

# QANTM Intellectual Property Ltd

## FY24-to-date trading well ahead of last year

**QANTM Intellectual Property Ltd (ASX:QIP)** owns a group of intellectual property (IP) services businesses operating under the independent brands of Davies Collision Cave (DCC), FPA Patent Attorneys, and Sortify.tn. It is a major player in the mature and regulated Australian patent, trade marks and IP legal services market, and has a diversified mix of local and foreign clients (~45%/55% split; ~50% US\$ revenue). The company has provided a trading update at its annual general meeting (AGM) noting that revenue and earnings (EBITDA) to the end of October were well ahead of last year and ahead of budget. QIP highlighted that earnings continue to grow faster than revenue, resulting in improving margins, and that the company is currently trading above 30% in terms of underlying EBITDA margin. The company expects its FY24 financial results to be ahead of analysts' expectations for the full year. We are forecasting underlying EBITDA of \$31.0m for FY24, which on our forecast for service revenue of \$103.8m, implies an underlying EBITDA margin of 28.8%. We will review our forecasts at the interim result in February. We note that QIP is trading at a significant discount (35%) to the peer group on an FY23 EV/EBITDA basis and 36% discount on an FY24f EV/EBITDA basis. Our DCF valuation of \$1.65/share implies an EV/EBITDA adjusted multiple of 8.0x FY23a and 7.4x FY24f which would still put QIP at a discount to this group. We are of the view that this underscores QIP's relative value.

## 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 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). It 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 medium-term target); and (2) Geographic expansion via DCC/FPA (Asia focused – medium-to long-term aim for >25% of revenue from Asia) and Sortify's trade marks platform.

## Confirmation EBITDA margin is growing ahead of forecast

QANTM Intellectual Property has announced that for the first four months of FY24, the underlying EBITDA margin was greater than 30%, which is ahead of our FY24f forecast and consensus. The company also noted that it expects its FY24 results to be ahead of current analyst forecasts. QIP reaffirmed its target for low-30s EBITDA margin medium-term. QANTM IP also noted it experienced a slight decline in market share of Australian patent filings in the first four months of FY24, from 16.7% in the previous corresponding period (pcp) to 14.3%, with the decline partly due to the Cotters integration and the loss of some less-profitable clients. We observe that market share can bounce around in short periods over a 12-18 month timeframe and will review this at the H1 FY24 along with our forecasts.

## DCF valuation of \$1.65/share, unchanged

Our QIP DCF valuation remains at \$1.65/share and is based on a WACC of 10.2% incorporating a beta of 1.1 and a RFR of 4.0%. This implies EV/underlying EBITDA multiples of 7.4x for FY24f and 6.8x for FY25f. As a cross-reference, QIP is trading at FY24f EV/underlying EBITDA discount of 58% to its closest peer, the ASX-listed IP services group IPH Ltd (ASX:IPH), on 10.0x. 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	Total revenue	EBITDA adj.*	EBITDA rep.	NPAT adj.	EPS adj.* (c)	P/E adj.* (x)	EV/EBITDA adj.* (x)	Dividend yield (%)
06/23a	137.0	28.5	23.4	14.7	10.6	8.8	5.4	6.8
06/24f	142.4	31.0	27.0	16.2	11.6	8.0	4.9	6.8
06/25f	148.1	33.8	33.0	18.4	13.1	7.1	4.3	8.1
06/26f	153.4	36.4	35.6	20.3	14.5	6.4	3.8	8.1

Sources: Company data; RaaS estimates for FY24f-FY25f; \*Adjusted for non-recurring items

## Commercial & Professional Services

28 November 2023

### Share Details

ASX code	QIP
Share price (27-Nov)	\$0.93
Market capitalisation	\$128.9M
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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## Trading Update Suggests QIP Is Trading Ahead of Peers/Market

QANTM Intellectual Property highlighted at its November 24 AGM that it expected to deliver a FY24 result ahead of current analyst forecasts. The company also highlighted the following:

- Revenue and earnings to the end of October were well ahead of last year and ahead of budget;
- Earnings continues to grow faster than revenue and margins are continuing to improve. The company is currently trading above 30% underlying EBITDA margin;
- While there are still eight months left in the financial year, the medium-term target (of low 30% EBITDA margin) is becoming more reachable;
- The market for the first four months of FY24 in Australian patent filings was down 3%. QIP's share of this market also declined to 14.3% from 16.7% in the same period in FY23. Patent filings account for 10-15% of revenue in any given period and can bounce around in short periods over a 12-18 month timeframe. QIP believes some of the decline was due to the Cotters integration and some due to the loss of less profitable clients; and
- The company continues to focus on three core priorities: organic growth; M&A and strategic alliances; and continued technology modernisation and business simplification.

