QANTM Intellectual Property Ltd

FY23 Results & Outlook

FY23 outperforms on all metrics, positive outlook

Commercial & Professional Services

31 August 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 (FY23) in its key patents segment (67% of revenue) and a diversified mix of local and foreign clients (~45%/55% split; ~50% US$ revenue). The company has reported a better-than-forecast FY23 result across all metrics, driven by market share gains and productivity and cost improvements. Revenue increased 7.6% to $137.0m, while underlying EBITDA lifted 8.2% to $28.5m, with the margin increasing to 27.4%. Underlying NPAT for the year gained 14.5% to $14.7m. QIP maintained its final dividend of 3.5cps to bring the total dividend to 6.3cps. The company has reaffirmed its commitment to improving EBITDA margins to the low-30%-range through continued productivity enhancements, cost reductions and financial disciplines. We have upgraded our FY23 underlying EBITDA forecast by 3% to $30.7m and FY25 by 3.3% to $33.5m. Our DCF valuation has increased to $1.65/share (previously $1.57/share) having rolled forward to the new financial year and incorporating a higher risk-free rate (4.0% vs 3.5% previously) due to the higher interest rate environment.

Business model

QIP has three core offerings: (1) Patent and trade mark attorney services (88% of service charge revenue); (2) IP-focused litigation and legal services (12% of service charge revenue); and (3) Legal technology services via Sortify's online trade marks registration platforms and tools. QIP produces ~$104m service revenue from a diverse mix of local and foreign clients (est. ~45%/55% revenue split) with no client accounting for >2%. It has sizeable US$ exposure (~50% of service charges vs. primarily A$ costs). QIP generates service charges from event-driven fixed fees (est. ~55%) and hourly rate fees (est. ~45%). Patent applications trigger various workstreams that extend over several years. On the cost side, employees account for ~78% of the total. QIP's two key areas of strategic focus are: (1) Completing its business transformation programme (tech modernisation and business simplification) and subsequently realising EBITDA margin improvements (low-30s medium-term target vs. ~27.4% currently); and (2) Geographic expansion via DCC/FPA (Asia focused – medium-to long-term aim for >25% of revenue from Asia vs. ~8% currently) and Sortify's trade marks platform.

Better than forecast result, reaffirmed low 30s EBITDA target

QANTM Intellectual Property has reported a better-than-forecast FY23 result with a positive outlook. The reported 7.4% increase in service charges revenue to $103.8m was predominantly driven by market share gains in both its patents and trade marks businesses in Australia and solid growth in international markets. The company has reaffirmed its target for low-30s EBITDA margin medium-term, with margin improvement expected over the next several reporting periods as progress is made on the cost base and the growth in the Sortify platform adds to the margin expansion mix. We have made modest positive upgrades to our FY24 and FY25 forecasts, respectively +3.7% and +4.3% to underlying EBITDA and +5.7% and +6.2% to underlying NPAT and EPS.

DCF valuation of $1.65/share (previously $1.57/share)

Our QIP DCF valuation has increased to $1.65/share (previously $1.57/share) following the rollover to the new year. We apply a WACC of 10.2% incorporating a beta of 1.09 and a RFR of 4.0% (previously 3.5%). This implies EV/underlying EBITDA multiples of 8.2x for FY24f and 7.6x for FY25f. As a cross-reference, QIP is trading at FY24f EV/underlying EBITDA discount of 124% to its closest peer, the ASX-listed IP services group IPH Ltd (ASX:IPH), on 11.2x and a 19% to a group of five UK-listed legal services firms. In our view, continued demonstration of EBITDA margin improvement and earnings growth should help close this valuation gap.

