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QANTM IP Limited (QIP)

Bringing ideas to life

Recommendation
Buy (Initiation)
Price
$2.37
Target (12 months)
$2.85 (Initiation)

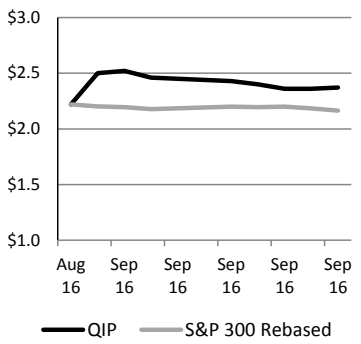
Expected Return	
Capital growth	20.3%
Dividend yield	3.9%
Total expected return	24.2%
Company Data & Ratios	
Enterprise value	$329.6m
Market cap	$315.0m
Issued capital	132.9m
Free float	50%
Avg. daily val. (52wk)	$226k
12 month price range	$2.30 - $2.52
GICS sector	
Commercial Services and Suppliers	

Disclosure: Bell Potter Securities acted as joint lead manager, sole underwriter and bookrunner to QIP's IPO in August 2016 and received fees for that service.

Price Performance

	(1m)	(3m)	(12m)
Price (A$)			
Absolute (%)			
Rel market (%)			

Absolute Price



SOURCE: IRESS

Owner of two leading IP firms with high quality attributes

QANTM Intellectual Property Limited (QIP) is the owner of Davies Collison Cave (DCC) and FPA (formerly Freehills Patent Attorneys) (together the 'Firms'), two Intellectual Property (IP) services firms. QIP is no.2 in total patent filings, with DCC the market leading individual firm in patent filings for local Australian clients. The Firms have a diverse group of long-lasting blue-chip clients serviced by highly qualified teams. Revenues are well diversified with high visibility, underpinned by thousands of invoices (>63,000 in FY15) on work tasks that must follow an IP lifecycle 'pathway'. Frequent invoicing ensures work-in-progress is minimal and cash conversion is high.

Differentiated on several fronts that provide key benefits

Key areas of differentiation include the Firms': 1) shared industry recognition as high quality 'premium end' service providers as reflected by numerous industry awards; 2) strategic focus on local clients which generate longer (*hence more forward visibility*) and greater revenue opportunity per application, as well as creating greater scope to attract referral work from Foreign Associates; and 3) strengths in strategic advice which is a key service skill that we believe helps establish & build client relationships.

Attractive margin upside and Asian expansion opportunity

We believe there are attractive margin upside prospects for QIP through productivity improvements and synergies between the two Firms. Also, QIP has an early stage office presence in Singapore that we believe lays the foundations of a significant new growth frontier in Asia. We assume a conservative allowance of ~$3m in productivity/ synergy benefits by FY20 (with EBITDA margin rising to 27%) and make no allowance for growth in Asia, hence note the scope for upside to our medium/long-term forecasts. Also, acquisition opportunities that accelerate scale benefits add further upside risk.

Investment View – Initiate with Buy rating, PT $2.85

We believe QIP owns two high quality IP firms with attractive operating attributes. The combination of margin upside, growth opportunities in Asia, potential acquisitions and a structurally growing industry, provide significant levers for growth. Based on these factors, we believe FY17 PE ~16.9x is undemanding and initiate with Buy, PT of $2.85.

Earnings Forecast

Jun Year end	2016e *	2017e	2018e	2019e
Total revenue (A$m)	112.0	115.2	120.4	125.5
EBITDA (A$m)	26.6	28.4	30.6	32.9
NPATA (underlying) (A$m)	17.4	18.6	20.5	22.3
EPS (on NPATA) (cps)	13.1	14.0	15.4	16.8
EPS growth (on NPATA) (%)	29.5%	7.0%	10.1%	8.6%
PER (on NPATA) (x)	18.1	16.9	15.3	14.1
EV/EBITDA (x)	12.4	11.6	10.8	10.0
NPAT (underlying) (A$m)	16.4	17.6	19.6	21.3
NPAT (reported) (A$m)	-	14.5	19.6	21.3
Dividend (¢ps)	-	9.2	12.4	13.4
Yield (%)	-	3.9%	5.2%	5.7%
Franking (%)	-	100%	100%	100%
ROE (%)	-	25.5%	25.8%	26.6%

SOURCE: BELL POTTER SECURITIES ESTIMATES; * NOTE: FY16 INCLUDES PRO FORMA ACTUALS ONLY FOR REVENUE AND EBITDA.

Contents

Investment Case

Company Description

QANTM Intellectual Property Limited (QIP or the 'Group') is the owner of Davies Collison Cave (DCC) and FPA (formerly Freehills Patent Attorneys) (together the "Firms"), two professional Intellectual Property (IP) services firms which have significant market share positions in Australia. The Firms together employ ~373 staff including 136 IP professionals who provide specialist IP services spanning the creation, protection, commercialisation and enforcement of IP rights. Furthermore, a significant portion of both Firms' revenue is derived from strategic advice not directly related to the various IP application processes.

DCC's history can be traced back to 1879 and is now one of the largest patent and trade mark attorney firms in Australia, with an early stage operation in Singapore. FPA is a specialist patent attorney practice. In 2012, the FPA partnership adopted a separate management structure from the Freehills partnership (now Herbert Smith Freehills (HSF)). DCC's primary offices are located in Melbourne, Sydney, Brisbane and recently Singapore, plus a number of domestic secondary offices. FPA has offices in Melbourne and Sydney.

Under the Group structure, the two firms will continue to operate as independent firms.

Strategic position – leader in Australia and emerging in Asia

Amongst the market leaders in Australia: DCC and FPA are considered amongst the leading providers of IP services in the Australian market, as follows:

In CY15, DCC:

- filed more Australian PCT (*Patent Cooperation Treaty*) applications than any other individual firm;
- filed more Australian trade mark applications than any other individual firm; and
- filed the second largest number of Australian patent applications by any individual firm.

In CY15, the two Firms in aggregate:

- filed the second largest number of Australian PCT applications by any group;
- filed the second largest number of Australian trade mark applications by any group; &
- filed the second largest number of Australian patent applications by any group.

We note that the listed group that filed the most PCT applications, Australian trade mark applications and Australian patent applications in CY15 now consists of 4 individual firms.

In the above we note that filing numbers is only one estimate of market share and does not capture the substantial revenue generated by the Firms from providing strategic advice and opposition or infringement engagements.

Plus an early stage emerging presence in Asia: QIP also has an emerging presence in Asia with DCC opening an office in Singapore in July 2015. FPA does not currently have an office in Asia but nonetheless still provides services from its Australian offices.

Investment Thesis

We rate QIP **Buy** with a 12-month PT of $2.85. Our investment thesis is as follows.

- **QIP brings together DCC & FPA which we believe has compelling strategic merit**. Importantly the Firms share numerous similarities including their commitment to quality clients, services and the highest quality practitioners. Both Firms have an emphasis on technical excellence for local clients and those seeking strategic advice and

enforcement. Given the Firms share common business processes, it creates synergy and scalability opportunities. It enables the Group to maintain a leading position in a consolidating industry and be strategically better placed to pursue growth in Asia. Together, the Firms create a Group with significant diversification in terms of clients, industries, services and geographies.

- **Attractive margin expansion prospects**: We believe there is opportunity to expand margins through: 1) productivity improvements, noteworthy IP process automation and continuous development of information and communications technology (ICT) systems; 2) realise synergy opportunities between the two Firms given common business/ support processes; 3) accelerated scale benefits with acquisitions; and 4) multi-jurisdictional scale benefits as traction is gained in Asia.
- **Diverse long-lasting client base serviced by highly qualified stable team**. Clients range from start-up ventures to SMEs to Fortune 500 multinationals. In FY15, the Firms in aggregate had active matters for >85 Fortune 500 companies. Of the top 20 clients across the Firms, 16 have been clients of at least one of the Firms for >15yrs, & 12 for >20yrs. Client exposure is highly diversified with the top 20 clients accounting for only ~20% of FY15 aggregate services revenue. Clients are serviced by a highly qualified team of 136 IP professionals (including 44 with PhDs).
- **Strategic focus on local clients provides key benefits**: We believe the Firms' focus on local clients is a key point of differentiation. Key benefits are: 1) revenue generation over a longer period given earlier involvement in the IP lifecycle; 2) larger revenue opportunity per application; 3) ensures knowledge base of professional staff remains leading edge; & 4) creates more scope to attract referral work from Foreign Associates.
- **Significant growth opportunity in Asia**. With an emerging local footprint in Asia, there is opportunity for QIP to leverage off its Firms' reputation and strategy in Australia to enhance its credibility in Asia and penetrate local clients across the region. There is also opportunity to continue to leverage off the Firms' international clients seeking a 'one-stop-shop' point of contact for the Asia/ANZ region. Furthermore, we believe there is scope for bolt-on acquisitions to accelerate growth.
- **Further market consolidation opportunities in Australia**. The fragmented industry opens opportunities for further consolidation. We view QIP as well placed to participate.
- **Attractive industry fundaments** including structural market drivers with the ongoing growth in the global "knowledge-based" economy and the emergence of Asia (*and Singapore as a hub*). The IP industry has high barriers to entry with client relationships built over years with the firm and not at an individual level, making clients 'sticky'.
- **A number of key attractive operating metrics** including:
    1. Well diversified revenue streams with relatively high visibility. A large number of relatively low value invoices across diversified client base, with invoicing on work-tasks that must follow an IP lifecycle 'pathway', (IP origination work to renewals).
    2. Low Work-in-Progress (WIP) exposure: work-task based invoicing service model;
    3. Strong cash flow conversion: underpinned by low working capital and low capex requirements. On a gross operating cash flow basis, conversion is ~100%;
    4. Solid balance sheet: pro forma FY17 net debt/EBITDA ratio of ~0.5 times (BPe).

Valuation

Our 12mth valuation is $2.85. We derive our valuation using DCF (WACC: 10.2%; terminal growth rate: 3.5%). Our cross check using ROIC validates our DCF. At FY17 PE 16.9x, we consider QIP's valuation metrics as undemanding considering the group's high quality IP firms, margin upside prospects, market share growth opportunities (organic/acquisitions), supportive structural market drivers and the Group's highly attractive operating attributes.

Summary of key differentiation factors

We believe QIP has a number of key points of differentiation in terms of market position and business strategy, as follows.

- **Premium service providers**: Both Firms share commitment to quality clients, services and the highest quality practitioners. Both Firms are regularly recognised by industry publications and commentators as leading IP firms. Noteworthy are the following:
  - "Managing Intellectual Property" which is considered one of the industry's leading publications, recently named DCC as the winner of the "Prosecution Firm of the Year" award for 2016. DCC has won this award eight times in the last 11 years.
  - "Managing Intellectual Property" also named a number of professionals from both firms as "IP Stars" in 2015.
  - Within the "WTR 1000" (by World Trademark Review), which is considered one of the leading guides of trade mark professionals internationally, DCC is the only Australian firm with a gold ranking for both 'prosecution and strategy' and 'enforcement and litigation'. DCC also has more trade mark professionals recognised in this guide than any other Australian firm.
- **Strong local client strategy**: We believe the Firms have a particular strength in servicing Australian clients developing and looking to commercialise IP or seeking strategic advice in relation to IP matters. Local Australian clients would have accounted for 37% of QIP's pro-forma FY15 service charges. Servicing local clients that originate IP means the Firms are closely engaged with their clients at all stages of the IP lifecycle. As noted earlier, we believe there is opportunity for QIP to replicate this local client strategy in Asia.
- **Strategic advice is a key component of the Firms' service offer**: This forms an integral part of the Group's premium 'value-add' service proposition and requires investment in high quality practitioners. We believe the Firms' strengths in the provision of strategic advice helps establish and build client relationships.
- Core to QIP's acquisition philosophy is **to maintain 'premium' offer rather than simply chase 'filings' market share**.
- **Material organic margin upside prospects**: Against its two closest listed peers (IPH and XIP), we believe QIP's *organic* margin upside prospect is largest.

Key Risks

Key risks to our investment case include (but are not limited to):

- **Regulatory reform**: Any changes in Government legislation, guidelines and regulations applicable to patents, designs and trade marks could adversely affect QIP. Below are two key relevant regulatory risks. Their full impact on QIP is not yet known.
    1. *Electronic Patent Co-operation Treaty (e-PCT)* – The e-PCT is an online filing system that enables applicants to file PCT applications online. An extension of the e-PCT online filing system has been under consideration by WIPO for several years. Following meetings of the PCT Working Group in May 2016, WIPO has announced that it proposes to carry out a pilot study, and as indicated in previous meetings, "*the International Bureau does not see the purpose of this proposal as reducing the professional role of the national agent in respect of the national phase entry*". If the e-PCT extension was implemented and widely adopted by Foreign Associates and foreign corporates, there would be a risk that the Firms' revenue generation through national phase filings could be adversely affected.
    2. *Disintermediation* – Under current regulations, patent attorneys in Australia have the exclusive right to provide certain IP services in relation to patent applications & patents. Any changes to this could result in IP applicants & Foreign Associates dealing directly with Australian IP offices, exposing QIP to far greater competition.
- **Foreign exchange risk**: A substantial proportion of QIP's revenue and cash flows are generated in $US, while operating costs are mostly in $A. Any adverse FX movements vs $A could have an adverse effect on QIP's financial performance and position. If the $A appreciates against the $US then the Group will have lower net profits in $A.
- **Competition**: QIP's competitive position may deteriorate as a result of actions by existing competitors, the entry of new competitors or failure by QIP to continue to meet changing market conditions, client demands & IT requirements. This may have adverse impacts on QIP's sales/margins, which may materially impact QIP's financial position.
- **Loss of key clients**: The Firms are not reliant on any one client or group of their large clients. However, the loss of one or more key clients may have a negative impact on QIP's financial position. Loss may occur for any number of reasons including, change in client's management, insolvency, aggressive pricing by competitors, corporate takeover activity, dissatisfaction with the Firms' services, commercial concerns in relation to the common ownership or departure of key employee(s) with the primary client relationship.
- **Loss of key Foreign Associate relationships**: The Firms have a number of referral arrangements with IP firms in other jurisdictions. These Foreign Associates refer a significant volume of work to the Firms. In the event that the referrals received from one or more Foreign Associates are reduced/cease, this may adversely impact QIP's.
- **Geographic expansion risks**: There is a risk that DCC's Singapore office may not be able to successfully generate revenue in the Singapore market for it to be profitable in its own right. This may impair QIP's proposed expansion into Asia.
- **Conflicts of Duties**: In Australia, patent and trade mark attorneys are required to abide by a code of conduct that requires them to act in accordance with the law, in the best interests of their clients, in the public interest and in the interests of the profession as a whole. Similar duties exist in respect of patent attorneys in Singapore. As with every legal practice, DCC & the solicitors undertaking work in the legal practice have duties to the court & their clients. All these noted duties prevail over QIP's duty to Shareholders.
- **Common ownership structure**: Risk some clients may have a commercial concern as a result of DCC and FPA being jointly owned. While the Firms will be operated as

separate businesses, a client of DCC may, for example, take the commercial view that there is a conflict given FPA acts for one of its competitors. Such perceived commercial conflicts may result in the Firms losing a client or failing to attract some new clients.

- **Case management & technology systems**: Any failure, interruption, loss or delay of the Firms' (*one or both*) ICT facilities/tools, or loss/breach of data/records, may: impact QIP's short term financial position; result in the breach of regulatory requirements; cause reputational damage; & have longer term impact on client satisfaction/retention.
- **Change in structure**: The Firms' transition from private partnerships and companies to being held by QIP, a listed public company, will result in changes in the way the Firms operate in respect of financial management and reporting, corporate governance and general operating requirements. An inability to adequately manage this change may have an adverse impact on QIP. Also, there is a risk that management of FPA, DCC and the Board may, on occasion, disagree in relation to the management and strategic direction of QIP and each Firm.
- **Personnel**: As a professional services provider, the level of staff talent and experience forms an important part of QIP's business. The departure of any key personnel, or a significant number of personnel generally, would likely have an adverse effect on QIP.
- **Regulatory environment**: QIP is subject to significant regulatory and legal oversight. QIP could be adversely affected by actions of various Governments, both in Australia and internationally. Also, if a QIP attorney/legal practitioner(s) commits unsatisfactory professional conduct or professional misconduct, the attorney/legal practitioner(s) may face disciplinary action & QIP (*& its underlying firms*) may suffer reputational damage.
- **Acquisition risks**: Poor due diligence/unsuccessful integration would impact earnings.
- **Insourcing of IP services**: Clients that are global multinationals (many of which have large in-house legal and IP divisions) may in future look to perform an increasing portion of their IP related work internally. Such initiatives may adversely impact QIP.
- **Concentration of shareholding**: Major shareholding by QIP management may enable them to exert significant influence over the outcome of matters relating to QIP. This concentration of share ownership may impact market liquidity. Also, the sale of shares in the future or the perception of potential sale could adversely affect QIP's share price.
- **Brand & reputation risks**: Anything that diminishes the Firms' reputation/brand would likely impact the level of enquiries, which in turn may reduce profitability and growth.
- **Impairment of Intangibles**: QIP has a substantial amount of intangible assets. A write down in their value could have a material adverse effect on QIP's financial position.

Company overview

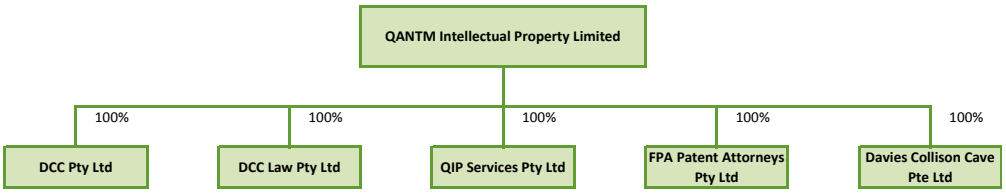
Owner of two of Australia's leading IP services firms

QANTM Intellectual Property Limited (QIP or the Group) is the owner of Davies Collison Cave (DCC) and FPA (formerly Freehills Patent Attorneys) (together the "Firms"), two professional IP services firms which have significant market shares in the IP market in Australia. The following is a brief description of DCC and FPA.

- **DCC**: Is one of the largest patent and trade mark attorney firms in Australia, with an early stage operation in Singapore. DDC's history can be traced back to 1879 and it is now one of Australia's leading IP firms offering a wide range of services in relation to the protection, commercialisation, enforcement & management of its clients' IP. DCC's three major service areas are patents, trade marks and legal services. DCC operates from primary offices in Sydney, Melbourne and Brisbane and a number of secondary offices throughout Australia. DCC has also recently opened an office in Singapore.
- **FPA**: Is a specialist patent attorney practice with offices in Sydney and Melbourne which began practicing as a separate business unit within Freehill Hollingdale & Page in 1991. In 2012, the FPA partnership adopted a separate management structure from the Freehills partnership (now HSF, one of Australia's leading full service commercial law firms). FPA does not have a trade mark or legal services practice.

QIP will wholly own DCC and FPA, but the two firms will continue to operate as separate businesses. DCC will continue to operate under the 'Davies Collison Cave' brand name and FPA will change its name from Freehills Patent Attorney to FPA Patent Attorneys. QIP's group structure is illustrated in Figure 1.

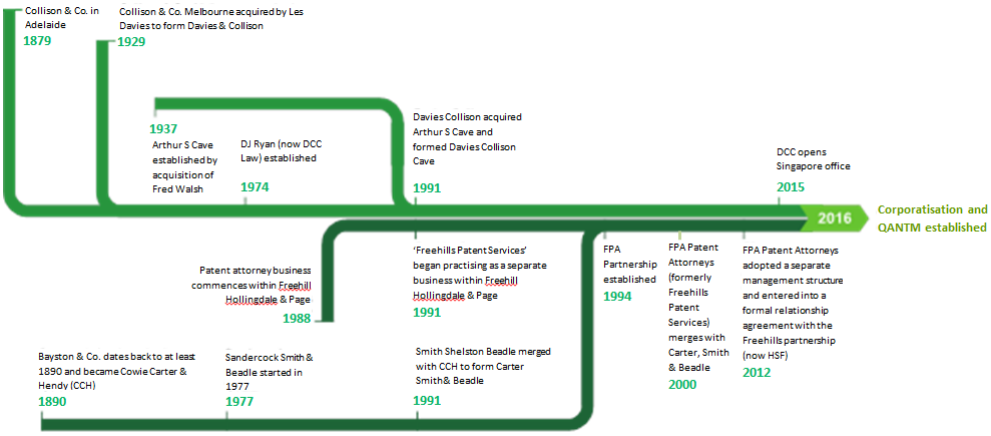
Figure 1 – QIP's Group structure



SOURCE: COMPANY REPORTS

A summary of key events in history for DCC and FPA is set out in Figure 2.

