

## **RaaS Interview – QANTM Intellectual Property (ASX:QIP)**

**21 February 2024**

**Duration 10 minutes 54 seconds**

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**Finola Burke**

Hello I'm Finola Burke from RaaS. And today we're focusing on patents, trademarks and IP services, group QANTM Intellectual Property (ASX:QIP). Joining me to discuss the company's H1 FY24 result is CEO Craig Dower and CFO Brenton Lockhart. Welcome Craig and Brenton and thank you for joining me.

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**Craig Dower**

Hi Finola. Nice to be here.

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**Finola Burke**

Craig we'll start with you. QIP has reported its strongest ever result since listing with a 9.2% increase in service charges revenue, 25.7% jump in underlying EBITDA, 43.4% lift in underlying NPAT and you have increased the interim dividend by 75%. This has been the result of investment in people and systems. Does this set a new baseline for the group?

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**Craig Dower**

It's a look, it's a good question. Interestingly, as we were loading our material onto the ASX website and we had the 75% increase in dividend. There's must be some background AI app on the ASX website and it prompted Heidi Delaney, who's our governance manager, and said, "Are you sure that this is not a mistake?" So that was kind of nice.

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**Craig Dower**

We haven't had that experience before. I mean, this result is really, even though it's sort of happened in this last half and there, you know, great set of numbers and we're really pleased about them. It's really, it's really the result of two years

of work and focus on a bunch of things, including improving our financial disciplines. To go back to COVID.

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**Craig Dower**

We've really focus for that two-year window, especially given our centre of gravity was largely Melbourne, Victoria. That had a lot of lockdowns. We focused heavily during COVID on looking after our people and building a flexible workforce because we didn't have any of that. And so really since then we've been building these foundations. And if you look at the last four reporting periods, we've had consistently improving margins from the sort of mid -twenties upwards and we've been saying for a little while now that our target for margins was the low thirties.

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**Craig Dower**

So that's EBITDA as a percentage of service charges. And in the last half we we've gone above 30% and we expect to continue to improve. So in that sense margins in the low thirties is a new baseline for the group and you know, we have to continue to improve from there.

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**Finola Burke**

And, Craig, what was the thinking behind increasing the dividend payout ratio and should investors expect the payout rate to remain at these levels?

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**Craig Dower**

Yeah, our range has been 70 to 90% of NPATA right back since listing in September 2016. Sometimes we've paid at the higher end of that range, sometimes lower. So this is right at the midpoint at 80%, but I think it's the single biggest dividend payment that we've made for a half year at 4.9 cents. And that's really not really the ratio, it's the ratio that's part of it.

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**Craig Dower**

It is based upon the stronger and NPAT result. So we chose the midpoint because we think that that's balanced given the various capital requirements. At present we've paid down quite a bit of debt which Brendan can talk to. So I don't see any pressures in the near term to change that payout ratio range. We've had that in place pretty much since listing, as I said, but that's really a matter for the board to determine.

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**Finola Burke**

And Brenton the increase in service charges revenue was delivered despite a decline in market share in patents in the half although trademark share was up. Can you give us a sense of where the gains were made?

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**Brenton Lockhart**

Yeah, well, there's a couple of things. The first thing we always remind people of is with filings that we can take a look over the trajectory of about a 12 to 18 month period and look at the trend. So again, our filing numbers were down. The trend is still up. So even though it's 14.4%, if we look at that, January numbers on filings for instance, we're up 27%.

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**Brenton Lockhart**

So we're still looking at the trend that's still intact, which is still pointing up and they've dropped a little bit. We lost some Cotters clients as part of the acquisition into FPA, but they weren't as profitable as others. And the other thing that's important is filings is the start of a of the lifecycle effectively for a patent. So patent can take up to five years, trademarks more three a bit smaller but again you go from filings through to examination requests then into prosecution before you get into acceptance in that annuity stage of renewals.

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**Brenton Lockhart**

So what we've seen is in those different parts, whether it's examination, prosecution or acceptance, because we have come off a very high period in filings, we've got different volume growth in each of those buckets. So even though we've seen a temporary drop at the minute for the half, we're still got our volume increasing from the record filings that we've had over the past.

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**Finola Burke**

And Brenton you also had a good increase in litigation revenue and obviously on the trademark side, which includes Sortify. Has that been a factor as well in the growth that you've seen?

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**Brenton Lockhart**

Yeah, thanks for all that. The law team had had a terrific six months that's that the best six months they've had in a few years. And as a result of that, the case load was very high. But we're also able to recruit a full team. So that first half very, very strong. Will it be that strong in the second half?

