-24 years for customer relationships and five years for software – i.e. **~$3.0m pa**. The increased FY22 D&A expense was primarily due to the initial amortisation (nine months) of Sortify's software (i.e. ~$1.0m pa)
  - **Depreciation** of **~$1.2m pa** for office equipment and leasehold improvements.
  - **Amortisation of capitalised costs** of technology development (primarily some of the projects being undertaken for the Firms by Sortify) and some SaaS configuration and customisation which are straight-line amortised over five years. These amount to **~$600k pa** (on a ~$3m balance given capitalised spend has been $400k-$800k in recent years).

- **Net finance costs**: QIP's H1 FY23 net finance costs increased by $0.7m yoy (and $0.6m sequentially) to $1.8m. Assuming est. ~$0.35m related to lease liability interest (under AASB 16), the net debt costs were est. ~$1.5m for the half (vs. est. ~$0.75m in H1 FY22) attributable to the combination of: (1) The $8.7m increase in net debt over the 12 months (to $31.8m at 31 December 2022); and (2) Higher interest rates.

- **Income tax**: QIP's effective rate was 35% in FY22 (up from ~30% in FY21) due to the derecognition of a $0.4m deferred tax asset (i.e. carried forward tax losses for Sortify). In turn, QIP now has a small unrecognised deferred tax asset of ~$0.5m for these tax losses which should be available for utilisation as Sortify starts to generate taxable income.

EBITDA and EBITDA margins

FY22 **underlying EBITDA** amounted to $26.3m (up $0.2m on FY21 but below the $27.1m recorded in FY20 [QIP's highest to date]). For H1 FY23, it was $13.8m (up $1.0m on the pcp).

Underlying EBITDA margins (on service revenue) have increased in the past two half years (up 0.4 points to 26.5% in H1 FY23, and up 0.8 points to 28.3% in H2 FY22). The FY22 margin of 27.2% was down from 28.3% in FY21 and below the 30.0% recorded in FY20. EBITDA margins on total revenue are ~seven percentage points lower (20.7% in FY22) which is reflective of the high proportion of low-margin associate charge revenue arising from recoverable expense (foreign associate fee) recharging.

EBITDA – underlying vs. statutory: QIP's underlying results reflect adjustments for items that it does not consider to be of a recurring nature. In FY22, these items totalled $4.7m (up from $2.4m in FY21) – due to a combination of technology modernisation programme spend and acquisition-related costs (primarily Sortify acquisition-related). The $2.5m of non-recurring items in H1 FY23 were fairly evenly split between the technology modernisation programme and restructuring costs.

QIP's acquisition-related expenses include both: (1) Transaction costs associated with the completion of its three acquisitions; and (2) Some of the costs associated with non-completed potential acquisitions (e.g. travel, external DD costs).

Exhibit 34: EBITDA – statutory to underlying reconciliation for FY18 to H1 FY23 (in A$m unless otherwise stated)

	FY18a	FY19a	FY20a	FY21a	H1 FY22a	H2 FY22a	FY22a	H1 FY23a
EBITDA - statutory	**17.0**	**19.9**	**22.6**	**23.7**	**10.5#**	**11.1**	**21.6#**	**11.2**
Includes non-recurring costs (added back):								
• SaaS costs (tech modernisation)				1.1	1.4	1.8	3.2	1.2
• Restructuring payments	2.3				0.1	0.3	0.4	1.2
• Transformation costs				0.3				
• Acquisition costs		0.5	1.4	0.4	0.8	0.3	1.1	0.1
• New business establishment costs		0.5	0.3					
• Retention payments			0.9	0.6				
• Employee share trust (EST)*	0.9							
• Malaysian acq'n earn-out**		3.1	1.9					
Total non-recurring costs	**3.2**	**4.1**	**4.5**	**2.4**	**2.3**	**2.4**	**4.7**	**2.5**
EBITDA - underlying (per QIP)	**20.1**	**24.0**	**27.1**	**26.1**	**12.8#**	**13.5**	**26.3#**	**13.8**
Chg on pcp (%)		*19.4*	*12.7*	*(3.7)*	*(5.0)*	*7.3*	*0.8*	*7.6*
Chg on pcp ($)		*3.9*	*3.1*	*(1.0)*	*(0.7)*	*0.9*	*0.2*	*1.0*

Source: QIP financial statements and announcements; *EST costs in its first year of operation were classified as non-recurring but have subsequently been classified as recurring; **Classified as remuneration in the accounts; #Includes $0.3m expense to correct prior period SaaS-related classification misstatements (in the FY20 and FY21 accounts)

Net profit – underlying and statutory

QIP's **statutory net profit** was $7.1m in FY22[21] (down from $10.4m in FY21) and $3.4m in H1 FY23 (flat vs. H1 FY22) – feeding into statutory EPS of 5.3 cents and 2.3 cents respectively. **Underlying net profit** for these periods was $12.8m and $6.7m respectively – for underlying EPS of 9.3 cents and 4.8 cents. These underlying figures exclude acquisition-related intangibles amortisation (~$3m pa) in addition to the non-recurring costs.

Dividends – 70%-90% pay-out ratio policy

QIP has a policy of paying out **70%-90% of NPATA** as dividends (with the calculation removing acquisition-related intangibles amortisation). Since listing, the company has paid a fully franked dividend each half year.

[21] The statutory and underlying FY22 net profit figures both include the correction of some immaterial prior period misstatements in: (1) SaaS costs following the application of IFRIC guidance - $0.5m increase to operating costs; and (2) right of use asset amortisation and finance charges relating to AASB 16 adoption in FY19/FY20 - $0.6m upward adjustment.

Research as a Service

Up until the most recent interim dividend declaration (with the H1 FY23 results), the pay-out ratio was 90% of NPATA in each half. The pay-out ratio for H1 FY23 was 80% (mid-point of the policy range) which reflected "*a number of factors including strategic investments and the increasing cost of debt, as part of our ongoing capital management plan.*" QIP does not currently operate a DRP.

Our forecasts incorporate a 70% pay-out ratio for H2 FY23f and FY24f (i.e. low end of the policy range) on the assumption that cash flow is redirected to servicing higher interest payments during this period (and also to technology-related spend particularly in H2 FY23) followed by an 80% pay-out ratio in FY25f given the technology modernisation programme spend will have tapered.

Key cash flow statement items

With the exception of the recent H1 FY23 result (discussed below), QIP has a **history of generating solid cash flows** at both the operating and free cash flow levels and of strong cash conversion, as illustrated below.

Operating cash flow from FY21-H1 FY23 also incorporates a total of **~$6m (ave. ~$2m pa) of payments pertaining to the technology modernisation programme.** As these payments ease from FY24 and the associated benefits start to flow, there is scope for material improvement in QIP's operating and free cash flow generation. Another less significant operating cash flow lever lies in the EST contributions (~$1.4m pa) which can be settled by the issue of shares rather than cash.

Exhibit 35: Cash flow statements (in $Am unless otherwise stated)

	FY18a	FY19a	FY20a	FY21a	H1 FY22a	H2 FY22a	FY22a	H1 FY23a
Operating activities								
Receipts from customers	105.9	117.2	122.2	123.0	68.5	66.1	134.6	69.8
Payments to suppliers and employees	(89.2)	(93.3)	(97.3)	(96.9)	(58.2)	(54.1)	(112.3)	(64.0)
Gross operating cash flow	**16.7**	**23.9**	**24.9**	**26.2**	**10.3**	**12.0**	**22.3**	**5.8**
Net interest and finance costs	(0.8)	(1.0)	(0.8)	(0.9)	(0.7)	(1.0)	(1.7)	(1.4)
Income tax payments	(4.6)	(7.8)	(6.3)	(5.4)	(2.3)	(2.3)	(4.6)	(2.2)
Net operating cash flow**	**11.3**	**15.1**	**17.9**	**19.8**	**7.3**	**8.7**	**16.0**	**2.2**
Net operating cash flow (pre-AASB 16 calculation)*	11.3	15.1	12.5	14.6	4.8	6.1	11.0	0.0
Cash conversion ratios								
EBITDA (statutory)	17.0	20.0	22.6	23.7	10.5	11.1	21.6	11.2
-Gross OCF/statutory EBITDA	*98%*	*120%*	*110%*	*110%*	*98%*	*108%*	*103%*	*52%*
-Gross OCF less capex/stat. EBITDA	*89%*	*116%*	*105%*	*107%*	*96%*	*106%*	*101%*	*34%*
Investing activities								
Capital expenditure	(1.5)	(0.6)	(1.1)	(0.8)	(0.2)	(0.3)	(0.5)	(2.0)
Capitalised development spend	(0.2)	(1.1)	(0.1)	(0.8)	(0.3)	(0.1)	(0.4)	(0.3)
Acquisitions (Advanz, Cotters, Sortify)**	0.0	(5.1)	(5.5)	(0.7)	(6.7)	0.0	(6.7)	(0.5)
Acquisition-related cost payments**	0.0	(0.9)	(1.4)	(0.4)	0.0	(1.1)	(1.1)	(0.1)
Net investing cash flow	**(1.7)**	**(7.4)**	**(8.1)**	**(2.7)**	**(7.2)**	**(1.5)**	**(8.7)**	**(2.9)**
Financing activities								
Issue of securities (net of costs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net borrowings	(4.2)	0.8	11.2	(1.8)	9.6	(1.4)	8.2	1.9
Lease liability payments#	0.0	0.0	(5.3)	(5.2)	(2.4)	(2.6)	(5.0)	(2.2)
Dividends paid	(10.8)	(10.4)	(10.8)	(10.5)	(4.6)	(4.1)	(8.7)	(4.8)
Net financing cash flow	**(15.0)**	**(9.5)**	**(4.9)**	**(17.5)**	**2.5**	**(8.1)**	**(5.6)**	**(5.1)**
Exchange rate adjustment	0.1	(0.1)	0.1	(0.0)	0.0	(0.0)	0.0	0.0
Net change in cash	(5.2)	(1.8)	5.0	(0.4)	2.6	(0.9)	1.7	(5.8)
Cash at end of period	3.1	1.2	6.2	5.7	8.4	7.4	7.4	1.7
Free cash flow	**9.6**	**13.3**	**16.7**	**18.2**	**6.8**	**8.3**	**15.1**	**(0.1)**
Free cash flow (pre-AASB 16 calculation)*	9.6	13.3	11.4	13.0	4.3	5.7	10.0	(2.3)

Source: QIP financial statements; *Adjusted net operating cash flow classifies all office lease payments as operating outflows (i.e. pre-AASB 16 accounting treatment) for FY20-H1 FY23; **Note: Earn-out payments for Advanz in FY19 ($2.1m) and FY20 ($2.8m) are included in acquisitions (investing outflows) but were classified as employee remuneration (operating outflows) in the accounts, and FY19 acquisition-related payments are net of the $1.6m XIP scheme break fee; #Reflects adoption of AASB 16 in FY20

- **H1 FY23 cash flow**: The key cash flow metrics reported in H1 FY23 were significantly lower than previous half years – with operating cash flow declining $5.1m on pcp to $2.2m and a small $64k free cash outflow after capex and capitalised tech/SaaS payments of $2.3m (vs. $6.8m free cash flow in H1 FY22). Given QIP also needed to accommodate the FY22 dividend which had been declared ($4.8m), the circumstances led to a $1.5m net loan facility drawdown (in addition to the $0.5m Sortify acquisition consideration-related drawdown) and a relatively low $1.7m cash balance.

More specifically, the H1 FY23 outcome was attributable to a combination of several **timing-related factors** namely: (1) Negative working capital movements as debtors increased $2.1m (due to heightened invoicing in Q2) while the payables balance fell; (2) A $1.6m income tax prepayment (with the $1.6m refund subsequently received in January 2023); and (3) $1.9m of office lease fitout/capex costs for the new FPA Melbourne office (vs. usual ~$0.3m half yearly capex). QIP has indicated that cash flows are **anticipated to normalise in H2 FY23** and that its expectations are supported by the January/February movements.

Moreover, operating cash flow generally tends to be **skewed to H2** given income tax payments, annual cash-settled EST contributions, and the final dividend payment all fall in H1.

- **Capex:** As has historically been the case, capex in FY22 was relatively low at $0.4m (and $0.8m in FY21) for rolling office equipment replacement purchases. QIP's H1 FY23 capex of $2.0m largely comprised $1.9m of one-off payments for FPA's new Melbourne office fitout.
- **Payment for intangible assets** (capitalised technology/SaaS): Over the past few years, QIP has capitalised an average of $0.4m pa for technology development and SaaS configuration and customisation costs – with $0.4m in FY22 and $0.3m in H1 FY23. We expect similar levels of capitalised spend will continue in FY24-FY26 as Sortify continues to undertake automation related projects for the Firms.
- **Business acquisition payments** in FY22 and H1 FY23 ($6.7m and $0.5m respectively) pertain to the cash component of the upfront and first contingent consideration payments for the Sortify acquisition. The second (and final) contingent cash payment of $0.5m is expected to be made in H1 FY24 (assuming it satisfies the relevant hurdles). These payments have been funded via the acquisition borrowing facility.
- **Free cash flow**: With the exception of the 64k free cash outflow in H1 FY23, QIP has generated solid free cash flow in every period since listing. The vast majority of QIP's free cash flow has been utilised for lease payments (~$2m pa) and dividend payments (~$5m pa). Consequently, debt repayment to date has been minimal (with scheduled repayments under the acquisition facility essentially offset by drawdowns on the multicurrency facility).

Net debt

QIP had **net debt of $31.8m** at 31 December 2022, up $8.0m from $23.8m at 30 June 2022 (and up $8.7m from $23.1m at 31 December 2021). Within this, gross borrowings amounted to $33.5m while the cash balance of $1.7m was low relative to most post-listing balance dates. The current borrowings component was $1.5m at 31 December 2022 (down from $3.6m at 30 June 2022).

Net debt to underlying EBITDA was 1.15x at 31 December 2022 (or ~1.4x using statutory EBITDA), up from 0.9x at 30 June 2022. QIP has indicated that its target for this ratio is <2.1.

The H1 FY23 **$8.7m net debt increase** is attributable to a combination of timing-related challenges: (1) Increased debtors balance in Q2 (up $2.1m); (2) A $1.6m income tax prepayment (subsequently refunded in January 2023); (3) $1.9m of office lease fitout costs; (4) The $0.5m contingent cash consideration payment to the Sortify vendors in November 2022; and (5) Accommodating the FY22 dividend which had been declared ($4.8m). In addition, as abovementioned, operating cash flow generally tends to be skewed to H2.