Figure 2 – QIP's historic timeline



SOURCE: COMPANY REPORTS

Compelling strategic merit in two firms coming together

QIP brings together DCC and FPA under the one Group structure. We believe the coming together of the Firms is logical and has strategic merit in a number of ways, as follows:

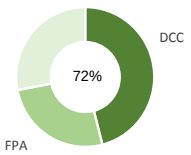
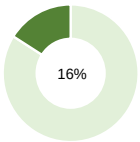
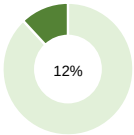
- The Firms share similar business philosophies including a focus on IP origination work;
- Creates opportunity to take advantage of the scalability of the Firms given common business processes;
- The Australian industry is consolidating and therefore enables the Group to maintain a leading market position and be strategically well placed to pursue acquisitions;
- Further diversifies the Group in terms of clients, industries, services and geographies. This enhances the Group's financial strength and diminishes the risk associated with pursuing expansion and growth opportunities; and
- There is opportunity for FPA to enhance its penetration into Asia by leveraging off DCC's knowledge of the Singapore regulatory and commercial environment as well as the ICT and back office infrastructure that DCC has established in this jurisdiction.

QIP's business operations

QIP, through the Group's IP firms, provides specialist IP services spanning the creation, protection, commercialisation and enforcement of IP rights. The majority of IP services provided by both DCC and FPA relate to the drafting, filing and prosecution of patent applications in Australia. DCC also provides services in relation to trade marks and IP related commercial and litigation legal services. We note a significant portion of both Firms' revenue is derived from strategic advice not directly related to the various IP application processes (which we expand on later in this section). The Group has three practice areas including 'Patents & Designs', 'Trade Marks', and 'Legal'.

An operational overview of QIP is provided in Figure 3 below.

Figure 3 - QIP operational overview

Business Areas	Patents & Design	Trade Marks	Legal
Percentage of aggregate Firm Service Charge revenue in FY15 [1]			
Firm(s) involved	DCC and FPA	DCC	DCC
Principals and professional staff	DCC: 24 Principals / 66 professional staff FPA: 8 Principals / 30 professional staff	DCC: 7 Principals / 20 professional staff	DCC: 6 Principals / 20 professional staff
Revenue model	Services are charged on an hourly rate, fixed price basis or a combination of the two. Pricing is based in AUD, USD and SGD. Many invoices across the IP life cycle (~63k invoices sent in FY15), resulting in low WIP. The long term nature of IP rights enables the Firms to generate recurring income throughout the IP life cycle.		
Market position [2]	DCC #2 individual firm QIP #2 group	DCC #1 individual firm QIP #2 group	NA
Market position (Australian originated filings) [3]	DCC #1 individual firm QIP #2 group	DCC #1 individual firm QIP #2 group	NA
Offices	- DCC's primary offices are located in Melbourne, Sydney, Brisbane and Singapore. DCC also has a presence and ongoing access to offices in Geelong, Greater Western Sydney, Newcastle, Hobart, Launceston, Adelaide and Canberra. - FPA has offices in Melbourne and Sydney which service its entire local and international client base		
Services	- Services in relation to all aspects of patent or design procurement for clients seeking protection - Strategic advice for clients in respect of their own patents and designs or those of their competitors.	- Services in relation to all aspects of trade mark procurement for clients seeking protection - Strategic advice for clients in respect of their own trade marks or those of their competitors.	- Legal services relating to all aspects of IP and related rights: IP litigation IP commercialisation ICT commercial work General IP advice

Notes:
1. Excludes Associate Charges.
2. Market position analysis is based on the total number of patent applications or trade mark applications filed in Australia in CY15 and assumes the Group and one additional group operated in CY15.
3. Market position analysis is based on the total number of Australian client patent applications and Australian client trade mark applications filed in Australia in CY15 and assumes the Group and one additional group operated in CY15.

SOURCE: COMPANY DATA, IP AUSTRALIA, INTELLECTUAL PROPERTY OFFICE OF SINGAPORE

Each of the firm's Patents & Design practice consists of several industry specialist groups. Within DCC these groups are:

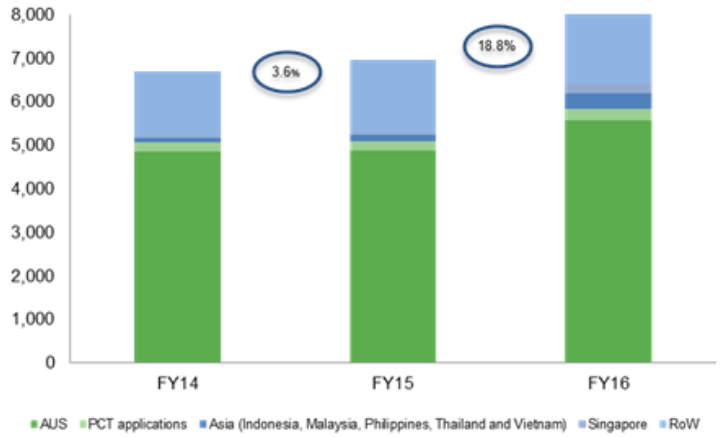
- Electrical;
- Mechanical;
- Chemistry;
- Biotechnology; and
- Material Sciences.

Within FPA these groups are:

- Chemistry and Biotechnology; and
- Physics and Engineering.

The increase in the total number of patent cases handled by the Firms in FY14, FY15 and FY16 is set out in Figure 4.

Figure 4 – Total number of patent cases handled by the Firms in FY14, FY15 and FY16



SOURCE: COMPANY REPORTS

Strategic advice to clients is a key part of QIP's service offer

A significant portion of both Firms' revenue is derived from IP matters not directly related to the various IP application process and often takes the form of strategic advice. We consider this a key point of differentiation and believe reflects a premium 'value-add' service offering. In the case of DCC, we note a large component of strategic work is generated from local clients.

STRATEGIC ADVICE IN PATENTS AND DESIGNS

In relation to patents and designs, strategic advice provided by DCC and FPA include:

- Freedom to operate searches for competitor patents and providing clients with strategic opinions;
- Searching for patents in a particular field of technology and identifying opportunities for potential patent protection;
- Assessing a client's commercial requirements and technology portfolio and advising on the timing of the filings and choice of jurisdictions;
- Acting for clients opposing the validity of a patent and for clients who are defending the validity of a patent; and
- Acting as subject matter experts in revocation and infringement proceedings before the Courts.

Where a client's activities or products are based in another jurisdiction, the Firms will engage a Foreign Associate to carry out these tasks, while still managing the process.

STRATEGIC ADVICE IN TRADE MARKS

In relation to trade marks, strategic advice provided by DCC includes:

- Auditing and managing trade mark portfolios;
- Due diligence enquires;
- Acting for clients in opposition and removal actions before the Australian Trade Marks Office (ATMO) and Intellectual Property Office of New Zealand (IPONZ) in addition to managing similar actions on behalf of its Australian client base through agents in other countries; and
- Advising in relation to trade mark infringement, breaches of the misleading and deceptive conduct provisions of the Australian Consumer Law and passing off at common law.

In Australia in CY2014 and CY2015, DCC was involved in approximately 15% of all oppositions before the ATMO in which a formal decision was issued.

QIP's geographic coverage

Both DCC and FPA service a broad base of clients across numerous jurisdictions. Both Firms' principal operations are in Australia where each firm services both local clients and international clients in respect of their Australian IP rights. Asia has also been a strategic focus of both firms in recent times. DCC opened an office in Singapore in July 2015 which provides the firm the ability to act directly for its local clients and international clients in Singapore and coordinate their IP strategies across other Asian jurisdictions.

Outside of Australia, New Zealand, certain Pacific Islands, and in the case of DCC, Singapore, the Firms provide services for their local clients through a broad network of Foreign Associates.

A summary of the services provided by the Group across various jurisdictions is outlined below in Figure 5.

Figure 5 – QIP's geographic coverage

Patents	Filing Jurisdiction		
	Australia and New Zealand	Asia	Rest of World
Originating clients	Direct	Via Foreign Associates; DCC direct in Singapore	Via Foreign Associates
Offshore clients	Direct	Via Foreign Associates; DCC direct in Singapore	Primarily via Foreign Associates

Trade Marks	Filing Jurisdiction		
	Australia and New Zealand	Asia	Rest of World
Originating clients	DCC direct	DCC direct in Singapore and via Foreign Associates in other jurisdictions	DCC via Foreign Associates
Offshore clients	DCC direct	DCC direct in Singapore and via Foreign Associates in other jurisdictions	DCC primarily via Foreign Associates

SOURCE: COMPANY REPORTS

DCC's primary offices are located in Melbourne, Sydney, Brisbane and Singapore. In addition, DCC also has a presence and ongoing access to offices in Geelong, Greater Western Sydney, Newcastle, Hobart, Launceston, Adelaide and Canberra.

FPA has offices in Melbourne and Sydney which service its entire base of local clients and international clients.

QIP's key competitors

Across QIP's three service areas, key competitors include:

- Other large specialist IP services firms and one large IP group consisting of four firms;
- Smaller specialist IP services firms and sole practitioners;
- IP groups within commercial law firms; and
- Niche providers of specific services such as IP renewal and PCT national phase entry service providers.

Figure 6 below provides further detail on QIP's competitive environment by service area for the Australian market, and a general overview for Asia (Singapore in particular). Overall, we believe Griffith Hack followed by F B Rice, are the closest direct competitors considering their exposure to local Australian clients and their size.

Figure 6 - QIP's competitive environment overview

	Australia			Asia
	Patents & Designs	Trade Marks	Legal Services	IP Services
Key participants	Large specialist IP attorney firms (e.g. Griffith Hack, Phillips Ormonde Fitzpatrick, and FB Rice) and two other IP groups (IPH Limited consisting of 4 firms [namely: Sprusons & Ferguson, Pizzeys, Fisher Adams Kelly Callinans and Cullens Patent and Trade Mark Attorneys] and Xenith IP Group consisting of 2 firms [namely: Shelston IP and the Watermark Group]); Small specialist IP attorney firms (e.g. Cotters, Baxter IP); IP groups of top tier full service law firms (e.g. Allens); PCT National Phase Entry services Systems (e.g. Inovia).	Other patent/trade mark attorney firms (IPH group of entities, Griffith Hack, XIP group of entities and FB Rice); Large Law firms (e.g. Baker & McKenzie, King & Wood Mallesons, Allens, Norton Rose); Small-medium general practices (e.g. Dibbs Barker); Online-based firms (e.g. Remarqueble).	IP groups within large commercial law firms (e.g. Ashurst, Allens Linklaters, King & Wood Mallesons); Specialist IP law firms (e.g. Spruson & Ferguson Lawyers (with IPH), Griffith Hack Lawyers, Shelston IP Lawyers (with XIP)); Specialist individuals at 2nd-tier general practice firms (e.g. Dibbs Barker); Increasingly, major international firms who are starting IP operations in Australia (i.e. growing in-house teams).	The Firms' competitors in Singapore include: A small number of international and local specialist IP services firms; and IP groups within large commercial law firms. Across the rest of Asia, the size and sophistication of the IP services market varies... In the less sophisticated markets, competitors include small specialist IP services firms and IP practice groups within commerical law and accounting firms; While in more developed Asian countries the competitors are similar to those in Singapore.
Comment on size	Overall, based on CY15 data... Total patent filings: IPH is market leader, QIP second, XIP third and Griffith Hack 4th; Australian PCT applications: IPH is market leader, QIP is 2nd and Griffith Hack 3rd. We note that at an individual firm level, DCC filed the most PCT applications.	Overall, based on CY15 data... Total trade mark filings: DCC is the market leading individual firm, followed by Sprusons & Ferguson and Griffith Hack. On a Group comparative basis IPH is market leader, QIP (*only DCC*) 2nd and XIP 3rd.	QIP's DCC Law practice is considered one of Australia's market leading IP legal services practice.	In the Singapore market… In CY15 IPH is market leader (Sprusons & Ferguson (Asia) and Pizzeys (Asia)) followed by Drew & Napier. Marks & Clerk and Donaldson & Burkinshaw are also key market participants.

SOURCE: COMPANY REPORTS, IP AUSTRALIA, IPOS, BELL POTTER SECURITIES ESTIMATES

Intellectual Property industry overview

Background and basics

WHAT IS INTELLECTUAL PROPERTY (IP)?

IP rights are legal devices that protect the output of intellectual activity in the industrial, scientific, literary and artistic fields such as inventions, works of art and literature and product designs. In addition, IP rights include trade marks used in associated with products and services to distinguish them from similar products and services from other sources. The economic logic behind IP rights is to promote innovation and new investment in ideas by giving inventors and entrepreneurs exclusive commercial control over their work.

Of the legally recognised types of IP rights, some require registration including patents, trade marks, industrial designs and plant breeders' rights. These rights must be registered with the prescribed IP authority in order for the owner to have the benefit of the protection under the applicable IP legislation. We discuss patents, trade marks and designs below.

- **Patents**: are a registrable form of IP and protect new or improved products, methods or processes by granting the patent owner a temporary monopoly right to exclude others from exploiting an invention. That is, patents provide inventors and their assignees with legal rights to prevent others from using, selling or importing their inventions for a fixed period (usually 20 years). In Australia, for a patent to be granted, it must:
    1. be patentable subject matter, as some things cannot be patented (for example, human beings and the biological process of their generation cannot be patented);
    2. be novel, meaning the invention cannot already have been published or publicly used anywhere in Australia or globally; and
    3. involve an 'inventive step' so that the invention is not obvious or trivial.
- **Trade marks**: are signs which identify the commercial source or origin of goods or services and may include words, logos, phrases, sounds, smells, shapes, or aspects of packaging. Trade marks allow businesses to differentiate themselves and their goods and services in the market. The owner of a registered trade mark has the legally enforceable right to exclude others from licensing of selling goods or services under its registered trade mark or a substantially identical or deceptively similar mark. In Australia, to be registrable, trade marks must generally:
    1. not be deceptively or confusingly similar to prior registered or pending marks;
    2. be distinctive and non-descriptive of the relevant goods or services;
    3. not be offensive or inherently deceptive; and
    4. not be a sign which is prohibited from registration.

    In Australia, the initial protection period for a trademark is 10 years, but it can be renewed indefinitely for further periods of 10 years.
- **Designs**: relates to the visual elements of manufactured or hand crafted products which are intended for commercial or industrial use. The aesthetic or visual elements which can be protected include the shape, pattern, configuration or ornamentation applied to a product. Registered designs represent a relatively small proportion of IP activity in Australia. In Australia, a registered design must be:
    1. a new design in Australia and internationally;
    2. distinctive from any other published designs, online or in circulation; and
    3. be intended for commercial or industrial use.

In Australia the period of protection for a registered design is up to 10 years.

Non-registrable IP rights include copyright, integrated circuit layouts, trade secrets and confidential information. Copyright/integrated circuit layouts are protected by statute while trade secrets/confidential information are usually protected by contractual arrangements.

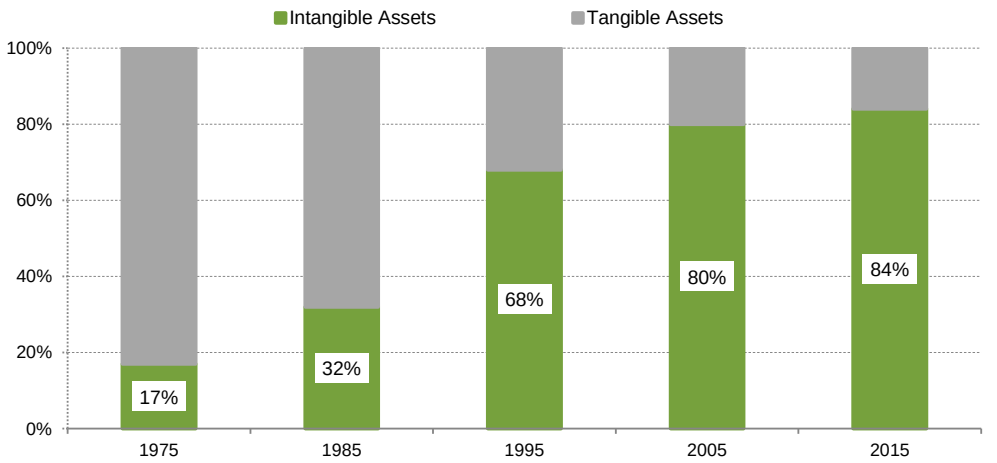
WHY IS IP SO IMPORTANT?

Patents, registered designs and copyrights are the principal means for establishing ownership rights to inventions and other products of the mind, & provide a legal foundation by which intangible ideas and creations generate tangible benefits to individuals, businesses and the international economy. Trade marks enable entrepreneurs and businesses to protect the goodwill and reputation they have developed in relation to their products and/or services. The intangible assets that these IP rights represent are often critically important to businesses ranging from small to medium enterprises to research institutions and multinational corporates.

The importance of intangible assets is evident by their high market valuations. Senior Lecturer Joseph G. Hadzima, Jr, the MIT Sloan School of Management states… "*Research indicates that about **70% to 80%** of a company's market capitalization comes in the form of intangible assets, which include intellectual assets such as patents, trademarks, copyrights, and other business knowledge and know-how*." (Forbes, June 2013).

Research by Ocean Tomo, a US based intellectual property merchant bank, reaffirms this for the US market based on the breakdown of the S&P 500 index. Figure 7 shows this including the rising intangible mix trend over time.

Figure 7 – Components of S&P 500 market value showing rising intangible component



SOURCE: OCEAN TOMO

A key driver of this rising intangible mix is the shift from an industrial to a "knowledge-based' global economy (discussed under *"Favourable market drivers & opportunities")*.

Regulatory overview

IP PROTECTION FRAMEWORK (WIPO, PCT AND NATIONAL PHASE ENTRY)

The protection and commercialisation of IP occurs within an international framework. However the ways in which IP rights are granted, regulated and enforced vary from country to country. The reasons for these differences include differing legal systems, relative stages of economic development and differing business practices and customs.

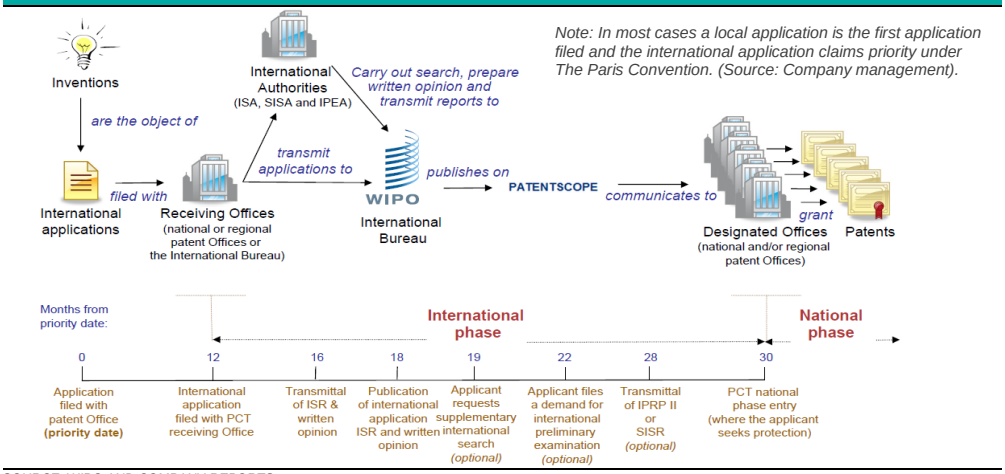
There is no worldwide system to register the various forms of IP internationally. However, international arrangements have been created which seek to harmonise and streamline the process of effecting IP protection internationally. These arrangements are administered by The **World Intellectual Property Organisation (WIPO)**. WIPO is the global forum for

intellectual property services, policy, information and cooperation. It is a self-funding agency of the United Nations responsible for the administration of IP treaties and policies.

The **Patent Cooperation Treaty (PCT)**, which is administered by WIPO, simplifies the process for applicants seeking patent protection across multiple jurisdictions. In a similar fashion, the Madrid Protocol administered by WIPO assists in the international registration of trade marks. We note WIPO also administers The Paris Convention, which is often used in conjunction with the PCT application or may be used as a separate pathway to obtaining patent/design/trade mark protection in multiple jurisdictions.

An applicant who files a PCT application in their home jurisdiction will have automatic effect in 150 jurisdictions, which are defined as "Contracting States" under the PCT. For most purposes, a valid PCT application has the effect of a regular patent application in each Contracting State as of the PCT filing date. Ultimately, however, **PCT applicants must pursue applications individually in each Contracting State where protection is sought** by proceeding with 'national phase entry' or 'regional phase entry' within 30 or 31 months (depending on the Contracting State) from the date of filing of the first priority application or if there is no priority application, the date of filing of the PCT application. This process is referred to as "**entering the national phase**". Figure 8 shows the PCT process.

Figure 8 – PCT process flow chart



SOURCE: WIPO AND COMPANY REPORTS

PCT process flow chart (above) abbreviation notes…
ISA = International Searching Authority; SISA = Supplementary International Searching Authority; IPEA = International Preliminary Examining Authority; ISR = International Search Report; SISR = Supplementary International Search Report; IPRP II = International Preliminary Report on Patentability (Chapter II of the PCT).

BRIEF REGULATORY OVERVIEW FOR AUSTRALIA

IP Australia is the government agency that administers IP rights and legislation in Australia relating to patents (*Patents Act 1990*), trademarks (*Trade Marks Act 1995*), designs (*Design Act 2003*) and plant breeder's rights (*Plant Breeder's Right Act 1994*).

The Intellectual Property Law Amendment (Raising the Bar) Act 2012 affected all of the major IP Acts above and came into full effect on 15 April 2013. One of the major changes of the Act was to raise the standard and quality of patents so that they more closely align with international standards. This led to acceleration in patent filings and examinations at the time in order to take advantage of grandfathering provisions under the old Acts.

