

# FINANCIAL RESULTS

Investor Presentation

March 2019

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## Company Summary (LAW.ASX)

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### Capital structure

Share Price	A\$0.07
Fully paid ordinary shares	483.6m
Warrants / Options	454.2m
Market Capitalisation	A\$33.4m
Cash	A\$5.1m
Debt	A\$181.6m
Enterprise Value	A\$209.8m

### Shareholders

David Wattel	107.6m	22.2%
Mark Siegel	107.6m	22.2%
Washington H. Soul Pattinson	43.8m	9.1%
Lucerne Asset Mgt and associates	42.3m	8.7%
EGP Capital Pty Ltd	33.8m	7.0%

### Operating Businesses

### Contribution to this Result

National Health Finance (USA) - Medical Lien Funding	3 months
JustKapital Finance (Australia) – Disbursement Funding	6 months
Litigation Funding (Other) - Lawsuit Financing (in run-off)	6 months

### Board & Management

Tim Storey	Non-Executive Chairman
Diane Jones	CEO, Executive Director
Anthony Murphy	Non-Executive Director
David Wattel	Executive Director
Anthony Hersch	Chief Operating Officer
Craig Beatton	Chief Financial Officer
Richard Cruz	Chief Operating Officer - NHF
Sarika Merchant	Chief Financial Officer - NHF

FX Assumed in this presentation: AUD/USD: 0.7058

## What problem are we solving?

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### THE PROBLEM

In both Australia and the US, before accident victims can receive compensation from a legal claim, they often incur unfunded out-of-pocket expenses.

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### OUR SOLUTION – JustKapital Finance (Australia)

We fund independent medical expert reports and other third party costs (but not legal costs) incurred to assist the progress of the claim through the legal system.

Net Receivables<sup>1</sup>: US\$27.1m (A\$38.4m)

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### OUR SOLUTION – National Health Finance (US)

We fund personal injury liens related to medical expenses incurred by an accident victim which are covered by the at fault and/or the victim's automobile insurer.

Net Receivables<sup>1</sup>: US\$96.0m (A\$136.0m)

<sup>1</sup> Net Receivables is calculated as total gross invoiced amount (or Gross Receivables) less a provision for un-recoverability or doubtful debts as at 31 December 2018. The financial statements discounts these amounts further to take into account a fair value adjustment and the unrecognised day 1 margin (in accordance with AASB 9 and AASB15).

## Results Highlights

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- LawFinance has undergone a profound change over the last 12 months including:
  - The acquisition of National Health Finance Holdco, LLC and its various subsidiaries (“NHF”).
  - The associated acquisition fund raising, cornerstoned by Washington H Soul Pattinson and supported by our two major shareholders: EGP Capital and Lucerne Investment Partners.
  - The wind-down of the Litigation Funding operation.
  - The change in year end to December; adoption of AASB9 & AASB15; and, the change in the reporting currency to US\$.
- We have incurred significant costs of US\$5.8m undertaking this transformation, including expenses suffered due to relisting delays. We recommenced trading on 2 January 2019 under the new ticker LAW.ASX.
- The integration of the two organisations is well underway and we have already developed strong working relationships across the Group.
- Due to one-off expenses, including a US\$3.7m write-down of our litigation funding assets, partial period contributions and a change in the accounting standards, the reported P&L and Cashflow are not meaningful reflections of the company’s ongoing operations, or outlook.
- The core asset of the company is its book of Net Receivables, which is the cash we expect to receive from our customers.
- [The acquisition of NHF has materially increased the scale of the company. The Net Receivables as at 31 December 2018 were US\\$123.1m \(A\\$174.4m\), up 386% \(Dec-17: A\\$36.0m\).](#)
- The collection of these receivables will generate significant operating cashflow in the years ahead.
- After a long journey completing this transaction we are very excited about the future. We have substantial cashflow; US dollar earnings; and a business that is cyclically resilient. Our opportunity for growth in the years ahead is material and we look forward to updating you on our progress over the course of 2019.