RaaS Research as a Service

Exhibit 36: Net debt (in A$m unless otherwise stated)

	FY18a	FY19a	FY20a	FY21a	H1 FY22a	FY22a	H1 FY23a
Net debt	7.9	11.0	17.4	16.1	23.1	23.8	31.8
Change on pcp (%)	*26*	*39*	*58*	*(7)*	*35*	*47*	*38*
Change on pcp ($m)	*1.6*	*3.1*	*6.4*	*(1.3)*	*5.9*	*7.6*	*8.7*
Comprising:							
- Borrowings	11.0	12.2	23.6	21.9	31.5	31.2	33.5
- Cash	3.1	1.2	6.2	5.7	8.4	7.4	1.7
Key ratios							
Net debt/Underlying EBITDA (x)	0.4	0.5	0.6	0.6	0.9	0.9	1.15
Net debt/Statutory EBITDA (x)	0.5	0.6	0.8	0.7	1.1	1.1	1.4
Statutory EBITDA/net interest (x)*	20.3	20.8	29.4	25.4	13.5	13.1	7.5

Source: QIP financial statements; *Net interest excludes AASB-16 lease liability interest expenses (est. for H1)

Since listing, QIP's net debt has trended upwards primarily attributable to the debt financing of the cash consideration component of its three acquisitions (i.e. $7.9m for Advanz in FY19/FY20, $3.4m for Cotters in FY20-22, and $7.2m for Sortify in FY22/FY23). We also note that cash flow which may otherwise have been available for debt repayments has been directed to the current business transformation programme (~$8m of costs incurred over FY21-H1 FY23), and the maintenance of a high dividend pay-out ratio.

Debt facility: QIP's secured loan facility with HSBC totalled $67.6m at 31 December 2022 (~$70m on an undiscounted basis) and was drawn to $33.5m. During H1 FY23, QIP completed a **facility refinancing** (well ahead of the previous 16 December 2023 maturity date) resulting in: (1) The multi-currency revolving facility limit increasing by $5m to $25m; (2) The extension of the term by just over 18 months to 1 July 2025; (3) Reduced principal repayments over the next 12 months (i.e. $1.5m repayment on the acquisition facility only); and (4) A reduction in the number of financial covenants (three covenants vs. five previously) which are tested on a quarterly basis. QIP continued to operate within the financial covenants during H1 FY23. The facilities also remain secured over all of QIP's assets.

Exhibit 37: QIP's debt facility

Sub-facility	Sub-facility limit	
Multi-currency revolving facility	$25.0m	Increased by $5m during H1 FY23
Overdraft facility	$5.0m	
Multi-option facility	$4.3m	
Acquisition facility	US$25.5m (~A$36m)	
Total facility limit	**$70.3m**	

	Total facility limit (per balance sheet*)	Amount drawn (31 December 2022)	Amount available (31 December 2022)
Total facility limit	$67.6m	$33.5m (49% of total) Including $12m drawn under the acquisition facility**	$34.2m (51% of total) Including $24.2m available under the acquisition facility

Interest rate and fees	RaaS estimates
Bank bill swap rate (BBSY) plus margin - for non-acquisition facilities	~2.5% margin
Compound Secured Overnight Financing Rate (SOFR) - for acquisition facility	~2.5% margin
Commitment and line fees calculated on all facility limits	~1%

Covenants#	Comments
1. Borrowing base ratio	Based on % of accounts receivable
2. Net leverage ratio	Net debt to underlying EBITDA: 1.15x at 31 December 2022 (vs. 0.9x at 30 June)
3. Debt service cover ratio (net interest cover ratio)	

Security	
Granted over all of QIP's assets	

Sources: QIP financial statements, RaaS estimates; *Discounted per effective interest rate method; **Utilised for the cash payments to the Sortify vendors ($6.7m in FY22 and $0.5m in H1 FY23, and payments for the Cotters acquisition in FY20-22); #Gearing ratio and current ratio covenants have been removed under the revised facility

Other balance sheet items

We also note the other key features of QIP's balance sheet at 31 December 2022 and 30 June 2022:

- **Net current assets** amounted to $19.6m (up from $17.2m at 30 June 2022) as lower payables and current debt balances offset the reduced current asset position (due to the relatively low 31 December cash balance).
- **Trade and other receivables** increased from $38.8m at 30 June 2022 to $40.9m at 31 December 2022 reflecting heightened Q2 invoicing activity. Trade receivables accounted for virtually all of the balance at 30 June (98%). We understand that work in progress (WIP) is immaterial and included in trade receivables. The low levels of WIP reflect the regular client invoicing patterns.

  Days receivable (based on total revenue including associate charges) for H1 FY23 was 105 days (and 110 days for FY22). The typical payment arrangements with foreign associates (90-120 days for est. ~20% of QIP's total revenue) skew the days receivable higher.

  The ageing analysis at 30 June 2022 illustrates that 24% of receivables were >90 days aged. This essentially mirrors the abovementioned payment arrangements with foreign associates.

Exhibit 38: Aged receivables (in A$m unless otherwise stated)

Days ageing	FY21	% of total	FY22	% of total
0-30 days	19.1	*52*	19.6	*52*
31-60 days	5.5	*15*	5.7	*15*
61-90 days	3.9	*11*	3.5	*9*
91+ days	8.3	*23*	9.3	*24*
Total receivables	**36.9**		**38.2**	

Source: QIP financial statements

  Bad debt expenses: Continuing the historic trend, **bad debt expenses** were negligible in FY22 and H1 FY23 at $0.4m and $0.2m respectively (i.e. <1% of receivables and <0.5% of total revenue).

- **Plant and equipment** is relatively minimal at $3.1m notwithstanding the $1.9m increase during H1 FY23 for the new Melbourne FPA office fitout.
- **Identifiable intangibles** amounted to $29.4m at 30 June 2022 with the balance comprising: (1) The carrying value of intangible assets acquired via the acquisitions of Cotters and Sortify, and the earlier reorganisation/listing-related deemed acquisition of FPA by DCC in February 2016. This encompasses customer relationships ($18.7m), brand names ($5.1m), and software (~$4.25m); and (2) The ~$1.4m carrying value of capitalised technology development costs (primarily some of the projects being undertaken by Sortify) and some SaaS configuration and customisation.
- **Goodwill** of $54.8m at 30 June 2022 comprised: (1) $6.0m relating to the Sortify acquisition; (2) $3.0m for Cotters; and (3) $45.8m for FPA (upon the February 2016 pre-listing corporate reorganisation).

  QIP has not impaired its goodwill (or identified intangible assets) in any period since listing.

- **Trade and other payables** of $11.7m at 31 December 2022 was down from $14.1m at 30 June 2022. The 30 June figure comprised $7.7m of trade payables and $6.4m of other payables (including PAYG, super) and accrued expenses.
- **Lease (right-of-use) assets and liabilities**: $8.4m of lease assets and $10.5m of liabilities were reported at 31 December 2022 (vs. $8.7m and $11.0m at 30 June 2022). These balances reflect the new Melbourne office lease for FPA ($1.5m - five-year term) and the remainder of the terms on the other leases (average ~three years).
- **Provisions**: All of the provisions relate to annual leave and long-service leave and totalled $8.5m at 31 December 2022 (up from $8.2m at 30 June).
- **Other current financial liabilities** of $1.4m reflects the second contingent payment for the Sortify acquisition (which will be paid around November 2023 if the hurdles are met - $0.5m cash/$1.0m shares).

- **Equity/net assets** ($71.7m): QIP's issued capital of $300m includes: (1) IPO transactions - FPA acquisition ($61m), share issue to DCC vendors ($200m), and $32m capital raising; and (2) $4.2m share-based consideration for the Sortify and Cotters acquisitions. Reserves of $223.1m almost entirely relate to the group reorganisation reserve recognised upon the corporate reorganisation in February 2016 ahead of the listing (i.e. the difference between the value of consideration ascribed to the then DCC partnership and the carrying value of its net assets). Accumulated losses totalled $4.8m at 31 December 2022 (as aggregate dividend payments based on NPATA have exceeded statutory NPAT post-listing).

Capital Structure

QIP currently has **138,552,242 shares on issue**. In addition, there are a total of 1,383,699 performance rights on issue. If all of the performance rights vest and are converted into shares, QIP's shares on issue would increase by 1.0% to 139,935,941.

Performance rights

QIP's 1,383,699 performance rights predominantly comprise the rights issued on 8 December 2021 and 2 December 2022 under its Employee Incentive Plan.

Each performance right is convertible into one QIP share upon the satisfaction of vesting conditions which include continued employment over the vesting period and satisfaction of conditions related to individual performance and, in some cases, QIP's achievement of EPS CAGR of at least 5% over three years. No consideration is payable by the recipients upon the grant or conversion of these performance rights.

Exhibit 39: Performance rights

Date of issue	Number of performance rights currently on issue	Holders	Vesting conditions and other details
23 June 2020	147,525	Craig Dower (CEO/MD): 147,525	50% of performance rights issued as a sign-on bonus. Vested upon release of QIP's H1 FY23 results.
8 December 2021	570,174	Craig Dower (CEO/MD): 570,174	LTIP performance rights issue for FY21 and FY22. Mr Dower's rights are subject to **EPS CAGR** calculated over **three years** (with 5% EPS CAGR required for 50% vesting and 15% EPS CAGR for 100% vesting – and pro-rata vesting for 5%-15% EPS CAGR). The three-year calculation period is FY21-FY23 for 50% of the rights and FY22-FY24 for the other 50%.
2 December 2022	666,000	Craig Dower (CEO/MD): 350,000 Brenton Lockhart (CFO): 102,000 Other senior executives: 214,000	LTIP performance rights issue for FY23. Mr Dower's rights are subject to **EPS CAGR** calculated over three years from **FY23-FY25** (with 5% EPS CAGR required for 50% vesting and 15% EPS CAGR for 100% vesting – and pro-rata vesting for 5%-15% EPS CAGR).
Total	**1,383,699**		

Source: QIP announcements

Employee share trust (EST) shares

An employee share trust was established in 2018 to award QIP shares to new principals (beneficial ownership via the EST) to facilitate the alignment of these principals with shareholder outcomes. No consideration is payable by the principals for these shares. QIP either makes cash contributions to the EST trustee for it to acquire shares on-market or issues QIP shares to the EST trustee. Under the EST rules, the relevant principals cannot sell their shares for a period of time.

The EST held 6.58m shares (4.8% of QIP's issued capital) at 12 August 2022. This will have increased following the H1 FY23 contributions (via cash funded on-market share acquisitions).

Research as a Service

Exhibit 40: EST contribution history

Date	EST contributions	Nature of contribution
H2 FY18	$742k	Cash payments for on-market share acquisitions
H1 FY19	$2.0m	Cash payments for on-market share acquisitions
H1 FY20	$1.3m (est.)*	Cash payments for on-market share acquisitions
H1 FY21	$1.4m	Share issue (1,348,539 shares on 21 October 2020)
H1 FY22	$1.8m	Cash payments for on-market share acquisitions
H1 FY23	$1.4m (est.)*	Cash payments for on-market share acquisitions
Total	**$8.6m (approx.)**	

Source: QIP announcements, RaaS estimates; *Value not specifically disclosed for H1 FY20 and H1 FY23

Outlook Commentary

QIP's **outlook-related statements** from the past seven months are set out below.

Exhibit 41: Outlook-related statements

Date	Outlook-related statements
February 2023 (H1 FY23 results)	• "*We are pleased to see that margin growth is continuing and we expect to see that in the period ahead as well.*" • "*… we have delivered two consecutive periods of margin growth and we expect that to continue …*" • "*We have started the new calendar year well, with momentum from the December quarter continuing and activity levels across the group remaining high. Overall, against challenging broader market conditions, we are confident that we can continue to grow our revenue and our earnings over the period ahead, and the long term prognosis for the IP sector and QANTM continues to be one of steady, consistent growth.*"
November 2022 (AGM)	• "*Market conditions challenging (inflation, interest rates, geo-politics)*" • "*Key to future* [IP sector] *resilience will be attitude to R&D budgets – monitoring closely, remaining positive.*"
August 2022 (FY22 results)	• "*We expect to see continued revenue growth in the low single-digits in Australia and New Zealand, with more accelerated growth in Asia and in trade marks through Sortify.*" • "*Continued revenue growth through investments in sales, marketing, client service, and technology.*"

Source: QIP announcements

We also note that QIP incorporated the following assumptions in its impairment testing-related models at 30 June 2022.

Exhibit 42: QIP's impairment testing assumptions

	FY23	FY24	FY25	FY26	FY27
DCC revenue growth on pcp (%)	5.5	4.0	4.0	4.0	4.0
FPA revenue growth on pcp (%)	3.7	4.0	3.5	3.5	3.0
Sortify revenue growth on pcp (%)	40.0	40.0	40.0	40.0	40.0
Overhead costs growth on pcp (%)	2.5-3.3	2.5-3.3	2.5-3.3	2.5-3.3	2.5-3.3

Source: QIP FY22 financial statements

P&L Forecasts

A summary of our P&L and key cash flow forecasts is set out below. See above for the half-yearly for FY23f.