APPLICATION PROCESS FOR A PATENT IN AUSTRALIA

Australia is one of the 148 WIPO Contracting States and therefore a large proportion of applications seeking patent protection in Australia arrive under the PCT route. If the PCT route is selected, action must still be taken to enter the nation phase of the PCT application in Australia. Note, Australia has two kinds of patents as follows:

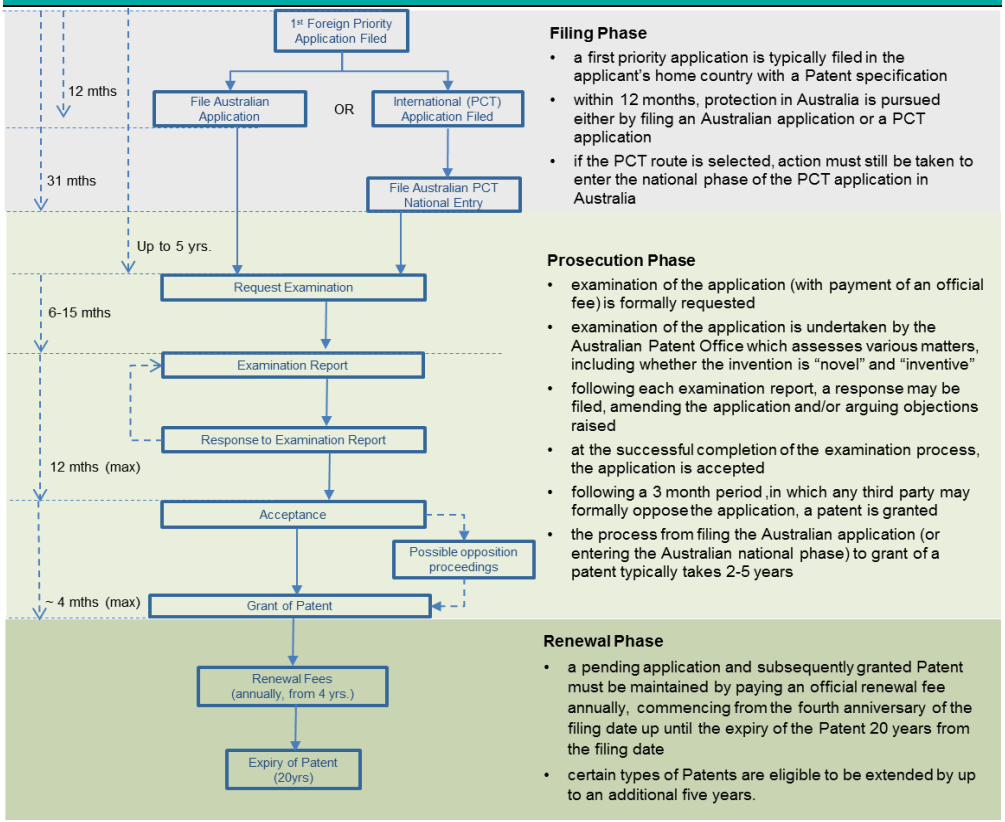
1 Standard patent: Typically have a life of 20 years and must be renewed annually, commencing from the fourth anniversary of the filing date. The process from filing the

application to grant of a patent typically takes 2-5 years. (*For comparative purposes trade marks typically take 7 to 12 months to process, have a 10 year life, and can also be renewed indefinitely. Note trade marks only need to be renewed every 10 years*).

2 Innovation patent: Has a lowered threshold for inventiveness and a maximum term of 8 years. Has a faster approval process (~1 month; ~6 months if examination requested) and lower fees. Typically suited to inventions demonstrating comparatively minor advances with existing technology which may not qualify for standard patent protection.

Figures 9 is a flowchart for standard Australian patent applications showing the direct route and PCT route. Adjacent to the flowchart are the steps that a patent attorney assists with.

Figure 9 – The Australian patent procedure



SOURCE: IP AUSTRALIA AND COMPANY REPORTS

BRIEF REGULATORY OVERVIEW FOR SINGAPORE

The Intellectual Property Office of Singapore (IPOS) is a statutory body that administers IP in Singapore. The body's stated mission is to provide the infrastructure, build expertise and grow the ecosystem in support of the greater creation, protection and exploitation of IP.

The Government of Singapore has identified IP as a key driver of economic growth globally and is becoming a critical asset in the Singapore economy. Accordingly the government has implemented a 10-year master plan to develop Singapore (and IPOS), as an IP Hub for Asia. This is discussed in further detail in subsequent sections of this report.

MORE ON THE WORLD INTELLECTUAL PROPERTY ORGANISATION (WIPO)

WIPO is the global forum for intellectual property services, policy, information and cooperation. It is a self-funding agency of the United Nations responsible for the administration of IP treaties and policies among its 187 member states. The mission of WIPO is to lead the development of a balanced and effective international IP system that enables innovation and creativity for the benefit of all. WIPO developed and administers the PCT which, as noted earlier, simplifies the international patent application process, particularly with respect to establishing a filing date in multiple markets. In a similar fashion,

The Madrid Protocol, which is also administered by WIPO, assists in the international registration of trade marks. We note WIPO also administers The Paris Convention, which is often used in conjunction with the PCT application or may be used as a separate pathway to obtaining patent/design/trade mark protection in multiple jurisdictions.

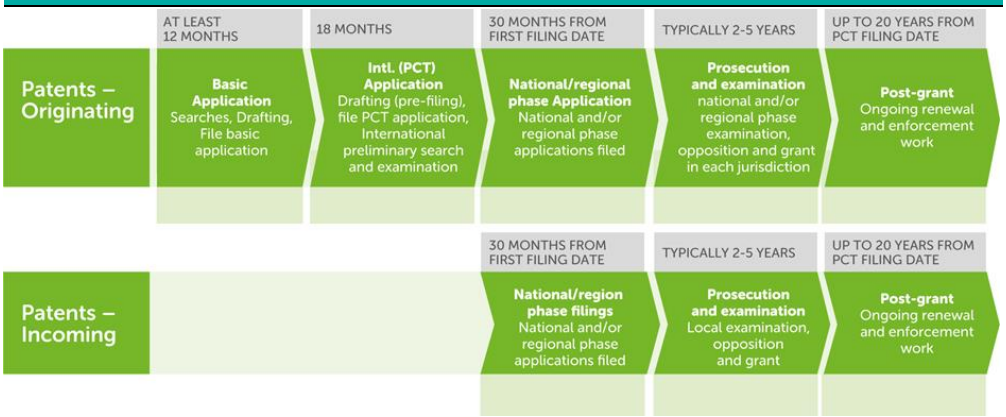
Why are IP Attorneys used?

IP Attorney services typically include the following:

- Advice on the optimal method to protect the IP;
- Searching for other IP rights already in existence that may be similar to the IP being sought;
- Drafting IP specifications;
- Filing and registering IP rights across various jurisdictions;
- Portfolio management of IP rights (includes monitoring and renewals);
- Assisting in maximising the commercial returns from R&D investment;
- Advice on any infringement of IP rights;
- IP litigation and dispute resolution.

Figure 10 illustrates how patent attorneys assist their clients across the key stages of the patent lifecycle.

Figure 10 – Areas patent attorneys assist clients through stages of the patent lifecycle



SOURCE: COMPANY REPORTS

Figure 11 illustrates how trade mark attorneys assist their clients across the key stages of the trade mark lifecycle.

Figure 11 – Areas trade mark attorneys assist clients through stages of the trade mark lifecycle

SOURCE: COMPANY REPORTS

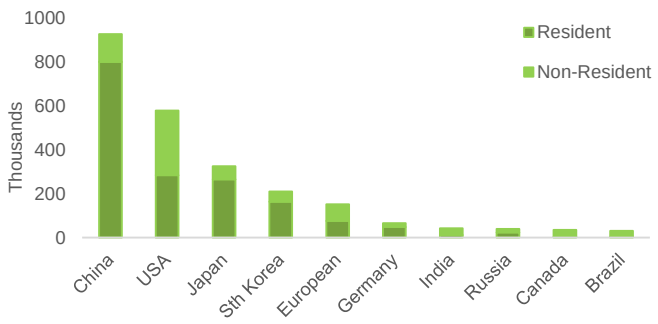
Industry snapshot

GLOBAL FILINGS VOLUME AND THE TOP 20 OFFICES

WIPO estimates there were 2.68 million patent filings worldwide in 2014 which consisted of 1.80 million filed by residents and 0.88 million by non-residents. The bulk of resident filings occurred in China.

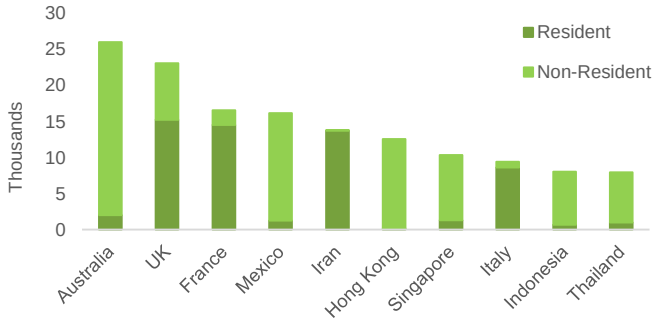
Figure 12 and Figure 13 show patent application numbers for the top 20 offices in 2014.

Figure 12 – Patent applications for top 10 offices, 2014



SOURCE: WIPO

Figure 13 – Patent applications for top 11-20 offices, 2014



SOURCE: WIPO

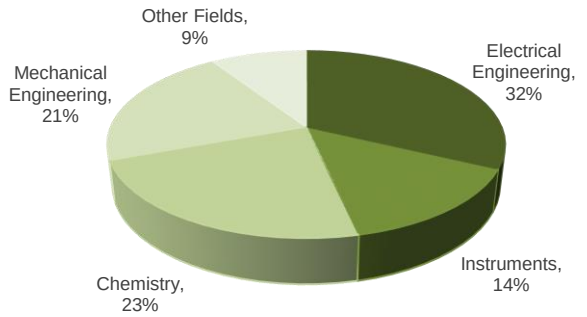
Australia and Singapore ranked 11 and 17 respectively. Both are among the highest in terms of proportion of non-residential filings, standing at over 85%.

INDUSTRY BREAKDOWN

Electrical and chemistry (chemical/healthcare) are the most IP-intensive industries and account for over 50% of all patent filings (WIPO 2013 data, Figure 14 on page 21).

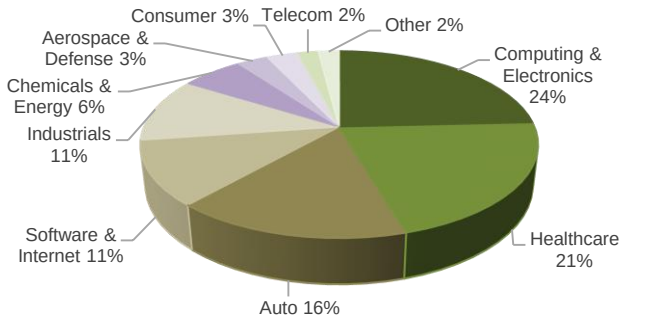
This correlates with R&D spending amongst the top 1000 global innovative companies (Booz & Company's 2015 study, Figure 15 on page 21).

Figure 14 – Patent applications by industry sector, 2013



SOURCE: WIPO

Figure 15 – R&D spend split - top 1000 innovative corporates 2015



SOURCE: BOOZ & COMPANY - THE GLOBAL INNOVATION 1000 ANNUAL STUDY, 2015 ISSUE

The above analysis provides a short snapshot of the industry in terms of size and make-up. A detailed look at industry growth drivers and patent/trade mark filing trends is discussed in a subsequent section of this report titled "*Favourable market drivers & opportunities*".

QIP's strategic position

Amongst the market leaders in Australia - Differentiated with a strong strategic local client focus that provides key benefits

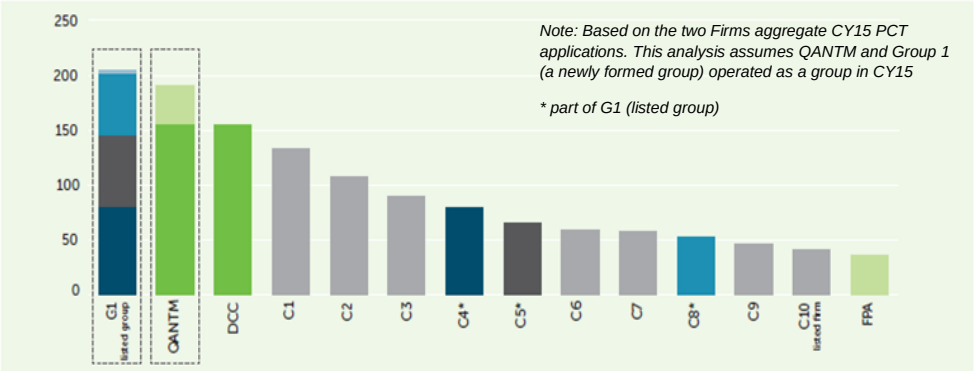
Both QIP's IP firms, DCC and FPA, are considered amongst the leading providers of IP services in the Australian market, as follows.

1) DCC IS MARKET LEADING 'INDIVIDUAL' FIRM IN PATENT FILINGS FOR LOCAL CLIENTS. QIP (DCC/FPA IN AGGREGATE) IS A CLOSE SECOND LARGEST 'GROUP'

QIP's strength with local clients is reflected in the fact that DCC filed more PCT applications for Australian clients in its own right in CY15 than any other individual firm. In aggregate, the two Firms lodged the second most PCT applications in CY15 by any group (as illustrated in Figure 16). The listed group that filed the most PCT applications in CY15 consists of four individual Australian patent attorney firms.

We note that on 23 August 2016, listed firm "C10" announced the acquisition of the firm marked as "C9". Settlement of the acquisition is expected in October 2016. This would create a third listed 'group' that would rank sixth amongst other groups or individual firms.

Figure 16 – PCT market share on behalf of Australian clients in CY15



SOURCE: COMPANY REPORTS, IP AUSTRALIA (DCC AND FPA MANAGEMENT ANALYSIS AND ESTIMATES BASED ON IP AUSTRALIA DATA)

We note that given the broad range of services undertaken by the Firms, there is no absolute measure of market position. The number of patent applications filed by the Firms in Australia provides a measure of one segment of the market, although Australian filings are only one component of the Firms' revenue. Australian **filings do not capture the substantial revenue generated by the Firms from overseas filings, the provision of strategic advice and the preparation of patent and design applications**.

Overall, **we consider the Firms' focus on local clients as a key point of differentiation for QIP and believe it provides four key strategic benefits**:

1 **Able to generate revenue over a longer period given earlier involvement in the IP lifecycle**: For local clients, QIP is typically more heavily involved at an earlier stage in the IP lifecycle, right from IP origination (including related strategic advice), & drafting/ filing an international PCT application (i.e. before 'national phase entry'). QIP's work at this point includes engaging Foreign Associates on behalf of local clients in order to enter the national phase in other jurisdictions. QIP remains involved in this process and continues to generate revenue assisting their local clients through the prosecution of national phase entry in each jurisdiction where its client is seeking patent protection.

2 **Larger revenue opportunity per application**: The earlier IP lifecycle involvement as described under the first benefit factor (*above*) also means a larger revenue potential per application. From IP origination to PCT application filing (*including first draft plus PCT application*) with the local patent office or WIPO, we estimate an average service

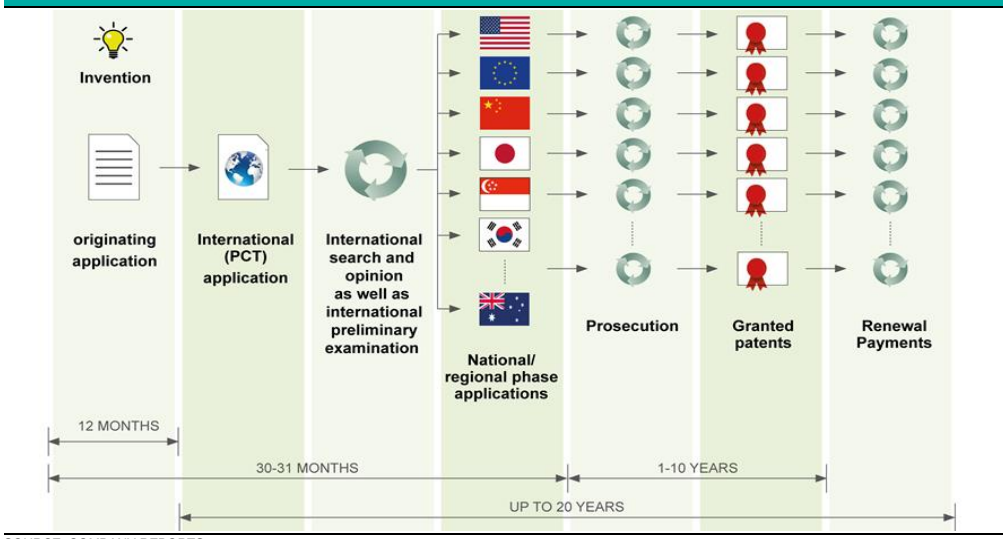
charge of $25-30k per application for local clients vs an average of ~$2.0k per inbound application from foreign clients. For local clients there is also a higher tendency to provide strategic advice on their existing IP portfolios, provide analysis of competitor IP portfolios as well as analysis of the scope and availability of potential IP rights.

3 **Ensures knowledge base of professional staff remains leading edge**: The original IP analysis, advice and drafting of applications for local clients ensures that the knowledge base of professional staff remains at the leading edge of the industry; and

4 **Creates greater scope to attract referral work from Foreign Associates**: One of the key means by which QIP generates inbound referrals from its Foreign Associates is through reciprocity. By referring local clients to Foreign Associates, QIP generates goodwill which may be reciprocated by way of inbound referrals. The more local clients QIP can refer to Foreign Associates, the more goodwill and inbound referrals it is able to generate. Given QIP has a strong PCT market share position, we believe there is an enhanced opportunity for QIP to attract referral work from Foreign Associates.

Further to these noted benefits, Figure 17 demonstrates the PCT process and the ability of the Firms to generate long term revenues from local clients seeking patent protection internationally. These originating applications can generate a number of future applications and prosecutions as the client enters the national phase in multiple jurisdictions as part of the PCT process. The national phase patent applications filed in jurisdictions other than Australia, New Zealand & Singapore (in the case of DCC) are filed by Foreign Associates. However, the Firms stay actively involved and generate revenue during the filing and prosecution of each national phase application in each additional jurisdiction where patent protection is sought by the local client. Accordingly, a single originating patent application from a local client has the potential to generate substantially more revenue than the Firms are able to generate an application filed in Australia on behalf of a foreign client.

Figure 17 – Patent lifecycle for local clients



SOURCE: COMPANY REPORTS

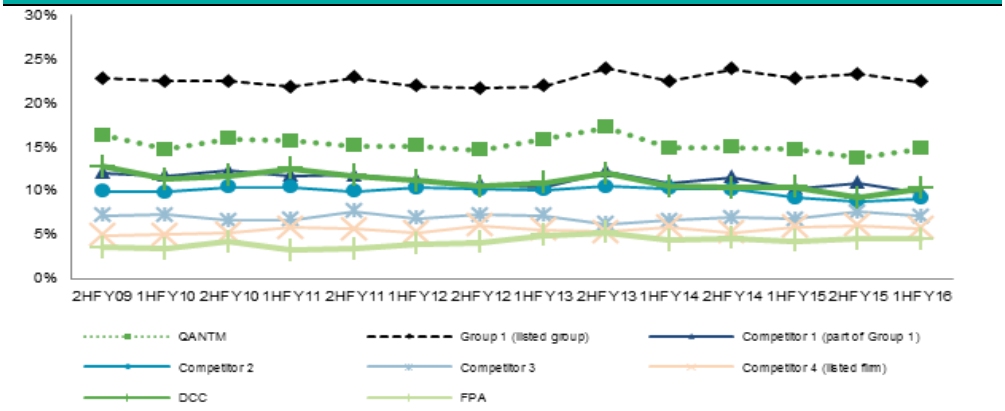
The patent attorney with responsibility for the drafting of an original patent application acquires detailed and specific knowledge of the technical subject matter of the invention and the broader patent family. This attorney and the patent specific knowledge acquired by them means that they are usually best placed to provide any future advice in relation to patent infringement or litigation support either in Australia or internationally.

2) THE NO.2 GROUP FOR TOTAL PATENT FILINGS (LOCAL & OVERSEAS CLIENTS)

If the Group had operated in CY15, it would have been the second largest firm or group in the Australian market measured by total patent applications filed at the Australian Patent Office by the Firms, with a market share of 14.3%. By Firm, DCC had a market share of

9.8% measured in the same way while FPA had a market share of 4.6%. Market share is presented in Figure 18 including market share movements since 2HFY09. We note that on 23 August 2016, "Competitor 4" announced an acquisition that would have increased its market share in CY15 to ~10%, broadly comparable to DCC in its own right. Settlement of this acquisition is expected in October 2016.