## Summary P&L

(US\$'000)	JustKapital Finance (Australia)	NHF (USA)	Other	LawFinance Group
Period	6 mths	3 mths	6 mths	
<b>Revenue</b>				
Net Income from disbursement funding/medical liens	2,008	141	0	2,149
Other Revenue	94	0	98	192
Other Income		600	1,734	2,334
<b>Total Revenue</b>	<b>2,102</b>	<b>741</b>	<b>1,832</b>	<b>4,675</b>
<b>Segment Result</b>	<b>1,185</b>	<b>(945)</b>	<b>(8,656)</b>	<b>(8,416)</b>
Depreciation and Amortisation	(25)	(6)	(51)	(82)
Finance Costs	(1,064)	(1,914)	(2,355)	(5,333)
Loss before Income tax benefit	96	(2,865)	(11,062)	(13,831)
Income tax benefit				2,404
<b>Loss after Income tax benefit</b>				<b>(11,427)</b>
One off costs				
NHF Aquisition costs				2,612
Accounting (noncash) charge for Warrants issued				3,156
Litigation Funding write-downs				3,690
<b>Underlying profit after adding back one off costs</b>				<b>(1,969)</b>
Deferred profit earned in period (inc Fair Value)	1,042	1,437	-	2,479

- The year-end results included only a 3-month contribution from NHF and a 6-month contribution from our Australian operations. We incurred significant one-off costs to write-down the litigation portfolio value and complete the NHF transaction and the ASX relisting.
- In addition, an accurate depiction of our profitability is further obscured by the first period adoption of the new accounting standards for the NHF business.
- The effect of AASB9 and AASB15 (see slide 17) is to defer profits earned into future periods. As this is the first period of adoption for NHF, this deferral is not counterbalanced by recognising historical profits earned, as will be the case in the future. Operating expenses are however recognised in full.
- Profits accrued, but not yet recognised (including Fair Value adjustments) is currently US\$26.2m.

## Cashflow

<b>(US\$'000)</b>	<b>6 months to Dec 2018</b>
<b>Cashflow From Operations</b>	
Receipts from Customers	10,674
Payment to Suppliers and employees	(4,632)
Interest Received	72
<b>Net Operating Cashflow</b>	<b>6,114</b>
<b>Cashflow From Investing</b>	
Payments for New Invoices (Cost of Originations)	(9,600)
Payments for Property, Plant and Equipment	(158)
Proceeds from Litigation Portfolio	2,249
Payment for purchase of business	(32,601)
Intercompany Loans	30,546
<b>Net Investment Cashflow</b>	<b>(9,564)</b>
<b>Cashflow from Financing</b>	
Proceeds from issue of shares	5,038
Proceeds from Borrowings	11,268
Repayments of Borrowings	(10,525)
Interest and fees	(4,953)
<b>Net Financing Cashflow</b>	<b>828</b>
Movement in cash	(2,622)
Opening Balance	934
Effect on exchange rate changes	5,384
<b>Closing Balance</b>	<b>3,696</b>

- Operating Cashflow was US\$6.1m which we expect to grow meaningfully in future reporting periods.
- The Litigation Funding business is in run-off and as cases settle this operation should generate at least US\$14.0m in net cashflow to the Group over the next 18 months.
- Our NHF operations are collecting ~US\$5.5m a quarter, but we hope to materially increase this over 2019 by data analysis from new systems (NetSuite – now deployed) and applying techniques learned from managing collections in Australia.
- The period included significant costs to complete the acquisition of NHF.

## Balance Sheet

As at 31 December 2018

(US\$'000)

### Current Assets

Cash	3,696
Accounts Receivable (Carrying Value)	27,460
Other	2,490
<b>Total</b>	<b>33,646</b>

### Non Current Assets

Goodwill	42,452
Accounts Receivable (Carrying Value)	69,438
Litigation Portfolio	6,864
Deferred Tax Asset	6,789
Other	1,371
<b>Total</b>	<b>126,914</b>