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

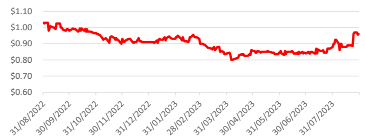
Year end	Revenue	EBITDA adj.*	EBITDA	NPAT adj.	EPS adj.* (c)	P/E adj.* (x)	EV/EBITDA adj.* (x)	Dividend yield (%)
06/22a	127.3	26.3	21.6	12.8	9.3	10.3	5.9	6.8
06/23a	137.0	28.5	23.4	14.7	10.6	9.1	5.5	6.6
06/24f	142.4	31.0	27.0	16.2	11.6	8.3	5.0	5.9
06/25f	148.1	33.8	33.0	18.4	13.1	7.3	4.4	7.8

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

Share Details

ASX code	QIP
Share price (30-Aug)	$0.96
Market capitalisation	$133.1M
Shares on issue	138.6M
Net debt at 30-Jun-2023	$24.2M
Free float (inc. all vendors/ excl. non-insider vendors)	~55%/ ~74%

Share Performance (12 months)



Company Interview

QANTM IP RaaS Interview 30 August 2023

Initiation Report

QANTM Intellectual Property (ASX:QIP) RaaS Initiation Report 18 April 2023

Upside Case

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

Downside Case

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

Catalysts

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

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FY23 Results Analysis

QIP reported a better-than-forecast FY23 result, with revenue from all three divisions outperforming our H2 expectations and employment costs below our estimates. Reported EBITDA of $23.9m was above our forecast and 10.7% ahead of FY22 while underlying EBITDA of $28.5m was 8.5% of the pcp. Underlying EBITDA excluding forex charges of $29.1m was up 14.5% on FY22. Underlying NPAT of $14.7m was also up 14.5% on the pcp and well ahead of our forecast for $12.6 underlying NPAT. Exhibit 1 sets out the P&L by half year for FY23 and FY22 and includes our forecasts on a full-year basis for FY23.

Exhibit 1: Half-year P&L and key cash flow statement forecasts (in A$m unless otherwise stated)