Figure 18 – Market share of Australian patent applications filed



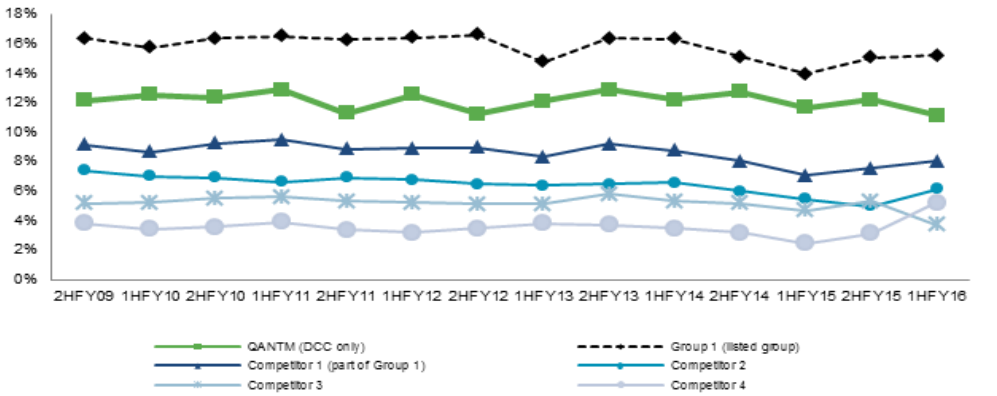
SOURCE: COMPANY REPORTS, IP AUSTRALIA (DCC AND FPA MANAGEMENT ANALYSIS AND ESTIMATES BASED ON IP AUSTRALIA DATA)

3) DCC IS THE MARKET LEADING INDIVIDUAL FIRM FOR TOTAL TRADE MARK APPLICATIONS FILED

Given the broad range of services undertaken by various firms in respect of trade marks, there is no absolute measure of market position. The number of trade mark applications filed by DCC in Australia provides an important measure of the firm's market share in this area but does not capture the volume of applications filed internationally by DCC. In CY2015 DCC filed approximately the same number of foreign applications as it filed in Australia. The number of applications filed also does not account for the revenue generated by DCC from the provision of strategic advice in relation to adoption or use of trade marks, oppositions, infringement matters and renewals services.

When compared with individual IP firms or law firms with a trade mark practice, DCC has the largest market share of Australian applications filed before the ATMO (with a market share of 11.7% in CY15). Since 1999 DCC has filed more trade mark applications before the ATMO than any other individual firm. Market share is presented in Figure 19.

Figure 19 – Market share of Australian trade mark applications filed (Top 50 agents only)



SOURCE: COMPANY REPORTS, IP AUSTRALIA (DCC AND FPA MANAGEMENT ANALYSIS AND ESTIMATES BASED ON IP AUSTRALIA DATA)

On a group basis, QIP (*with only DCC in trade marks*) is second behind IPH (market share of 15.2% in CY15). We note that on 23 August 2916, a listed firm (not amongst those charted in the figure) announced an acquisition that would have created a group (with a market share of 7.4%) ranked third behind IPH and DCC.

Plus an early stage emerging presence in Asia

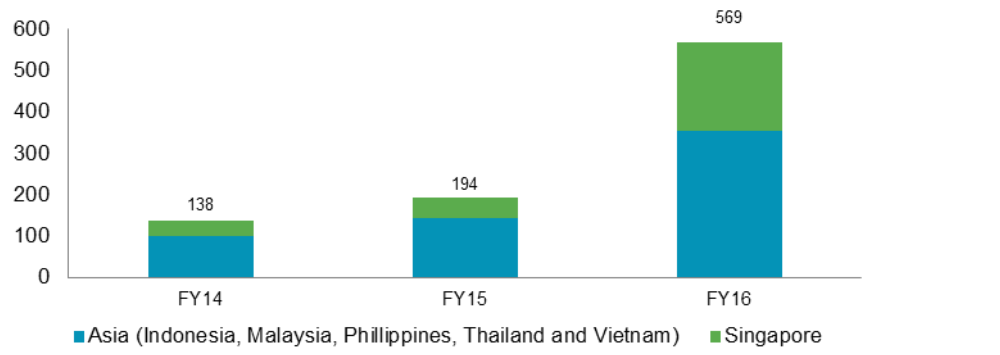
QIP also has an emerging presence in Asia with DCC opening an office in Singapore in July 2015. FPA does not currently have an office in Asia but nonetheless still provides services from its Australian offices in relation to patent applications in Asia.

International clients are increasingly seeking a 'one stop shop' offering for registration of patents, designs and trade marks throughout Australia, New Zealand and Asia. The key benefit for clients of a 'one stop shop' offering is the ease and convenience of dealing with an established IP services firm from a developed economy than dealing with an array of agents with varying levels of sophistication across multiple jurisdictions.

With an emerging local footprint in Asia and a client base that includes internationals, we believe QIP is well placed to benefit from this trend toward a single Asia/ANZ point of contact. There is also opportunity for QIP to leverage off its Firms' reputation & strategy in Australia to enhance its credibility in Asia and penetrate local clients across the region.

While the Firms currently have low market shares in Asian jurisdictions, the aggregate number of Asian patent applications filed by the Firms, or transferred to the Firms, has increased significantly in recent times, and is estimated to total over 500 in FY16. The aggregate patent applications filed by the Firms (either directly or via agents), or transferred to the Firms, in various Asian jurisdictions between FY14 and FY16 is set out in Figure 20.

Figure 20 – Asian patent applications filed by, or transferred to, the Firms



SOURCE: COMPANY ANALYSIS AND ESTIMATES BASED ON INPROTECH DATA UP UNTIL 30 JUNE 2016

Stable deep talent pool of professional staff

In aggregate, the Firms employ approximately 373 people including 136 professional staff across patents and designs, trade marks and legal services. At the underlying individual firm level, DCC has ~299 staff including 106 professionals and FPA has ~74 staff including 30 professionals. Each of the Firms' practices is managed and led by its Principals which total 45 in number across the Firms.

As is demonstrated in Figure 21 (on page 26), DCC and FPA employ highly qualified practitioners with significant industry experience. We believe this deep pool of expertise and industry knowledge is a key strategic strength of QIP.

Figure 21 – Summary of QIP professional staff

	Professional Staff	Principals	Ave. years of experience (Principals)	Master's Degrees	PhDs
Patents (DCC)	66	24	22	33	29
Patents (FPA)	30	8	25	17	14
Trade marks (DCC)	20	7	24.5	6	-
Legal Services (DCC)	20	6	32	2	1
Total (DCC & FPA)	**136**	**45**	**25**	**58**	**44**

SOURCE: COMPANY REPORTS

Quality group of clients with long-lasting relations at the core

Both DCC and FPA have a diverse group of long-lasting clients that range from start-up ventures and SMEs to Fortune 500 multinationals. The majority of the Firms' income is generated from corporate clients located in the USA, EU, Japan and Australia, and can be broadly divided into three groups:

1 *Local clients* - including Australian (including ASX100), New Zealand and (in respect of DCC) Singapore based corporates, public sector research institutions and private individuals;

2 *Direct foreign corporates* – international clients that are engaged directly by the Firms and include Fortune Global 500 companies and other foreign multinationals; and

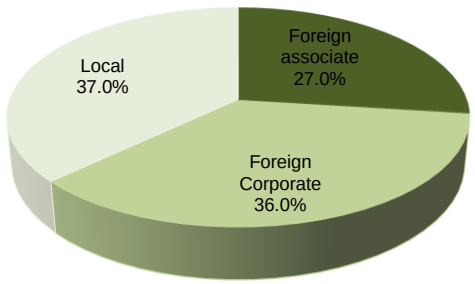
3 *Clients referred by Foreign Associates* – international clients referred to the Firms by Foreign Associates.

Both Firms have relationships with a broad range of Foreign Associates internationally. These Foreign Associates engage DCC or FPA to act on behalf of international clients where that client wishes to obtain IP protection in Australia or New Zealand (often as part of the 'national phase entry' of PCT applications). Similarly, DCC and FPA will engage a Foreign Associate to act on behalf of a local client that wishes to obtain IP protection in the Foreign Associate's jurisdiction. As discussed previously, this reciprocity between the Firms and their network of Foreign Associates is important in generating incoming referrals of international clients and revenue for the Firms.

Note, in FY15, in aggregate the Firms had **active matters for over 85 Fortune Global 500 companies** either directly or through Foreign Associates.

A breakdown of QIP's aggregate (*i.e. DCC plus FPA*) pro-forma FY15 Service Charges by each of the three client groups is presented in Figure 22.

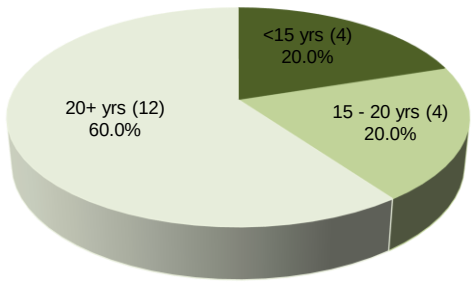
Figure 22 – QIP client mix



Based on the Firms aggregate FY15 Service Charges

SOURCE: COMPANY REPORTS

Figure 23 – QIP client relationship history of top 20 clients



Based on the Firms aggregate FY15 Service Charges

SOURCE: COMPANY REPORTS

As depicted, 63% of QIP's pro-forma FY15 Service Charges was derived from international clients (including 27% from Foreign Associates) and 37% from local clients.

By individual firm, the proportion of DCC's pro-forma FY15 Service Charges generated from international clients was 59% while for FPA it was 74%.

Many of the Firms' client relationships are long-term. Of the top 20 clients across the Firms by FY15 Service Charges, 16 have been clients of at least one of the Firms for more than 15 years and 12 had histories with at least one of the Firms of over 20 years (refer to the earlier Figure 23 on page 26).

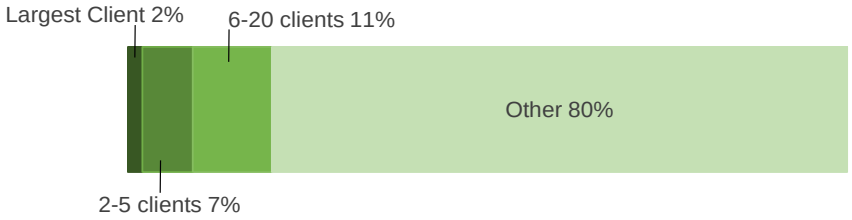
By individual firm, of DCC's top 20 clients by Service Charges in FY15, 15 had been clients of DCC for more than 15 years and 11 had been clients for more than 20 years. Of FPA's top 20 clients by Service Charges in FY15, 13 had been clients of FPA for more than 15 years and 7 had been clients for more than 20 years.

Importantly, the Firms' also have strong track records of client retention. A client loss is typically the outcome of corporate mergers or acquisitions, or closure (*the latter typically at the small start-up end*).

Note, client work is not necessarily employee specific and therefore they are clients of the firm, not an individual. We estimate the Principal with the largest direct contribution is ~$1m in professional Service Charges. This is a key reason for strong client loyalty in IP service firms. This creates high barriers to entry as being the incumbent provider of IP services is extremely important due to the sticky nature of client relationships.

The Firms both have highly diverse client bases. In FY15 the largest client across the two Firms represented approximately 2% of aggregate FY15 Service Charges and the top 20 clients across the two Firms represented approximately 20% of the Firms' aggregate FY15 Service Charges. Figure 24 shows client exposure for the Firms in aggregate.

Figure 24 – QIP client exposure based on aggregate FY15 Service Charges



SOURCE: COMPANY REPORTS

By individual firm, DCC's largest client represented approximately 3% of its FY15 Service Charges and FPA's largest client represented approximately 9% of its FY15 Service Charges.

We believe one of the key benefits of the coming together of DCC and FPA is the increased collective scale and broadened diversity of the Firms' client bases. Overall, we believe the 'sticky' nature and diversity in client exposure for both Firms, especially at an aggregate level, strengthens the risk and stability profile of QIP's revenues and earnings.

Favourable market drivers & opportunities

We believe there are favourable structural market trends both at the global level as well as at a regional level in QIP's key markets (*i.e. Australia and Asia*). We believe these trends provide an important supportive market backdrop for QIP for well into the future. These favourable structural market growth drivers and opportunities are on three fronts:

1 **Ongoing growth in the global "knowledge-based" economy.**

2 **Growth in Asia with Singapore emerging as gateway/IP hub to the region**. We believe QIP's growth prospects in Asia are two-fold including growth in the underlying Asian market itself plus QIP's strategic position to grow market share.

3 **Further consolidation prospects in Australia**.

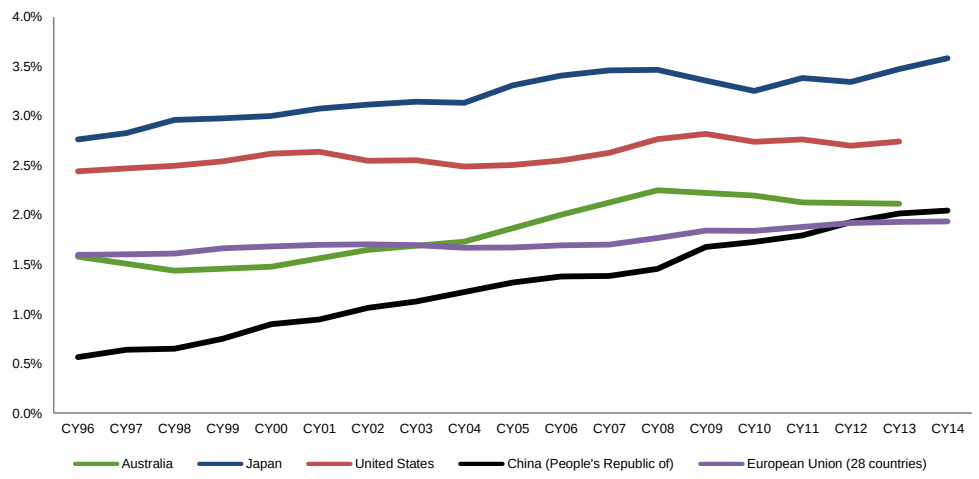
We discuss each driver in the following sections.

Ongoing growth in the global "knowledge-based" economy

Growth in the global "knowledge-based" economy is driven by the combination of ongoing product innovation and the rising levels of sophistication of these products, the growing importance of the services sector, social/lifestyle trends, industry specialisation, and the high competitive pressures between corporates whom today need to compete on a global digital platform.

The core representation of the growing "knowledge-based" global economy is growth in investment in research and development (R&D). The aggregate R&D expenditure of national economies provides an indicator of the global expenditure of prospective IP rights. Figure 25 sets out estimated spending on R&D in various geographies as a percentage of GDP. The figure indicates that R&D spending as a proportion of GDP has increased in Australia, the USA, European Union, Japan and China since 1996.

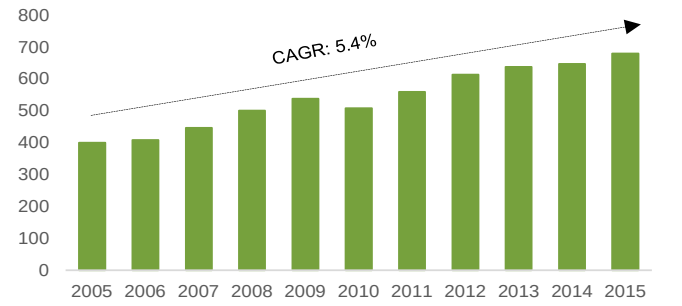
Figure 25 – Rising gross domestic spending on R&D



SOURCE: COMPANY ANALYSIS BASED ON INFORMATION PROVIDED IN THE OECD (2016), GROSS DOMESTIC SPENDING ON R&D (INDICATOR)

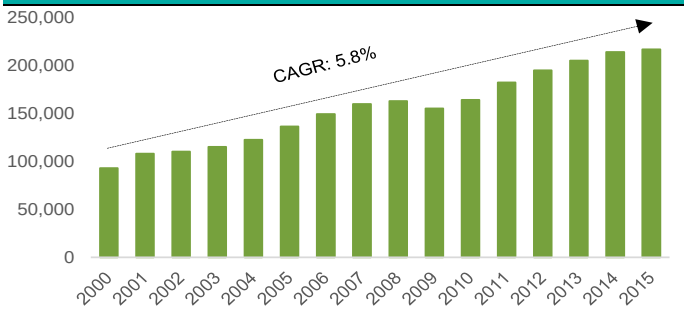
The corresponding increase in R&D spend (shown for the last 10 years) from the top 1000 global firms is in Figure 26. Figure 27 charts the growth in PCT International applications for the last 15 years, which is also a key indicator of this global structural market trend. PCT applications are a lead indicator to national phase applications. Hence we believe the sustained rise in PCT International applications has more direct positive benefits to QIP.

Figure 26 – Structural rise in R&D spending of top 1000 firms



SOURCE: BOOZ & COMPANY – THE 2015 GLOBAL INNOVATION 1000 STUDY

Figure 27 – Structural rise in PCT international applications



SOURCE: COMPANY ANALYSIS BASED ON INFORMATION IN THE WIPO STATISTICS DATABASE

Over the past 15 years, PCT international applications have risen by CAGR of 5.8%. This compares with an average global GDP (*constant prices*) growth rate of 3.8% over the same period (based on IMF data).

Alongside the noted shift towards knowledge based economies, the 'above global GDP' growth rate in PCT international applications have also been aided by:

- The implementation of effective IP laws and institutions in developing economies; and
- The increasing harmonisation of IP laws across nations at all stages of economic development.

Growth in Asia with Singapore as emerging gateway/IP hub

The trend towards a 'one stop shop' Asia/ANZ point of contact for local and foreign clients presents a significant growth opportunity for QIP in the Asian market. This includes opportunity for continued growth in the company's Singapore office as well as potential expansion into new neighbouring Asian countries.

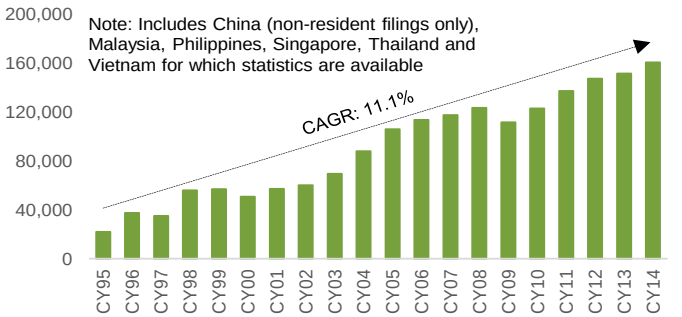
We believe QIP's growth prospect in Asia is two-fold as follows:

- Growth and development of the underlying regional market itself; plus
- Market share gain opportunities.

GROWTH AND DEVELOPMENT OF THE ASIAN REGIONAL IP MARKET

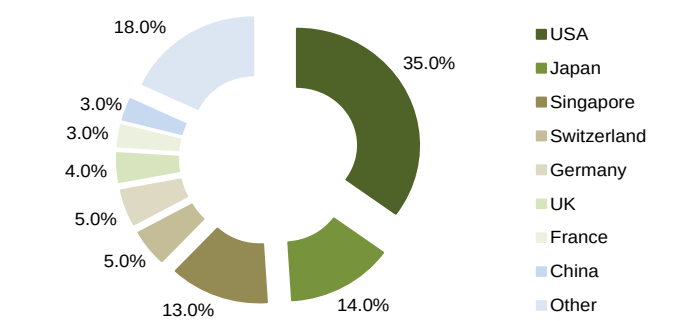
Growth in the number of patent applications in Asia has been significantly greater than growth in application numbers in Australia (*growth in Australia is presented later in this section*), with IP protection in emerging countries increasing in importance as wealth and consumer consumption in these economies continues to rise. Figure 28 shows the significant increase in patent applications filed in selected relevant Asian countries between CY95 and CY14, with the CAGR over this period at 11.1%.

Figure 28 – Patent applications filed, relevant Asian countries



SOURCE: COMPANY ANALYSIS BASED ON INFORMATION IN THE WIPO STATISTICS DATABASE

Figure 29 – Patent applications in Singapore, country origin, CY14



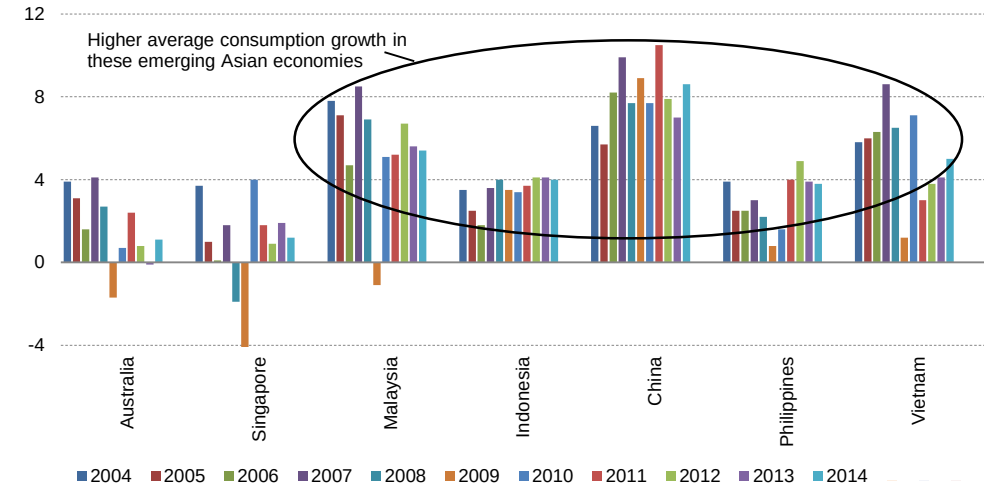
SOURCE: COMPANY ANALYSIS BASED ON INFORMATION IN THE IPOS 2014/2015 ANNUAL REPORT

Many companies are increasingly seeking to protect and commercialise their IP portfolios in the high growth Asian economies. Similar to Australia, the majority of patent applications in Singapore (and most other Asian countries with the exception of China), are filed by

non-resident applications. In CY14, over 85% of applications were by non-residents, & similar to Australia, the primary areas of origin are the US, Europe and Japan.

