

QANTM Intellectual Property Ltd

Special dividend declared, EGM passes in favour

QANTM Intellectual Property Ltd (ASX:QIP) has progressed the Scheme of Arrangement with Adamantem Capital with shareholders voting in favour of the scheme at an extraordinary general meeting on 31 July. QANTM IP announced that 98.68% of shareholders present and voting, voted in favour of the Scheme resolution and 99.94% of the votes cast by QANTM shareholders were in favour of the Scheme resolution. In addition, the company announced that its directors have declared, subject to the Scheme becoming effective, a fully-franked, special dividend of \$0.071/share with a record date of 6 August 2024. The Scheme remains subject to court approval, scheduled for 2 August, and other conditions precedent including no material adverse changes occurring between the Scheme Implementation Deed and the second court date and that all relevant warranties in relation to funding the scheme remain true and correct. Chair Sonia Petering commented in her address to the EGM that the directors were not aware of any circumstances which would cause the outstanding conditions precedent not to be satisfied. Following the second court hearing and securing court approval of the Scheme, QIP proposes to lodge the court orders with ASIC on Monday 5 August. This will see the company's shares suspended from close of trading on 5 August with the Scheme to be implemented on 19 August.

Business model

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

Special dividend declared, scheme implementation 19 August

On 31 July, QANTM IP's board declared a special dividend of \$0.071/share, conditional on the Scheme's completion. The dividend will be part of the cash consideration of Adamantem Capital's \$1.817/share offer but allows shareholders to realise the benefit of up to \$0.03 of franking credits that will be attached to the special dividend. The special dividend will have a record date of 6 August and will be paid on 16 August ahead of the Scheme implementation date of 19 August. The company has noted ([ASX release 26 July](#)) that 19.9% of shareholders had elected to receive the mixed consideration of cash of up to \$0.9085/share, including the special dividend of \$0.071/share, and 0.9085 class B shares in HoldCo (the ongoing entity for QIP post-Scheme), which puts it under the 24% maximum scrip threshold nominated by Adamantem Capital.

DCF valuation of \$1.79/share captured by offer

Our existing QIP base-case DCF valuation is \$1.79/share, unchanged (please see our report of [February 22, 2024](#)). The Adamantem offer price of \$1.817/share implies an EV/underlying FY24f EBITDA multiple of 8.1x, in line with our forecast.

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

Year end	Total revenue	EBITDA adj.*	EBITDA rep.	NPAT adj.	EPS adj.* (c)	EPS rep. (c)	P/E adj.* (x)	EV/EBITDA adj.* (x)
06/23a	137.0	28.5	23.4	14.7	10.6	5.6	17.1	9.7
06/24f	145.1	33.3	26.7	17.8	12.7	7.8	14.3	8.3
06/25f	150.7	35.8	35.0	19.9	14.2	12.4	12.8	7.6
06/26f	156.6	38.6	37.8	22.1	15.7	13.8	11.6	6.9

Sources: Company data; RaaS estimates for FY24f-FY26f; *Adjusted for non-recurring items

Commercial & Professional Services

2 August 2024

Share Details

ASX code	QIP
Share price (1-Aug)	\$1.815
Market capitalisation	\$254.3M
Shares on issue	140.1M
Net debt at 31-Dec-2023	\$21.2M
Free float (inc. all vendors/ excl. non-insider vendors)	~55%/ ~74%

Share Performance (12 months)



Company Interview

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

[Interview Transcript 21 February 2024](#)

Initiation Report

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

Upside Case

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

Downside Case

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

Board and Management

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

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Exhibit 1: Financial Summary