We note that our FY24 forecast is for an underlying EBITDA margin (underlying EBITDA against service revenue) of 28.8%.

The trading update also suggests that QIP is trading ahead of its peers. IPH, at its recent AGM, noted that for the first four months of FY24, underlying revenue and EBITDA were ahead of the prior corresponding period, with the result benefiting from the weaker AUD/USD and more than three months' contribution from Smart & Biggar. On a like-for-like basis, IPH noted that like-for-like revenue had increased over the same period but that underlying EBITDA was broadly in line with the pcip.

IPH noted that for the first four months of the financial year, its Australian patent filings declined 5.3% against a broader market decline of 2.8%.

## Peer Comparison

As we have previously identified, QIP's closest peer is IPH Ltd. IPH continues to trade at a significant premium to QIP, 56% based on historical EV/EBITDA multiples and 58% based on forward EV/EBITDA multiples. We note that the gap has narrowed in recent months, with IPH share price down 16% in the past six months while QIP's share price has appreciated 13% in the same period.

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. The peers are trading on an historical EV/EBITDA median multiple of 8.2x and forward median multiple of 6.6x, which puts QIP at a discount of 35% on historical EV/EBITDA and 36% discount on forward EV/EBITDA estimates.

Exhibit 1: Peer comparison				
Company	Code	Market capitalisation (M)	EV/EBITDA (one-year trailing)	EV/EBITDA (one-year forward)
IPH Ltd	IPH	AUD 1,571	12.1	10.0
Gateley (Holdings) PLC	GTLY.L	£204	10.7	7.2
Keystone Law Group PLC	KEYS.L	£151	15.6	13.1
Knights Group Holdings PLC	KGHK.L	£84	5.7	4.1
RBG Holdings PLC	RBGP.L	£18	4.7	5.3
RWS Holdings PLC	RWS.L	£963	5.6	5.9
<b>Median UK peers</b>		<b>178</b>	<b>8.2</b>	<b>6.6</b>

Source: Refinitiv, prices at 24 November, RaaS analysis

## DCF Valuation

Using the discounted cash-flow methodology, our valuation of QIP is **\$1.65/share**, which implies an underlying EV/EBITDA multiple of 8.0x for FY23a and 7.4x FY24 EV/EBITDA underlying.

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.

### Exhibit 2: 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) (\$M)	130.0
PV of terminal value (\$M)	122.7
<b>PV of enterprise (\$M)</b>	<b>252.8</b>
Net debt - 30 June 2023 (\$M)	24.2
<b>Net valuation – equity (\$M)</b>	<b>228.5</b>
No. of shares on issue - 30 June 2023 (M)	138.6
<b>NPV/share</b>	<b>\$1.65</b>

Source: RaaS estimates, Refinitiv; \*Discount rate incorporates risk-free rate (RfR) of 4.0% and an equity risk premium of 6.5%; \*\*vs. Refinitiv's observed beta of 0.8x based on its five-year monthly beta methodology