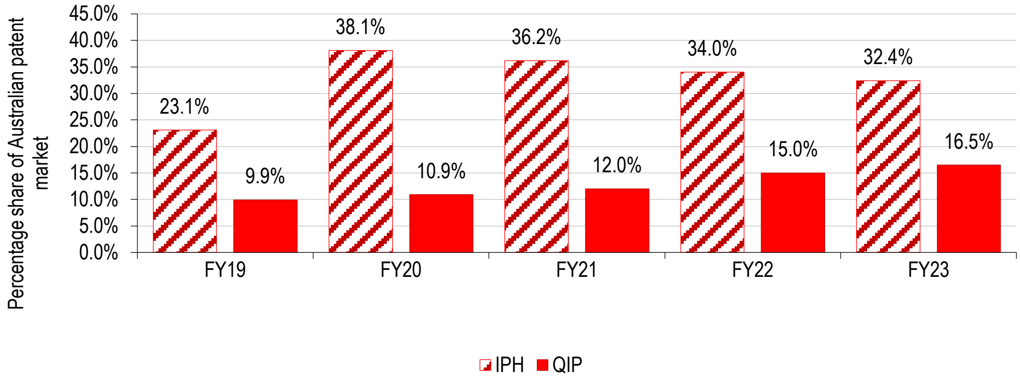
	H1 FY22a	H2 FY22a	FY22a	H1 FY23a	H2 FY23a	FY23a	*RaaS fct for FY23f*	*% chg on pcp (H1)*	*% chg on pcp (H2)*	*% chg on pcp (FY)*
Profit & Loss Statement										
Service charge revenue										
-Patents	33.5	31.5	65.0	35.4	34.5	69.9	68.2	*5.8*	*9.7*	*7.5*
-Trade Marks	9.5	10.3	19.8	10.4	11.1	21.5	20.6	*9.1*	*8.3*	*8.6*
-Legal Services	5.7	6.0	11.7	6.2	6.2	12.4	12.3	*8.9*	*4.2*	*5.7*
Total service charge revenue	**48.9**	**47.7**	**96.5**	**52.0**	**51.8**	**103.8**	**101.0**	***6.4***	***8.5***	***7.4***
Associate charge revenue*	13.8	16.9	30.7	16.6	16.6	33.2	33.8	*20.5*	*(1.9)*	*8.2*
Total operating revenue	**62.7**	**64.6**	**127.3**	**68.6**	**68.3**	**137.0**	**134.8**	***9.5***	***5.8***	***7.6***
Other income (inc. FX gains)	1.1	2.1	3.2	1.2	1.4	2.5	2.1	*12.2*	*(35.8)*	*(19.9)*
Recoverable expenses*	(13.1)	(16.1)	(29.3)	(15.7)	(15.4)	(31.1)	(31.6)	*19.9*	*(4.4)*	*6.5*
Net revenue	**50.6**	**50.6**	**101.2**	**54.1**	**54.3**	**108.3**	**105.4**	***6.8***	***7.3***	***7.1***
Operating costs										
- Employment	(31.3)	(28.9)	(60.1)	(32.7)	(29.2)	(61.9)	(62.3)	*4.6*	*1.1*	*3.0*
- Technology	(3.7)	(4.4)	(8.1)	(3.9)	(4.8)	(8.7)	(7.7)	*6.4*	*9.1*	*7.9*
- Occupancy	(1.1)	(1.0)	(2.0)	(0.9)	(1.4)	(2.3)	(2.0)	*(12.0)*	*41.5*	*13.3*
- Other expenses (inc. FX losses)	(4.1)	(5.2)	(9.3)	(5.3)	(6.2)	(11.5)	(9.9)	*28.4*	*18.8*	*23.0*
Total operating costs (statutory)	**(40.1)**	**(39.5)**	**(79.6)**	**(42.8)**	**(41.6)**	**(84.5)**	**(81.9)**	***6.8***	***5.4***	***6.1***
EBITDA - statutory	**10.5**	**11.1**	**21.6**	**11.2**	**12.7**	**23.9**	**23.5**	***7.1***	***14.2***	***10.7***
Statutory EBITDA margin (%) – on service charge revenue	*21.5*	*23.2*	*22.3*	*21.6*	*24.4*	*23.0*	*23.2*	*0.1 pts*	*1.2 pts*	*0.7 pts*
Add back: Non-recurring costs	2.3	2.4	4.7	2.5	2.5	*5.1*	4.4	*10.7*	*3.6*	*7.0*
EBITDA - underlying	**12.8**	**13.5**	**26.3**	**13.8**	**14.1**	**27.9**	**27.9**	***7.7***	***8.6***	***8.2***
Underlying EBITDA margin (%) - on service charge revenue	*26.2*	*28.3*	*27.2*	*26.5*	*28.4*	*27.4*	*27.6*	*0.3 pts*	*0.1 pts*	*0.2 pts*
Underlying EBITDA – excl. FX gain/loss	12.7	12.7	25.4	14.4	14.7	29.1	28.5	*13.3*	*15.6*	*14.5*
Depreciation and amortisation	(4.3)	(3.9)	(8.2)	(4.3)	(4.0)	(8.3)	(8.8)	*0.8*	*(11.6)*	*(5.1)*
EBIT (statutory)	**6.2**	**7.2**	**13.4**	**6.9**	**9.2**	**16.1**	**14.7**	***11.4***	***28.2***	***20.5***
Net interest	(1.1)	(1.2)	(2.4)	(1.8)	(1.6)	(3.6)	(3.0)	*62.1*	*32.6*	*52.5*
Net profit before tax	**5.0**	**5.9**	**11.0**	**5.1**	**7.6**	**12.5**	**11.7**	***0.2***	***27.3***	***13.6***
Income tax expense	(1.7)	(2.2)	(3.9)	(1.7)	(1.9)	(4.2)	(3.5)	*1.3*	*(13.6)*	*7.3*
Net profit after tax - statutory	**3.4**	**3.7**	**7.1**	**3.4**	**5.7**	**8.4**	**8.2**	***0.7***	***51.6***	***17.0***
Net profit after tax - underlying	**6.5**	**6.3**	**12.8**	**6.7**	**8.0**	**14.7**	**12.6**	***3.9***	***25.6***	***14.5***
EPS - statutory (cents)	2.5	2.8	5.3	2.5	3.2	5.7	5.9	*(1.2)*	*14.2*	*7.0*
EPS - underlying (cents)	4.7	4.6	9.3	4.8	5.8	10.6	9.0	*2.8*	*24.6*	*13.6*
DPS (cents) – based on NPATA	3.0	3.5	6.5	2.8	3.5	6.3	6.3	*(6.7)*	*0.0*	*(3.1)*
Key Cash flow Statement Figures										
Net operating cash flow	7.3	8.7	16.0	2.2	14.1	16.3	15.1	*(69.9)*	*61.8*	*1.8*
Capitalised tech dev. spend and capex	(0.5)	(0.4)	(0.9)	(2.3)	(0.4)	(2.7)	(2.7)	*334.0*	*4.0*	*185.8*
Free cash flow	**6.8**	**8.3**	**15.1**	**(0.1)**	**13.7**	**13.6**	**12.4**	***(100.9)***	***64.7***	***(9.7)***
Net debt at end of period	23.1	23.8	23.8	31.8	24.2	24.2	26.2	*37.7*	*2.0*	*2.0*