QANTM Intellectual Property Ltd						Share price (1 August 2024)						A\$ 1.82	
Profit and Loss (A\$m)						Half yearly (A\$m)							
Y/E 30 June	FY22a	FY23a	FY24f	FY25f	FY26f	H1 FY22a	H2 FY22a	H1 FY23a	H2 FY23a	H1 FY24a	H2 FY24f		
Service charge revenue	96.6	103.8	109.5	114.1	119.2	Service charge revenue	48.9	47.7	52.0	51.8	56.8	52.7	
Associate revenue	30.7	33.2	35.6	36.6	37.4	EBITDA - statutory	10.5	11.1	11.2	12.2	16.0	10.6	
Total revenue	127.3	137.0	145.1	150.7	156.6	EBITDA - underlying	12.8	13.5	13.8	14.7	17.3	16.0	
Other income	3.2	2.5	2.1	2.2	2.2	EBIT - statutory	6.2	7.2	6.9	8.7	12.4	6.6	
Recoverable expenses	(29.3)	(31.1)	(33.5)	(34.5)	(36.0)	NPAT - statutory	3.4	3.7	3.4	5.2	7.4	3.7	
Net revenue	101.2	108.3	113.8	118.4	122.8	NPAT - underlying	6.5	6.3	6.7	8.0	9.6	8.2	
EBITDA - statutory	21.6	23.4	26.7	35.0	37.8	EPS (reported)	2.5	2.8	2.5	3.2	5.3	2.6	
EBITDA - underlying	26.3	28.5	33.3	35.8	38.6	EPS (underlying)	4.7	4.6	4.8	5.8	6.9	5.9	
Depreciation	(1.1)	(1.0)	(1.1)	(0.9)	(1.1)	Dividend (cps)	3.0	3.5	2.8	3.5	4.9	2.8	
Amort (intang & leases)	(7.1)	(6.8)	(6.7)	(6.6)	(6.6)	Operating cash flow	5.2	6.6	2.2	14.1	10.9	9.1	
EBIT	13.4	15.6	18.9	27.6	30.0	Free Cash flow	4.6	6.2	(0.1)	13.7	9.7	8.7	
Interest	(2.4)	(3.6)	(3.1)	(2.7)	(2.2)	Segmented (half yearly)	H1 FY22a	H2 FY22a	H1 FY23a	H2 FY23f	H1 FY24a	H2 FY24f	
Tax	(3.9)	(4.2)	(4.9)	(7.5)	(8.3)	Patents	33.5	31.5	35.4	34.5	37.8	35.1	
NPAT - statutory	7.1	7.9	10.9	17.4	19.5	Trade Marks	9.5	10.3	10.4	11.1	11.1	11.8	
NPAT - underlying	12.8	14.7	17.8	19.9	22.1	Legal Services	5.7	6.0	6.2	6.2	7.9	5.8	
Cash flow (A\$m)						Service charge revenue	48.9	47.7	52.0	51.8	56.8	52.7	
Y/E 30 June	FY22a	FY23f	FY24f	FY25f	FY26f	Associate revenue	13.8	16.9	16.6	16.6	17.4	18.2	
EBITDA - statutory	21.6	23.4	26.7	35.0	37.8	Total revenue	62.7	64.6	68.6	68.3	74.2	70.9	
Interest	(1.7)	(2.9)	(2.4)	(2.1)	(1.7)	Other income	1.1	2.1	1.2	1.4	1.2	1.2	
Tax payments	(4.6)	(3.9)	(4.5)	(7.5)	(8.3)	Recoverable expenses	(13.1)	(16.1)	(15.7)	(15.4)	(16.6)	(17.1)	
Working capital chgs	(3.1)	(0.3)	0.2	(4.0)	(2.2)	Net revenue	50.6	50.6	54.1	54.3	58.8	55.0	
Operating cash flow	12.2	16.3	20.0	21.5	25.5	Employment	(31.3)	(28.9)	(32.7)	(29.2)	(32.3)	(31.0)	
Capex	(0.5)	(2.1)	(1.1)	(0.8)	(0.8)	Technology	(3.7)	(4.4)	(3.9)	(4.8)	(4.1)	(4.3)	
Capitalised dev costs	(0.4)	(0.6)	(0.5)	(0.6)	(0.6)	Occupancy	(1.1)	(1.0)	(0.9)	(1.4)	(1.4)	(1.2)	
Free cash flow	11.3	13.6	18.4	20.1	24.1	Other costs	(4.1)	(5.2)	(5.3)	(6.2)	(4.9)	(7.7)	
Acquisitions	(6.7)	(0.5)	(0.5)	0.0	0.0	EBITDA - statutory	10.5	11.1	11.2	12.7	16.0	10.6	
Acq'n related costs	(1.1)	(0.1)	0.0	0.0	0.0	EBITDA - underlying	12.8	13.5	13.8	14.7	17.3	16.0	
Cash flow pre financing	3.5	13.0	17.9	20.1	24.1	Growth, Margins, Leverage, Returns	FY22a	FY23a	FY24f	FY25f	FY26f		
Equity	0.0	0.0	0.0	0.0	0.0	Service charge rev growth		4.6%	7.4%	5.5%	4.3%	4.4%	
Borrowings (net)	8.2	0.4	(4.0)	(3.5)	(2.0)	Total revenue growth		6.9%	7.6%	6.0%	3.9%	3.9%	
