

## QANTM Intellectual Property Ltd

### “Fair and reasonable”: says independent expert

**QANTM Intellectual Property Ltd (ASX:QIP)** released its [Scheme of Arrangement documentation](#) with Adamantem Capital on 25 June. The documentation includes the Independent Expert's report from Grant Thornton Corporate Finance which concludes that the Scheme is “fair and reasonable” and in the “best interests of QANTM shareholders in the absence of a superior alternative proposal emerging”. The independent expert concludes that the fair market value range for QANTM shares on a control basis is from \$1.736/share to \$2.098/share, suggesting a respective premium of 4.7% and discount of 13.4% to the cash offer of \$1.817/share. Grant Thornton has concluded that the cash consideration of \$1.817/share is fair and reasonable to shareholders but has not provided an opinion on the alternate 50/50 cash/scrip consideration. The independent expert notes that shareholders considering the mixed consideration “should be aware that holding Class B shares in HoldCo is a speculative investment and its appropriateness will depend significantly on the characteristics and risk profile of the individual QANTM shareholder”. Shareholders have until 25 July to lodge their indicative election for cash or the mixed consideration ahead of the scheme meeting which is scheduled for 31 July. If approved, the scheme is expected 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.

### Cash offer sits within Grant Thornton's valuation range

The independent expert, Grant Thornton, has assessed the fair market value of QANTM IP on a control basis to be from \$1.736/share to \$2.098/share. The cash offer of \$1.817/share sits within this range. The valuation range uses an assessed EBITDA multiple (post AASB16 for lease costs) of 8.5x to 9.5x applied to an assessed maintainable EBITDA of \$33m to \$35m. This is in line with our estimate for adjusted EBITDA of \$33.3m for FY24f and management's FY24f guidance on [23 May](#). The independent expert arrives at the EBITDA (post AASB-16) multiple of 8.5x to 9.5x from recent comparable transactions including IPH Limited's acquisitions of ROBIC (8.9x) in December 2023, Rideout & Maybee (7.9x) in September 2023, and Smart & Biggar (10.1x) in October 2022. Based on its analysis, Grant Thornton finds the cash offer price fair to shareholders. It notes in its reasonableness assessment that the cash transaction provides certainty as well as a premium based on both the share price immediately prior to the announcement of the Rouse indicative proposal on 26 February as well as the volume-weighted-average price up to six months prior to that date.

### 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, largely in line with our forecast and a little ahead of the LSEG consensus median 7.6x FY24f multiple of its peers. Closest peer, IPH, is trading on an implied LSEG consensus FY24f EBITDA multiple of 10.4x.

#### 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	14.2	8.2
06/25f	150.7	35.8	35.0	19.9	14.2	12.4	12.7	7.5
06/26f	156.6	38.6	37.8	22.1	15.7	13.8	11.6	6.9

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

### Commercial & Professional Services

3 July 2024

#### Share Details

ASX code	QIP
Share price (2-Jul)	\$1.81
Market capitalisation	\$253.6M
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