Sources: QIP financial statements and announcements, and RaaS forecasts for FY23; *Recoverable expenses are on-charged to clients and reflected in Associate charge revenue

Market share gains translates into revenue growth

QIP reported revenue gains across all three reporting divisions and highlighted in its results presentation that it had gained market share in the Australian patents market and in trade marks. QIP's Australian patent market share was ~16.5% in FY23, up from 15% in FY22.[1] In absolute terms, QIP's patent applications were up 0.9% in FY23, against a market which declined 7%. As we have highlighted in the following Exhibit 2, QIP has gained market share in patents in Australia, including against IPH which reported that its filings decreased 7.8% in FY23[2]. The company noted that Asian patent applications, which represent 15.7% of group total were flat on FY22 (15.8%). Rest of world (RoW) applications, which made up 24% of the group total, were up 0.7% on the prior year. QIP's revenue from patents increased 9.7% in H2 FY23 to $34.5m and 7.5% in FY23 to $69.9m, both ahead of our forecasts.

Exhibit 2: IPH and QIP Australian patent market share estimates



Source: IPH FY23 results presentation, QIP results presentations FY20, FY21, FY23, RaaS analysis

Trade Mark revenue also grew strongly for QIP, increasing 8.3% for H2 to $10.3m and 8.6% for FY23 to $19.8m driven by both Sortify.TM and DCC which remain the top two agents in Australia for trade mark applications.

Sortify holds the number one position in Australia, number two in New Zealand and is just outside the Top 10 in the UK, which is a large market. Sortify is the 20th largest filer of trade marks globally, from a standing start only 5-6 years ago. Notably, Sortify has expanded into four new markets in a short period – Singapore, Malaysia, Hong Kong and Benelux. Its market entry costs are quite low, as the platform runs on Amazon Web Services and requires no local headcount to establish a new market presence, hence its scalability.

DCC is number two in Australia and fourth in NZ. The company reported that applications had increased by 6.5% in FY23, compared with a decrease of 4.7% for the top 50 agents. Total group trade mark applications increased 8% in FY23 over the pcp.

Legal/litigation services, predominantly delivered by DCC Law, reported a 5.7% increase in revenue to $12.4m, slightly ahead of our forecast for $12.3m.

The company also reported strong growth in its Asian operations with service revenue increasing 32% to $8.2m and associate charges increasing 59% to $2.75m. Revenue from Asia now accounts for 8% of total revenue.

1 QANTM Intellectual Property FY23 results presentation, page 17
2 IPH FY23 results presentation, page 16

RaaS Research as a Service

Operating Costs

QIP reported operating costs, excluding non-recurring costs of $79.9m, up 6.7% on the pcp and predominantly made up of employment costs of $61.9m, which increased only 3.0% on the pcp. Higher underlying expenditure related to a $0.9m increase in the expected credit loss allowance on the back of adjusted judgement and estimates, and there was a $0.9m increase in technology expenses relating to cloud hosting and cybersecurity. Business development costs increased by $1.2m but remained below pre-COVID levels while the result also included a balance sheet-related forex loss of $0.6m.

Earnings Adjustments

We have made small adjustments to our FY24f and FY25f forecasts, largely reflective of the FY23 operational performance, particularly the gains made in market share, translating into revenue increases. For conservatism, we have increased estimates for operating costs, in particular technology costs, occupancy and other expenses which came in higher than our FY23 estimates. We have also included higher non-recurring costs to capture the $3.4m FY24 expenditure on its technology modernisation and simplification programme outlined by the company and which we anticipate will result in margin improvements in FY25 and beyond. This programme including the migration to Microsoft Azure and automation projects is designed to realise an additional $4m a year in cost savings by FY25. We may prove too conservative on costs.