The rising levels of wealth and consumption in Asian economies most relevant to QIP is illustrated in Figures 30 (*charting household final consumption per capita growth*).

Figure 30 – Household final consumption expenditure per capita, YoY growth rate



SOURCE: WORLD BANK

As home to over 7,000 multinationals (*source: World Trademark Review Dec/Jan 2014*) Singapore is an important market in Asia. Singapore is appealing to multinationals on a number of fronts including its geographic proximity to major trade and shipping routes, free trade agreement regime, developed infrastructure network, and importantly, all under the leadership of a pro-business government.

Looking forward **we expect Singapore will play a pivotal role in the development and growth of the Asian regional IP market**. The Singapore Government has recognised IP as a key driver of economic growth globally and has therefore implemented a 10-year master plan (*published April 2013*) to develop Singapore as an IP Hub for Asia. The master plan outlines three main strategic goals as follows:

1 Encourage companies to use Singapore as a base for IP transactions & management;

2 To become a hub for quality IP filings; and

3 To become a hub for IP dispute resolution.

To achieve these objectives, the Singaporean Government has been driving a series of initiatives that seek to ramp-up IP manpower/capabilities and transition to a more conducive environment for IP activity. These initiatives encompass investment in professional training and development, corporate tax incentives, financing schemes to help innovative corporates access capital and the implementation of more robust/efficient IP legislation (such as the "positive grant system").

With an already strong local presence of multinational corporates, the rising importance of the broader Asian regional market to these multinationals, alongside the benefits of government initiatives, we believe a growing number of multinationals will channel their Asian IP applications needs through Singapore (using IP service firms such as QIP).

WELL PLACED TO GROW MARKET SHARE IN ASIA

In July 2015, DCC planted the seeds for growth in Asia with the opening of an office in Singapore. From this starting base, we believe QIP is well placed to grow market share in Singapore as well as in neighbouring Asian economies. We see five key levers/drivers to grow market share:

1 Strong portfolio of long-standing multinational clients.

As noted earlier, increasingly the Firms' clients are seeking a single point of contact for the Asia – Aust./NZ region. We view QIP's emerging footprint in Asia and incumbent multinational (local & foreign) client portfolio as working hand-in-hand. We believe QIP is well positioned to continue to grow in unison with its clients in Asia.

2 Leverage off reputation and strategy in Australia to penetrate local clients across Asia.

QIP's strategy in Singapore (via DCC) is also to market to local clients in Singapore and in other Asian jurisdictions. Management believes DCC's well-regarded reputation will lead to significant penetration into the local market in Singapore as well as attract work in Singapore and other Asian countries on behalf of Foreign Associates/clients.

3 Opportunity for FPA to leverage off DCC's knowledge and infrastructure in Singapore.

There is opportunity for FPA to enhance its penetration into Asia by leveraging off DCC's knowledge of the Singapore regulatory and commercial environment as well as the established back office and ICT infrastructure in Singapore.

4 Bolt-on acquisitions and lateral hires.

QIP may undertake acquisitions in Asia to accelerate scale/expansion. QIP may also expand through lateral hires of senior employees from competing IP service firms.

5 The alignment of interest QIP shares with the Singaporean Government.

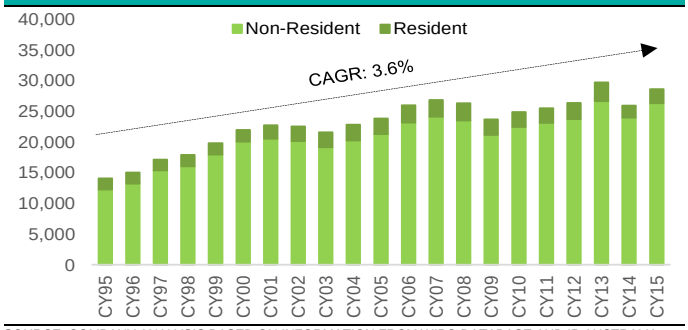
As detailed earlier, Singapore is emerging as a pivotal market for the broader Asian IP regional market. With a local office presence in Singapore, QIP is well positioned to leverage off Singapore's journey under its 10-year master plan. We believe both parties share similar goals (i.e. to serve as a gateway offering to the Asian IP market).

Australian market growing modestly plus market consolidation opportunities to accelerate growth

MORE MATURE MARKET, BUT NONETHELESS CONTINUES TO GROW MODESTLY

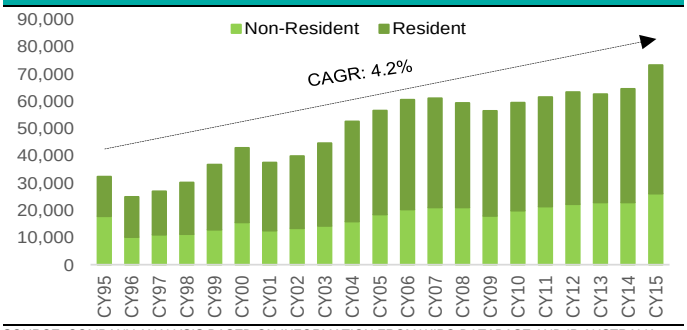
The Australian market for patents and trade marks is relatively more mature compared to Asia and therefore growing at a more modest pace. Figures 31 and 32 chart the trend in patent and trade mark applications filed in Australia from CY95 to CY15, respectively.

Figure 31 – Patent applications filed in Australia



SOURCE: COMPANY ANALYSIS BASED ON INFORMATION FROM WIPO DATABASE AND IP AUSTRALIA

Figure 32 – Trade mark classes filed in Australia



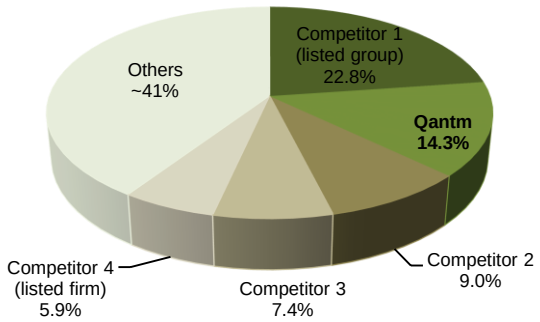
SOURCE: COMPANY ANALYSIS BASED ON INFORMATION FROM WIPO DATABASE AND IP AUSTRALIA

MARKET CONSOLIDATION OPPORTUNTIES = SCOPE TO ACCELERATE GROWTH

The Australian market for patents is relatively mature and is experiencing some consolidation through mergers and acquisitions of some industry participants. If QIP had operated in CY15, the top five firms or groups combined would have filed approximately 59% of the total patent applications filed. The remainder of the market is relatively fragmented with a large number of smaller firms (Figure 33).

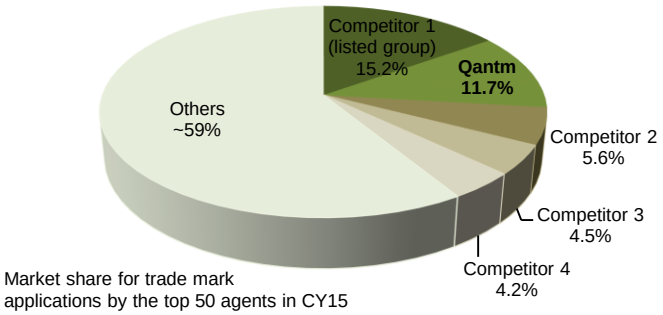
The trade mark filings market (excluding self-filings) is even more fragmented with the top five firms or groups accounting for approximately 41% of the market serviced by the top 50 agents (Figure 34).

Figure 33 – IP patent market share in Australia *(CY15 filings)*



SOURCE: COMPANY REPORTS, IP AUSTRALIA

Figure 34 – Trade mark filings mkt share in Aust. *(CY15, Top 50)*



SOURCE: COMPANY REPORTS, IP AUSTRALIA

The fragmented nature of the industry opens opportunities for further consolidation which we expect will be led by the larger firms. We believe QIP is well placed to participate with the backing of a solid balance sheet and high gross cash flow conversion in the region of 100%.

Well diversified and highly visible revenue

QIP's (or the combined firms') revenue profile has three key attractive attributes as below:

1 **Derived from a diversified group of long-lasting clients**: The Firms' core clients are mostly blue-chip with entrenched relationships built over many years. Exposure is well diversified with no client accounting for >2% of group revenue. We believe this strengthens the risk and stability profile of QIP's revenues (*refer to earlier section "QIP's strategic position", in particular Figures 22 to 24*).

2 **Generated from a large number of relatively low value invoices**: The Firms invoice clients at frequent intervals at the conclusion of each process step or work task throughout the various stages of the IP lifecycle. **A key benefit of this is it ensures Work-In-Progress (WIP) is minimal which supports strong cash flow conversion**.

3 **Visible/recurring revenue attributes** given the combination of lead PCT lodgements and the 'pathway' applications must follow including filing, the prosecution phase and the recurring renewal requirements beyond grant. **For local clients, QIP is typically involved at an earlier stage in the process, further extending revenue visibility**.

We expand on attributes 2 and 3 in the following two sub-sections.

LARGE NUMBER OF RELATIVELY LOW VALUE INVOICES

The nature of the Firms' services and client base means that the Firms send out a large number of relatively low value invoices. Clients are typically invoiced at frequent intervals and at the conclusion of each work task. Therefore each patent, design or trade mark application involves multiple invoicing events from pre-filing, lodgement through to grant and beyond. In addition, both firms provide strategic advice not necessarily related to the application process which may generate multiple invoicing events.

Note, pricing at each of the Firms is based on an hourly rate component for professional work plus fixed fees for specific steps throughout the application and prosecution process. The Firms maintain a schedule of fees denominated in AUD, USD and SGD. DCC's legal services area generally charges fees based on hourly rates, with some agreed fees for a defined scope of work. For certain non-contentious project based work the Firms may enter into fixed fee project arrangements with clients (usually for a fixed period and subject to carve outs). The Firms do not enter into contingency or 'no win no fee' arrangements.

Figure 35 summarises the IP lifecycle steps and the typical corresponding invoicing events.

Figure 35 – Patent, trade mark and design cases… application processing showing typical work tasks and invoicing events

Patent application phase	QIP's IP Firms' Services / Work task	Timelines	Invoicing comments for a representative patent
Pre Filing work and International PCT applications	- Advising on patentability of inventions - Advising on freedom to operate inventions - Advising on IP strategies - PCT applications for local firms (drafting and filing) - Assist local clients to enter 'national phase' in foreign jurisdictions	n/a	- Invoicing event for each PCT application drafted or advice on - Invoicing event for each PCT application filed - Invoicing event(s) for assisting with national phase entry in foreign jurisdictions.
Filing	- Drafting patent applications across all technologies - Filing patent applications internationally	Up to 3 years for patents; Up to 6 months for trade marks.	- Invoicing event for each application filed
Prosecution	- Prosecuting patent applications internationally - Acting in patent opposition proceedings	Generally 2-5 years for patents; Up to 2 years for trade marks.	- Request for formal examination - invoice sent - Report/comments on examination findings - invoice sent - Submit examination response on behalf of client - invoice sent *(Note: the above three prosecution steps may happen 2 - 3 times in liftcycle of an application, each time generating its own set of invoices)* - When patent is accepted - invoice sent - When patent is granted - invoice sent
Renewal / Management Enforcement	- Managing patent portfolios - Managing ongoing renewal fee payments - Advising on infringement of client's patents - Assisting in court enforcement proceedings - Preparing and recording assignments of patents	Up to 20 years for standard patent; Indefinitely for trade marks; 10 years for designs.	- Client invoiced (*if renewal internally managed*) or commission received (*if managed by external third party*) each time a patent is renewed - This is often undertaken on a portfolio of patents for each client - Other invoicing events incl. infringement advise & enforcement

SOURCE: COMPANY DATA / COMPANY REPORTS

At any one time there are many thousands of active matters meaning a large number of invoices dispatched each year spread across the Firms' diversified client base. In FY15, in aggregate the two Firms issued **over 63,000 invoices**. As at 31 March 2016, DCC and

FPA in aggregate had approximately 80,000 active matters at various stages of the IP lifecycle and a range of additional matters involving strategic advice for clients. Figure 36 below provides the split for patent and trade mark application numbers across the various phases, illustrating the long and diverse application processing pipeline.

Figure 36 – Split of QIP's patent and trade mark applications across the different phases

SOURCE: COMPANY DATA / COMPANY REPORTS

We believe the spread of billing across a large number of relatively low value invoices provides a number of key benefits:

- Revenue profile that has lower volatility and no 'lumpy' underlying generating source. This comment excludes the Group's Legal business (~12% of pro-forma FY15 professional service charge revenue);
- Smooths impacts from volatile currency movements on non-$A denominated revenue;
- Therefore (with above two points) there is a higher degree of revenue predictability (*we expand on this in the next sub-section*);
- Ensures WIP is kept to a minimum as invoicing is task-based and not reliant on final grant approval;
- Regulatory process deadlines support cash collection leading to minimal bad debts; &
- Strong cash flow conversion (which is in part an outcome of low WIP and low bad debts) as highlighted in the "Financials" section of the report (refer to Figure 43).

VISIBLE OR RECURRING REVENUE ATTRIBUTES

Patent, design and trade mark application processing and management account for the vast bulk of QIP's revenues (88% based on FY15 figures). We believe there is a relatively high degree of visibility in this core revenue component across the key IP lifecycle phases which together form the key building blocks for forecasting. We discuss each phase for patents below (note Patents & Designs accounts for ~72% of QIP's FY15 pro-forma professional service charge revenue).

1. **<u>IP Origination and International PCT</u>: QIP is market leader of international PCT applications filed on behalf of Australian clients. IP Origination and PCT work provides early stage involvement in the IP lifecycle, which we believe is a key point of differentiation for QIP** (discussed earlier in "QIP's strategic position").

IP origination and International PCT work provides early stage involvement in the IP lifecycle including original IP searching/analysis, and international PCT application drafting and filing. The international PCT filing phase itself has a number of process steps, (as highlighted in the earlier Figure 8), and therefore involves a number of relatively predictable

work tasks. Furthermore, the international PCT filing phase leads national phase entry (*refer to the next point*).

2. **National Filing Phase, forward volume profile: PCT lodgement data is a key lead indicator that can be used to help forecast volume growth of new applications**.

A large proportion of applications for patent protection in Australia arrive under the PCT route. PCT lodgements typically lead to standard national patent applications and therefore provide a direct lead indicator. Therefore, growth in PCT lodgements provides visibility on potential volume growth of new national phase entry patent applications for the firms. Based on industry experience, whilst the lag period may range up to 30 or 31 months (depending on which jurisdiction), the typical lag is 'in the region' of 18 months.

3. **Prosecution Phase, forward revenue profile: The "pathway" of steps required when processing an application enhances revenue visibility during this phase**.

Processing of patent or trade mark applications at a single-country level typically must follow a sequence of steps. The earlier Figure 9 highlights the sequence of steps patent applications must follow in Australia with each step typically involving one or more work-tasks undertaken by the Firms that would likely trigger one or more invoicing events.

Given this "pathway" that applications must follow, there is a reasonably high level of predictability of future steps/tasks and invoicing to process that application. Obviously timing between steps will vary and not all applications achieve final grant status. However, considering the Firms handle many thousands of applications at a time, the predictability of revenue at a total group level improves.

4. **Renewal Phase, forward revenue profile: Granted applications must be renewed to remain valid which creates a recurring revenue stream**.

Once an application for a new patent or trade mark is granted, it needs to be renewed to remain valid. Renewal terms differ between patents and trade marks as follows:

- *Patents*: An annual renewal fee commencing from the fourth anniversary of the filing date up until the expiry of the patent 20 years from the filing date. Certain types of patents are eligible to be extended by up to an additional five years.
- *Trade Marks*: To maintain the registration, a renewal fee must be paid every 10 years. The registration may be renewed indefinitely.

Across QIP's aggregate client base, the combination of patent and trade mark renewals provide a recurring income fee to the company. The income fee is a mix of commissions when renewals are referred to third party renewal service providers, or standard billing fee when managed in-house.

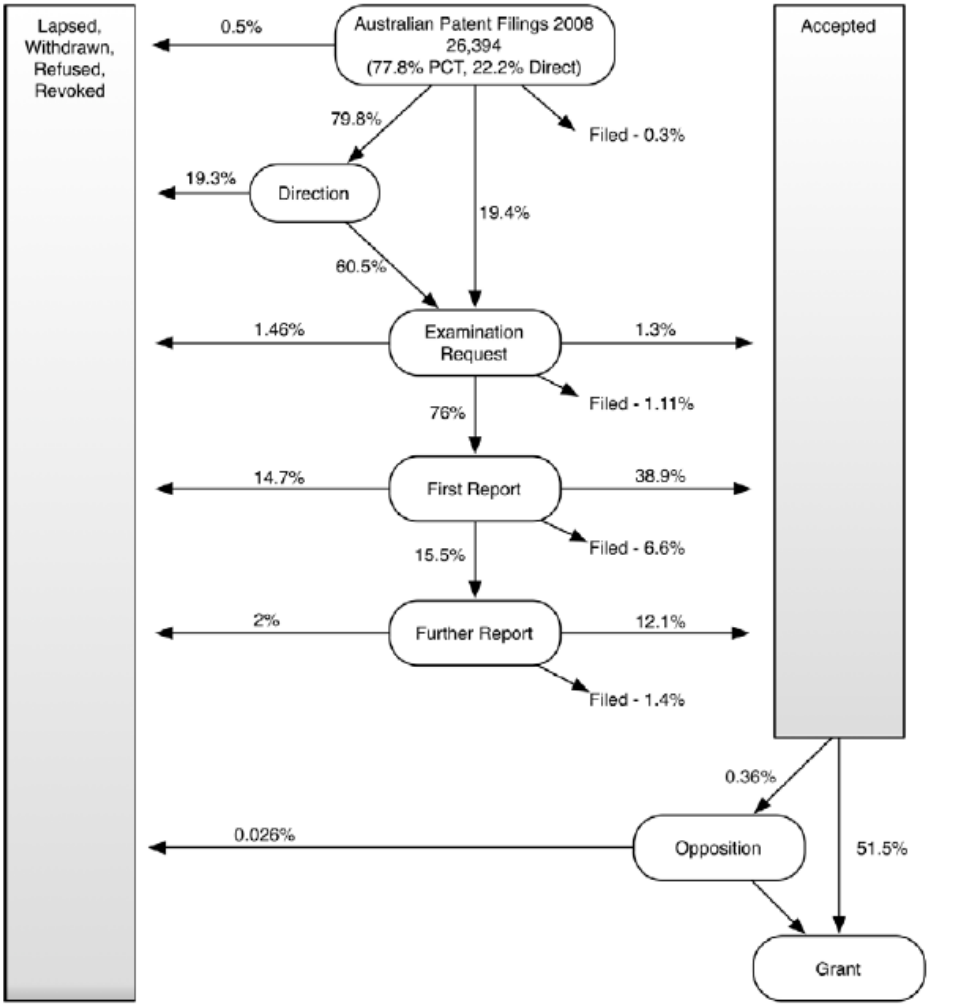
We note however, renewal income accounts for a relatively small proportion of QIP's aggregate annual revenues, in the region of 5%. For patents, the majority of QIP's revenue is generated during the more labour intensive International PCT (and other pre national phase filing work), filing and prosecution phases of the process.

A gauge on the forward revenue profile (i.e. application volumes and invoicing events) for a basket of patent applications can be deduced from actual experience at IP Australia. The following Figure 37 shows a representative example of how a cohort of patent applications progress their way through the administrative process at IP Australia, using the 2008 filing cohort.