#### Company Contacts

Craig Dower (CEO & MD) +61 3 9254 2666  
investor.relations@qantmip.com

#### RaaS Contact

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

## Exhibit 1: Financial Summary

QANTM Intellectual Property Ltd						Share price (2 July 2024)						A\$ 1.81	
Profit and Loss (A\$m)						Half yearly (A\$m)		H1 FY22a	H2 FY22a	H1 FY23a	H2 FY23a	H1 FY24a	H2 FY24f
Y/E 30 June	FY22a	FY23a	FY24f	FY25f	FY26f	Service charge revenue		48.9	47.7	52.0	51.8	56.8	52.7
Service charge revenue	96.6	103.8	109.5	114.1	119.2	EBITDA - statutory		10.5	11.1	11.2	12.2	16.0	10.6
Associate revenue	30.7	33.2	35.6	36.6	37.4	EBITDA - underlying		12.8	13.5	13.8	14.7	17.3	16.0
Total revenue	127.3	137.0	145.1	150.7	156.6	EBIT - statutory		6.2	7.2	6.9	8.7	12.4	6.6
Other income	3.2	2.5	2.1	2.2	2.2	NPAT - statutory		3.4	3.7	3.4	5.2	7.4	3.7
Recoverable expenses	(29.3)	(31.1)	(33.5)	(34.5)	(36.0)	NPAT - underlying		6.5	6.3	6.7	8.0	9.6	8.2
Net revenue	101.2	108.3	113.8	118.4	122.8	EPS (reported)		2.5	2.8	2.5	3.2	5.3	2.6
EBITDA - statutory	21.6	23.4	26.7	35.0	37.8	EPS (underlying)		4.7	4.6	4.8	5.8	6.9	5.9
EBITDA - underlying	26.3	28.5	33.3	35.8	38.6	Dividend (cps)		3.0	3.5	2.8	3.5	4.9	2.1
Depreciation	(1.1)	(1.0)	(1.1)	(0.9)	(1.1)	Operating cash flow		5.2	6.6	2.2	14.1	10.9	9.1
Amort (intang & leases)	(7.1)	(6.8)	(6.7)	(6.6)	(6.6)	Free Cash flow		4.6	6.2	(0.1)	13.7	9.7	8.7
EBIT	13.4	15.6	18.9	27.6	30.0	Segmented (half yearly)	H1 FY22a	H2 FY22a	H1 FY23a	H2 FY23f	H1 FY24a	H2 FY24f	
Interest	(2.4)	(3.6)	(3.1)	(2.7)	(2.2)	Patents		33.5	31.5	35.4	34.5	37.8	35.1
Tax	(3.9)	(4.2)	(4.9)	(7.5)	(8.3)	Trade Marks		9.5	10.3	10.4	11.1	11.1	11.8
NPAT - statutory	7.1	7.9	10.9	17.4	19.5	Legal Services		5.7	6.0	6.2	6.2	7.9	5.8
NPAT - underlying	12.8	14.7	17.8	19.9	22.1	Service charge revenue		48.9	47.7	52.0	51.8	56.8	52.7
Cash flow (A\$m)						Associate revenue		13.8	16.9	16.6	16.6	17.4	18.2
Y/E 30 June	FY22a	FY23f	FY24f	FY25f	FY26f	Total revenue		62.7	64.6	68.6	68.3	74.2	70.9
EBITDA - statutory	21.6	23.4	26.7	35.0	37.8	Other income		1.1	2.1	1.2	1.4	1.2	1.2
Interest	(1.7)	(2.9)	(2.4)	(2.1)	(1.7)	Recoverable expenses		(13.1)	(16.1)	(15.7)	(15.4)	(16.6)	(17.1)
Tax payments	(4.6)	(3.9)	(4.5)	(7.5)	(8.3)	Net revenue		50.6	50.6	54.1	54.3	58.8	55.0
Working capital chgs	(3.1)	(0.3)	0.2	(4.0)	(2.2)	Employment		(31.3)	(28.9)	(32.7)	(29.2)	(32.3)	(31.0)
Operating cash flow	12.2	16.3	20.0	21.5	25.5	Technology		(3.7)	(4.4)	(3.9)	(4.8)	(4.1)	(4.3)
Capex	(0.5)	(2.1)	(1.1)	(0.8)	(0.8)	Occupancy		(1.1)	(1.0)	(0.9)	(1.4)	(1.4)	(1.2)
Capitalised dev costs	(0.4)	(0.6)	(0.5)	(0.6)	(0.6)	Other costs		(4.1)	(5.2)	(5.3)	(6.2)	(4.9)	(7.7)
Free cash flow	11.3	13.6	18.4	20.1	24.1	EBITDA - statutory		10.5	11.1	11.2	12.7	16.0	10.6
Acquisitions	(6.7)	(0.5)	(0.5)	0.0	0.0	EBITDA - underlying		12.8	13.5	13.8	14.7	17.3	16.0
Acq'n related costs	(1.1)	(0.1)	0.0	0.0	0.0	Growth, Margins, Leverage, Returns		FY22a	FY23a	FY24f	FY25f	FY26f	