Exhibit 3: Earnings adjustment (in A$m unless otherwise stated)

Year ending June 30	FY24 old	FY24 new	*% chg*	FY25 old	FY25 new	*% chg*
Service charge revenue						
-Patents	71.2	72.2	1.4	74.1	75.1	1.4
-Trade Marks	21.9	23.0	5.2	23.4	24.6	4.9
-Legal Services	12.3	12.6	2.1	12.5	12.8	2.1
Service charge revenue total	**105.4**	**107.8**	**2.3**	**110.0**	**112.4**	**2.2**
Associate revenue	34.5	34.6	0.3	35.5	35.6	0.3
Total operating revenue	**139.9**	**142.4**	**1.8**	**145.5**	**148.1**	**1.7**
Other income	2.1	2.1	0.0	2.2	2.2	0.0
Recoverable expenses*	(32.4)	(32.5)	0.3	(33.5)	(33.6)	0.3
Net revenue	**109.6**	**112.0**	**2.2**	**114.2**	**116.7**	**2.1**
Operating costs						
- Employment	(63.4)	(62.0)	(2.2)	(65.1)	(63.7)	(2.2)
- Technology	(6.9)	(9.1)	32.4	(6.2)	(7.3)	17.7
- Occupancy	(1.9)	(2.7)	40.7	(1.7)	(2.4)	37.6
- Other expenses	(9.1)	(11.3)	23.8	(9.5)	(10.2)	7.8
Total operating costs	**(81.2)**	**(85.0)**	**4.7**	**(82.6)**	**(83.7)**	**1.3**
EBITDA - Statutory	28.4	27.0	(5.0)	31.6	33.0	4.4
Reported EBITDA margin (%) - on service charge revenue	26.9	25.0	(7.1)	28.8	29.4	2.1
Less: Non-recurring costs	(1.5)	(4.0)	166.7	(0.8)	(0.8)	0.0
EBITDA - Underlying	**29.9**	**31.0**	**3.7**	**32.4**	**33.8**	**4.3**
Underlying EBITDA margin (%) - on service charge revenue	*28.4*	*28.7*	*1.4*	*29.5*	*30.1*	*2.0*
Underlying EBITDA - excl FX gain/loss	29.9	31.0	3.7	32.4	33.8	4.3
Depreciation and amortisation	(7.9)	(7.8)	(0.8)	(7.5)	(7.5)	(0.8)
EBIT (Statutory)	20.5	19.2	(6.5)	24.1	25.6	6.0
Net interest	(3.1)	(3.0)	(3.0)	(3.1)	(3.0)	(3.1)
Net profit before tax	17.4	16.2	(7.2)	21.0	22.6	7.3
Income tax expense	(5.2)	(4.9)	(7.2)	(6.3)	(6.8)	7.3
Net profit after tax - Statutory	12.2	11.3	(7.2)	14.7	15.8	7.3
Net profit after tax - Underlying	**15.3**	**16.2**	**5.7**	**17.3**	**18.4**	**6.2**
EPS - Statutory (cents)	8.7	8.1	(7.2)	10.5	11.3	7.3
EPS - Underlying	**11.0**	**11.6**	**5.7**	**12.4**	**13.1**	**6.2**

Source: RaaS estimates

Peer Comparison

As we have previously identified, QIP's closest peer is the much larger listed Australian play, IPH Ltd. IPH continues to trade at a significant premium to QIP, 150% based on historical EV/EBITDA multiples and 124% based on forward EV/EBITDA multiples.

We have also identified five UK listed peers in the legal services sector which we see as relevant peers for QIP both in terms of business model and relative market capitalisation. These peers are trading on an historical EV/EBITDA median multiple of 9.2x and forward median multiple of 6.0x, which puts QIP at a discount of 65% on historical EV/EBITDA and 19% discount on forward EV/EBITDA estimates.