Exhibit 43: P&L and key cash flow forecasts (in A$m unless otherwise stated)

	FY22a	FY23f	% chg on FY22	FY24f	% chg on FY23	FY25f	% chg on FY24
Profit & Loss Statement							
Service charge revenue							
-Patents	65.0	68.2	*4.9*	71.2	*4.4*	74.1	*4.0*
-Trade marks	19.8	20.6	*3.8*	21.9	*6.4*	23.4	*6.9*
-Legal services	11.7	12.3	*4.9*	12.3	*0.4*	12.5	*1.5*
Service charge revenue total	**96.6**	**101.0**	***4.7***	**105.4**	***4.3***	**110.0**	***4.3***
Associate revenue	30.7	33.8	*10.0*	34.5	*2.1*	35.5	*3.1*
Total operating revenue	**127.3**	**134.8**	***5.9***	**139.9**	***3.8***	**145.5**	***4.0***
Other income (inc. FX gains)	3.2	2.1	*(32.9)*	2.1	*0.0*	2.2	*1.0*
Recoverable expenses	(29.3)	(31.6)	*7.9*	(32.4)	*2.6*	(33.4)	*3.2*
Net revenue	**101.1**	**105.4**	***4.1***	**109.6**	***4.1***	**114.2**	***4.2***
Operating costs							
- Employment	(60.1)	(62.3)	*3.7*	(63.4)	*1.7*	(65.1)	*2.8*
- Technology	(8.1)	(7.7)	*(5.5)*	(6.9)	*(10.0)*	(6.2)	*(10.0)*
- Occupancy	(2.0)	(2.0)	*(0.8)*	(1.9)	*(7.0)*	(1.7)	*(8.0)*
- Other expenses (inc. FX losses)	(9.3)	(9.9)	*5.5*	(9.1)	*(7.7)*	(9.6)	*5.0*
Total operating costs - statutory	**(79.6)**	**(81.9)**	***2.8***	**(81.3)**	***(0.8)***	**(82.6)**	***1.7***
EBITDA - statutory	**21.5**	**23.5**	***8.7***	**28.4**	***20.9***	**31.6**	***11.3***
Statutory EBITDA margin (%) - on service charge revenue	*22.3*	*23.2*	*0.9 pts*	*26.9*	*3.7 pts*	*28.7*	*1.8 pts*
Add back: Non-recurring costs	4.7	4.4	*6.8*	1.5	*(134)*	0.8	*46.7*
EBITDA - underlying	**26.3**	**27.9**	***6.0***	**29.9**	***7.2***	**32.4**	***8.4***
Underlying EBITDA margin (%) - on service charge revenue	*27.2*	*27.6*	*0.4 pts*	*28.3*	*0.7 pts*	*29.4*	*1.1 pts*
Underlying EBITDA – excl. FX gain/loss	25.4	28.8	*13.3*	29.9	*3.8*	32.4	*8.4*
Depreciation and amortisation	(8.2)	(8.3)	*0.8*	(7.9)	*(5.0)*	(7.5)	*(4.5)*
EBIT (statutory)	**13.4**	**15.2**	***13.6***	**20.5**	***4.9***	**24.1**	***17.4***
Net interest	(2.4)	(3.5)	*49.1*	(3.1)	*(10.6)*	(3.1)	*(2.0)*
Net profit before tax	**11.0**	**11.7**	***6.0***	**17.4**	***48.6***	**21.0**	***20.8***
Income tax expense	(3.9)	(3.5)	*(9.7)*	(5.2)	*48.8*	(6.3)	*20.8*
Net profit after tax - statutory	**7.1**	**8.2**	***14.5***	**12.2**	***48.5***	**14.7**	***20.8***
Net profit after tax - underlying	**12.8**	**13.1**	***2.5***	**15.3**	***16.6***	**17.2**	***12.3***
EPS - statutory (cents)	5.3	5.9	*10.9*	8.7	*47.6*	10.5	*20.8*
EPS - underlying (cents)	9.3	9.5	*1.6*	11.0	*15.9*	12.3	*12.3*
DPS (cents) - based on NPATA	6.5	6.0	*(7.7)*	7.6	*26.7*	10.1	*32.9*
Dividend pay-out ratio (% of NPATA)	*90*	*74*		*70*		*80*	
Key Cash Flow Statement Figures							
Net operating cash flow	16.0	14.6	*(9.1)*	19.3	*32.8*	21.3	*10.2*
Capitalised tech dev. spend and capex	(0.9)	(2.7)	*186.4*	(1.4)	*(46.9)*	(1.5)	*3.8*
Free cash flow	**15.1**	**11.9**	***(21.3)***	**17.9**	***50.9***	**19.8**	***10.7***
Net debt at end of period	23.8	25.6	*7.6*	21.9	*(14.5)*	17.9	*(17.9)*

Sources: QIP financial statements (for FY22) and RaaS forecasts (for FY23-FY25)

Our forecasts incorporate the following assumptions:

- **Service charge revenue growth of 4.7% in FY23** (to $101m) with a 4.9% increase for both the patents and legal services segments and 3.8% for trade marks. Within this forecast, **H2 FY23 growth is 2.9%** which includes some further FX-benefit (using average 69.2c A$/US$). The lower H2 trade marks revenue (down 1% yoy) assumes that ongoing growth from Sortify (est. $0.7m contribution) is more than offset by a reduced contribution from DCC (as early FY23 rate card increases and FX tailwinds are counteracted by continuation of the slower industry-wide filings experienced in H1 FY23). Into FY24 and FY25, the 6%-7% trade marks growth is underpinned by increasing contributions from Sortify.

  We assume rate-card increases average ~2.5%-3% pa across the Firms' client bases in FY24 and FY25.

  Our DCC Law revenue forecasts for FY24 and FY25 are based on the $12.2m annual average of revenue reported in FY20-FY22 (adjusted for some estimated rate card increases).

- **Average A$/US$ exchange rate** of 70c in FY24 and FY25.
- **Underlying EBITDA margins** improve moderately to 27.6% in FY23 (from 27.2% in FY22) and then increase to 28.3% in FY24 and 29.4% in FY25 as some expected benefits (primarily productivity-related) are realised from the business transformation programme. FY24 also incorporates the full-year benefit of the late H1 FY23 employee-related restructuring - but there is some offset from higher travel and marketing spend as activities return to pre-COVID levels.
- Some lease-related savings are reflected in lower right-of-use asset amortisation and interest charges (noting QIP has flagged reductions in its lease-related expenses as it progressively enters into new office arrangements).
- An **effective tax rate** of 30% for FY23 (as a lower H2 rate offsets H1's 33%) and into FY24-25.
- **Non-recurring expenses** reduce to $0.8m by FY25 which reflects some spend for new automation projects following the conclusion of the current technology modernisation programme spend. The lower cost impost provides an additional boost to operating and free cash flow and statutory earnings.
- A 70% **dividend pay-out ratio** in H2 FY23 and FY24 increasing to 80% in FY25.
- **Capex and capitalised development spend** of ~$1.5m pa in FY24 and FY25 (assuming that there are no additional major office fitouts).
- **Net debt** of ~$25m at 30 June 2023 (assuming cash flow movements normalise in H2) and 30 June 2024 reducing to $22m by 30 June 2025.

Sensitivities

Exhibit 44: Sensitivities (in A$'000)

		Service charge revenue	EBITDA	NPAT
Change in A$/US$ (based on FY22 accounts)	+/- 1 cent	+/- ~750*	+/- 631	+/- 442
Change in interest rate	+/- 50bps	n.a.	n.a	+/-~100*
Change in service charge revenue	+/- 1%	+/- ~950*	+/- ~600*	+/-~400*
Change in employee expenses	+/- 1%	n.a	+/-~600*	+/-~400*

Sources: QIP FY22 financial statements (for A$/US$ EBITDA and NPAT sensitivity) and RaaS estimates; *RaaS estimates

Valuation – Listed Peer Comparisons

This section identifies QIP's listed peers and provides relevant valuation metrics.

Listed Peers and Trading Multiples

QIP's closest peer is **IPH Ltd (ASX:IPH)**, an Australian-based holding company providing IP services in nine jurisdictions. The firms within the group are AJ Park (NZ), Griffith Hack, Pizzeys, Smart & Biggar (Canada), Spruson & Ferguson, and online IP services provider Applied Marks. In addition to the metrics below, a comparison of QIP to the significantly larger IPH is contained in Annexure G and IPH's recent acquisition of Smart & Biggar is discussed below.

On FY23f and FY24f EV/underlying EBITDA, QIP is currently trading at a **60% discount to IPH's 12.6x and 11.4x**. The P/E discount is 52% for FY23f and 56% for FY24f. We note that the FY24f trading multiples are more relevant given IPH's consensus forecasts for FY23f only include a ~nine month contribution from the Smart & Biggar acquisition.

Exhibit 45: QIP vs. IPH - FY23f and FY24 forecasts and trading multiples*

	Code	Price ($)	Market cap. ($m)	EV ($m)	Revenue ($m)	EBITDA ($m)	EBITDA Margin**	EPS (c)	EPS growth	EV / EBITDA - (x)	PE ratio - (x)	Dividend yield
FY23f												
QANTM IP	ASX:QIP	0.835	116	141	135	27.9	20.7%	9.5	1.6%	5.1	8.8	7.2%
IPH Ltd	ASX:IPH	8.02	1,817	2,114	490	168	34.2%	43.3	9.4%	12.6	18.5	4.0%
QIP discount to IPH										***60%***	***52%***	
FY24f												
QANTM IP	ASX:QIP	0.835	115	138	140	29.9	21.3%	11.0	15.9%	4.6	7.6	9.1%
IPH Ltd	ASX:IPH	8.02	1,817	2,086	532	182	34.3%	46.2	6.6%	11.4	17.4	4.4%
QIP discount to IPH										***60%***	***56%***	

Sources: Refinitiv for IPH consensus forecasts; RaaS forecasts for QIP; Prices as at 17 April 2023; *EBITDA and EPS are based on underlying figures; **Based on total revenue

There are **four other ASX-listed companies** within the broader legal, litigation and litigation funding services sector, namely: (1) Slater & Gordon (ASX:SGH); (2) Shine Justice Ltd (ASX:SHJ); (3) Omni Bridgeway Ltd (ASX:OBL); and (4) AF Legal Group Ltd (ASX:AFL). More specifically, SGH and SHJ provide plaintiff litigation services and litigation funding (class actions), while OBL is a global litigation funder and AFL is an Australian law firm specialising in family law. These business models and revenue/fee structures are not akin to the provision of IP services and, in turn, we do not consider these companies to be relevant comparables.

UK-listed legal services companies

Within the broader legal services sector, we have identified five UK-listed legal services companies including Gateley Holdings plc (LSE:GTLY) which has recently moved into the IP services space via acquisition. Although they are not directly comparable to QIP, they provide some additional valuation yardsticks. We have also separately included RWS Holdings plc (AIM:RWS) in the table below given one of its divisions provides tech-enabled IP services (including a foreign filing service) – albeit that it is a relatively small component of RWS's revenue (14%).

QIP is trading at EV/EBITDA discounts of 26% and 24% to the average of these companies (excluding RWS) in FY23f and FY24f respectively (6.8x and 6.1x). Excluding KEYS, QIP is trading at premiums of 5% in FY23f and 13% in FY24f.

Exhibit 46: UK-listed legal services comparables - FY23f* and FY24f* forecasts and trading multiples**

	Code	Price (£)	Market cap. (£$m)	EV (£$m)	Revenue (£$m)	EBITDA (£$m)	EBITDA Margin	EPS (p)	EPS growth	EV / EBITDA - (x)	PE ratio - (x)	Dividend yield
FY23f												
Gateley Holdings plc	LSE:GTLY	1.75	224	221	162	32	19.5%	15.0	4.9%	7.0	11.7	5.3%
DWF Group plc	LSE:DWF	0.65	224	283	383	72	18.7%	11.6	8.2%	4.0	5.6	8.4%
Keystone Law Group plc	AIM:KEYS	4.68	148	142	75	10	12.9%	22.6	(2.8%)	14.8	20.7	3.4%
RBG Holdings plc	AIM:RBGP	0.44	42	60	49	11	22.6%	5.0	(41%)	5.3	8.8	7.7%
Knights Group Hldgs plc	AIM:KGHK	0.775	67	95	146	32	22.1%	19.2	11.9%	3.0	3.9	5.2%
Average										**6.8**	**10.1**	
Average (excl. KEYS)										**4.8**	**7.5**	
RWS Holdings plc	AIM:RWS	2.93	1,151	1,098	779	174	22.3%	26	(2.5%)	6.3	11.3	4.2%
FY24f												
Gateley Holdings plc	LSE:GTLY	1.75	224	218	174	34	19.6%	15.8	5.2%	6.4	11.1	5.9%
DWF Group plc	LSE:DWF	0.65	224	277	421	81	19.3%	12.8	10.7%	3.4	5.1	9.6%
Keystone Law Group plc	AIM:KEYS	4.68	148	141	79	10	12.7%	22.5	(0.7%)	14.1	20.8	3.4%
RBG Holdings plc	AIM:RBGP	0.44	42	57	55	15	29.0%	7.6	51.5%	3.8	5.8	10.1%
Knights Group Hldgs plc	AIM:KGHK	0.775	67	91	155	36	23.0%	20.9	8.7%	2.6	3.6	5.6%
Average										**6.1**	**9.3**	
Average (excl. KEYS)										**4.0**	**6.4**	
RWS Holdings plc	AIM:RWS	2.93	1,151	1,070	815	190	23.4%	28	8.8%	5.6	10.4	4.6%

Sources: Refinitiv; Prices as at 14 April 2023; *GTLY, DWF and KGHK are 30 April year-end; RBG is 31 December year-end; KEYS is 31 January year-end; **EBITDA and EPS are based on underlying figures

A brief description of each follows:

- **Gateley Holdings plc (LSE:GTLY):** GTLY is a legal and professional services company. It was the first UK law firm to list on the London Stock Exchange (LSE) in 2015. GTLY provides commercial legal services in the segments of corporate, business services, employment, pensions and benefits, and property. It provides IP legal services as part of its corporate services offering. GTLY has over 750 professional advisers and offices located across the UK and in Dubai.
- **DWF Group plc (LSE:DWF):** DWF is a global provider of integrated legal and business services headquartered in Manchester with 31 offices across the world (including in Australia). It listed on the LSE in March 2019. It has three divisions - Legal Advisory, Mindcrest and Connected Services. The Legal Advisory Services division provides premium legal advice and commercial intelligence services. Mindcrest provides outsourced and process-led legal services including contract management. Connected Services provides complementary services including claims management.
- **Keystone Law Group plc (AIM:KEYS):** KEYS is a UK-based full-service law firm with 20 service areas and more than 50 industry sectors delivered by nearly 400 self-employed principal lawyers who work from their own offices.
- **RBG Holdings plc (AIM:RBGP)** (formerly Rosenblatt Group): RBG is a UK-based professional services company. Its businesses include Rosenblatt, Memery Crystal, LionFish Litigation Finance Limited and Convex Capital Limited. The Rosenblatt and Memery Crystal businesses provide a range of legal services.
- **Knights Group Holdings plc (AIM:KGHK)** is a UK-based provider of legal and professional services with >1,000 fee earners delivering services to >10,000 business clients from 22 office locations across the UK.
- **RWS Holdings plc (AIM:RWS):** RWS is a UK-based company providing technology-enabled language, content management, and IP services throughout the world. RWS's Language Services segment enables creation, translation, and delivery of content across over 250 languages. Its Regulated Industries segment provides language services for industries such as life sciences, healthcare, financial services, and legal. The **IP Services segment** provides patent translations, **filing services (branded 'inovia')**, a searchable commercial patent database (PatBase), and an IP research platform (AOP Connect). The Language and Content Technology segment offers language and content management technology to assist enterprises engage with audiences across any device. RWS's IP Services division represented 14% of group revenue in FY22 (£107.2m).