Cash flow pre financing	3.5	13.0	17.9	20.1	24.1	Service charge rev growth		4.6%	7.4%	5.5%	4.3%	4.4%	
Equity	0.0	0.0	0.0	0.0	0.0	Total revenue growth		6.9%	7.6%	6.0%	3.9%	3.9%	
Borrowings (net)	8.2	0.4	(4.0)	(3.5)	(2.0)	EBITDA margin (underly/service charge)		27.2%	27.4%	30.4%	31.4%	32.4%	
Other financing (leases)	(5.0)	(4.1)	(3.8)	(3.8)	(3.7)	EBITDA margin (underlying/total rev)		20.7%	20.8%	23.0%	23.8%	24.6%	
Dividends paid	(8.7)	(8.7)	(11.7)	(11.4)	(14.8)	EBITDA margin (stat/service charge)		22.3%	22.5%	24.4%	30.7%	31.7%	
Net cash flow	(2.1)	0.6	(1.6)	1.4	3.6	EBIT margin (stat/total revenue)		10.5%	11.4%	13.0%	18.3%	19.2%	
Balance sheet (A\$m)						NPAT margin (stat/service charge)		7.4%	7.6%	10.0%	15.2%	16.3%	
Y/E 30 June	FY22a	FY23a	FY24f	FY25f	FY26f	Net Debt		23.8	24.2	21.4	16.1	10.5	
Cash	7.4	8.0	6.0	7.8	11.4	Net debt/underlying EBITDA (x)		0.9	0.9	0.6	0.5	0.3	
Accounts receivable	38.2	41.4	42.9	44.7	46.4	ND/ND+Equity (%)		24.8%	25.1%	22.9%	17.1%	11.3%	
Other current assets	2.6	2.7	3.3	3.3	3.3	EBIT interest cover (x)		5.7	4.3	6.2	10.2	13.5	
Total current assets	48.2	52.2	52.2	55.7	61.1	ROA		12.4%	10.8%	13.2%	19.5%	21.2%	
PPE	1.6	2.8	2.2	2.1	1.8	ROE		9.9%	10.9%	15.2%	23.2%	24.2%	
Goodwill	54.8	54.4	54.4	54.4	54.4	NTA (per share)		(9.0)	(6.2)	(3.3)	3.1	8.2	
Intangibles	29.4	26.5	22.2	19.4	16.8	Working capital		24.0	25.7	26.1	29.1	30.6	
Other non current assets	8.7	9.9	10.9	9.7	7.5	WC/Sales (%)		18.9%	18.8%	18.0%	19.3%	19.5%	
Total non current assets	94.6	93.5	89.7	85.6	80.5	Pricing		FY22a	FY23a	FY24f	FY25f	FY26f	
Total Assets	142.8	145.7	141.8	141.3	141.6	No of shares (y/e)	(m)	137	139	140	140	141	
Accounts payable	14.1	15.7	16.7	15.5	15.9	Weighted Av Dil Shares	(m)	139	139	142	142	141	
Current debt	3.6	3.0	2.9	2.9	2.9	EPS (statutory)	cps	5.3	5.6	7.8	12.4	13.8	
Lease liabilities (current)	3.6	3.3	3.7	3.7	3.7	EPS (underlying)	cps	9.3	10.6	12.7	14.2	15.7	
Other curr liab (inc AL prov)	9.5	11.2	11.1	11.1	11.1	EPS growth (statutory)		(31.1%)	6.6%	38.5%	58.7%	11.4%	
Total current liabilities	30.9	33.2	34.4	33.2	33.5	EPS growth (underlying)		(6.0%)	13.6%	20.1%	11.6%	10.2%	
Non-current debt	27.6	29.2	24.5	21.0	19.0	PE (x) - statutory		34.2	32.1	23.2	14.6	13.1	
Other non current liabs	12.4	11.0	10.9	9.1	6.4	PE (x) - underlying		19.4	17.1	14.2	12.7	11.6	
Total long term liabilities	39.9	40.2	35.4	30.1	25.4	DPS	cps	6.5	6.3	7.7	10.0	10.9	
Total Liabilities	70.8	73.4	69.8	63.3	58.9	DPS Growth		(12%)	(3%)	21%	31%	9%	
Net Assets	71.9	72.3	72.0	78.1	82.8	Dividend yield		3.6%	3.5%	4.2%	5.5%	6.0%	
Share capital	298.9	300.1	301.7	301.7	301.7	Dividend imputation		100%	100%	100%	100%	100%	
Retained earnings	(3.4)	(4.2)	(5.3)	0.8	5.4	EV/EBITDA (x) - underlying		10.4	9.7	8.2	7.5	6.9	
Reserves	(223.2)	(223.2)	(224.3)	(224.3)	(224.3)	FCF/Share	cps	8.1	9.8	12.9	14.1	17.1	
Minorities	(0.4)	(0.4)	0.0	0.0	0.0	Price/FCF share (x)		22.3	18.5	14.0	12.8	10.6	
Total Shareholder funds	71.9	72.3	72.0	78.1	82.8	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