Exhibit 4: Peer comparison

Company	Code	Market Capitalisation (M)	EV/EBITDA (1 year trailing)	EV/EBITDA (1 year forward)
IPH Ltd	IPH	AUD 1,839	13.9	11.2
DWF Group PLC	DWF.L	£358	8.6	6.0
Gateley (Holdings) PLC	GTLY.L	£274	11.2	7.3
Keystone Law Group PLC	KEYS.L	£136	13.8	12.7
Knights Group Holdings PLC	KGHK.L	£73	5.3	3.9
RBG Holdings PLC	RBGP.L	£61	9.2	5.7
Median UK peers			**9.2**	**6.0**

Source: Refinitiv, prices at 28 August, RaaS analysis

DCF Valuation

Using the discounted cashflow methodology, our valuation of QIP is **$1.65/share** (previously $1.57/share) having rolled the model to the new financial year and incorporating a higher risk free rate of 4.0% (previously 3.5%) to capture the higher interest rate environment. This implies an underlying EV/EBITDA multiple of 8.2x and a P/E multiple of 12.8x 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 ~7x average trading multiple of the five UK-listed legal services firms.

Exhibit 5: DCF valuation

Parameters	Outcome
Discount rate / WACC*	10.2%
Beta**	1.1
Terminal growth rate assumption	2.2%
Sum of PV (10-year forecast period)	$130.0m
PV of terminal value	$122.7m
PV of enterprise	**$252.8m**
Net debt - 30 June 2023	$24.2m
Net valuation - equity	**$228.5m**
No. of shares on issue - 30 June 2023 (RaaS est.)	138.7m
NPV/share	**$1.65**