QIP Valuation Scenarios - Peer Trading Multiples

Applying the EV/EBITDA multiple for IPH and the average of the UK-listed legal services companies to QIP gives an enterprise value range of $190m-$352m and an equity value of **$1.19-$2.35/share** on FY23f forecasts. On FY24 forecasts, the EV and equity value ranges are $181m-$342m and **$1.14-$2.29/share** respectively. Our DCF valuation of $1.57/share is within these valuation ranges.

Exhibit 47: QIP valuation scenarios - peer trading multiples

	FY23f	F24f
QIP underlying EBITDA ($m)	27.9	29.9
EV/EBITDA multiple		
IPH	12.6*	11.4
UK-listed legal services companies - average	6.8	6.1
Enterprise value (EV) - QIP ($m)		
Using IPH	352	342
Using UK-listed legal services companies - average	190	181
Equity value/share - QIP		
Using IPH	$2.35	$2.29
Using UK-listed legal services companies - average	$1.19	$1.14

Sources: RaaS estimates, Refinitiv *FY23f includes a ~nine month contribution from Smart & Biggar

Industry M&A transactions

There have been several M&A transactions in the industries in which QIP operates (IP services as well as IP-related technology and the broader legal sector) in recent years both domestically and internationally.

IP services industry M&A

In addition to IPH's acquisition of leading Canadian IP services firm Smart & Biggar (announced in August 2022 and completed on 6 October 2022), acquisitions were completed by four UK-based firms in 2022 and early 2023, namely Gateley (LSE:GTLY), Murgitroyd, Rouse, and Ipsilon. Murgitroyd was also active during 2021 (two transactions). We note that Murgitroyd, Rouse, and Ipsilon are backed by UK-based private equity firms (since December 2019, July 2022 and September 2022 respectively). Another notable recent development was OpSec Security's agreement to acquire Zacco, a European IP services firm focused on the Scandinavian and northern European markets (~500 staff). OpSec Security is a global brand protection solutions company.

The table below provides a summary of the notable activity that we have identified from December 2019 onwards in four sub-categories and is followed by a more detailed overview of each transaction.

In addition, the transactions undertaken by ASX-listed IP services firms between 2015 and 2020 are listed in Annexure H.

Exhibit 48: IP services industry M&A activity summary (December 2019 - April 2023)

Date announced	Acquiror	Nature of acquiror	Target/acquiree	Consideration	EV/EBITDA	EV/Revenue
A. ASX-listed peer - IPH						
Aug-22	IPH	Private Canadian IP services firm	Smart & Biggar	A$403m (upfront + contingent)	10.5x (FY22 adjusted EBITDA)	4.2x (FY22 service charge revenue)
B. LSE-listed firm						
Oct-22	Adamson Jones (subsidiary of Gateley [LSE:GTLY])	IP services firm subsidiary of legal and professional services group	Symbiosis IP	£2.5m	8.3x* (FY22 PBT**)	1.4x (FY22 revenue**)
Jan-22	Gateley	LSE-listed legal and professional services group	Adamson Jones	£2.5m	Not disclosed	0.7x (FY21 and FY22 revenue**)
C. Unlisted international IP firms						
Apr-23	OpSec Security	Global brand protection solutions company	Zacco	Not disclosed		
Mar-23	Ipsilon	UK-based IP services firm (PE backed)	Lecomte & Partners	Not disclosed		
Feb-23	Ipsilon	Per above	Nony	Not disclosed		
Dec-22	Rouse	UK-based IP services firm (PE backed)	Valea AB	Not disclosed		
Dec-22	Murgitroyd	UK-based IP services firm (PE backed)	TLIP	Not disclosed		
Sep-22	Waterland Private Equity	Pan-European investment fund/PE firm	Ipsilon (minority interest)	Not disclosed		
Jul-22	MML Capital	UK-based PE firm	Rouse (minority interest)	Not disclosed		
April-22	Murgitroyd	Per above	Creation IP	Not disclosed		
Oct-21	Murgitroyd	Per above	UDL Intellectual Property	Not disclosed - >£10m*		
Sep-21	Murgitroyd	Per above	Hanna Moore + Curley	Not disclosed		
Dec-19	Sovereign Capital Partners	PE firm	Murgitroyd (AIM-listed)	82.8 (£66.5m - EV)	13.8x	1.4x
D. Unlisted Australian IP services firms						
Dec-21	Wrays	Perth-based IP services firm (independent)	Lord & Co (Perth-based IP firm)	Not disclosed		

Sources: Company announcements and relevant media articles; *Per press speculation; **31 March year-end

Smart & Biggar (acquired by IPH)

IPH's acquisition of Smart & Biggar provides a recent valuation benchmark for QIP. The following table provides a comparison of the attributes of both entities together with the acquisition metrics. There are several comparable characteristics around the nature of the respective IP markets, the market positions of the firms, and the magnitude of their revenue (both produced ~A$97m service charge revenue in FY22). There is, however, a sizable 13 percentage point differential in underlying EBITDA margins (on service charge revenue) – 40% for Smart & Biggar vs. 27% for QIP (which would reduce to ~10 points after adjusting for QIP's estimated additional overheads as a listed entity). QIP's lower margins might partly reflect a relatively lower contribution from high-margin foreign inbound revenue and Smart & Biggar's higher proportion of legal service (litigation) revenue (~30% vs. 12% for QIP). The EBITDA margin disparity appears likely to continue given IPH expects to extract synergies ($4m-$6m over three years) which could lead to an estimated ~five percentage point expansion in Smart & Biggar's EBITDA margin, while QIP's business transformation initiatives are targeted to produce a broadly similar outcome (i.e. ~five point increase to low 30%s).

Exhibit 49: Smart & Biggar vs. QIP

	Smart & Biggar (Canada)	QIP (Australia and SE Asia)
Nature of market		
Secondary IP market	✓	✓
Mature market	✓ Similar growth rates to Australia	✓
Market position		
Patent filings - FY22	~6,200	9,792
Market position - patent filings	#1	Australia: #2 group; DCC #2 firm
Trade marks filings - FY22	~1,800	5,840
Legal services revenue (% of total)	~30	12
Number of staff (30 June 2022)	>300	382
Key P&L metrics – FY22		
Service revenue (A$)	96.3	96.6 (94% from Australia)
Total revenue (A$)	124.2	127.3
Adjusted/underlying EBITDA (A$)	38.5	26.3
Adjusted EBITDA margin % (on service revenue)	40	27
Adjusted EBITDA margin % (on total revenue)	31	21
Key metrics – Q2 FY23 (and Q2 FY23 annualised)		
Total revenue (A$)	30.3 (121 annualised)	n.a. (no quarterly reporting)
Adjusted EBITDA (A$)	10.6 (42.4 annualised)	n.a.
Adjusted EBITDA margin % (on total revenue)	35	n.a.

Sources: Company announcements

QIP valuation scenarios based on IPH's Smart & Biggar acquisition

Applying the FY23f EV/EBITDA multiple implied by IPH's Smart & Biggar acquisition to QIP gives:

- An EV of **$196m** and an equity value of **$1.23/share** on a minority interest/portfolio basis (based on a 35% control premium which is at the higher end of the longer-term average range of 20%-40% paid by ASX-listed entities). This is below our DCF valuation of $1.57/share.
- An EV of $265m and an equity value of $1.72/share on a controlling basis.

We consider that Smart & Biggar's nature, market position, and financial metrics bear resemblance to those of QIP in many respects.

Exhibit 50: QIP valuation scenarios based on Smart & Biggar metrics

	Smart & Biggar (control basis)	Smart & Biggar (minority interest/portfolio basis)
Implied valuation metrics		
- FY22a adjusted EBITDA	10.5x	7.7x
- Q2 FY23 annualised EBITDA (used for FY23f)	9.5x	7.0x
Enterprise value (EV) - QIP (A$m)		
- Using FY22a adjusted EBITDA multiple	275	204
- Using Q2 FY23 annualised EBITDA multiple	265	196
Equity value/share - QIP		
- Using FY22a adjusted EBITDA multiple	$1.83	$1.31
- Using Q2 FY23 annualised EBITDA multiple	$1.72	$1.23

Sources: Company announcements, RaaS estimates

LSE-listed Gateley's activity

The legal and professional services group Gateley entered the IP services sector in January 2022 with its acquisition of Adamson Jones for £2.5m (50% cash/50% shares). **Adamson Jones** is a firm of patent and trade marks attorneys that covers the medical devices, engineering, electronics, and software sectors and provides its services in the UK, Europe and overseas. It was founded in 2000 and has 25 staff and three offices (Nottingham, Leicester, and London). Adamson Jones generated revenue of ~£3.6m in FY21 (31 March year-end), and Gateley's disclosures indicate that revenue and NPAT in FY22 were £3.6m and £0.4m respectively (30 April year-end and assuming Gateley's ownership for the full year).

Adamson Jones marked Gateley's 11th acquisition since listing on the LSE in 2015. Gateley stated that "*Adamson Jones complements the Group's existing legal services in IP and technology, brand and reputation management, media, and privacy*" and *"[t]his is a strategic acquisition directly aligned to our Platform strategy. The … [a]cquisition means that the Group has now acquired consultancy businesses, complementary to its legal services, on all four Platforms … We are actively appraising opportunities to further grow each Platform both organically and by acquisition."*

Subsequently, in October 2022, Gateley's **Adamson Jones** subsidiary **acquired Symbiosis IP** for ~£2.5m (60% cash/40% shares on completion). Symbiosis IP is a UK patent attorney firm with a life sciences industry specialisation and four offices (Evesham, Cardiff, York, and Sheffield) that are geographically aligned to several UK universities. It generated revenue of £1.8m and pre-tax profit of £0.3m in FY22 (31 March year-end).

Gateley stated that Symbiosis IP "*forms part of an acquisitive and organic growth plan*" and that Gateley "*aims to build an industry relevant patent and trademark attorney offering via a mix of acquisitive and organic growth, and by adding new patent specialisms and geographical areas.*"

In addition, in its H1 FY23 results announced in January 2023, Gateley stated "*We will endeavour to make further acquisitions to continue to add new industry coverage to our patent and trademark business as part of our strategy to broaden our IP/intangible assets offering in both legal and consultancy services."*

UK and European private equity backed IP services firms activity

- **Murgitroyd:** In December 2019, the private equity firm Sovereign Capital Partners LLP ('Sovereign') acquired AIM-listed Murgitroyd Group plc valuing it at £66.5m (EV) (~A$120m). The consideration implied a 13.8x EV/EBITDA multiple (based on FY19a) and 20.5x P/E multiple. It had been listed on AIM since 2001.

  Under Sovereign's ownership, Murgitroyd is seeking to grow its global presence through a strategy of buy and build, and further develop its tech-enabled platform and support service offerings. BlackRock provided debt funding for Sovereign's acquisition together with follow-on acquisition facilities.

  Murgitroyd has been active on the acquisition front with the completion of four transactions over the past two years, namely:

  - **December 2022**: Acquisition of Turnbull Lynch Intellectual Property (TLIP) which has 14 staff and is focused on servicing the UK-based technology and biotechnology sectors.
  - **April 2022**: Acquisition of Creation IP, a Glasgow-based IP firm with 12 staff focused on start-up, spin-out and scale-up businesses.
  - **October 2021**: Acquisition of UDL Intellectual Property, a UK-based IP practice with 80 staff (for >£10m based on media speculation).
  - **September 2021**: Acquisition of Hanna Moore + Curley, an Irish IP firm.

This activity has made the expanded group one of Europe's largest IP services firms. It now has over 470 staff and 20 offices across the UK (with headquarters in Glasgow) and EU, client liaison offices in the US and China, and an office handling patent searching in Nicaragua. At the time of the UDL acquisition, Murgitroyd stated *"We are leading an emerging trend of consolidation within the IP sector, where scale brings a greater depth of technical and legal expertise and breadth of services as, increasingly, clients require a one stop, multi-sector, multi-service approach"* (emphasis added).

- **Rouse:** In July 2022, MML Capital, a UK private equity firm acquired an interest in IP services firm Rouse (speculated to be ~35%). Rouse was established in the UK in 1990 and is now focused on emerging markets. It has over 700 staff in 16 offices across 12 jurisdictions including China, SE Asia (with offices in Cambodia, Indonesia, Myanmar, the Philippines, Thailand, and Vietnam), the Middle East and Africa.

  MML stated that it "*partnered with Rouse as a minority investor to support the team to deliver an ambitious growth plan, involving several significant organic initiatives and a focused acquisition strategy. Our investment also crystallised the transition from a traditional partnership model to a corporate model."*

  Subsequently, in December 2022, **Rouse acquired Valea AB**, a Swedish-based European IP firm. This also expanded Valea's existing Swedish presence (following its acquisition of IPQ in July 2019). Valea's client base includes Swedish-based multinationals such as Volvo, Ericsson and SKF. MML commented that "*the addition of Valea enhances Rouse's capabilities in Sweden …, as part of Rouse's strategy to pursue greater integration and alignment of IP services globally*" and "*[t]his acquisition is part of a long-term strategy to build a truly global IP services firm. In the digital age, protecting intangible assets has become strategically imperative … With MML's investment, Rouse intends to continue to expand its geographical and IP services footprint to help further penetrate the c.$30 billion global IP services market and build a global leader of scale."*

- **Ipsilon:** In September 2022, Waterland Private Equity acquired a minority stake in Ipsilon, a French IP services firm.[22] Ipsilon has 100 employees across its offices in France, Benelux, and Germany, and an integrated team in the US. Waterland is a pan-European investment fund with €9bn of assets under management. The investment is intended to assist Ipsilon to grow its pan-European IP business.

  More recently, Ipsilon has completed two acquisitions: (1) On 6 February 2023, it **acquired Nony**, a French IP services firm with 80 staff specialising in the chemical, scientific, and IT sectors; and (2) On 1 March 2023, it acquired **Lecomte & Partners**, an IP services firm in Luxembourg.