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**Brenton Lockhart**

Well that's going to be dependent on trials and what activities are going on. But they had very solid first half and we think that will continue into the second. And on the trademark front, again, again, record number of trademark filings. So that continues to grow behind Sortify's platform.

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**Finola Burke**

And Craig you have previously talked about Sortify holding a top 10 position in the UK. Is it retaining its market position there and how is that market tracking currently?

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**Craig Dower**

So it's sort of there or thereabouts. I think they're either nine or 11 depending on how you measure it. I think the top two filing firms in the UK now, two Chinese entities that are filing exclusively for Chinese trademarks out of mainland China and into the UK. And actually we're seeing that phenomenon, big uptick in Chinese filings and trademarks all around the traps, including here in Australia.

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**Craig Dower**

But they're sort of about number nine if you net out those two and it's an important market. We're continuing to grow there. It's about, I think two times, three times the Australian market in terms of overall market size and addressability. So yeah, that's an important market probably it's the second largest market for us at present in Sortify outside of Australia.

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**Craig Dower**

And then we're continuing to look at other markets that Sortify might want to operate in as well. And the key there really is to find IP offices that have an open API set that you can automatically integrate with and therefore take the pain out of that whole process so that the experience really is an online experience.

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**Finola Burke**

Brenton you finished the half with a much stronger balance sheet with a 33% reduction in net debt to \$21.2 million and you have almost 27 million Aussie in an undrawn acquisition facility having been so stringent on the business over the last few years, have you raised the bar as well on the criteria for potential acquisitions?

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**Brenton Lockhart**

Well, our criteria for acquisitions have always been really high, so we always want top tier firms that fit in with our values and can really look after our clients. So being part of our group and not, again, not a trading off, trying to mismatch the values and culture. So we've always had really high standards when it comes to M&A and some of the conversations some of the conversations we're still having with people that are 2 to 3 years old still.

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**Brenton Lockhart**

But again, we take a very methodical process to work through it does give us a bit of flexibility with the reduced debt to look at larger acquisitions. But our criteria is largely the same outside of funding. We've still got that high standard where we want someone to come in and be a real part of our group.

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**Finola Burke**

And Craig, QANTM IP is now in year four of a five year technology modernisation and business simplification program, what can we expect to see in terms of implementation this year?

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**Craig Dower**

Yeah, a couple of threads, I suppose, we're finishing off some modernisation projects, so we've got a new document generation platform. We're just in the final stages of software platform selection around that. We're continuing to move all of our mail and messaging away from our on-premise data centres and sort of Microsoft Outlook and exchange into Microsoft Cloud and getting prepared for utilising Co-pilot.

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**Craig Dower**

And we've still got a few smaller production applications that are running in our own data centres, and we want to get those onto the cloud as well. So that that sort of cluster of completing the modernization process and we think that'll be done sort of maybe end of this financial year, maybe a little bit into FY25. We've started the implementation of a new finance platform.

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**Craig Dower**

So we've chosen the vendor and we've got workshops starting in a few weeks time. That's a big deal for us that that's a real game changer. You know, we're seven years as a listed company and we're still we're using our IP platforms as our general ledger and we don't have a means of systematic consolidation at the end of every month and very important parts of the year, like half year and full year.

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**Craig Dower**

So for Brenton and his team, that's a very manual reconciliation process that involves lots of use of Excel. So the finance platform will probably take us sort of 12 to 18 months to implement, but it will change a lot of processes across the group. And then the third and final thing is working with Sortify and a bunch of our people across the group.

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**Craig Dower**

We've just finished the first draft of an overall AI policy and strategy framework. We're using a bunch of AI tools at present, and the strategy really is to bring the best ideas from across the group together and leverage the unique capabilities that we have within Sortify.

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**Finola Burke**

Brenton, you have affirmed your guidance for FY24 and commented that January has started strongly. What visibility do you have for the remainder of the fiscal year?

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**Brenton Lockhart**

Yeah, I think when we when we put that guidance out, we hadn't seen the January results yet and January has been quite strong compared to what we did.



So that 8 to 10% range, we reaffirm that. But our thinking at the minute is it's going to be at the higher end of that range.

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**Finola Burke**

Well, thank you, Craig and Brenton for joining me today to discuss QANTM Intellectual Property's interim results. I'm looking forward to catching up with you over the course of the year to check on the company's progress.



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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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