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

Research as a Service

Exhibit 6: Financial Summary

QANTM Intellectual Property Ltd					
Profit and Loss (A$m)					
Y/E 30 June	**FY22a**	**FY23a**	**FY24f**	**FY25f**	**FY26f**
Service charge revenue	96.6	103.8	107.8	112.4	117.3
Associate revenue	30.7	33.2	34.6	35.6	36.2
Total revenue	**127.3**	**137.0**	**142.4**	**148.1**	**153.4**
Other income	3.2	2.5	2.1	2.2	2.2
Recoverable expenses	(29.3)	(31.1)	(32.5)	(33.6)	(34.8)
Net revenue	101.2	108.3	112.0	116.7	120.8
EBITDA - statutory	**21.6**	**23.4**	**27.0**	**33.0**	**35.6**
EBITDA - underlying	**26.3**	**28.5**	**31.0**	**33.8**	**36.4**
Depreciation	(1.1)	(1.0)	(1.1)	(0.9)	(1.1)
Amort (intang & leases)	(7.1)	(6.8)	(6.7)	(6.6)	(6.6)
EBIT	**13.4**	**15.6**	**19.2**	**25.6**	**27.8**
Interest	(2.4)	(3.6)	(3.0)	(3.0)	(2.5)
Tax	(3.9)	(4.2)	(4.9)	(6.8)	(7.6)
NPAT - statutory	**7.1**	**7.9**	**11.3**	**15.8**	**17.7**
NPAT - underlying	12.8	14.7	16.2	18.4	20.3
Cash flow (A$m)					
Y/E 30 June	**FY22a**	**FY23f**	**FY24f**	**FY25f**	**FY26f**
EBITDA - statutory	21.6	23.4	27.0	33.0	35.6
Interest	(1.7)	(2.9)	(2.4)	(2.3)	(2.0)
Tax payments	(4.6)	(3.9)	(4.9)	(6.8)	(7.6)
Working capital chgs	0.7	(0.3)	(2.6)	(2.4)	(2.1)
Operating cash flow	**16.0**	**16.3**	**17.2**	**21.5**	**23.9**
Capex	(0.5)	(2.1)	(0.8)	(0.8)	(0.8)
Capitalised dev costs	(0.4)	(0.6)	(0.6)	(0.6)	(0.6)
Free cash flow	**15.1**	**13.6**	**15.9**	**20.1**	**22.5**
Acquisitions	(6.7)	(0.5)	(0.5)	0.0	0.0
Acq'n related costs	(1.1)	(0.1)	0.0	0.0	0.0
Cash flow pre financing	7.3	13.0	15.4	20.1	22.5
Equity	0.0	0.0	0.0	0.0	0.0
Borrowings (net)	8.2	0.4	(1.5)	(3.5)	(2.0)
Other financing (leases)	(5.0)	(4.1)	(3.8)	(3.8)	(3.7)
Dividends paid	(8.7)	(8.7)	(8.2)	(9.2)	(11.1)
Net cash flow	**1.7**	**0.6**	**1.8**	**3.6**	**5.7**
Balance sheet (A$m)					
Y/E 30 June	**FY22a**	**FY23a**	**FY24f**	**FY25f**	**FY26f**
Cash	7.4	8.0	9.9	13.5	19.2
Accounts receivable	38.2	41.4	43.0	44.8	46.4
Other current assets	2.6	2.7	2.7	2.7	2.7
Total current assets	*48.2*	*52.2*	*55.6*	*60.9*	*68.2*
PPE	1.6	2.8	2.2	2.1	1.8
Goodwill	54.8	54.4	54.4	54.4	54.4
Intangibles	29.4	26.5	22.2	19.4	16.8
Other non current assets	8.7	9.9	10.9	9.7	7.5
Total non current assets	*94.6*	*93.5*	*89.7*	*85.6*	*80.5*
Total Assets	**142.8**	**145.7**	**145.3**	**146.5**	**148.7**
Accounts payable	14.1	15.7	15.4	15.3	15.6
Current debt	3.6	3.0	3.0	3.0	3.0
Lease liabilities (current)	3.6	3.3	2.9	2.9	2.9
Other curr liab (inc AL prov)	9.5	11.2	9.8	9.8	9.8
Total current liabilities	*30.9*	*33.2*	*31.1*	*31.1*	*31.4*
Non-current debt	27.6	29.2	27.7	24.2	22.2
Other non current liabs	12.4	11.0	11.6	9.8	7.1
Total long term liabilities	*39.9*	*40.2*	*39.3*	*34.0*	*29.3*
Total Liabilities	**70.8**	**73.4**	**70.5**	**65.1**	**60.7**
Net Assets	**71.9**	**72.3**	**74.8**	**81.4**	**88.0**
Share capital	298.9	300.1	301.2	301.2	301.2
Retained earnings	(3.4)	(4.2)	(1.1)	5.5	12.1
Reserves	(223.2)	(223.2)	(224.7)	(224.7)	(224.7)
Minorities	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Total Shareholder funds	**71.9**	**72.3**	**74.9**	**81.5**	**88.1**