Figure 37 – IP Australia 2008 patent filing cohort, progress through administrative process

79.9% (60.5% + 19.4%) of applications filed in 2008 had an examination request

76% of all applications received a first report



SOURCE: IP AUSTRALIA – "REPORT ON PATENT BACKLOGS, INVENTORIES AND PENDENCY" (INCLUDES DATA FROM JANUARY 1995 TO MAY 2013)

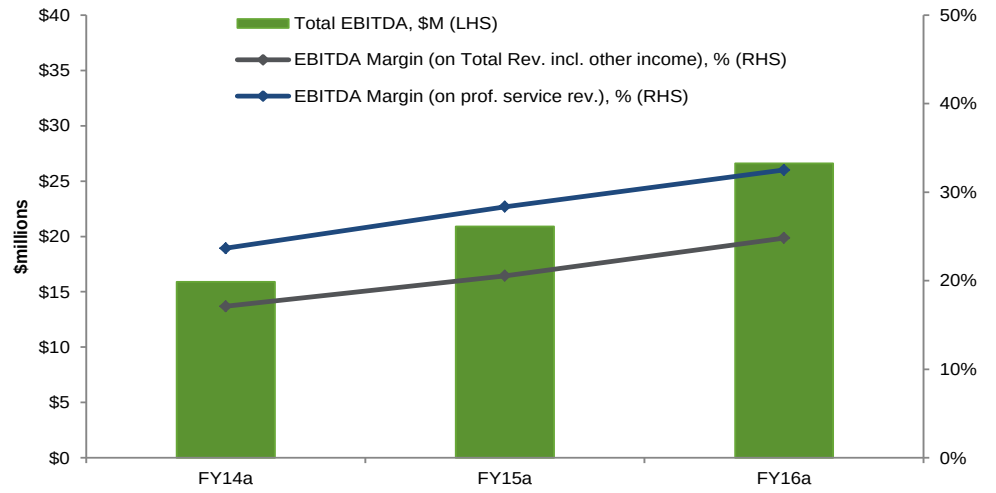
Attractive margin expansion prospects

A closer look at where QIP's margins currently sit

MARGIN PERFORMANCE OVER RECENT HISTORY

Figure 38 charts QIP's EBITDA margin performance measured against both total revenue and professional services revenue for pro-forma historical FY14/FY15 (*if QIP had been operating in those years*) and for FY16 (based on reviewed actual figures for revenue and EBITDA as announced on 31 August 2016). We note that the difference between total revenue and professional service revenue is primarily due to Associate charges (refer to the 'Financials' section of the report for further explanation).

Figure 38 – Comparison of QIP's EBITDA margin for pro-forma FY15 versus IPH and XIP



SOURCE: COMPANY REPORTS AND BELL POTTER SECURITIES ESTIMATES

As illustrated, the EBITDA margin for the group improved from FY14 to FY16 with EBITDA margin on total revenue (including other income) increasing from 17.1% in FY14 to 24.8% in FY16 driven by an improvement in both DDC and FPA. The improvement in DCC was more material, albeit off a lower starting point, and primarily driven by translational benefits on revenue arising from the decline in the value of the AUD relative to the USD.

HOW DO QIP'S MARGINS COMPARE AGAINST ITS TWO LISTED PEERS?

The table in Figure 39 below explores how QIP's EBITDA margin in FY15 and FY16 compares with its two ASX-listed peers, IPH Limited (IPH) and Xenith IP Group (XIP).

Figure 39 – Comparison of QIP's EBITDA margin for pro-forma FY15 versus IPH and XIP

Variable	QIP		IPH		XIP	
	FY15	FY16 [1]	FY15	FY16	FY15	FY16
Professional Services Charges ($m) [2]	**73.7**	**81.8**	**80.3**	**118.8**	**22.8**	**27.3**
Total Revenue (including other income) ($m)	**101.7**	**112.0**	**94.6**	**143.1**	**27.1**	**32.2**
Employee Costs ($m)	40.9	42.3	26.8	38.9	12.9	13.3
Employee Costs / Prof. service charges (%)	*55%*	*52%*	*33%*	*33%*	*56%*	*49%*
Total expense recovery ($m)	21.2	23.1	16.0	27.4	3.7	4.3
Expense rocovery / Prof. service charges (%)	*29%*	*28%*	*20%*	*23%*	*16%*	*16%*
Occupancy Costs ($m)	5.5	6.2	2.9	4.7	1.4	1.5
Occupancy costs / Prof. service charges (%)	*7%*	*8%*	*4%*	*4%*	*6%*	*5%*
Other expenses, ($m)	13.2	13.9	6.6	7.1	3.7	3.9
Other expenses / Prof. service charges (%)	*18%*	*17%*	*8%*	*6%*	*16%*	*14%*
EBITDA ($m)	**20.9**	**26.6**	**42.3**	**65.0**	**5.5**	**9.2**
EBITDA Margin on Prof. Service Charges (%)	**28%**	**33%**	**53%**	**55%**	**24%**	**34%**
EBITDA Margin on Total Revenue (including other income)	**21%**	**24%**	**45%**	**45%**	**20%**	**29%**

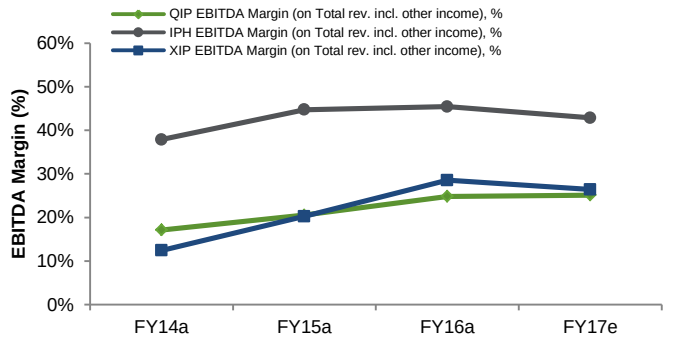
[1] *QIP's total revenue and EBITDA is based on reviewed pro forma actuals as announced by the company on 31 August 2016*
[2] *Professional service fees for QIP and XIP is based on company data, while IPH is based on Bell Potter estimates*

SOURCE: COMPANY REPORTS AND BELL POTTER SECURITIES ESTIMATES

In the table, comparison is made against total revenue and professional service charges. The table also includes a comparison of the key margin building blocks; that is, employee costs/prof. charges, total expense recovery/prof. charges, rental expense/prof. charges and other cost items/prof. charges.

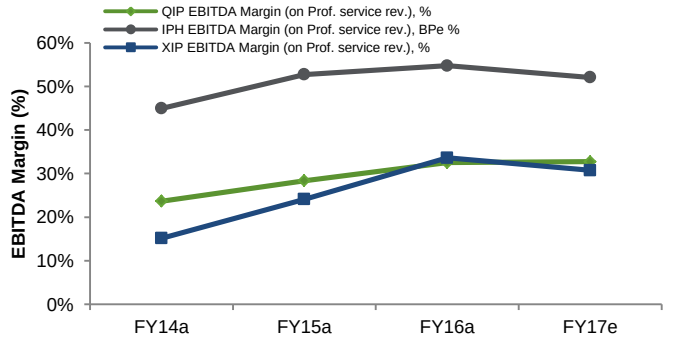
A comparison over time using total revenues (incl. other income) is in Figure 40 including our forecasts for FY17. We do the same against professional service charges in Figure 41.

Figure 40 – QIP EBITDA margin on total revenue vs IPH & XIP



COMPANY REPORTS, BELL POTTER SECURITIES ESTIMATES

Figure 41 – QIP EBITDA margin on prof. service fee vs IPH & XIP



COMPANY REPORTS, BELL POTTER SECURITIES ESTIMATES

The key observations from the above analysis (Figures 39 to 41) are:

- QIP's EBITDA margin in FY16 and FY17 is below IPH although broadly comparable to XIP. We note XIP's margins are expected to contract slightly in FY17 on the back of the acquisition of the Watermark group (which is a lower margin business).
- Compared to IPH, QIP is higher on all expense line items with the key difference due to higher 'employee costs/prof. charges' followed by higher 'other expenses/prof. charges' and higher 'expense recovery/prof. charges'.
- Compared to XIP, QIP is comparable on 'employee costs/prof. charges' but more notably higher on 'expense recovery/prof. charges'.
- We believe the higher relative 'expense recovery/prof. charges' and higher 'employee costs/prof. charges' is largely a function of QIP's business model and strategy. That is, a greater strategic focus on local clients (meaning more work is directed to Foreign Associates generating higher expense recovery), alongside a higher work allocation to strategic advice (which requires more investment in professionals).
- Notwithstanding this, we **believe the relatively high 'employee cost/prof. charges' *combined* with the relatively high 'other expenses/prof. charges' reveals there is scope for productivity improvement.** We view this as **the key takeaway observation and consider this as margin upside opportunity for QIP**. We discuss this, alongside other medium-term margin upside opportunities in the following section.

Scope for further margin upside over the medium-term

We believe the earlier comparison against IPH and XIP suggests there remains room for further margin improvement. We believe there are four key fronts available that QIP can pursue to drive further margin expansion, as follows.

1. FURTHER PRODUCTIVITY IMPROVEMENTS

We believe over time there is scope to drive further cost savings and efficiencies across the Group through IP process automation and continuous development/improvement of ICT system capabilities. A key example is the development of capability to electronically lodge correspondence and IP applications with IP offices through B2B digital portals, similar to what IPH has in place. This initiative is expected to lead to savings in overhead costs.

2. SYNERGY OPPORTUNITIES WITH 2 FIRMS UNDER ONE GROUP STRUCTURE

DCC and FPA share a range of common business processes. While the two Firms will continue to operate as separate businesses under the Group structure, there are a range of opportunities to reduce cost and therefore increase margins/earnings by sharing these costs across the two Firms. Areas where synergies may be derived include:

- ICT platform costs, licence fees, telecommunications and training. There is considered sufficient capacity for FPA's ICT operations to utilise DCC's ICT infrastructure. It is expected that FPA will migrate all of its data, systems and processes to DCC's ICT platform in the near future. We note that migration is subject to strict separation of all confidential client data;
- Payroll systems, staff training and recruitment;
- Common financial reporting requirements, e-billing, insurance; and
- Sharing the costs of migration of process automation and reducing management time;

In addition, the firms may be able to generate increased revenue opportunities through a broadened network of clients, international clients, Foreign Associates and affiliations of Principals with international IP organisations.

3. ACCELERATED SCALE BENEFITS WITH ACQUISITIONS

DCC's ICT systems and infrastructure are built and configured for scalability. We believe DCC's platform scalability will continue to improve as further ICT system productivity enhancement projects are delivered (as discussed earlier).

We believe acquisitions have the potential to accelerate margin expansion underpinned by back-office cost-out synergies and operating leverage from increased filing volumes on DCC's scalable platform. We note margin upside benefits post an acquisition will likely take two to three years to realise in full, allowing time for costs savings execution & migration of patent/trade mark filing applications onto DCC's platform.

4. BUILDING TRACTION AND SCALE IN ASIA

As QIP builds scale over the medium-term in Asia (organically and acquisitively) there is opportunity to leverage overhead costs (i.e. head office, ICT systems, HR and financial reporting) across multiple jurisdictions. A progressive broadening in QIP's footprint across the region should create opportunity to funnel more filing work internally rather than through external Foreign Associates, potentially generating revenue and margin gains.

Also, structural growth and development of IP rights in Asian jurisdictions (some of which have significant scale potential based on population size and rising consumption), provides a supportive long-term backdrop for QIP to grow filing volumes and margins.

We note **in our DCF valuation** (refer to 'Valuation and Peer Analysis' section) **we assume ~$3.0m in cost efficiency benefits by FY20 from ICT productivity improvements and synergies between the two Firms**.

Financials

Income statement

Figure 42 shows a summary of QIP's consolidated income statement. This includes pro forma actuals for FY14 and FY15, an estimate for FY16, and our forecast for FY17e. The FY16 income statement includes pro forma actual figures (reviewed) for revenue and EBITDA (as announced by QIP on 31 August 2016), and our estimate of other income statement items based on these figures. As shown in the table, our forecasts for FY17e are above prospectus forecasts, reflecting our view of some early efficiency benefits (that are not factored in prospectus estimates) and firmer than forecast growth in service charges.

Figure 42 - Consolidated historical and forecast income statements

Y/E 30 June ($Am)	Pro forma historical actuals		Estimate for FY16	BPe forecast	Prospectus forecast	BPe vs Prospectus
	FY14	FY15	FY16	FY17	FY17	% Difference
Service charges	67.2	73.7	81.8	87.0	86.0	1.1%
Service charge growth (% pcp)		9.6%	11.1%	6.3%	5.1%	
Associate charges	22.9	23.4	25.3	26.3	26.0	
Revenue	**90.1**	**97.1**	**107.1**	**113.2**	**112.1**	**1.0%**
Revenue growth (% pcp)		7.8%	10.3%	5.7%	4.6%	
Other income	2.8	4.6	4.9	2.0	2.0	
Revenue (including all other income)	**92.9**	**101.7**	**112.0**	**115.2**	**114.1**	**1.0%**
Compensation	-39.8	-40.9	-42.3	-43.2	-43.2	
Recoverable expenses	-20.7	-21.2	-23.1	-23.9	-23.8	
Occupancy	-5.6	-5.5	-6.2	-6.7	-6.7	
Other	-10.8	-13.2	-13.9	-12.8	-13.0	
Total expenses	**-77.0**	**-80.8**	**-85.4**	**-86.7**	**-86.6**	
EBITDA	**15.9**	**20.9**	**26.6**	**28.4**	**27.5**	**3.5%**
EBITDA growth (% pcp)		31.5%	27.3%	7.0%	3.3%	
EBITDA margin (% of service charges)	23.7%	28.4%	32.5%	32.7%	31.9%	0.8%
EBITDA margin (% of revenue) [1]	17.3%	21.1%	24.4%			
EBITDA margin (% of total revenue incl. all other income)	17.1%	20.6%	23.8%	24.7%	24.1%	0.6%
Depreciation	-0.8	-0.8	-0.8	-0.9	-0.9	
EBITA	**15.2**	**20.2**	**25.8**	**27.5**	**26.5**	**3.7%**
Net Interest	-0.9	-0.9	-0.9	-0.9	-0.9	
Profit before tax and acq. amortisation	**14.2**	**19.3**	**24.9**	**26.6**	**25.6**	**3.7%**
Tax	-4.3	-5.8	-7.5	-8.0	-7.7	
NPATA [2]	**10.0**	**13.5**	**17.4**	**18.6**	**17.9**	**3.7%**
NPATA growth (% pcp)		35.4%	18.6%	7.0%		
Amortisation	-1.0	-1.0	-1.0	-1.0	-1.0	
NPAT	**9.0**	**12.5**	**16.4**	**17.6**	**16.9**	**4.2%**

[1] *EBITDA margin (% of revenue) is calculated as EBITDA divided by the aggregate of total revenue and renewal commission income. Commission income is classified within 'other income'.*

[2] *NPATA refers to net profit after tax with non-tax effected amortisation of intangible assets acquired added back.*

SOURCE: COMPANY DATA / COMPANY REPORTS

Note, QIP's total revenue comprises Service Charges and Associate Charges. Service Charges is the main revenue source and is earned by providing professional services to clients for ongoing advisory services for the protection of IP, including providing strategic advice to clients in relation to their IP rights and the IP rights of their competitors, and the filing, prosecution and renewal phases of the IP lifecycle. In addition, DCC's legal services practice provides commercial legal advice and IP litigation services.

Associate Charge revenue is typically lower margin and includes revenue from recharging the cost of arranging for IP protection in other jurisdictions at all stages of the IP lifecycle and, in addition, revenue from recharging the fees of barristers and other experts.

We forecast EBITDA growth of 7.0% in FY17 driven by EBITDA margin (% of revenue incl. all other income) expansion (from 23.8% to 24.7%) and revenue growth (excluding other income) of 5.7%. More detail on the key drivers of our forecast is as follows:

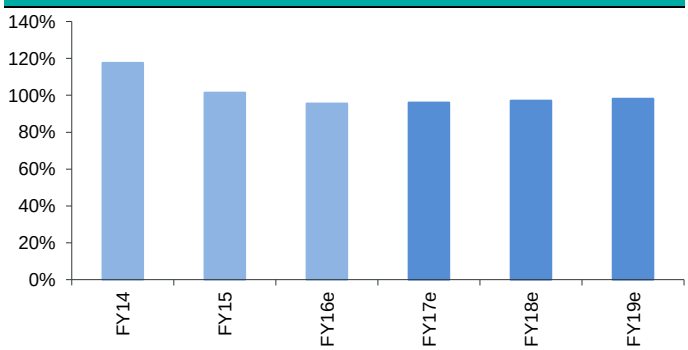
- **Revenue:** For FY17, included within the 5.7% revenue growth forecast, we expect Service Charges to increase 6.3%. The key drivers of this include:
  i. Growth in patent lifecycle revenues as a result of the flow through of applications secured in previous years. We note that the number of new patent cases secured by the Firms in FY16 increased by 18.8% versus FY15, including local Australian cases, PCT cases, cases in Asia and the rest of the world. We believe the follow-on benefits on the back of this strong result presents upside risk to QIP's forecast pcp growth of 5.1% in FY17 service charge (noting we forecast 6.3% growth)
  ii. Other organic growth and a small amount of growth in local revenue generated in Singapore;
  iii. FPA's litigation and general advisory service revenues to continue at FY16 levels.
  iv. We note that given the AUD to USD currency assumption (of 1.00:0.75) in FY17 is held constant versus FY16, there is no impact on the revenue growth rate from currency movement.

  Margins: We forecast EBITDA margin (% of revenue incl. all other income) to expand from 23.8% in FY16 to 24.7% in FY17 underpinned by opex leverage arising from firm underlying revenue growth and some early efficiency benefits in the 'other expense' line item.
- **Other items**:
  i. The small increase in depreciation to $0.9m in FY17 vs $0.8m in FY14-FY16 is primarily attributable to impact of the depreciation of the Singapore office fit out;
  ii. The tax rate is forecast to remain at 30.0% in FY17. As Singapore earnings are considered immaterial, no allowance has been made for the lower tax rate in Singapore.

Cash flow and balance sheet metrics

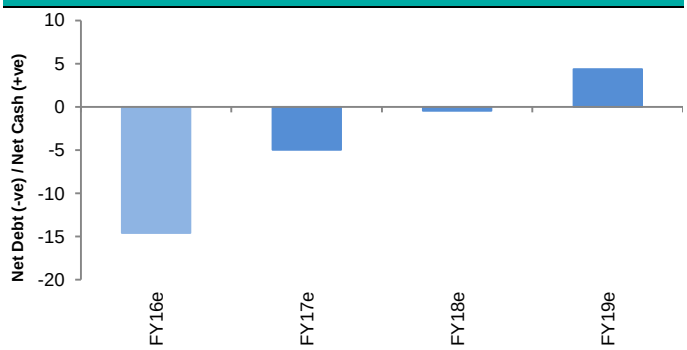
The Firms have a track record of strong cash flow generation, converting a high proportion of EBITDA to operating cash flow after capex. Strong cash flow generation is underpinned by low working capital and low capex requirements. We forecast gross cash flow conversion to remain strong, in the region of 100% (as shown in Figure 43).

Figure 43 – EBITDA to cash flow conversion



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 44 – Net debt or net cash position over time



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

QIP's balance sheet is strong with FY17 net debt/EBITDA conservative at ~0.5x based on our estimate. We forecasts QIP's pro forma net debt position of $14.6m (at 29 Feb 2016) to be largely eliminated by end-FY18e as shown in the earlier Figure 44.

Figure 45 shows QIP's pro forma balance sheet as at 29 February 2016. Note, as part of the formation of the Group, FPA is deemed to be acquired by DCC on 29 February 2016 with all assets and liabilities recognised at their fair values. Intangible assets totalling $62.9m in relation to customer relationships, brand and software and the corresponding deferred tax liabilities are recognised as part of the purchase price allocation. QIP will have working capital facilities & an acquisition facility in place (the latter to support opportunity to participation in industry consolidation in Australia & potential growth opportunities in Asia).

Figure 45 – Pro forma balance sheet as at 29 February 2016

A$m	Pro forma as at 29 Feb 2016	$000's	Pro forma as at 29 Feb 2016
Current Assets		**Current Liabilities**	
Cash and cash equivalents	(2.3)	Trade and other payables	8.4
Trade and other receivables	30.8	Provisions	4.1
Other current assets	1.2	Loans and borrowings	0.7
Total Current Assets	**29.7**	Other current liabilities	0.0
		Total Current Liabilities	**13.2**
Non-Current Assets		**Non-Current Liabilities**	
Deferred tax assets	4.7	Loans and borrowings	15.6
Intangible assets	62.9	Provisions	4.4
Property, plant and equipment	2.4	Deferred tax liabilities	6.3
Other non-current assets	0.0	Other non-current liabilities	0.6
Total non-current assets	**70.0**	**Total non-current liabilities**	**26.9**
Total Assets	**99.7**	**Total Liabilities**	**40.1**
Net Assets	**59.6**		
Equity & reserves			
Share capital	206.7		
Reorganisation reserve	(144.2)		
Retained profits	(2.9)		
Total Equity	**59.6**		

SOURCE: COMPANY DATA / COMPANY REPORTS

We note that the above pro forma balance sheet as at 29 February 2016 has a negative cash balance. We understand that on restructure this would not be the case as cash has been earned in the interim period. Accordingly, while the pro forma net debt is calculated as $18.6m based on the above balance sheet, we note that **the more representative pro forma net debt estimate for QIP is $14.6m**. Based on this more representative pro forma net debt position, QIP's FY17 net debt/EBITDA is ~0.5x (as noted earlier).

Currency exposure and management

The majority of QIP's revenue is derived from foreign clients (63% of revenue in FY15) and the majority of invoices for those foreign clients are denominated in $US. However, QIP's cost base is largely $A based with key expenses such as rent and salaries denominated and paid in $A. As a result, a stronger $US against the $A will have a positive impact on QIP's margins and hence earnings, and vice-versa.

DCC has historically used hedging to reduce the impact of currency movements on $US denominated invoices between the time of invoicing and receipt of payment.