Unlisted Australian IP services firm activity

In December 2021, there was some consolidation in the Perth market when **Wrays** acquired Lord & Co. Wrays is a mid-sized Perth-based firm while Lord & Co was a smaller IP services firm in Perth. Wrays previously acquired Melbourne-based EKM IP in March 2017. At that time it stated that "*[t]he acquisition is part of Wrays' long-term vision to remain independent, while further expanding its operations Australia-wide*."

Legal technology (legal tech) sector

In the legal technology sector there have been several acquisitions in the areas of **patent and IP technology**. Some examples are:

- In February 2023, LexisNexis (part of LSE-listed RELX plc) acquired Aistemos Limited (trading under the Cipher brand), a patent classification company using AI and machine learning. This followed its November 2022 acquisition of IPlytics, an IP intelligence company providing access to multiple databases connecting patents, standards, and technical standards contributions.

[22] French patent attorney firms cannot be majority owned by non-patent attorneys.

- In March 2021, PatSnap raised US$300m in a Series E investment from investors including Tencent, SoftBankVision 2 Fund, Vertex Ventures, and Sequoia China. PatSnap provides IP and R&D analytics via datasets on patents, venture capital, partnerships, mergers and acquisitions, and technology news.

Legal industry – including ASX and LSE-listed entity activity

- **Slater & Gordon takeover offer**: On 24 February 2023, Slater & Gordon Ltd (ASX:SGH) announced a recommended off-market takeover offer from funds managed by Allegro Funds Pty Ltd at $0.55 cash per share (which is in-line with recent market prices). This values SGH at ~$195m on an EV basis and $78m on an equity basis.

  SGH is an Australian consumer law firm focusing on personal injury law and class actions. In relation to the offer, SGH noted that its shares are highly illiquid and that *"Allegro's investment also presents an opportunity for Slater & Gordon to simplify its capital structure, which is currently dominated by offshore hedge funds."* SGH was recapitalised in 2017 led by distressed debt specialist Anchorage Capital Group.

- **LSE-listed law firm acquisition activity**: DWF plc provides legal services and also offers other business services directly or through association in 19 countries. It is UK-based and has expanded its presence in Australia since 2017 via acquisition and organic growth. DWF has remained active on the acquisition front (including recent acquisitions of insurance litigation firms in Canada) - but has not moved into the IP services sector.

- **Big 4 accounting firm acquisition activity:** The Big 4 continue to expand their legal services offerings to complement their existing advisory services. For instance, in December 2022, KPMG added ~80 partners and >275 lawyers from a number of law firms and teams from **ZICO Law** which is a network of local SE Asian legal firms. ZICO Law had employed some patent and trade marks attorneys (although it is unclear whether they have moved to KPMG).

DCF Valuation

Using a discounted cashflow methodology, our valuation of QIP is **$1.57/share** (based on current issued capital plus 148k vested CEO sign-on bonus performance rights given none of the LTIP performance rights on issue have vested) and incorporating the key assumptions set out below. This implies an underlying EV/EBITDA multiple of 8.7x and a P/E multiple of 16.6x for FY23f – and 8.1x and 14.3x respectively 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 ~11x trading multiple (i.e. ~26% discount to IPH) – but are higher than the ~7x implied by IPH's Smart & Biggar transaction (after adjusting for a 35% control premium) and the ~6x average trading multiple of the five UK-listed legal services firms.

Research as a Service

Exhibit 51: DCF valuation

Parameters	Outcome
Discount rate / WACC*	9.7%
Beta**	1.1x
Terminal growth rate assumption	2.2%
Sum of PV (10-year forecast period)	$124.9m
PV of terminal value	$117.9m
PV of enterprise	**$242.8m**
Net debt - 30 June 2023 (RaaS est.)	$25.6m
Net valuation - equity	**$217.2m**
No. of shares on issue - 30 June 2023 (RaaS est.)	138.7m
NPV/share	**$1.57**

Source: RaaS estimates, Refinitiv Eikon; *Discount rate incorporates risk-free rate (RfR) of 3.5% and an equity risk premium of 6.5%; **vs. Refinitiv's observed beta of 0.76x based on its five-year monthly beta methodology

The key assumptions underlying the DCF valuation for the initial 10-year forecast period include:

- WACC of 9.7% incorporating a beta of 1.1x (vs. the observed 0.76x beta), risk-free-rate of 3.5%, equity risk premium of 6.5%, target 20% gearing, and 6.0% post-tax cost of debt. A 50bps movement in the WACC results in a +/-6% ($0.10) change in the DCF.
- Service charge revenue growth of ~4.3% pa to FY26 followed by progressively lower growth rates (with 3.2% by FY32).
- 70c A$/US$ exchange rate for FY24-FY32.
- Underlying EBITDA margins increasing to 30.2% in FY26-FY28 (which is at the lower end of QIP's low-30s target) and then paring back slightly to ~29% by FY32 as the benefits of the current initiatives diminish.
- Capex and capitalised technology spend of ~$1.8m pa for FY25-FY32.
- 30% effective tax rate.

SWOT Analysis

Exhibit 52: Strengths, Weaknesses, Opportunities, Threats

Strengths	Opportunities
Full service registrable IP services offering (including an internationally scalable online trade marks registration platform)	Business Transformation Programme → capitalise on productivity and efficiency gains to enhance underlying EBITDA margins
Strong market positions in patents (16.5% share of filings) and trade marks (#1 and #2 in Australia and #2 in New Zealand)	Geographic expansion of DCC and/or FPA (Asian region focus) via acquisitions and/or new office openings
Nature of registrable IP workstreams and lifecycle → One patent application can = multiple revenue streams over two-five years	International expansion of Sortify online trade marks platform → enhanced operating leverage from scalable model
Diversified customer base (no customer >2% of revenue)	Growth in self-filer segment of trade marks market (Sortify)
Relatively high barriers to entry → 90 highly skilled, registered patent and trade marks attorneys; long-term client relationships	New DCC Hong Kong office growth
~27% underlying EBITDA margins and long history of profitability	Capitalise on patent filing trends in growing industry verticals (e.g. battery technologies)
Sound financial position: 1.15x net debt/EBITDA + solid operating and free cash flow generator* → facilitates fully franked dividends (70%-90% pay-out ratio)	Inbound US and Chinese patent applications growth via ongoing focused business development efforts
Weaknesses	**Threats**
~93% of revenue from Australia (mature IP market)	Fragmented, competitive Australian industry → margin pressure
Leveraged to trends in R&D spend → historic low single-digit growth	Cost inflation (employee costs = 80% of total)
Revenue and earnings growth = somewhat dependent on QIP's market share	Lower-than-expected benefits from Business Transformation Programme
US client skew within foreign client base	Loss of key staff/patent and trade marks attorneys
Market illiquidity	Slower-than-anticipated Sortify uptake in new jurisdictions
	R&D budgets are not protected to the extent envisaged in uncertain economic conditions
	Legislative change (e.g. local address for service requirements/local agents)

Source: RaaS; *See discussion at Key cash flow statement items

Key Risks

In our opinion, the key risks to the investment case for QIP are:

Staff: Akin to other attorney firms and the broader legal profession, QIP's key assets are its staff, particularly those principals and professionals at a senior level with responsibility for delivering high-quality specialised services, developing and maintaining client relationships, and overseeing and developing more junior staff. QIP's ability to retain, align, and incentivise staff is a determinant of retention rates (92% in FY21). A significant increase in attrition could pose risk to client relationships and service levels. Such attrition can result in staff moving to competitor firms, into in-house roles (IP, corporate, or legal roles), or to industry, research, or academic roles. Given the specialised nature of the skill sets of QIP's professional staff, it can be challenging to attract suitable replacement staff in a timely manner. In the event that staff move to a competitor firm, they are subject to customary restrictive covenants (but noting that restrictive covenants are often difficult to enforce in practice). Inadequate planning and management of succession (principal retirement) is also a risk.

Competition:

- **Patent and trade marks attorneys and firms**: Heightened competition from other patent and trade marks attorneys and firms (existing or new) with comparable offerings to the Firms could lead to the loss of key clients and attendant deterioration in revenue and earnings. Factors including client service, expertise and reputation, and pricing drive competitive dynamics in the patent and trade mark attorneys market.
- **Sortify** could also confront intensified competition from other existing online trade marks platforms and new entrants.
- **Foreign filing services/disintermediation**: Low-cost providers of foreign filing services offer an alternative to attorneys (and have been available in the Australian market for >10 years). The ability of these services to gain market share from attorneys is influenced by the local attorneys of foreign clientele (e.g. the advice and arrangements put in place by US patent attorneys for their local/US client in the Australian market) and to date they typically advise or arrange for the appointment of a local attorney (i.e. they utilise the foreign associate relationships) rather than the use of a filing service. In addition, these filing services do not provide the breadth of local services that can be required (e.g. corresponding with IP Australia and the foreign associate and/or client during the examination stage).

Foreign currency exposure: Given ~50% of QIP's service charge revenue is derived from foreign clients that are invoiced in US$ and its key expenses (including staff) are predominantly A$ denominated, QIP is exposed to A$/US$ currency fluctuations.

Strategy execution:

- **EBITDA margins post-transformation programme completion**: QIP may not be able to achieve its medium-term EBITDA margin objective (low-30s) if anticipated productivity enhancements from the business transformation programme do not generate the envisaged direct and indirect benefits, or the gains are partly offset by higher-than-expected cost growth due to other factors (such as ongoing high technology-related spend for new projects).
- **Rate of uptake of Sortify's online trade marks registrations offering**: This is contingent on factors including the pace of geographic expansion together with the size of the self-filer segment of the trade marks market, successful online marketing strategies, competition, and economic conditions in each country of operation.
- **Geographic expansion strategy execution**: QIP aims to increase the Firms' geographic footprint in the Asian region via acquisitions and/or establishment of local offices. Acquisitions give rise to integration-related risks which can lead to higher-than-expected costs and diversion of management resources.

Pricing pressure due to competitor activity and economic conditions leading to the inability to pass on price/rate card increases to mitigate cost inflation pressures.

Macroeconomic factors can lead to lower demand particularly for trade marks services (which have demonstrated correlation to household income and business registrations). Whilst R&D spend and the interrelated patent filing activity are generally considered to be somewhat insulated from macroeconomic conditions (given the entities that undertake these activities generally regard the spend as core rather than discretionary spend), there is risk that this does not hold true in all economic cycles and/or for some of the Firms' larger clients. Foreign clients could also pare back the number of international jurisdictions in which they seek patent protection and, in turn, there is risk that Australia is not considered to be a 'must have' jurisdiction.

Foreign associate arrangements: These informal arrangements account for est. ~28% of service charge revenue (RaaS estimate) and are skewed to the US. Heightened competition from other local patent and trade marks attorneys and firms (existing or new) to secure inbound patent applications from foreign associates could lead to the diminution or loss of key foreign associate arrangements for QIP.

Regulatory change and case law: The legislative frameworks in Australia and internationally provide an underpinning for QIP's revenue. In turn, there is risk pertaining to regulatory change, particularly any one of the following three scenarios:

- **Local agency roles**: The Firms acts as local agent for foreign clients in relation to their registrable IP applications (which provides est. ~48% of QIP's service charge revenue). This agency relationship is supported by regulatory barriers, such as requirements for applicants to record a local address for service. Any changes which diminish these requirements (and, in turn, the role of local agents) would reduce this revenue stream.
- **Extension of ePCT to the 'national phase'**: Patent applications are currently required be pursued on a country by country or a regional basis (if available) including PCT applications (when they enter the 'national phase'). WIPO's ePCT system allows PCT applications to be lodged via an online portal, and WIPO proposed to extend this system to 'national phase entry' in February 2012. If the proposal is implemented it could diminish the role of local agents at the national entry phase (noting that QIP's foreign clients primarily utilise the PCT process for their international filings). To date, there does not appear to have been any substantive progress in relation to the proposal which would also require individual countries or regions to agree to participate.
- **Patent examination harmonisation**: Most patent applications are examined separately in each country or region in which they are filed. Given the separate examinations create duplicated efforts across multiple IP offices, collaborative processes such as the impending Unitary Patent (UP) in Europe[23] and the 2014 "Global Patent Prosecution Highway" (GPPH) initiative[24] have been implemented.

In addition, any **new case law** that limits the application of the Patents Act is likely to reduce the number of future patent applications in the relevant area (e.g. recent DABUS decision regarding AI-authored patents).

Technology platform risks (including cybersecurity): QIP operates several technology dependent platforms (e.g. Sortify's trade marks registration platforms and the Firms' IP and case management systems). Any interruptions to or breaches of these platforms could impact reputation and earnings.

[23] A UP is a single patent which will be available from 1 June 2023 and initially cover 17 countries in Europe. It will remove the current need for European Patents to be individually validated and renewed in each European country of interest.

[24] For instance, a successful examination outcome in one GPPH participating country (Australia is a participant) can be relied upon by the IP offices of other participants.

Impact of legal tech and AI: Whilst the adoption of legal tech should provide efficiency gains, it could also pose a threat in the medium to longer term if it reduces the need for attorney services.

Client conflicts of interest: The ability of the Firms to maintain or expand their services and market share could be reduced where client conflicts of interest arise. Given the common ownership structure of the Firms, there is also risk that some clients (most likely prospective clients given the structure has now been in place for over six years and is disclosed to all existing clients) may not perceive that they operate on a sufficiently independent basis.

Ongoing compliance with regulations relating to the conduct of the Firms and their attorneys in the provision of patent and trade marks services including compliance with the *Code of Conduct for Trans-Tasman Patent and Trade Marks Attorneys 2018* (and the conduct of DCC Law and its lawyers under the legal profession regulations). Relevant duties which prevail over any duty of QIP's shareholders include acting in the best interests of clients, and in the interests of the profession and the public.

Capital markets factors including illiquidity.

Board and Management

QIP's board comprises five directors (four Non-Executive Directors and the Managing Director). Its executive management team has seven members led by CEO and Managing Director, Mr Craig Dower.

Directors

Sonia Petering (Non-Executive Chair)

Date of appointment: 9 June 2016 (Non-Executive Director) and 24 May 2022 (Chair)

Ms Petering has more than 15 years' experience in non-executive director and chair roles with listed and unlisted companies and government authorities across financial services, payments, insurance, professional services, and healthcare. She is an experienced commercial lawyer who commenced her legal practice in 2001 and holds a current Victorian legal practicing certificate.