Other financing (leases)	(5.0)	(4.1)	(3.8)	(3.8)	(3.7)	EBITDA margin (underly/service charge)		27.2%	27.4%	30.4%	31.4%	32.4%	
Dividends paid	(8.7)	(8.7)	(11.7)	(11.4)	(14.8)	EBITDA margin (underlying/total rev)		20.7%	20.8%	23.0%	23.8%	24.6%	
Net cash flow	(2.1)	0.6	(1.6)	1.4	3.6	EBITDA margin (stat/service charge)		22.3%	22.5%	24.4%	30.7%	31.7%	
Balance sheet (A\$m)						EBIT margin (stat/total revenue)		10.5%	11.4%	13.0%	18.3%	19.2%	
Y/E 30 June	FY22a	FY23a	FY24f	FY25f	FY26f	NPAT margin (stat/service charge)		7.4%	7.6%	10.0%	15.2%	16.3%	
Cash	7.4	8.0	6.0	7.8	11.4	Net Debt		23.8	24.2	21.4	16.1	10.5	
Accounts receivable	38.2	41.4	42.9	44.7	46.4	Net debt/underlying EBITDA (x)		0.9	0.9	0.6	0.5	0.3	
Other current assets	2.6	2.7	3.3	3.3	3.3	ND/ND+Equity (%)		24.8%	25.1%	22.9%	17.1%	11.3%	
Total current assets	48.2	52.2	52.2	55.7	61.1	EBIT interest cover (x)		5.7	4.3	6.2	10.2	13.5	
PPE	1.6	2.8	2.2	2.1	1.8	ROA		12.4%	10.8%	13.2%	19.5%	21.2%	
Goodwill	54.8	54.4	54.4	54.4	54.4	ROE		9.9%	10.9%	15.2%	23.2%	24.2%	
Intangibles	29.4	26.5	22.2	19.4	16.8	NTA (per share)		(9.0)	(6.2)	(3.3)	3.1	8.2	
Other non current assets	8.7	9.9	10.9	9.7	7.5	Working capital		24.0	25.7	26.1	29.1	30.6	
Total non current assets	94.6	93.5	89.7	85.6	80.5	WC/Sales (%)		18.9%	18.8%	18.0%	19.3%	19.5%	
Total Assets	142.8	145.7	141.8	141.3	141.6	Pricing		FY22a	FY23a	FY24f	FY25f	FY26f	
Accounts payable	14.1	15.7	16.7	15.5	15.9	No of shares (y/e)	(m)	137	139	140	140	141	
Current debt	3.6	3.0	2.9	2.9	2.9	Weighted Av Dil Shares	(m)	139	139	142	142	141	
Lease liabilities (current)	3.6	3.3	3.7	3.7	3.7	EPS (statutory)	cps	5.3	5.6	7.8	12.4	13.8	
Other curr liab (inc AL prov)	9.5	11.2	11.1	11.1	11.1	EPS (underlying)	cps	9.3	10.6	12.7	14.2	15.7	
Total current liabilities	30.9	33.2	34.4	33.2	33.5	EPS growth (statutory)		(31.1%)	6.6%	38.5%	58.7%	11.4%	
Non-current debt	27.6	29.2	24.5	21.0	19.0	EPS growth (underlying)		(6.0%)	13.6%	20.1%	11.6%	10.2%	
Other non current liabs	12.4	11.0	10.9	9.1	6.4	PE (x) - statutory		34.3	32.2	23.2	14.6	13.1	
Total long term liabilities	39.9	40.2	35.4	30.1	25.4	PE (x) - underlying		19.5	17.1	14.3	12.8	11.6	
Total Liabilities	70.8	73.4	69.8	63.3	58.9	DPS	cps	6.5	6.3	7.7	10.0	10.9	
Net Assets	71.9	72.3	72.0	78.1	82.8	DPS Growth		(12%)	(3%)	21%	31%	9%	
Share capital	298.9	300.1	301.7	301.7	301.7	Dividend yield		3.6%	3.5%	4.2%	5.5%	6.0%	
Retained earnings	(3.4)	(4.2)	(5.3)	0.8	5.4	Dividend imputation		100%	100%	100%	100%	100%	
Reserves	(223.2)	(223.2)	(224.3)	(224.3)	(224.3)	EV/EBITDA (x) - underlying		10.4	9.7	8.3	7.6	6.9	
Minorities	(0.4)	(0.4)	0.0	0.0	0.0	FCF/Share	cps	8.1	9.8	12.9	14.1	17.1	
Total Shareholder funds	71.9	72.3	72.0	78.1	82.8	Price/FCF share (x)		22.3	18.6	14.0	12.8	10.6	
						Free cash flow Yield		4.5%	5.4%	7.1%	7.8%	9.4%	

Sources: Company data, RaaS Research Group estimates

FINANCIAL SERVICES GUIDE

RaaS Research Group Pty Ltd

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