Sensitivity Analysis

QIP has performed a sensitivity analysis for the key earnings drivers including professional fees, compensation expense and the $A/$US cross rate. Sensitivity is relative to the prospectus pro forma FY17 EBITDA forecast of $27.5m. The results of the sensitivity

analysis is summarised in Figure 46 below. We believe this is still representative against our determined FY17 EBITDA forecast of $28.4m.

Figure 46 – Sensitivity Analysis conducted by QIP

Assumptions	Increase/ (decrease)	FY17 pro forma EBITDA impact ($m)
Change in service charge revenue	1.0% / (1.0%)	$0.9m / -$0.9m
Change in compensation expense	1.0% / (1.0%)	-$0.4m / $0.4m
Change in A$ / US$ FX rate	1 cent / (1) cent	-$0.7m / $0.7m

SOURCE: COMPANY DATA / COMPANY REPORTS

Valuation and Peer Analysis

Valuation

Our valuation is $2.63 and our 12 month price target is $2.85. Our 12 month price target is at a ~20% premium to the current share price. We derive our valuation and price target via a 100% weighting to DCF, with a cross check using the ROIC methodology. Details of this analysis are provided below.

DCF VALUATION – OUR SELECTED METHOD TO VALUE QANTM IP LIMITED

We have allocated a full valuation weighting to the DCF methodology as we believe this methodology is highly suitable for QIP for a number of key reasons, including QIP's:

1 Strong cash flow generation;

2 Low capex intensity;

3 Relatively resilient through-the-cycle industry drivers (based on historic trends);

4 Relatively high earnings visibility; and

5 The DCF method can capture QIP's medium and long term growth opportunities, such as progressive margin improvement opportunities.

Our DCF valuation uses a 10-year forecast period from FY17 to FY26. The key assumptions behind the calculation of our free cash forecasts are as follows:

- **Revenue**: Beyond FY17, revenue grows organically at a rate of 3.5%-4.5% p.a. This is:
  - i. Comparable to the 3.6% CAGR in patent applications filed in Australia between CY95-CY15;
  - ii. Comparable to the 4.2% CAGR in trade mark classes filed in Australia between CY95-CY15; and
  - iii. Below the 11.1% CAGR in patent applications filed in selected Asian countries between CY95-CY14. We note that we have made no allowance for growth opportunities in Asian.
- **EBITDA margin**: EBITDA margin (% of revenue incl. all other income) firming from 23.8% in FY16 to 27.0% in FY20 driven primarily by assumed cost efficiency benefits of ~$3.0m by FY20 (i.e. annualised run-rate by FY20). We believe there are productivity improvement opportunities from ICT automation as well as from back-end synergies between DCC and FPA.
- **Currency**: We assume QIP's $A/$US FX assumption of 0.75 in FY17 remains unchanged in all forecast years, which is consistent with Bell Potter currency forecasts.
- **EBITDA**: The combination of our above noted revenue and EBITDA margin forecasts result in EBITDA 4-year (FY17-FY20) CAGR growth of 7.2% followed by EBITDA 6-year (FY21-FY26) CAGR growth of 3.7%.
- **Change in working capital**: QIP is a low working capital intensive business. Industry seasonality and cyclicality are also relatively low. Accordingly, working capital increases steadily with the growth in the business.
- **Capital expenditure**: QIP is a low capex intensity business. We have assumed stay-in-business capex/total revenue of ~0.9% in FY18 and beyond, consistent with the FY17 prospectus forecast.

The WACC we use in the DCF valuation is 10.2% (after tax). The key assumptions behind the calculation of the WACC are:

- **Risk free rate**: 5.5%;

- **Market risk premium**: 5.5%;
- **Beta**: 1.05 (we note this compares with our beta assumption of 1.00 used for IPH and 1.10 used for XIP);
- **Borrowing rate**: 8.5% (or 5.95% after tax); and
- **Target gearing**: 20%.

Note we apply a terminal growth rate of 3.5% to our free cash forecast in the final year of the forecast period (i.e. FY26). We believe 3.5% is appropriate for QIP given supportive structural market drivers discussed earlier in this report. We note we assume the same terminal growth rate for XIP, although 4.0% for IPH given IPH's larger exposure to Asia (which is experiencing higher growth vs Australia).

Figure 47 – QIP's group DCF valuation

June year	2016a	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e
EBITDA (A$m)	26.6	28.4	30.6	32.9	35.1	36.4	37.8	39.2	40.6	42.1	43.7
Working Capital Change	-22.4	-1.7	-1.1	-1.1	-1.0	-1.0	-1.0	-1.1	-1.1	-1.2	-1.2
Provisions	10.7	0.5	0.2	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.6
Notional Tax	-7.7	-8.3	-8.9	-9.6	-10.2	-10.6	-11.0	-11.4	-11.8	-12.3	-12.7
Maintenance Capex	-1.3	-1.0	-1.1	-1.1	-1.2	-1.2	-1.3	-1.3	-1.4	-1.4	-1.5
Growth Capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	-3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total valuation cashflow	**5.9**	**15.0**	**19.7**	**21.6**	**23.2**	**24.1**	**25.0**	**25.9**	**26.8**	**27.8**	**28.9**
Years to Discount	0.0	0.8	1.8	2.8	3.8	4.8	5.8	6.8	7.8	8.8	9.8
Cashflow used in WACC DCF	**0.0**	**12.0**	**19.7**	**21.6**	**23.2**	**24.1**	**25.0**	**25.9**	**26.8**	**27.8**	**28.9**
Discounted Cashflow	**0.0**	**11.1**	**16.6**	**16.4**	**16.0**	**15.1**	**14.2**	**13.4**	**12.6**	**11.8**	**11.1**
12m Target Cashflow	**0.0**	**0.0**	**14.7**	**18.1**	**17.7**	**16.6**	**15.6**	**14.7**	**13.9**	**13.0**	**12.3**

Risk Free Rate	5.5%
Risk Premium	5.5%
Beta	1.1
Cost of equity	11.3%
Margin on Debt	3.0%
Cost Of Debt	8.5%
Tax Rate	30.0%
Post-tax cost of debt	6.0%
Target D/(D+E)	20.0%
Discount rate (WACC)	**10.2%**
Perpetutiy Growth rate	3.5%

	Valuation	12-mth PT
Operational NPV ($m)	**138.3**	**136.6**
Perpetuity Value	165.9	182.9
Net Debt	-14.6	-5.0
Franking Credits	54.1	57.1
Value of Minorities	0.0	0.0
Value of Investments (incl. Associates)	0.0	0.0
Other	6.4	7.0
Equity Valuation ($m)	**350.2**	**378.7**
Shares on issue (m)	132.9	132.9
Value per share ($)	**2.63**	**2.85**

SOURCE: BELL POTTER SECURITIES ESTIMATES

CROSS CHECK USING ROIC METHODOLOGY

This method is a suitable cross-check given QIP's high return metrics and low capex intensity. Based on our forecasts and WACC assumptions (used in our DCF), our ROIC 12-month valuation is $2.80 (FY18e basis), which we believe validates our DCF valuation. Our ROIC methodology analysis is summarised in Figure 48.

Figure 48 – Cross Check Method – ROIC methodology

June year	2016	2017e	2018e
EBITA (A$m)	25.8	27.5	29.6
Invested Capital	78.2	78.2	78.2
ROIC (%)	33.0%	35.2%	37.9%
Long-term growth rate	3.5%	3.5%	3.5%
Cost of Equity (%)	11.3%	11.3%	11.3%
Cost of debt (pre-tax)	8.50%	8.50%	8.50%
Pre-tax WACC (%)	10.7%	10.7%	10.7%
Depreciation	0.8	0.9	1.0
EBITDA	26.6	28.4	30.6
Derived EV/EBITDA	12.0	12.1	12.2
Implied Enterprise Value	**319.4**	**343.3**	**372.4**
Net Debt	14.6	5.0	0.4
Implied market value	**304.8**	**338.4**	**371.9**
Shares on issue	132.9	132.9	132.9
Valuation per share (A$ps)	2.29	2.55	**2.80**

SOURCE: BELL POTTER SECURITIES ESTIMATES

An overall summary of both valuation methodologies is provided in Figure 49.

Figure 49 – QIP's valuation summary

Date of Valuation	12-Sep-16
Stock Price	$2.37

Recommendation	**Buy**
Methodology	DCF
Valuation	$2.63
12-mth Valuation	$2.85
Premium to 12-mth Valn	10.0%
12-mth PT (incl. prem)	**$2.85**
12-mth Capital Return	20.3%
12-mth Dividend Yield	3.9%
12-mth Total Return	**24.2%**

DCF	ROIC
100% Wt	0% Wt
$2.63	$2.55
$2.85	$2.80

Implied PE (*on NPATA*) and EV/EBITDA mulitples		2016e		2017e		2018e		2019e	
		PE	EV/EBITDA	PE	EV/EBITDA	PE	EV/EBITDA	PE	EV/EBITDA
Price Target	$2.85	21.7	14.8	20.3	13.8	18.5	12.9	17.0	12.0
Current s/price	$2.37	18.1	12.4	16.9	11.6	15.3	10.8	14.1	10.0

SOURCE: BELL POTTER SECURITIES ESTIMATES

Peer Analysis

In this section we perform peer analysis on three levels:

1 Against QIP's closest listed peers, IPH Limited (ASX code: IPH) and Xenith IP Group (ASX code: XIP). For this we look at QIP's relative valuation using our determined DCF valuation.

2 Against a broader universe of professional services businesses.

3 We examine why QIP is a very different business versus the two ASX-listed law firms, Slater & Gordon and Shine Corporation.

QIP COMPARED AGAINST IPH AND XIP

As direct competitors listed on the ASX, IPH and XIP are QIP's closest listed peers. Accordingly, we believe IPH and XIP provide the best reference point when measuring relative valuation for QIP which is presented in Figure 50. Note, forecasts for IPH and XIP are based on Bloomberg consensus estimates.

Figure 50 – Trading valuation comparison against IPH and XIP

Peer	EV	P/E				EV/EBITDA				EPS Growth (%)				Div Yield (%)			
	(A$m)	FY16	FY17e	FY18e	FY19e	FY16	FY17e	FY18e	FY19e	FY16	FY17e	FY18e	FY19e	FY16	FY17e	FY18e	FY19e
QANTM IP Limited (QIP)[1]	330	18.1	16.9	15.3	14.1	12.4	11.6	10.8	10.0	29.5%	7.0%	10.1%	8.6%		3.9%	5.2%	5.7%
IPH Limited (IPH)	950	20.2	18.6	16.7	15.5	14.1	12.9	11.5	10.7	46.4%	8.4%	11.6%	7.9%	4.0%	4.5%	5.0%	5.4%
Xenith IP Group Limited (XIP)	129		16.3	14.3	13.0		10.9	9.3	8.4		18.5%	14.2%	10.0%	2.0%	4.7%	5.4%	6.0%
Average of IPH and XIP		20.2	17.5	15.5	14.2	14.1	11.9	10.4	9.5	46.4%	13.5%	12.9%	8.9%	3.0%	4.6%	5.2%	5.7%
QIP (Discount)/Premium vs IPH		-10.4%	-9.3%	-8.1%	-8.6%	-12.2%	-10.2%	-6.4%	-6.2%								
QIP (Discount)/Premium vs XIP			3.6%	7.5%	8.9%		6.0%	16.1%	19.6%								
QIP (Discount)/Premium vs Ave.		-10.4%	-3.3%	-0.9%	-0.6%	-12.2%	-2.7%	3.7%	5.1%								

[1] *QIP FY17e Divident Yield is based on pariod from 30 August 2016 to 30 June 2017 (and therefore is not an annualised yield).*

SOURCE: COMPANY DATA, BLOOMBERG AND BELL POTTER SECURITIES ESTIMATES

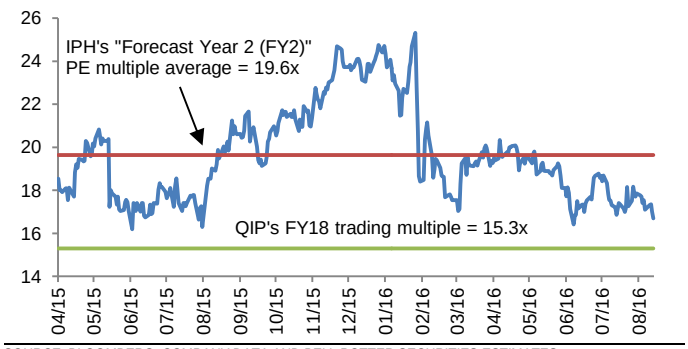
The key takeaways from the relative valuation analysis are:

- **QIP is trading broadly in line with the average of IPH/XIP in FY17/FY18/FY19**;
- QIP is trading at a 6% to 12% **discount vs IPH** on both PE and EV/EBITDA measures;
- QIP is trading at a 4% to 9% **premium vs XIP** on a PE basis in forecast years; and
- QIP's dividend yield, on an annualised basis, is comparable to both IPH and XIP.

The above relative valuation measure needs to be considered in the context of a number of key factors (including some points of differences between QIP and IPH/XIP), as follows:

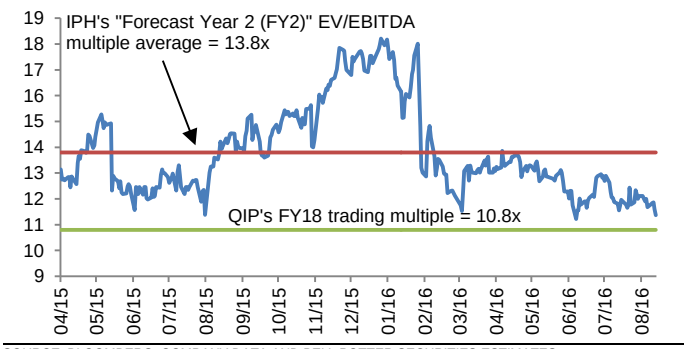
- We have an overall positive view on the IP sector and currently have a Buy rating on both IPH and XIP. We believe XIP and IPH are undervalued at their current trading levels considering their growth prospects (organic and through acquisitions) and their quality attributes (client base, revenue characteristics & cash flow conversion) that are typical of the industry.
- IPH has an established Asian business accounting for ~40% of group earnings. This business is leveraged to the stronger organic growth outlook across the Asian region. While QIP has an office presence in Singapore, operations are still at an early stage.
- IPH is a higher margin business although we believe this presents margin upside opportunity for QIP (as previously discussed in this report) as well as for XIP.
- XIP is smaller in scale with over 190 in staff (including the recently acquired Watermark business). At this stage XIP has no local presence in Asia.
- Over recent months we believe IPH's share price has been weighed down by the anticipated release of ~78m shares (~40% of issued stock) from escrow in November 2016. IPH has also experienced an amplified impact from the America Invents Act (AIA) given the company's exposure to Asia (where the impact was more pronounced) and high exposure to US based clients.
- IPH is currently trading at the lower end of its historic multiple range (in part we believe due to the factors noted in the previous point), as illustrated in Figures 51 and 52.

Figure 51 – QIP vs IPH Limited's forward (FY2) PE history



SOURCE: BLOOMBERG, COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 52 – QIP vs IPH Limited's forward (FY2) EV/EBITDA history



SOURCE: BLOOMBERG, COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

As illustrated, QIP's trading multiples (*represented by the green horizontal lines*) is well below IPH's historic averages (*represented by the red horizontal line*). The magnitude of discount against IPH's historic average is ~22% for PE & also ~22% for EV/EBITDA.

With all the above factors considered and ignoring company specific issues currently weighing on IPH's share price, we believe IPH's scale and exposure to Asia justifies the business to trade at a high valuation multiple relative to QIP. In turn we believe QIP deserves to trade at a high valuation multiple relative to XIP.

If we consider the company specific issues currently weighing on IPH's share price, we believe QIP's trading discount (of circa 6% to 12%, as noted earlier in Figure 50) to where IPH is *currently* trading should be less pronounced to non-existent.

Our 12-month price target of $2.85 corresponds to an implied FY18 PE multiple of ~18.5x which is at a ~6% discount to IPH's historic average and at a ~11% premium to where IPH is currently trading (based on IPH's FY18 Bloomberg consensus estimate).

Overall, this relative comparison, alongside our positive view on all three stocks, we believe is reasonable and supports our DCF valuation.

Below in Figure 53 we compare QIP against IPH and XIP on a number of key measures.

Figure 53 – QANTM IP Limited vs IPH Limited and Xenith IP Group Limited

VARIABLE	QIP	IPH	XIP
Background			
Group/Firm description	One of Australia's leading Patent and Trade Mark Attorney Groups with emerging operations in SE Asia	Leading Asia-Pacific Patent and Trade Mark Attorney Group	Domestic Patent and Trade Mark Attorney firm
Underlying IP firms	Davies Collison Cave (DCC) and FPA Patent Attorneys	Spruson & Ferguson (S&F), Pizzeys, Fisher Adams Kelly Callinans, and Cullens	Shelston IP and Watermark
Founding year	DCC can be traced back to 1879	Spruson & Ferguson in 1887	Shelston IP in 1859
Office foot print	Primary offices in Sydney, Melbourne, Brisbane and Singapore. DCC also has ongoing access to offices in Geelong, Greater Western Sydney, Newcastle, Hobart, Launceston, Adelaide and Canberra.	Seven main offices (Sydney, Brisbane x2 (with Cullens), Singapore, Malaysia, Indonesia and China)	Offices in Sydney (x2), Melbourne, Perth, Auckland, Brisbane and Newcastle
Share Price	$2.37	$5.29	$3.44
No. shares on issue (millions)	132.9	190.6	37.8
Free Float	50%	~58%	~65%
Market Cap (A$m)	315	1,009	130
Enterprise Value (A$m), QIP based on BPe	330	950	129
Market share/rank in Aust, for the CY15 period	Total patent filings: 14.3%, 2nd (on a group comparative basis). Australian PCT applications: DCC is leading individual firm; Group comparation, QIP is 2nd. Trade mark applications: DCC is leading individual firm at 11.7%. Group comparation, QIP is 2nd.	Total patent filings: 22.8%, 1st (on a group comparative basis). Australian PCT applications: 1st (group basis). Trade mark applications: 15.2%, 1st (group basis); includes S&F at 7.8% which is 2nd on firm basis.	Total patent filings: ~10%, 3rd (on a group comparative basis). Australian PCT applications: 6th (vs groups or firms). Trade mark applications: 7.4%, 3rd (group basis).
Market share in Asia	Emerging (Singapore office opened in July 2015)	Singapore 25%, 1st	No local presence
Staff			
Total Number of Staff	~373	~420	over 190
Number of IP professionals	136	In the region of 150 *(BPe)*	In the region of 60-70 *(BPe)*
Client base exposure			
Est. offshore client exposure	63%	~80%	75%
Net rev. currency exposure estimate	BPe of roughly 55% in $US, balance in $A	~56% $US, 4% EUR, 4% SGD, balance $A	Most of 75% in $US, balance in $A
Est. top 20 client exposure	20.0%	16.0%	24%
Est. largest client exposure	2.0%	2.0%	6%
Revenue/EBITDA Breakdown			
ANZ "Revenue / EBITDA" % split	almost 100% / 100%	65% / 61%	100% / 100%
Asia "Revenue / EBITDA" % split	Small / 0%	35% / 39%	0% / 0%
Patents and Designs rev. % Split	72%	87% (includes ~35% Asia)	76%
Trade marks rev. % Split	17%	11%	13%
Legal rev % Split	11%	2%	11%
Key Financial Metrics			
FY17e revenue, $Am (QIP BPe & IPH/XIP consensus)	115.2	167.7	42.8
FY17e Prof. Service fee, $Am (based on BPe)	87.0	143	38
FY17e EBITDA, $Am (QIP BPe & IPH/XIP consensus)	28.4	73.7	11.8
FY17e EBITDA margin on Total revenue	25%	44%	28%
FY17e EBITDA margin on Prof. Service Fee	33%	51%	31%
2yr FY16-FY17e EBITDA CAGR (QIP BPe & IPH/XIP consensus)	16.7%	37.7%	46.6%
Comment on CAGR growth	All organic growth	Growth materially boosted by 3 acquisitions in FY16	Growth off a small base
Dividend Payout Ratio	70% - 90%	90% - 100%	70% - 90%
FY18e Div. Yield, (QIP BPe & IPH/XIP consensus)	5.2%	5.0%	5.4%
Franking, %	100% (BPe)	69% (BPe)	100% (BPe)
Gross operating CF conversion (FY14-FY16 ave.)	106%	93%	90%
(Net Debt)/Net cash position ($Am)	-$14.6m (QIP pro forma at 29 Feb 2016)	$59m (at 30 June 2016)	$0.9m (at 30 June 2016)
Key Valuation Metrics			
FY17e PE (BPe for QIP, Consensus for IPH/XIP)	16.9	18.6	16.3
FY18e PE (BPe for QIP, Consensus for IPH/XIP)	15.3	16.7	14.3
FY17e EV/EBITDA (BPe QIP, Consensus for IPH/XIP)	11.6	12.9	10.9
FY18e EV/EBITDA (BPe QIP, Consensus for IPH/XIP)	10.8	11.5	9.3

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

QIP VS BROADER PROFESSIONAL SERVICES BUSINESSES

We believe peer analysis relative only to IPH and XIP has the most merit. Nonetheless for illustrative purposes only, we compare QIP (using our central multiples) against a broader universe of listed peers in Figure 54. The closest amongst these are highlighted. Following IPH and XIP, Murgitroyd Group is the third closest listed IP firm although is based in the UK/Europe. The other selected peers provide some form of professional consulting service

and includes some that are also supported by a technology platform for service delivery/ execution. The included offshore peers are all from major developed public listing markets.