Ms Petering previously served as a Non-Executive Director on the boards of Transport Accident Commission of Victoria, Rural Finance Corporation of Victoria (and was Chair from 2009-2016), and Virtus Health Limited (previously ASX:VRT) from September 2014 until its acquisition by BGH Capital in July 2022 (and was Chair from November 2019).

Ms Petering holds a Bachelor of Laws and Bachelor of Commerce from the University of Melbourne and is a Fellow of the Australian Institute of Company Directors.

Craig Dower (Managing Director and Chief Executive Officer)

Date of appointment: 13 January 2020 (as CEO) and 1 July 2020 (as Managing Director [in addition to CEO])

Mr Dower's professional services career has spanned over 30 years with recent positions including leadership roles as CEO and Managing Director of Xenith IP Group Limited (an IP services group that was previously ASX-listed and acquired by IPH in August 2019), CEO of Salmat (a multichannel marketing and customer engagement company that was previously ASX-listed), and President - Asia Pacific and China for Avanade Inc.

His experience includes leading and driving organisational change, building high-performance teams, technology-based innovation, and integrating and managing acquisitions. Mr Dower also has more than 20 years' experience working across Asia Pacific, including five years based in Singapore. He has served on a number of boards both as an executive and non-executive director.

Mr Dower is a Fellow of the Australian Institute of Management, a Fellow of the Australian Institute of Company Directors, and a Member of the Australian Computer Society.

Leon Allen (Non-Executive Director)

Date of appointment: 1 July 2020 (Non-Executive Director)

Previously Chief Executive Officer and Managing Director from 17 May 2016 to 13 January 2020

Mr Allen commenced work as a patent attorney in 1981 and served as Managing Partner and Chairman of DCC's national management board from 2011 until he became QIP's inaugural CEO and Managing Director in 2016.

Mr Allen is a past president of the Institute of Patent and Trade Marks Attorneys of Australia, having served on its Council from 1992 to 2013. He served two terms on the Advisory Council on Intellectual Property to the Federal Government, the second as Chair. Mr Allen is a Fellow of the International Federation of Patent Attorneys Academy of Education, teaching patent drafting in Europe, and is also a Senior Fellow of the University of Melbourne.

Gavin Bell (Non-Executive Director)

Date of appointment: 1 March 2022

Mr Bell is an experienced director, CEO, and lawyer. He is currently a Director of IVE Group Limited (ASX:IGL) and Smartgroup Corporation Limited (ASX:SIQ), and has served as a non-executive director of AIMSO Ltd and icare NSW, as Managing Partner and CEO of Freehills, and as CEO of global law firm Herbert Smith Freehills.

Mr Bell holds a Bachelor of Laws from the University of Sydney and a Master of Business Administration (Executive) from the Australian Graduate School of Management (UNSW).

Kathy Gramp (Non-Executive Director)

Date of appointment: 11 May 2022

Ms Gramp commenced her career in professional services as a chartered accountant, before moving into in-house executive roles, with her principal executive roles at Southern Cross Austereo involving a diverse range of responsibilities including serving as Chief Financial Officer and as Company Secretary, and accountability for acquisitions and integration, capital investment, major IT projects, risk and change management, and corporate governance.

Ms Gramp is a Non-Executive Director of Codan Ltd (ASX:CDA) and was a Non-Executive Director of Uniti Group Ltd (previously ASX:UWL) from 15 May 2018 to 4 August 2022 (when it was acquired).

Ms Gramp holds a Bachelor of Accounting degree, is a Member of Chief Executive Women, and is a Fellow of the Institute of Chartered Accountants Australia and New Zealand, and of the Australian Institute of Directors.

Executive Management

QIP's executive management team comprises seven members.

Exhibit 53: Executive management team

	Name	Position	Commencement Date*	Qualifications
1	Craig Dower	CEO and Managing Director	13 January 2020 (CEO); 1 July 2020 (Managing Director)	See above for Craig Dower's biography
2	Brenton Lockhart	Chief Financial Officer	1 June 2022 (as QIP CFO); 2018 (at FPA)	BBusCom, CA, GAICD
3	Krista Stewart	General Counsel and Company Secretary	7 October 2022	BA, LLB (Hons)
4	Michael Wolnizer	Group Managing Principal - DCC	1994	LLB (Hons), LLM, Lawyer, Trade Marks Attorney
5	David Webber	Managing Principal - DCC (Patents)	1985	BE (Hons), LLB, Patent Attorney
6	John Dower	Managing Principal - FPA	2001	BSc (Elec Eng), BProc, Patent Attorney
7	Claire Foggo	CEO and Co-founder - Sortify.tm	2018	BA, LLB

Source: QIP 2022 Annual Report; *Commencement date of employment with QIP, DCC, FPA or Sortify as applicable

Director and KMP Remuneration and Shareholdings

Exhibit 54: KMP and director remuneration

Name	Position	Total annual remuneration	Interest in QIP securities
KMP			
Craig Dower	CEO and Managing Director	$700,000[1]	147,525 shares[2] 1,067,639 performance rights (three-year min. 5% EPS CAGR vesting conditions for 920,174 rights)[3]
Brenton Lockhart	Chief Financial Officer	$340,000	102,000 performance rights
Total KMP		**$1,040,000**	
Non-Executive Directors			
Sonia Petering	Chair	$204,000	45,044 shares acquired in the IPO
Leon Allen	Non-Executive Director	$122,400	2,037,227 shares (vendor shares received as part of IPO)
Gavin Bell	Non-Executive Director	$122,400	25,641 shares[4]
Kathy Gramp	Non-Executive Director	$122,400	Nil[4]
Non-Executive Director Total		**$571,200**	
TOTAL		**$1,611,200**	

Sources: QIP ASX announcements including FY22 Annual Report

[1] Base salary including super. Other benefits: (a) Short-term cash incentive payment of up to 50% of annual remuneration can be awarded annually based on QIP's financial performance (60% weighting) and KPIs relating to strategic initiatives (40% weighting); and (b) Mr Dower receives an annual grant of performance rights under QIP's long-term incentive plan (subject to shareholder approval) valued at 50% of annual remuneration (i.e. $350k) with vesting based on EPS CAGR calculated over three years and continued employment.

[2] Shares issued following conversion of 50% of 295,050 performance rights granted as a sign-on bonus in 2020.

[3] Comprising 285,087 FY21 performance rights (with EPS CAGR calculated over FY21-FY23); 285,087 FY22 performance rights (with EPS CAGR calculated over FY22-FY24); 350,000 FY23 performance rights (with EPS CAGR calculated over FY23-FY25); and 147,525 performance rights granted as a sign-on bonus in 2020 (50% of the total which have vested).

[4] Note: Each Non-Executive Director is required to hold (directly or beneficially) QIP shares equivalent to at least one year's base fees for that director. Holdings must be acquired over three years from appointment.

Corporate Governance

The majority (three out of four) of QIP's Non-Executive Directors are considered to be independent. Leon Allen is not considered to be independent in light of his previous role as QIP's Managing Director and CEO.

QIP has two board committees with the following memberships:

- **Audit, Risk and Compliance Committee** (ARCC): Kathy Gramp (Chair), Sonia Petering, and Leon Allen.
- **People, Remuneration and Culture Committee** (PRCC): Gavin Bell (Chair), Sonia Petering, and Leon Allen.

The majority of both the ARCC and the PRCC (two out of three) are independent non-executive directors, as recommended by the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations (4th Edition)*.

QIP held 22 Directors' Meetings in FY22 (and in FY21). The ARCC and PRCC each met five times in FY22.

Shareholders

The key shareholders (primarily based on data at 12 August 2022) accounting for 43.7% of QIP's issued capital are set out below.

Exhibit 55: Key shareholders

	Shareholder	No. of shares	Holding	Relationship to QIP
1	Investors Mutual Limited (via Citicorp Nominees)	6,902,311	5.0%	Substantial shareholder since 4 July 2022
2	Equity TS Pty Ltd	6,578,879	4.8%	Held as trustee for QIP's employee share trust (EST)
3	JP Morgan Nominees Australia Pty Limited	5,790,074	4.2%	
4	Argo Investments Limited	5,350,053	3.9%	Fund manager
5	First City Nominees Pty Ltd <No 2 A/C>	5,221,380	3.8%	
6	HSBC Custody Nominees (Australia) Limited	3,014,780	2.2%	
7	Citicorp Nominees Pty Ltd	2,494,939	1.8%	Citicorp Nominees holding excluding Investors Mutual's holding
8	John Dower	2,888,884	2.1%	FPA Managing Principal; FPA vendor
9	Leon Keith Allen & Kerry Ann Allen <Kerralee Super Fund A/C>	2,037,227	1.5%	Non-Executive Director; former QIP CEO/MD; DCC vendor
10	Curpsi Pty Ltd	2,037,226	1.5%	DCC vendor
11	Fordham Pty Ltd	2,037,226	1.5%	DCC/FPA vendor
12	Gnarwarre Investments Pty Ltd	2,037,226	1.5%	DCC/FPA vendor
13	Loughnan Hill Pty Ltd	2,037,226	1.5%	DCC/FPA vendor
14	Macrophage Pty Ltd	2,037,226	1.5%	DCC/FPA vendor
15	Oakvale Pty Ltd	2,037,226	1.5%	DCC/FPA vendor
16	Petrob Holdings Pty Ltd	2,037,226	1.5%	DCC/FPA vendor
17	Rezinlow Holdings Pty Ltd	2,037,226	1.5%	DCC/FPA vendor
18	Rocky Road Pty Ltd	2,037,226	1.5%	DCC/FPA vendor
19	Sortify vendors (combined)	1,666,668	1.2%	Combined shareholding of the Sortify vendors*
20	Craig Dower	147,525	0.1%	CEO and Managing Director
21	Sonia Petering	45,044	0.0%	Chair
22	Gavin Bell (Spurca Pty Limited atf Bell Family Trust)	25,641	0.0%	Non-Executive Director
	TOTAL	**60,498,439**	**43.7%**	

Sources: QIP 2022 Annual Report, substantial shareholder notices, ASX Appendices 2A and 3Y; *There were 16 shareholders in Sortify with the majority of shares (62.7%) held equally by the three founders

We note following key points:

- Fund manager Investors Mutual Limited is the largest single shareholder having disclosed that it became a substantial holder with a 5.02% interest on 4 July 2022.
- The combined holdings of the remaining DCC and FPA vendor shareholders currently total an estimated ~37% or 50.7m shares (and include the 11 shareholdings from #8 to #18 in the above table). This compares to the combined 50% vendor shareholding (totalling 66.5m shares held by the 45 vendors) upon listing in August 2016 and reflects the disposal of shares by several former principals (including at least 10.8m shares in FY21) together with some minor dilution resulting from post-IPO share issues.
- The Sortify vendors have a combined ~1.2% shareholding (assuming no vendors have disposed of upfront consideration shares that were released from voluntary escrow on 5 October 2022). 833,334 of the Sortify vendors' shares (issued as part of the first contingent consideration payment) are subject to voluntary escrow until 30 November 2022.
- The combined shareholdings of QIP's directors and KMP (other than Mr Allen) total 0.2%.
- QIP's employee share trust (EST) holds 6.58m shares (4.8% shareholding) reflecting the net issuance and on-market acquisition of shares since the EST was established in FY18. See Employee share trust shares.
- QIP had 1,768 shareholders at 12 August 2022.

Liquidity

13% of QIP's shares have traded over the past year (daily average volume: 72,200 shares), although liquidity has been lower over the past six months (6.4% annualised). The combined est. ~45% holding of the DCC/FPA vendors and the EST influence liquidity.

Research as a Service

Annexures

Annexure A: Share Issue History

QIP has only raised capital upon IPO. It received $30.8m gross proceeds from the IPO raise (and the DCC/FPA vendors received a combined $115.9m via a sell-down of 44% of their combined holdings). Since listing, QIP has issued a total of 5.7m shares with (1) 3.7m issued as part consideration for the Sortify and Cotters acquisitions; (2) 1.3m issued to the EST in 2020; and (3) The remaining 0.7m issued under the Employee Incentive Plan (EIP) or upon conversion of various performance rights.

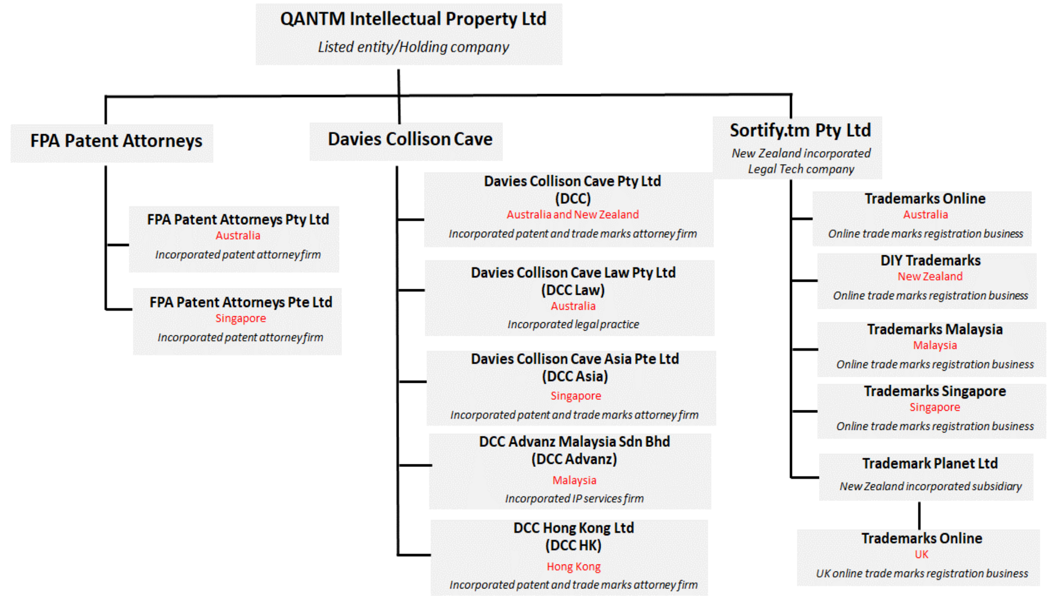
Exhibit 56: Capital raising history

Date	Reason for issue	Number of shares issued	Comments
22 August 2016	Issued to DCC vendors	91,043,118	
22 August 2016	Issued to FPA vendors	27,597,152	
	Total vendor shares issued	**118,640,270**	52.2m vendor shares were sold in the IPO (via a SaleCo structure) leaving a balance of **66.5m shares** held by the DCC/FPA vendors
22 August 2016	IPO capital raise	13,886,261	$30.8m gross proceeds (IPO price = $2.22)
22 August 2016	Issued under employee share schemes on IPO	373,750	
	Shares on issue upon IPO	**132,900,281**	
28 June 2017	Issued under Employee Award Grant (IPO-related)	4,050	
30 August 2018	Issued on conversion of employee retention rights	146,393	Under Employee Retention Rights Plan from IPO
22 May 2020	Cotters acquisition	1,247,828	Share component of upfront consideration
21 October 2020	Issued to employee share trust (EST)	1,348,539	
25 March 2021	Conversion of performance rights	19,079	
25 March 2021	Conversion of 20% of sign-on performance rights issued to Craig Dower (CEO/MD)	59,010	
24 May 2021	Cotters acquisition	334,784	Share component of first deferred consideration payment
27 August 2021	Conversion of performance rights	57,238	
1 October 2021	Sortify acquisition	876,888	Share component of upfront consideration
4 October 2021	Issued to Sortify key employees	52,614	Issued under QIP's EIP
23 December 2021	Conversion of performance rights	28,619	
9 May 2022	Conversion of 30% of sign-on performance rights issued to Craig Dower (CEO/MD)	88,515	
25 May 2022	Cotters acquisition	334,784	Share component of second deferred consideration payment
7 September 2022	Conversion of performance rights	28,619	
31 October 2022	Conversion of performance rights	47,700	
30 November 2022	Sortify acquisition	877,192	Share component of first contingent consideration payment
31 March 2023	Issued under EIP	100,109	Shares issued under QIP's EIP (valued at $1/share)
	Total shares currently on issue	**138,552,242**	
	Performance rights on issue	1,383,699	
	Maximum shares on issue (if all performance rights vest)	**139,935,941**	Shares on issue would increase by 1.0% if all of the performance rights vest