Share price (30 Aug 2023)						A$	0.960
Half yearly (A$m)		**H1 FY22a**	**H2 FY22a**	**H1 FY23a**	**H2 FY23a**	**H1 FY24f**	**H2 FY24f**
Service charge revenue		48.9	47.7	52.0	51.8	54.5	53.3
EBITDA - statutory		10.5	11.1	11.2	12.2	12.2	14.8
EBITDA - underlying		**12.8**	**13.5**	**13.8**	**14.7**	**15.0**	**16.0**
EBIT - statutory		6.2	7.2	6.9	8.7	8.4	10.7
NPAT - statutory		**3.4**	**3.7**	**3.4**	**5.2**	**4.9**	**6.5**
NPAT - underlying		6.5	6.3	6.7	8.0	7.9	8.3
EPS (reported)		2.5	2.8	2.5	3.2	3.5	4.6
EPS (underlying)		4.7	4.6	4.8	5.8	5.7	5.9
Dividend (cps)		3.0	3.5	2.8	3.5	2.4	3.3
Operating cash flow		7.3	8.7	2.2	14.1	4.0	13.2
Free Cash flow		6.8	8.3	(0.1)	13.7	3.1	12.8
Segmented (half yearly)		**H1 FY22a**	**H2 FY22a**	**H1 FY23a**	**H2 FY23f**	**H1 FY24f**	**H2 FY24f**
Patents		33.5	31.5	35.4	34.5	37.1	35.1
Trade Marks		9.5	10.3	10.4	11.1	11.1	11.9
Legal Services		5.7	6.0	6.2	6.2	6.3	6.3
Service charge revenue		**48.9**	**47.7**	**52.0**	**51.8**	**54.5**	**53.3**
Associate revenue		13.8	16.9	16.6	16.6	16.8	17.8
Total revenue		**62.7**	**64.6**	**68.6**	**68.3**	**71.3**	**71.2**
Other income		1.1	2.1	1.2	1.4	1.0	1.2
Recoverable expenses		(13.1)	(16.1)	(15.7)	(15.4)	(15.8)	(16.7)
Net revenue		50.6	50.6	54.1	54.3	56.4	55.6
Employment		(31.3)	(28.9)	(32.7)	(29.2)	(31.0)	(31.0)
Technology		(3.7)	(4.4)	(3.9)	(4.8)	(4.8)	(4.3)
Occupancy		(1.1)	(1.0)	(0.9)	(1.4)	(1.4)	(1.2)
Other costs		(4.1)	(5.2)	(5.3)	(6.2)	(7.0)	(4.2)
EBITDA - statutory		**10.5**	**11.1**	**11.2**	**12.7**	**12.2**	**14.8**
EBITDA - underlying		12.8	13.5	13.8	14.7	15.0	16.0
Growth, Margins, Leverage, Returns			**FY22a**	**FY23a**	**FY24f**	**FY25f**	**FY26f**
Service charge rev growth			4.6%	7.4%	3.9%	4.3%	4.3%
Total revenue growth			6.9%	7.6%	4.0%	4.0%	3.6%
EBITDA margin (underly/service charge)			27.2%	27.4%	28.7%	30.1%	31.0%
EBITDA margin (underlying/total rev)			20.7%	20.8%	21.8%	22.8%	23.7%
EBITDA margin (stat/service charge)			22.3%	22.5%	25.0%	29.4%	30.3%
EBIT margin (stat/total revenue)			10.5%	11.4%	13.5%	17.3%	18.1%
NPAT margin (stat/service charge)			7.4%	7.6%	10.5%	14.1%	15.1%
Net Debt			23.8	24.2	20.9	13.8	6.1
Net debt/underlying EBITDA (x)			0.9	0.9	0.7	0.4	0.2
ND/ND+Equity (%)			24.8%	25.1%	21.8%	14.5%	6.5%
EBIT interest cover (x)			5.7	4.3	6.4	8.6	11.3
ROA			12.4%	10.8%	13.2%	17.5%	18.8%
ROE			9.9%	10.9%	15.4%	20.2%	20.9%
NTA (per share)			(9.0)	(6.2)	(1.3)	5.4	12.0
Working capital			24.0	25.7	27.6	29.4	30.7
WC/Sales (%)			18.9%	18.8%	19.4%	19.9%	20.0%
Pricing			**FY22a**	**FY23a**	**FY24f**	**FY25f**	**FY26f**
No of shares (y/e)	(m)		137	139	140	140	141
Weighted Av Dil Shares	(m)		139	139	141	141	141
EPS (statutory)	cps		5.3	5.6	8.1	11.3	12.6
EPS (underlying)	cps		9.3	10.6	11.6	13.1	14.5
EPS growth (statutory)			(31.1%)	6.6%	44.0%	39.2%	11.7%
EPS growth (underlying)			(6.0%)	13.6%	9.5%	13.2%	10.3%
PE (x) - statutory			18.1	17.0	11.8	8.5	7.6
PE (x) - underlying			10.3	9.1	8.3	7.3	6.6
DPS	cps		6.5	6.3	5.7	7.5	8.3
DPS Growth			(12%)	(3%)	(10%)	32%	11%
Dividend yield			6.8%	6.6%	5.9%	7.8%	8.6%
Dividend imputation			100%	100%	100%	100%	100%
EV/EBITDA (x) - underlying			5.9	5.5	5.0	4.4	3.9
FCF/Share	cps		10.9	9.8	11.3	14.3	16.0
Price/FCF share (x)			8.8	9.8	8.5	6.7	6.0
Free cash flow Yield			11.3%	10.2%	11.8%	14.9%	16.7%

Sources: Company data, RaaS Advisory estimates

FINANCIAL SERVICES GUIDE

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of

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