### Exhibit 3: Financial Summary

QANTM Intellectual Property Ltd						Share price (27 November 2023)						A\$ 0.930	
Profit and Loss (A\$m)						Half yearly (A\$m)		H1 FY22a	H2 FY22a	H1 FY23a	H2 FY23a	H1 FY24f	H2 FY24f
Y/E 30 June	FY22a	FY23a	FY24f	FY25f	FY26f	Service charge revenue		48.9	47.7	52.0	51.8	54.5	53.3
Service charge revenue	96.6	103.8	107.8	112.4	117.3	EBITDA - statutory		10.5	11.1	11.2	12.2	12.2	14.8
Associate revenue	30.7	33.2	34.6	35.6	36.2	EBITDA - underlying		12.8	13.5	13.8	14.7	15.0	16.0
Total revenue	127.3	137.0	142.4	148.1	153.4	EBIT - statutory		6.2	7.2	6.9	8.7	8.4	10.7
Other income	3.2	2.5	2.1	2.2	2.2	NPAT - statutory		3.4	3.7	3.4	5.2	4.9	6.5
Recoverable expenses	(29.3)	(31.1)	(32.5)	(33.6)	(34.8)	NPAT - underlying		6.5	6.3	6.7	8.0	7.9	8.3
Net revenue	101.2	108.3	112.0	116.7	120.8	EPS (reported)		2.5	2.8	2.5	3.2	3.5	4.6
EBITDA - statutory	21.6	23.4	27.0	33.0	35.6	EPS (underlying)		4.7	4.6	4.8	5.8	5.7	5.9
EBITDA - underlying	26.3	28.5	31.0	33.8	36.4	Dividend (cps)		3.0	3.5	2.8	3.5	2.8	3.5
Depreciation	(1.1)	(1.0)	(1.1)	(0.9)	(1.1)	Operating cash flow		7.3	8.7	2.2	14.1	4.0	13.2
Amort (intang & leases)	(7.1)	(6.8)	(6.7)	(6.6)	(6.6)	Free Cash flow		6.8	8.3	(0.1)	13.7	3.1	12.8
EBIT	13.4	15.6	19.2	25.6	27.8	Segmented (half yearly)		H1 FY22a	H2 FY22a	H1 FY23a	H2 FY23f	H1 FY24f	H2 FY24f
Interest	(2.4)	(3.6)	(3.0)	(3.0)	(2.5)	Patents		33.5	31.5	35.4	34.5	37.1	35.1
Tax	(3.9)	(4.2)	(4.9)	(6.8)	(7.6)	Trade Marks		9.5	10.3	10.4	11.1	11.1	11.9
NPAT - statutory	7.1	7.9	11.3	15.8	17.7	Legal Services		5.7	6.0	6.2	6.2	6.3	6.3
NPAT - underlying	12.8	14.7	16.2	18.4	20.3	Service charge revenue		48.9	47.7	52.0	51.8	54.5	53.3
Cash flow (A\$m)						Associate revenue		13.8	16.9	16.6	16.6	16.8	17.8
Y/E 30 June	FY22a	FY23f	FY24f	FY25f	FY26f	Total revenue		62.7	64.6	68.6	68.3	71.3	71.2
EBITDA - statutory	21.6	23.4	27.0	33.0	35.6	Other income		1.1	2.1	1.2	1.4	1.0	1.2
Interest	(1.7)	(2.9)	(2.4)	(2.3)	(2.0)	Recoverable expenses		(13.1)	(16.1)	(15.7)	(15.4)	(15.8)	(16.7)
Tax payments	(4.6)	(3.9)	(4.9)	(6.8)	(7.6)	Net revenue		50.6	50.6	54.1	54.3	56.4	55.6
Working capital chgs	0.7	(0.3)	(2.6)	(2.4)	(2.1)	Employment		(31.3)	(28.9)	(32.7)	(29.2)	(31.0)	(31.0)
Operating cash flow	16.0	16.3	17.2	21.5	23.9	Technology		(3.7)	(4.4)	(3.9)	(4.8)	(4.8)	(4.3)
Capex	(0.5)	(2.1)	(0.8)	(0.8)	(0.8)	Occupancy		(1.1)	(1.0)	(0.9)	(1.4)	(1.4)	(1.2)
Capitalised dev costs	(0.4)	(0.6)	(0.6)	(0.6)	(0.6)	Other costs		(4.1)	(5.2)	(5.3)	(6.2)	(7.0)	(4.2)
Free cash flow	15.1	13.6	15.9	20.1	22.5	EBITDA - statutory		10.5	11.1	11.2	12.7	12.2	14.8
Acquisitions	(6.7)	(0.5)	(0.5)	0.0	0.0	EBITDA - underlying		12.8	13.5	13.8	14.7	15.0	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	7.3	13.0	15.4	20.1	22.5	Service charge rev growth		4.6%	7.4%	3.9%	4.3%	4.3%	
Equity	0.0	0.0	0.0	0.0	0.0	Total revenue growth		6.9%	7.6%	4.0%	4.0%	3.6%	
Borrowings (net)	8.2	0.4	(1.5)	(3.5)	(2.0)	EBITDA margin (underly/service charge)		27.2%	27.4%	28.7%	30.1%	31.0%	
Other financing (leases)	(5.0)	(4.1)	(3.8)	(3.8)	(3.7)	EBITDA margin (underlying/total rev)		20.7%	20.8%	21.8%	22.8%	23.7%	