Source: QIP announcements

Annexure B: Corporate Structure

Exhibit 57: QIP's Corporate Structure



Source: QIP; *Note: Not every subsidiary is included. Cotters Pty Ltd was merged into FPA and DCC in H1 FY23

Annexure C: Sample of Patent Clients

Exhibit 58: Sample of patent clients

DCC Australia - local clients	DCC - Australia foreign clients	FPA - Australia	DCC - Singapore
The University of Melbourne	LG Electronics Inc.	Honeywell International Inc.	Mastercard Asia/Pacific Pte. Ltd.
Monash University	Intuit Inc.	Apple Inc.	GrabTaxi Holdings Pte. Ltd.
Australian National University	Allergan, Inc	PayPal, Inc.	National University of Singapore
The University of Queensland	Adaptimmune Limited	Atlassian Inc.	Agency for Science, Technology and Research
Florey Institute of Neuroscience and Mental Health	3M Innovative Properties Company	Telix International Pty Ltd (ASX-listed parent)	ResMed Asia Pte. Ltd. (ASX-listed parent)
Fastbrick IP Pty Ltd (ASX-listed parent)	Mastercard International Incorporated	CSL Behring AG (ASX-listed parent)	Orica International Pte Ltd (ASX-listed parent)
Incannex Healthcare Limited (ASX-listed)	Illinois Tool Works Inc.	Silicon Quantum Computing Pty Ltd	Nanyang Technological University
Fortescue Metals Group Ltd (ASX-listed) and Fortescue Future Industries Pty Ltd	Angel Group Co., Ltd.	The University of Sydney	Johnson Controls Tyco IP Holdings LLP
DuluxGroup (Australia) Pty Ltd	Mitsubishi Power, Ltd	Genentech, Inc.	Abaxx Technologies Corp.
Deakin University	GlaxoSmithKline Biologicals SA	Gilead Sciences, Inc.	Fortescue Metals Group Ltd (ASX-listed)
CSIRO (Commonwealth Scientific and Industrial Research Organisation)	BAE Systems plc	Caterpillar Inc.	Changxin Memory Technologies, Inc.
Visy R & D Pty Ltd	Magic Leap, Inc.	Visa International Service Association	Firebrick Pharma Limited (ASX-listed)
Peter MacCallum Cancer Institute	Syngenta Participations AG	Longyear TM, Inc.	Microsoft Technology Licensing, LLC
Clarity Pharmaceuticals Ltd (ASX-listed)	University of California	The University of Melbourne	Regeneron Pharmaceuticals, Inc.
Archer Materials Limited (ASX-listed)	Bayer CropScience LP	University of California	Abiomed, Inc.
	Alstom Holdings	Bio Blast Pharma Ltd.	
	Zillow, Inc.	OnPoint Vision, Inc.	
	Schock GmbH	Donaldson Company, Inc.	
	Microsoft Technology Licensing, LLC		
	Monsanto Technology LLC		
	Abiomed, Inc.		
	Deere & Company		
	NVIDIA Corporation		

Sources: IP Australia, IPOS (Singapore)

Annexure D: Patent Cooperation Treaty (PCT) and PCT Application Process

The PCT provides for an **'international' patent application process** in the ~155 countries that are parties to the treaty and is administered by WIPO. It is designed to facilitate a more streamlined process for the subsequent filing of patent applications in the individual countries (or regions) of interest to the applicant (and provides up to an additional 18 months to do so vs. not using the PCT).

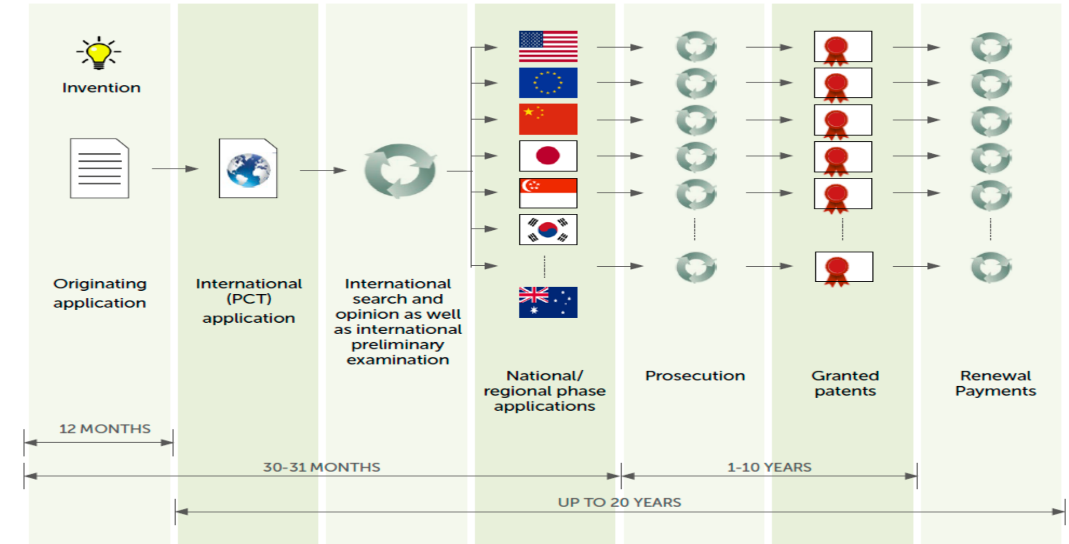
A **PCT application** is an 'international' patent application that has initial effect in the treaty countries for up to 30-31 months from the earliest filing date.[25] It is filed with a national or regional patent office or WIPO (e.g. Australian residents file PCT applications with IP Australia).

During the initial post-filing stage (referred to as the 'international phase'), the applicant decides whether it wishes to proceed with the application and, if so, the countries in which it wishes to apply for patent protection. This decision can be informed by initial reports on the various requirements for patentability requested during this phase (designed to provide an indication of patentability prior to 'entering the national phase'), namely:

- International search and opinion: an "International Searching Authority" (ISA) (one of the major patent offices – e.g. IP Australia) identifies the prior art (i.e. published patent documents and technical literature) which could influence the invention's patentability, and provides a written opinion on the invention's potential patentability.
- Supplementary International Search (optional): a second ISA identifies prior art which may not have been found by the first ISA.
- International Preliminary Examination (optional): one of the ISAs conduct an additional patentability analysis.

If the applicant wishes to proceed to file applications in one or more countries via the PCT process, it will then need to 'enter the national phase' in each country of interest. This 'national phase entry' can occur no later than 30-31 months from the earliest filing date. The PCT application essentially then proceeds on a country by country (or region by region) basis (i.e. granting of patents remains under the control of the national or regional patent offices).

Exhibit 59: PCT application process (indicative)



Source: QIP

[25] The earlier of the date of filing the PCT application or any earlier originating application (e.g. a provisional patent application or a standard patent application in Australia).

Annexure E: Australian patent market statistics

We note the following **statistics of interest** (from IP Australia and WIPO reports and data **relating to CY21**):

- **Australians filed ~10k patents overseas**: In CY21 Australian residents filed 9,855 patent applications overseas (in addition to their 2,966 standard applications in Australia). Australians file an average of 2.9 applications overseas for every domestic application filing - and predominantly apply for patents in the US (accounting for 3,468 or 35% of the total) followed by the European Patent Office (1,026/10%) and China (740/8%).

  Most of these applications were **'national phase entries' via the PCT process** (73%). Australian PCT applicants averaged 4.3 'national phase entries' per PCT application which was the second-highest number globally (based on CY20 data).

- **Use of PCT process for Australian applications**: 72% of applications were filed as 'national entry phase' applications via the PCT and the remainder were 'direct' filings.

- **By industry**: ~4k patent applications were filed in both the pharmaceuticals and medical technology classes, with ~3k in biotech. Computer technologies accounted for ~1,800 filings.

- **Top applicants**: The largest filers were non-resident companies led by LG Electronics (259 applications), Huawei (255), Guangdong Oppo Mobile Telecommunications (197), Nestle (157), and Apple (151). The highest resident filers were Aristocrat (71), CSIRO (52), New South Innovations (UNSW commercialisation) (29), ResMed (28), and Breville (27).

- **Patent grants**: IP Australia granted 17,115 standard patents in 2021 (relating to pre-2021 applications).

- **Patents in prosecution/examination stage**: There were 66,077 applications in the "prosecution stage" of which 22,108 had requested examination (as required in Australia) and 43,969 had not yet requested examination. It took an average of 16.1 months for a final decision by IP Australia (from the time of the first office action [document written by a patent examiner]).

- **Patent examination outcomes**: 75% of patent applications were granted, 24.7% were withdrawn/abandoned, and 0.1% were rejected.[26]

- **Patents in force**: There were 157,313 patents in force in Australia with 10,650 held by residents and 146,663 by non-residents. The average age of patents in force was 8.7 years (vs. 20-year maximum which reflects lapsing of granted patents/non-payment of renewal fees).

- **Applications vs. population**: Australian resident patent applications equated to 115 per million population (up from 107 per million population in 2011). This placed Australia 19th in the world on this measure. Australia does not fare as well using a GDP-based measure – it ranks 30th globally with 234 applications per $100b GDP (essentially unchanged from 235 in 2011).

- **Australia = #9 patent office globally**: Australia ranked ninth based on patent applications received (despite receiving <1% of the 3.4m applications made globally in CY21 which is reflective of the weight of applications received by the top five). The five offices that received the highest numbers of applications were China (1.59m or 47% of global applications), US (591k), Japan (289k), South Korea (238k), and Europe (189k).

[26] WIPO has stated that these figures should not be interpreted as grant rates as they are based on the examination date rather than the application filing date (which would have been pre-2021).

Annexure F: Employment Costs

Exhibit 60: Employment costs – key drivers (FY18-H1 FY23)

	FY18	FY19	FY20	FY21	FY22	H1 FY23
Employment costs ($m - **underlying**)	**43.9**	**48.7**	**53.0**	**56.5**	**59.7**	**31.6**
Chg on pcp (%)		*10.9*	*8.8*	*6.6*	*5.7*	*3.3*
Increase on pcp ($m)		*4.8*	*4.3*	*3.5*	*3.2*	*1.0*
Add back:						
Restructuring costs			0.3		0.4	1.1
Principal retention costs			0.9	0.7		
New business establishment related		0.4				
Employee share trust (EST) - 1st year	0.9					
Employment costs ($m - statutory)	**44.8**	**49.1**	**54.2**	**57.2**	**60.1**	**32.7**
Total staff (at year end)	301	335	347	352	382	~375 (est.)
Increase on pcp (%)		*11.3*	*3.6*	*1.4*	*8.5*	
Increase on pcp (#)		*34*	*12*	*5*	*30*	
Key drivers – underlying costs						
1. Acquisitions		✓ Advanz acq'n (23 staff - full year)	✓ Cotters acq'n (eight staff – one month)	✓ Cotters acq'n (full year)	✓ Sortify acq'n (~14 staff - nine months)	✓ Sortify acq'n (~14 staff - three months)
2. New offices		✓ • DCC NZ office opened (two staff) • FPA Singapore office opened (two staff)		✓ New US sales office (one principal)		✓ DCC HK office opened (incl. two principals)
3. Lateral fee-earner and/or BD hiring	✓ Two IP teams for DCC and FPA	✓ • DCC commercial legal team – three hires; • Ipervescence launch: two hires		✓ New US-located BD principal	✓ Senior attorney hires	
4. Promotions – including new principals	✓ Employee share trust (EST) established for new principals (excl. from underlying in first year) seven new principals	✓ 21 including four new principals (with associated EST contributions)	✓ 21 including seven new principals (with associated EST contributions)	✓ 16 including new two principals (with associated EST contributions)	✓ Including new principals (with associated EST contributions)	✓ Including two new principals (with associated EST contributions)

	FY18	FY19	FY20	FY21	FY22	H1 FY23
Key drivers – underlying costs						
5. Head office/corporate			✓ ↑ headcount (M&A; transformation, HR)	✓ FY20 ↑ headcount for full year + Head of Tech role		
6. Salary inflation	✓	✓	✓ Rem ↑ for vendor principals (three years post-IPO)* + MD rem ↑	✓ Further rem ↑ for vendor principals (three years post-IPO)*	✓	✓
7. Super g'tee charge % ↑					✓	✓
8. New incentive schemes			✓ New scheme	✓ New short-term incentive scheme for senior principals; LTIP for KMPs		
9. Employee leave provision ↑				✓ ↑ due to COVID-19		
10. Principal retirement/departure above average	✓ Several retirements					
Restructuring and retention costs	Significant restructuring including reduction of support roles in H1 FY18: $1.9m restructure costs**		Vendor principals remuneration realignment included one-off retention payments (two-year retention period)	Retention payment recognition – year two		Reflects some restructuring in late H1 FY23

Source: QIP announcements; *The new employment agreements realigned vendor principal remuneration to market levels (e.g. ~$400k pa for managing principals) vs. previous three-year contracts agreed as part of the IPO (e.g. ~$250k pa for managing principals); ** Included in other costs rather than employment costs in statutory accounts

Annexure G: IPH vs. QIP

IPH's strategy is focused on becoming the leading IP services group in secondary IP markets (i.e. outside of the US, Japan, Europe, and South Korea). IPH has been active on the acquisition front since listing in 2014 (see Annexure H below).