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415, of

BR SECURITIES AUSTRALIA PTY LTD; ABN 92 168 734 530; AFSL 456663

Effective Date: 26<sup>th</sup> March 2024

### About Us

BR Securities Australia Pty Ltd (BR) is the holder of Australian Financial Services License ("AFSL") number 456663. RaaS Research Group Pty Ltd (RaaS) is an Authorised Representative (number 1248415) of BR.

This Financial Service Guide (FSG) is designed to assist you in deciding whether to use RaaS's services and includes such things as who we are, our services, how we transact with you, how we are paid, and complaint processes

Contact Details, BR and RaaS

BR Head Office: Level 1, 160 Edward Street, Brisbane, QLD, 4000 [www.brsecuritiesaustralia.com.au](http://www.brsecuritiesaustralia.com.au)

RaaS: c/- Rhodes Docherty & Co Pty Ltd, Suite 1, Level 1, 828 Pacific Highway, Gordon, NSW, 2072.

P: +61 414 354712

E: [finola.burke@raasgroup.com](mailto:finola.burke@raasgroup.com)

RaaS is the entity providing the authorised AFSL services to you as a retail or wholesale client.

**What Financial Services are we authorised to provide?** RaaS is authorised to

- provide general advice to retail and wholesale clients in relation to
  - Securities

The distribution of this FSG by RaaS is authorized by BR.

### Our general advice service

Please note that any advice given by RaaS is general advice, as the information or advice given will not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, Product Disclosure Statement or like instrument. As we only provide general advice we will not be providing a Statement of Advice. We will provide you with recommendations on securities.

### How are we paid?

RaaS earns fees for producing research reports about companies we like, and/or producing a financial model as well. When the fee is derived from a company, this is clearly highlighted on the front page of the report and in the disclaimers and disclosures section of the report. Sometimes we write reports using our own initiative.

### Associations and Relationships

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

### Complaints

If you have a complaint about our service, you should contact your representative and tell them about your complaint. The representative will follow BR's internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren't satisfied with an outcome, you may contact AFCA, see below.

BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: [www.afca.org.au](http://www.afca.org.au); Email: [info@afca.org.au](mailto:info@afca.org.au); Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

### Professional Indemnity Insurance

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

#### **DISCLAIMERS and DISCLOSURES**

This report has been commissioned by QANTM Intellectual Property Ltd and prepared and issued by RaaS Research Group Pty Ltd. RaaS Research Group has been paid a fee to prepare this report. RaaS Research Group's principals, employees and associates may hold shares in companies that are covered and, if so, this will be clearly stated on the front page of each report. This research is issued in Australia by RaaS Research Group and any access to it should be read in conjunction with the Financial Services Guide on the preceding two pages. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. Opinions contained in this report represent those of the principals of RaaS Research Group at the time of publication. RaaS Research Group provides this financial advice as an honest and reasonable opinion held at a point in time about an investment's risk profile and merit and the information is provided by the RaaS Research Group in good faith. The views of the adviser(s) do not necessarily reflect the views of the AFS Licensee. RaaS Research Group has no obligation to update the opinion unless RaaS Research Group is currently contracted to provide such an updated opinion. RaaS Research Group does not warrant the accuracy of any information it sources from others. All statements as to future matters are not guaranteed to be accurate and any statements as to past performance do not represent future performance.

Assessment of risk can be subjective. Portfolios of equity investments need to be well diversified and the risk appropriate for the investor. Equity investments in listed or unlisted companies yet to achieve a profit or with an equity value less than \$50 million should collectively be a small component of a balanced portfolio, with smaller individual investment sizes than otherwise.

The science of climate change is common knowledge and its impacts may damage the global economy. Mitigating climate change may also disrupt the global economy. Investors need to make their own assessments and we disclaim any liability for the impact of either climate change or mitigating strategies on any investment we recommend.

Investors are responsible for their own investment decisions, unless a contract stipulates otherwise. RaaS Research Group does not stand behind the capital value or performance of any investment. Subject to any terms implied by law and which cannot be excluded, RaaS Research Group shall not be liable for any errors, omissions, defects or misrepresentations in the information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the information. If any law prohibits the exclusion of such liability, RaaS Research Group limits its liability to the supply of the Information, provided that such limitation is permitted by law and is fair and reasonable.

Copyright 2024 RaaS Research Group Pty Ltd (A.B.N. 99 614 783 363). All rights reserved.