Dividends paid	(8.7)	(8.7)	(8.8)	(9.5)	(11.1)	EBITDA margin (stat/service charge)		22.3%	22.5%	25.0%	29.4%	30.3%	
Net cash flow	1.7	0.6	1.3	3.3	5.7	EBIT margin (stat/total revenue)		10.5%	11.4%	13.5%	17.3%	18.1%	
Balance sheet (A\$m)						NPAT margin (stat/service charge)		7.4%	7.6%	10.5%	14.1%	15.1%	
Y/E 30 June	FY22a	FY23a	FY24f	FY25f	FY26f	Net Debt		23.8	24.2	21.4	14.6	6.9	
Cash	7.4	8.0	9.3	12.6	18.3	Net debt/underlying EBITDA (x)		0.9	0.9	0.7	0.4	0.2	
Accounts receivable	38.2	41.4	43.0	44.8	46.4	ND/ND+Equity (%)		24.8%	25.1%	22.4%	15.4%	7.4%	
Other current assets	2.6	2.7	2.7	2.7	2.7	EBIT interest cover (x)		5.7	4.3	6.4	8.6	11.3	
Total current assets	48.2	52.2	55.1	60.1	67.4	ROA		12.4%	10.8%	13.2%	17.6%	18.9%	
PPE	1.6	2.8	2.2	2.1	1.8	ROE		9.9%	10.9%	15.5%	20.4%	21.1%	
Goodwill	54.8	54.4	54.4	54.4	54.4	NTA (per share)		(9.0)	(6.2)	(1.7)	4.9	11.4	
Intangibles	29.4	26.5	22.2	19.4	16.8	Working capital		24.0	25.7	27.6	29.4	30.7	
Other non current assets	8.7	9.9	10.9	9.7	7.5	WC/Sales (%)		18.9%	18.8%	19.4%	19.9%	20.0%	
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	144.7	145.7	147.9	No of shares (y/e)		(m)	137	139	140	140	141
Accounts payable	14.1	15.7	15.4	15.3	15.6	Weighted Av Dil Shares		(m)	139	139	141	141	141
Current debt	3.6	3.0	3.0	3.0	3.0	EPS (statutory)		cps	5.3	5.6	8.1	11.3	12.6
Lease liabilities (current)	3.6	3.3	2.9	2.9	2.9	EPS (underlying)		cps	9.3	10.6	11.6	13.1	14.5
Other curr liab (inc AL prov)	9.5	11.2	9.8	9.8	9.8	EPS growth (statutory)		(31.1%)	6.6%	44.0%	39.2%	11.7%	
Total current liabilities	30.9	33.2	31.1	31.1	31.4	EPS growth (underlying)		(6.0%)	13.6%	9.5%	13.2%	10.3%	
Non-current debt	27.6	29.2	27.7	24.2	22.2	PE (x) - statutory		17.6	16.5	11.5	8.2	7.4	
Other non current liabs	12.4	11.0	11.6	9.8	7.1	PE (x) - underlying		10.0	8.8	8.0	7.1	6.4	
Total long term liabilities	39.9	40.2	39.3	34.0	29.3	DPS		cps	6.5	6.3	6.3	7.5	8.3
Total Liabilities	70.8	73.4	70.5	65.1	60.7	DPS Growth		(12%)	(3%)	0%	19%	11%	
Net Assets	71.9	72.3	74.2	80.6	87.3	Dividend yield		7.0%	6.8%	6.8%	8.1%	8.9%	
Share capital	298.9	300.1	301.2	301.2	301.2	Dividend imputation		100%	100%	100%	100%	100%	
Retained earnings	(3.4)	(4.2)	(1.7)	4.6	11.3	EV/EBITDA (x) - underlying		5.8	5.4	4.9	4.3	3.8	
Reserves	(223.2)	(223.2)	(224.7)	(224.8)	(224.7)	FCF/Share		cps	10.9	9.8	11.3	14.3	16.0
Minorities	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	Price/FCF share (x)		8.5	9.5	8.2	6.5	5.8	
Total Shareholder funds	71.9	72.3	74.4	80.6	87.3	Free cash flow Yield		11.7%	10.5%	12.2%	15.4%	17.2%	

Sources: Company data, RaaS Advisory estimates

# FINANCIAL SERVICES GUIDE

**RaaS Advisory Pty Ltd**

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**Corporate Authorised Representative, number 1248415**

**of**

**BR SECURITIES AUSTRALIA PTY LTD**

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**Effective Date: 6<sup>th</sup> May 2021**

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- complaint processes

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