Exhibit 61: IPH vs. QIP

	IPH	QIP
Office locations	Australia, NZ, Canada, China, SE Asia	Australia, NZ, SE Asia (Singapore, HK, Malaysia)
Number of staff	~1,247 (673 Australia/NZ 229 SE Asia >300 Canada 45 China)	382 (30 June 2022) (~341 Australia/NZ ~41 SE Asia)
Firms/businesses	6 (Spruson & Ferguson, Smart & Biggar, Griffith Hack, Watermark, AJ Park, Applied Marks)	3 (DCC, FPA, Sortify)
Geographical revenue split (H1 FY23)		
Australia/Asia/Canada (part period)	~62% / 26% / 13%	92% / 8% / n.a.
Key P&L metrics – FY22		
Service charge revenue ($m)	n.d.	96.6
Total revenue ($m)	385.1	127.3
Underlying EBITDA ($m)	137.5	26.3
Underlying EBITDA margin (on service revenue)	n.d.	27.2%
Underlying EBITDA margin (on total revenue)	35.7%	20.7%
Key metrics – H1 FY23		
Total revenue ($m)	226.9	68.6
Underlying EBITDA ($m)	80.4	13.8
Underlying EBITDA margin (on service revenue)	n.d.	26.5%
Underlying EBITDA margin (on total revenue)	35.4%	20.1%

Sources: Company announcements

Annexure H: M&A Activity For ASX-listed IP Services Firms – 2015 to 2020

Exhibit 62: M&A activity for ASX-listed IP services firms – 2015 to 2020

Date	Acquiror	Target/acquiree	Consideration (A$m)	EBITDA (A$m)	EV/EBITDA
Jun-20	IPH	Baldwins (NZ)	7.8	1.8 (FY20)	4.3x
May-20	QIP	Cotters (Australia)	5.6	1.9 (FY21)	2.9x forward
Aug-19	IPH	Xenith (previously ASX:XIP)	190	20 (FY19)	10.4x
Jul-18	QIP	Advanz Fidelis IP (Malaysia)	7.9	1.2 (FY18)	6.6x
Oct-17	IPH	AJ Park (NZ)	60.9	8.1 (FY17)	7.5x
Feb-17	XIP	Griffith Hack	137	14.2 (FY17)	9.6x
Nov-16	XIP	Watermark Group	18.7	2.5 (FY17)	7.5x forward
Oct-16	IPH	Ella Cheong (HK and Beijing)	27.0	4.0 (FY16)	6.8x
May-16	IPH	Cullens	35.6	4.5 (FY15)	7.9x
Oct-15	IPH	Callinans	11.5	Not disclosed	n.a.
Sep-15	IPH	Pizzeys	86.9	11 (FY16)	7.9x forward
May-15	IPH	Fisher Adams Kelly	26.5	Not disclosed	n.a.

Sources: Company announcements

Research as a Service

Exhibit 63: Financial Summary

QANTM Intellectual Property Ltd					
Profit and Loss (A$m)					
Y/E 30 June	**FY21a**	**FY22a**	**FY23f**	**FY24f**	**FY25f**
Service charge revenue	92.4	96.6	101.0	105.4	110.0
Associate revenue	26.7	30.7	33.8	34.5	35.5
Total revenue	**119.1**	**127.3**	**134.8**	**139.9**	**145.5**
Other income	1.9	3.2	2.1	2.1	2.2
Recoverable expenses	(25.4)	(29.3)	(31.6)	(32.4)	(33.5)
Net revenue	95.6	101.2	105.4	109.6	114.2
EBITDA - statutory	**23.7**	**21.6**	**23.5**	**28.4**	**31.6**
EBITDA - underlying	**26.1**	**26.3**	**27.9**	**29.9**	**32.4**
Depreciation	(0.9)	(1.1)	(1.2)	(1.2)	(0.9)
Amort (intang & leases)	(6.4)	(7.1)	(7.1)	(6.7)	(6.6)
EBIT	**16.4**	**13.4**	**15.2**	**20.5**	**24.1**
Interest	(1.6)	(2.4)	(3.5)	(3.1)	(3.1)
Tax	(4.4)	(3.9)	(3.5)	(5.2)	(6.3)
NPAT - statutory	**10.4**	**7.1**	**8.2**	**12.2**	**14.6**
NPAT - underlying	13.5	12.8	13.1	15.3	17.2
Cash flow (A$m)					
Y/E 30 June	**FY21a**	**FY22a**	**FY23f**	**FY24f**	**FY25f**
EBITDA - statutory	23.7	21.6	23.5	28.4	31.6
Interest	(0.9)	(1.7)	(2.8)	(2.5)	(2.4)
Tax payments	(5.4)	(4.6)	(4.0)	(5.2)	(6.3)
Working capital chgs	2.5	0.7	(2.2)	(1.4)	(1.6)
Operating cash flow	**19.8**	**16.0**	**14.6**	**19.3**	**21.3**
Capex	(0.8)	(0.5)	(2.2)	(0.9)	(0.9)
Capitalised dev costs	(0.8)	(0.4)	(0.5)	(0.6)	(0.6)
Free cash flow	**18.2**	**15.1**	**11.9**	**17.9**	**19.8**
Acquisitions	(0.7)	(6.7)	(0.5)	(0.5)	0.0
Acq'n related costs	(0.4)	(1.1)	(0.1)	0.0	0.0
Cash flow pre financing	17.1	7.3	11.2	17.4	19.8
Equity	0.0	0.0	0.0	0.0	0.0
Borrowings (net)	(1.8)	8.2	1.9	(1.5)	(3.5)
Other financing (leases)	(5.2)	(5.0)	(4.0)	(3.8)	(3.8)
Dividends paid	(10.5)	(8.7)	(8.7)	(9.9)	(12.1)
Net cash flow	**(0.4)**	**1.7**	**0.5**	**2.2**	**0.4**
Balance sheet (A$m)					
Y/E 30 June	**FY21a**	**FY22a**	**FY23f**	**FY24f**	**FY25f**
Cash	5.7	7.4	7.9	10.1	10.5
Accounts receivable	36.9	38.2	40.5	41.8	43.1
Other current assets	2.3	2.6	3.1	3.1	3.1
Total current assets	*44.9*	*48.2*	*51.5*	*55.0*	*56.7*
PPE	2.3	1.6	2.6	2.3	2.3
Goodwill	48.8	54.8	54.8	54.8	54.8
Intangibles	25.9	29.4	26.2	23.2	20.3
Other non current assets	13.2	8.7	8.0	10.9	9.7
Total non current assets	*90.2*	*94.6*	*91.7*	*91.2*	*87.2*
Total Assets	**135.0**	**142.8**	**143.2**	**146.2**	**143.9**
Accounts payable	13.5	14.1	13.6	14.1	14.5
Current debt	2.0	3.6	1.5	1.5	1.5
Lease liabilities (current)	4.5	3.6	3.2	2.9	2.9
Other curr liab (inc AL prov)	8.5	9.5	9.9	8.5	8.5
Total current liabilities	*28.5*	*30.9*	*28.1*	*27.0*	*27.3*
Non-current debt	19.9	27.6	32.0	30.5	27.0
Other non current liabs	13.8	12.4	10.3	12.8	11.1
Total long term liabilities	*33.7*	*39.9*	*42.3*	*43.3*	*38.0*
Total Liabilities	**62.2**	**70.8**	**70.4**	**70.3**	**65.4**
Net Assets	**72.8**	**71.9**	**72.7**	**75.9**	**78.5**
Share capital	297.4	298.9	300.1	301.0	301.0
Retained earnings	(1.9)	(3.4)	(3.8)	(1.5)	1.1
Reserves	(222.4)	(223.2)	(223.2)	(223.2)	(223.2)
Minorities	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)
Total Shareholder funds	**72.8**	**71.9**	**72.7**	**75.9**	**78.5**

Share price (17 Apr 2023)						A$ 0.835
Half yearly (A$m)	**H1 FY21a**	**H2 FY21a**	**H1 FY22a**	**H2 FY22a**	**H1 FY23a**	**H2 FY23f**
Service charge revenue	46.6	45.8	48.9	47.7	52.0	49.0
EBITDA - statutory	12.8	10.9	10.5	11.1	11.2	12.3
EBITDA - underlying	**13.5**	**12.6**	**12.8**	**13.5**	**13.8**	**14.1**
EBIT - statutory	9.1	7.3	6.2	7.2	6.9	8.4
NPAT - statutory	**6.0**	**4.4**	**3.4**	**3.7**	**3.4**	**4.9**
NPAT - underlying	7.1	6.4	6.5	6.3	6.7	6.4
EPS (reported)	4.4	3.3	2.5	2.8	2.5	3.5
EPS (underlying)	5.2	4.7	4.7	4.6	4.8	4.6
Dividend (cps)	4.0	3.4	3.0	3.5	2.8	3.2
Operating cash flow	9.2	10.6	7.3	8.7	2.2	12.4
Free Cash flow	8.0	10.2	6.8	8.3	(0.1)	11.9
Segmented (half yearly)	**H1 FY21a**	**H2 FY21a**	**H1 FY22a**	**H2 FY22a**	**H1 FY23a**	**H2 FY23f**
Patents	31.9	32.3	33.5	31.5	35.4	32.8
Trade Marks	7.9	7.9	9.5	10.3	10.4	10.2
Legal Services	6.8	5.5	5.7	6.0	6.2	6.1
Service charge revenue	**46.6**	**45.8**	**48.9**	**47.7**	**52.0**	**49.0**
Associate revenue	12.0	14.8	13.8	16.9	16.6	17.1
Total revenue	**58.6**	**60.5**	**62.7**	**64.6**	**68.6**	**66.2**
Other income	1.0	0.9	1.1	2.1	1.2	1.0
Recoverable expenses	(11.3)	(14.0)	(13.1)	(16.1)	(15.7)	(15.8)
Net revenue	48.2	47.4	50.6	50.6	54.1	51.3
Employment	(28.5)	(28.9)	(31.3)	(28.9)	(32.7)	(29.6)
Technology	(2.2)	(3.3)	(3.7)	(4.4)	(3.9)	(3.7)
Occupancy	(1.0)	(0.9)	(1.1)	(1.0)	(0.9)	(1.1)
Other costs	(3.7)	(3.4)	(4.1)	(5.2)	(5.3)	(4.5)
EBITDA - statutory	**12.8**	**10.9**	**10.5**	**11.1**	**11.2**	**12.3**
EBITDA - underlying	13.5	12.6	12.8	13.5	13.8	14.1
Growth, Margins, Leverage, Returns		**FY21a**	**FY22a**	**FY23f**	**FY24f**	**FY25f**
Service charge rev growth		2.3%	4.6%	4.6%	4.3%	4.3%
Total revenue growth		2.2%	6.9%	5.9%	3.8%	4.0%
EBITDA margin (underly/service charge)		28.3%	27.2%	27.6%	28.3%	29.4%
EBITDA margin (underlying/total rev)		21.9%	20.7%	20.7%	21.3%	22.2%
EBITDA margin (stat/service charge)		25.7%	22.3%	23.2%	26.9%	28.7%
EBIT margin (stat/total revenue)		13.8%	10.5%	11.2%	14.6%	16.5%
NPAT margin (stat/service charge)		11.2%	7.4%	8.1%	11.6%	13.3%
Net Debt		16.1	23.8	25.6	21.9	17.9
Net debt/underlying EBITDA (x)		0.6	0.9	0.9	0.7	0.6
ND/ND+Equity (%)		18.1%	24.8%	26.0%	22.4%	18.6%
EBIT interest cover (x)		10.2	5.7	4.4	6.7	7.8
ROA		12.1%	9.6%	10.6%	14.2%	16.6%
ROE		14.4%	9.9%	11.3%	16.4%	19.0%
NTA (per share)		(1.3)	(9.0)	(5.9)	(1.5)	2.4
Working capital		23.3	24.0	27.0	27.7	28.6
WC/Sales (%)		19.6%	18.9%	20.0%	19.8%	19.7%
Pricing		**FY21a**	**FY22a**	**FY23f**	**FY24f**	**FY25f**
No of shares (y/e)	(m)	136	137	139	140	140
Weighted Av Dil Shares	(m)	136	139	140	141	141
EPS (statutory)	cps	7.7	5.3	5.9	8.7	10.6
EPS (underlying)	cps	9.9	9.3	9.5	11.0	12.3
EPS growth (statutory)		7.4%	(31.1%)	10.9%	47.6%	20.8%
EPS growth (underlying)		(4.8%)	(6.2%)	1.6%	15.9%	12.3%
PE (x) - statutory		10.9	15.8	14.1	9.6	7.9
PE (x) - underlying		8.4	9.0	8.8	7.6	6.8
DPS	cps	7.4	6.5	6.0	7.6	10.1
DPS Growth		4%	(12%)	(8%)	27%	33%
Dividend yield		8.9%	7.8%	7.2%	9.1%	12.1%
Dividend imputation		100%	100%	100%	100%	100%
EV/EBITDA (x) - underlying		5.0	5.3	5.1	4.6	4.2
FCF/Share	cps	13.4	10.9	8.5	12.7	14.1
Price/FCF share (x)		6.3	7.7	9.9	6.6	5.9
Free cash flow Yield		16.0%	13.0%	10.1%	15.2%	16.9%

Source: Company data, RaaS Advisory estimates

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

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Contact Details, BR and RaaS
BR Head Office: Suite 5GB, Level 5, 33 Queen Street, Brisbane, QLD, 4000
RaaS. 20 Halls Road Arcadia, NSW 2159
P: +61 414 354712
E: finola.burke@raasgroup.com

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