Figure 54 – Peer valuation comparison

Peer	Listing FX base	Mkt Cap (A$m)	EV (A$m)	P/E				EV/EBITDA				EPS Growth (%)				Div Yield (%)			
				FY16	FY17e	FY18e	FY19e	FY16	FY17e	FY18e	FY19e	FY16	FY17e	FY18e	FY19e	FY16	FY17e	FY18e	FY19e
QANTM IP Limited (QIP) [1]	**AUD**	**315**	**330**	**18.1**	**16.9**	**15.3**	**14.1**	**12.4**	**11.6**	**10.8**	**10.0**	**29.5%**	**7.0%**	**10.1%**	**8.6%**		**3.9%**	**5.2%**	**5.7%**
IPH Limited (IPH)	**AUD**	**1,009**	**950**	**20.2**	**18.6**	**16.7**	**15.5**	**14.1**	**12.9**	**11.5**	**10.7**	**46.4%**	**8.4%**	**11.6%**	**7.9%**	**4.0%**	**4.5%**	**5.0%**	**5.4%**
Xenith IP Group Limited (XIP)	**AUD**	**130**	**129**		**16.3**	**14.3**	**13.0**		**10.9**	**9.3**	**8.4**		**18.5%**	**14.2%**	**10.0%**	**2.0%**	**4.7%**	**5.4%**	**6.0%**
Average of IPH and XIP				**20.2**	**17.5**	**15.5**	**14.2**	**14.1**	**11.9**	**10.4**	**9.5**	**46.4%**	**13.5%**	**12.9%**	**8.9%**	**3.0%**	**4.6%**	**5.2%**	**5.7%**
Other domestic comparable peers																			
IMF Australia Ltd	AUD	293	248	11.8	8.7	5.9	5.7	7.4	5.5	3.7	3.5	284.2%	35.6%	47.0%	3.8%	4.3%	6.2%	8.8%	9.2%
Integrated Research Ltd	AUD	387	379	24.7	21.0	18.2	16.6	12.1	10.3	9.0	8.3	17.9%	17.4%	15.7%	9.6%	3.3%	2.9%	3.7%	4.6%
Link Administration Holdings Ltd	AUD	2,976	3,238	29.9	25.3	20.8	17.8	18.1	16.2	14.0	12.0		18.1%	21.7%	16.8%	0.9%	2.1%	2.6%	3.0%
McMillan Shakespeare	AUD	1,035	1,285	11.9	11.6	10.9	10.4	9.3	7.0	6.6	5.6	16.2%	2.4%	6.4%	4.9%	5.0%	5.1%	5.5%	5.8%
SAI Global	AUD	743	944	12.9	11.8	10.7	11.2	7.3	6.9	6.5	6.8	0.0%	9.3%	9.8%	-4.3%	4.7%	5.2%	5.8%	5.5%
SG Fleet	AUD	1,121	1,186	20.8	16.1	14.4	13.7	13.1	9.8	8.9	8.9	29.1%	29.6%	11.6%	5.5%	3.1%	4.0%	4.4%	4.8%
Smart Group	AUD	883	916	19.4	16.2	14.9	12.8	14.9	11.5	10.6	8.7	51.2%	19.7%	8.5%	17.0%	3.4%	4.3%	4.7%	5.1%
Average of all domestic peers				**18.9**	**16.2**	**14.1**	**12.9**	**12.1**	**10.1**	**8.9**	**8.1**	**63.6%**	**17.7%**	**16.3%**	**7.9%**	**3.4%**	**4.3%**	**5.1%**	**5.5%**
Median of all domestic peers				**19.8**	**16.2**	**14.4**	**13.0**	**12.6**	**10.3**	**9.0**	**8.4**	**29.1%**	**18.1%**	**11.6%**	**7.9%**	**3.4%**	**4.5%**	**5.0%**	**5.4%**
International comparable peers																			
Murgitroyd Group PLC	**GBP**	**87**	**85**	**15.7**	**14.3**	**13.6**		**10.6**	**9.5**	**9.2**		**3.5%**	**10.3%**	**4.7%**		**2.9%**	**3.1%**	**3.3%**	
RWS Holdings PLC	**GBP**	**939**	**962**	**23.3**	**21.7**	**20.6**	**18.5**					**39.0%**	**7.5%**	**5.2%**	**11.6%**	**2.1%**	**2.3%**	**2.5%**	
Michael Page International PLC	GBP	2,055	1,926	17.1	18.2	15.9	10.4	10.1	10.6	9.6		4.5%	-6.2%	14.6%	52.9%	3.8%	3.6%	4.0%	3.6%
Sthree PLC	GBP	559	567	12.1	12.7	10.6		7.1	7.0	6.4		11.3%	-4.8%	19.3%		5.6%	5.7%	5.7%	
Corporate Executive Board	USD	2,452	3,418	14.5	13.5	12.8		11.5	10.2	9.9		5.0%	7.3%	5.4%		2.8%	3.1%	3.1%	
FTI Consulting	USD	2,422	2,831	18.6	17.2	16.0		9.8	9.2	8.9		25.5%	8.4%	7.3%					
Hays PLC	GBP	3,478	3,413	16.7	16.9	16.3	13.7	9.8	9.9	9.7	8.1	13.7%	-1.2%	3.7%	18.8%	2.2%	2.9%	3.3%	4.9%
Robert Walters PLC	GBP	473	455	15.8	15.1	13.0		8.8	8.3	7.4		16.8%	4.5%	16.4%		2.3%	2.5%	2.8%	
Average of International peers				**16.7**	**16.2**	**14.9**	**14.2**	**9.7**	**9.2**	**8.7**	**8.1**	**14.9%**	**3.2%**	**9.6%**	**27.8%**	**3.1%**	**3.3%**	**3.5%**	**4.2%**
Median of International peers				**16.2**	**16.0**	**14.8**	**13.7**	**9.8**	**9.5**	**9.2**	**8.1**	**12.5%**	**5.9%**	**6.3%**	**18.8%**	**2.8%**	**3.1%**	**3.3%**	**4.2%**
Overall Peer Group Average				**17.8**	**16.2**	**14.5**	**13.3**	**10.9**	**9.7**	**8.8**	**8.1**	**37.6%**	**10.9%**	**13.1%**	**12.9%**	**3.3%**	**3.9%**	**4.4%**	**5.3%**
Overall Peer Group Median				**16.9**	**16.2**	**14.4**	**13.3**	**10.1**	**9.8**	**9.1**	**8.3**	**16.8%**	**8.4%**	**11.6%**	**9.8%**	**3.2%**	**3.8%**	**4.2%**	**5.1%**

[1] *QIP FY17e Divident Yield is based on pariod from 30 August 2016 to 30 June 2017 (and therefore is not an annualised yield).*

SOURCE: BLOOMBERG AND BELL POTTER SECURITIES ESTIMATES

QIP IS VERY DIFFERENT FROM SLATER & GORDON AND SHINE CORPORATION

We have excluded Slater & Gordon (SGH) and Shine Corporate (SHJ) deliberately from our earlier broader peer group table as we consider these very difference businesses. The key differences are as follows:

- **We believe QIP has higher revenue visibility**: As discussed earlier in this report, this is a function of (1) QIP invoicing clients at frequent intervals at the conclusion of each process step or work task throughout the various stages of the IP lifecycle; (2) the 'pathway' of steps when processing applications; (3) lead indication from PCT filing volumes; plus (4) an annuity stream derived from patent and trade mark renewals.
- **Minimal Work-in-Progress (WIP)**: The frequent invoicing of clients ensures WIP is kept to a minimum and significantly enhances the risk profile of QIP's revenue (as noted earlier). QIP does no work on a contingency basis. By comparison, with litigation as the core service, SGH and SHJ are bas ed on a 'no win – no fee' business model. This means cash inflow is only generated at the conclusion of a case if the case outcome is successful. This results in a high level of WIP (BPe WIP days of ~400), higher risk to revenue forecasting and potentially 'lumpy' cash inflow.
- **Stronger cash flow generation**: QIP's minimal level of WIP and low working capital requirements support high cash flow conversion (gross conversion in the region of ~100%). By comparison, cash flow conversion for SGH and SHJ is weak, typically in the region of 40% on a gross conversion measure. In other words, SGH's and SHJ's cash flows lag profit recognition significantly and conversion rates are less certain.
- **More 'sticky' blue-chip client base**: QIP's client base is 'sticky' including many blue-chip international entities that together provide repeat annuity-style work. SHJ and SGH rely mostly on one-off cases from individuals/consumers.
- **Higher barriers to entry** at the top blue-chip corporate client level vs Shine or Slater & Gordon's operations.

- **Higher platform scalability**: We believe QIP's platform has greater scalability potential as filing volumes increase and through investment in ICT automation. By comparison SGH and SHJ are somewhat constrained by how many cases each case manager can manage & the need to have a larger office network for client convenience.
- **Company specific challenges with SGH and SHJ**: Finally both SGH and SHJ are currently suffering operational challenges that are company specific. SGH's issues are on the back of its recent UK acquisition, high level of gearing and regulatory issues surrounding accounting methodology. SHJ is suffering challenges with staffing and its case management process.

Proposed board & management overview

Proposed Board of Directors

QIP's proposed Board includes five members; one in executive capacity as below.

Figure 55 – Proposed Board of directors

Name	Title
Richard England	Independent Non-Executive Chairman
Leon Allen	Managing Director
Cameron Judson	Non-Executive Director
Sonia Petering	Non-Executive Director
Abigail Cheadle	Non-Executive Director

SOURCE: COMPANY REPORTS

A brief background of each director is below:

Richard England – Independent Non-Executive Chairman

Richard is currently Chairman of Ruralco Holdings Limited. In addition Richard is a Non-Executive Director of Macquarie Atlas Roads Limited, Nanosonics Limited and Japara Healthcare Limited. Richard was formerly a partner at Ernst & Young from 1988 to 1994 and a consultant until 2003. Richard is a Fellow of the Institute of Chartered Accountants in Australia and a Member of the Australian Institute of Company Directors.

Leon Allen – Managing Director

Leon joined DCC in 1995 and has worked as a patent attorney since 1981. Leon has been managing partner and chairman of DCC's national management Board since 2011. Leon is a past president of Patent and Trade Mark Attorneys of Australia having served on the Council from 1992 to 2013. Leon has served two terms on the Advisory Council on Intellectual Property to the Federal Government, the second as Chair. Leon is a Fellow of the International Federation of Patent Attorneys Academy of Education teaching patent drafting in Europe as well as senior Fellow of the University of Melbourne.

Cameron Judson – Non-Executive Director

Cameron was CEO and Managing Director of Chandler Macleod Group Limited from 2012 to July 2015. Cameron began working for Chandler Macleod in 2005 and held various operational and executive roles. Cameron holds a Bachelor of Arts from the University of NSW and a Masters of Business Administration (Executive) from the Australian Graduate School of Management.

Sonia Petering – Non-Executive Director

Sonia is currently a director of Virtus Health Limited, Transport Accident Commission TAL Dai-ichi Australia Pty Ltd (formerly Tower Australia Ltd) and Rural Finance Corporation where she was Chair of the Board from 2009 -2016. Sonia has also chaired various board committees including Audit and Risk, Marketing and Road Safety, Remuneration and Capability Committees. Sonia is an experienced corporate lawyer who commenced her own legal practice in 2001.

Abigail Cheadle – Non-Executive Director

Abigail is a chartered accountant and executive director with over 20 years' experience in Australia, Asia, Middle East and Europe. Abigail was formerly a certified fraud examiner and member of the Singapore Institute of Directors and the Australian Institute of Company Directors. Abigail is currently CEO and Executive Director of CompletePlace Pty Ltd an emerging real estate software business. Abigail was a partner and head of forensics at KordaMentha for 4 years and was lead director of forensics at Deloitte for 2 years.

Executive management

QIP's senior executive managers are set out below in Figure 56.

Figure 56 – Executive management

Name	Title
Leon Allen	Managing Director
James Cherry	Managing Principal FPA
Warren Howe	Chief Financial Officer

SOURCE: COMPANY REPORTS

A brief description of James Cherry and Warren Howe is below. Refer to the prior section (Proposed Broad of Directors) for a brief description of Leon Allen.

James Cherry – Managing Principal at FPA

James joined the then Freehill Hollingdale & Page in 1990 and registered as a patent attorney in 1995. James has been a partner in the patent practice since 1996 and has acted primarily as a patent attorney since 2000. He was also a partner in the Freehills law firm from 1997 to 2012. James is a Fellow of the Institute of Patent and Trade mark attorneys of Australia. James holds an LLB (Hons) and a B Sc from The University of Melbourne.

Warren Howe – Chief Financial Officer

Warren joined FPA in 2015 as Chief Operating Officer. Prior to FPA, Warren held various operational and executive roles at Crowe Horwath, including CEO – Business Services. Warren led the Business Services division from start up to Australasia's fifth largest Accounting firm, growing revenue from $20 million in 2000 to $190 million in 2006. He also spent 10 years with Deloitte in client facing roles. Warren holds a Bachelor of Business with distinction from Monash University and is a member of the Institute of Chartered Accountants.

QANTM IP Limited
as at 12 September 2016

Recommendation	Buy
Price	$2.37
Target (12 months)	$2.85

Table 1 - Financial summary

Jun Year end	2015	2016e	2017e	2018e	2019e
Profit & Loss (A$m)					
Service charges	73.7	81.8	87.0	90.5	94.2
. . . % change	9.6%	11.0%	6.3%	4.1%	4.1%
Associate charges	23.4	25.3	26.3	27.4	28.5
Other income	4.6	4.9	2.0	2.5	2.8
Total revenue	101.7	112.0	115.2	120.4	125.5
. . . % change	9.5%	10.1%	2.8%	4.5%	4.3%
EBITDA	20.9	26.6	28.4	30.6	32.9
. . . % change	31.5%	27.3%	7.0%	7.5%	7.4%
Depreciation	(0.8)	(0.8)	(0.9)	(1.0)	(1.0)
EBITA	20.1	25.8	27.5	29.6	31.8
Net Interest	(0.9)	(0.9)	(0.9)	(0.3)	(0.0)
PBTA	19.2	24.9	26.6	29.3	31.8
Tax expense	(5.8)	(7.5)	(8.0)	(8.8)	(9.6)
. . . tax rate	30%	30%	30%	30%	30%
Associates	-	-	-	-	-
Minorities/Prefs	-	-	-	-	-
Underlying NPATA	**13.5**	**17.4**	**18.6**	**20.5**	**22.3**
. . . Change	35.4%	29.5%	7.0%	10.1%	8.6%
Amortisation	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Underlying NPAT	**12.5**	**16.4**	**17.6**	**19.6**	**21.3**
Abs. & extras.			(3.1)	-	-
Reported Profit			**14.5**	**19.6**	**21.3**
Cashflow (A$m)					
EBITDA	20.9	26.6	28.4	30.6	32.9
Working capital changes	-	(22.4)	(1.7)	(1.1)	(1.1)
Net Interest Expense	-	(0.9)	(0.9)	(0.3)	(0.0)
Tax	-	(7.1)	(7.7)	(8.4)	(9.2)
Other operating items	0.3	21.2	0.5	0.2	0.5
Operating Cash Flow	**21.2**	**17.4**	**18.8**	**21.0**	**23.1**
Capex	(0.8)	(1.3)	(1.0)	(1.1)	(1.1)
Free Cash Flow	**20.4**	**16.1**	**17.7**	**19.9**	**21.9**
Acquisitions	-	-	-	-	-
Disposals	-	-	-	-	-
Dividends paid	-	-	(5.0)	(15.4)	(17.1)
Other investing items	-	-	(3.1)	-	-
Equity	-	-	-	-	-
Debt increase/(reductic	**-**	**-**	**(9.6)**	**(4.5)**	**(4.8)**
Balance Sheet (A$m)					
Cash	-	1.7	1.0	0.3	5.1
Receivables	-	30.8	32.7	34.2	35.6
Inventories & WIP	-	-	-	-	-
Other current assets	-	1.2	1.2	1.2	1.2
Current Assets	**-**	**33.7**	**34.9**	**35.6**	**41.9**
Receivables	-	-	-	-	-
Assoc & investments	-	-	-	-	-
Fixed Assets	-	2.4	2.5	2.6	2.7
Intangibles	-	62.9	61.5	60.1	58.7
Other non-curr assets	-	4.7	4.7	4.7	4.7
Non Current Assets	**-**	**70.0**	**68.7**	**67.4**	**66.2**
Total Assets	**-**	**103.7**	**103.6**	**103.0**	**108.1**
Short term debt	-	0.7	0.7	0.7	0.7
Creditors	-	8.4	8.7	9.0	9.4
Provisions	-	4.1	3.9	3.5	3.0
Other curr liabilities	-	-	-	-	-
Current Liabilities	**-**	**13.2**	**13.2**	**13.2**	**13.2**
Long term debt	-	15.6	5.3	-	-
Creditors	-	-	-	-	-
Provisions	-	10.7	11.2	11.5	11.9
Other non curr liabilities	-	0.6	0.6	0.6	0.6
Non Current Liabilities	**-**	**26.9**	**17.1**	**12.1**	**12.5**
Total Liabilities	**-**	**40.1**	**30.3**	**25.3**	**25.7**
Net Assets	**-**	**63.6**	**73.2**	**77.8**	**82.3**
Share Capital	-	206.7	206.7	206.7	206.7
Reserves	-	(144.2)	(144.2)	(144.2)	(144.2)
Retained Earnings	-	1.1	10.7	15.3	19.8
Shareholders Equity	**-**	**63.6**	**73.2**	**77.8**	**82.3**
Outside Equity Interests	-	-	-	-	-
Total Equity	**-**	**63.6**	**73.2**	**77.8**	**82.3**
Net debt/(cash) $m	-	14.6	5.0	0.4	(4.4)

Price	$2.37
Recommendation	Buy
Diluted issued capital (m)	132.9
Market cap ($m)	315.0
Target Price (A$ps)	$ 2.85

Jun Year end	2015	2016e	2017e	2018e	2019e
Valuation Ratios					
EPS (on NPATA) (cps)	10.1	13.1	14.0	15.4	16.8
. . . % change		29.5%	7.0%	10.1%	8.6%
PE (based on NPATA) (x)	23.4	18.1	16.9	15.3	14.1
EV/EBITDA (x)	15.77	12.39	11.58	10.77	10.03
EV/EBITA (x)	17.65	13.52	12.63	11.67	10.81
NTA ($ps)		0.01	0.09	0.13	0.18
P/NTA (x)		449.96	26.76	17.79	13.34
Book Value ($ps)		0.48	0.55	0.59	0.62
Price/Book (x)		4.95	4.30	4.05	3.83
DPS (¢ps)			9.2	12.4	13.4
. . . % pay-out of NPATA			-	80.0%	80.0%
Yield (%)			3.9%	5.2%	5.7%
Franking (%)			100%	100%	100%
Performance Ratios					
Total revenue growth (%)	9.6%	10.1%	2.8%	4.5%	4.3%
EBITDA growth (%)	31.5%	27.3%	7.0%	7.5%	7.4%
EBITDA/sales margin (%)	20.6%	23.8%	24.7%	25.4%	26.2%
EBITA/sales margin (%)	19.8%	23.0%	23.9%	24.6%	25.4%
Gross cash conversion (%)	101.4%	95.5%	96.1%	97.1%	98.2%
Free cash-flow yield (%)	6.5%	5.1%	5.6%	6.3%	7.0%
ROE (%)	n/a	n/a	25.5%	25.8%	26.6%
ROIC (%)		32.7%	23.3%	25.2%	27.3%
Capex/Depn (x)	1.0	1.6	1.1	1.1	1.1
Net interest cover (x)	21.3	27.1	29.4	97.5	38,067.0
Net Debt/EBITDA (x)	n/a	0.5	0.2	0.0	n/a
Net debt/equity (%)		23.0%	6.8%	0.6%	-5.3%
Net debt/net debt + equity (%)		18.7%	6.3%	0.6%	-5.6%

Half yearly (A$m)	2H15	1H16	2H16	1H17e	2H17e
Service charges				43.4	43.5
Associate charges				13.1	13.2
Other income				1.0	1.0
Total revenue				57.5	57.7
EBITDA				14.1	14.3
Depreciation				(0.5)	(0.5)
EBITA				13.7	13.8
Net Interest				(0.5)	(0.4)
PBTA				13.2	13.4
Tax expense				(4.0)	(4.0)
Associates				-	-
Minorities/Prefs				-	-
Underlying NPATA				**9.2**	**9.4**
Amortisation				(0.5)	(0.5)
Underlying NPAT				**8.7**	**8.9**
Abs. & extras.				(1.6)	(1.6)
Reported Profit				**7.2**	**7.4**

NOTE: FY2016 figures include reviewed actuals from QIP for Total revenue and EBITDA. Remaining figures are estimates (BPe using Prospectus forecasts).

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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