**Total Assets 160,560**

### Liabilities

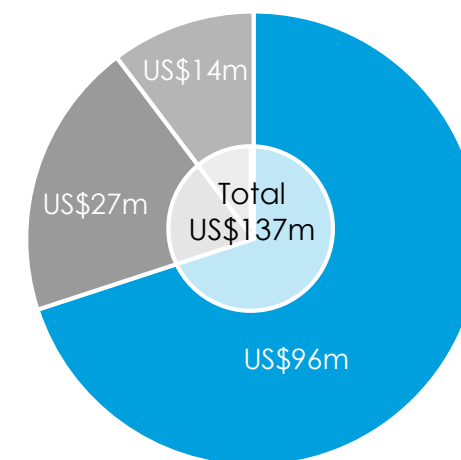
Accounts Payable	7,555
Debtor Finance (AssetSecure and Atalaya)	59,931
Debt	70,792
Other	4,308
<b>Total Liabilities</b>	<b>142,586</b>

**Net Assets 17,974**

- The scale of our business has changed significantly and we now have an estimated US\$137m (A\$194m) in cash to be collected from outstanding Net Receivables and the Litigation portfolio.
- The vast majority will be collected in the next three years allowing us to substantially reduce corporate debt – used to fund the acquisition of NHF - over the next four years.
- We have headroom of US\$4.7m under the Australian AssetSecure facility and US\$40.1m under the US Atalaya facility, which will allow us to keep growing, despite applying cashflow to reduce our corporate debts.
- In the US, 90% of our origination costs (new loans) are funded by Atalaya. In Australia the entire origination cost is funded by AssetSecure.

### Cash & future cash to be collected

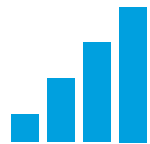
- NHF Net Receivables (US\$96m)
- LawFinance Net Receivables (US\$27m)
- Litigation book (approx. US\$14m expected)







We are one of the market leaders in both Australia and the US. Our services are high margin, acyclical and have limited competition. We have growth opportunities in both jurisdictions.



### AUSTRALIA - OPPORTUNITY

We expect to collect over US\$27m in cash from existing receivables. We anticipate steady growth, improving cash generation and there is both the opportunity for transaction derived growth and expansion into ancillary financing services.



### US - OPPORTUNITY

We expect to collect over US\$96m in cash from existing receivables. In the last five years our network has doubled and we now have access to capital to develop a market that is under-serviced and has the potential for significant growth.



### JUSTKAPITAL

ESTIMATED MARKET SHARE: 35%

MARKET POSITION: Top two

GROWTH: GDP Plus



ESTIMATED MARKET SHARE: 16%

MARKET POSITION: Top three

GROWTH: Underserviced - addresses US\$20B personal injury claims market

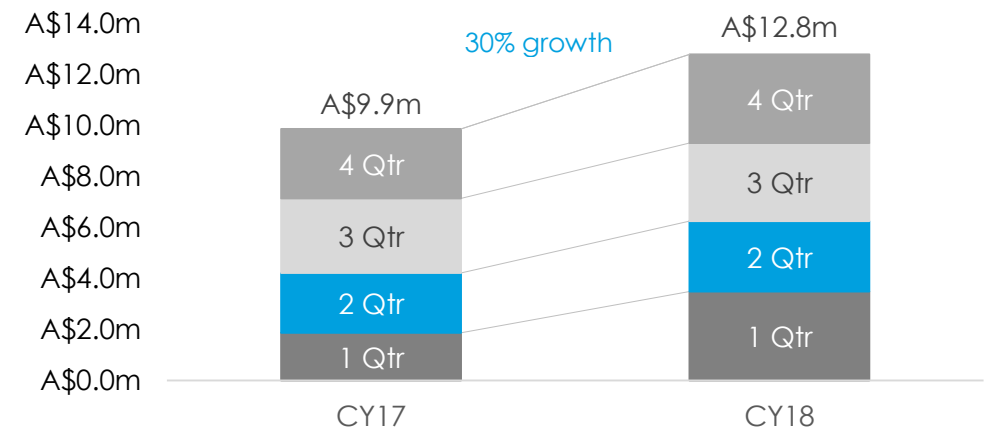
<sup>1</sup> Estimated market size- this is based on management best estimation of the market size, but due to the lack of transparency or independent analysis this may prove to be inaccurate.

## Segments: JustKapital Finance (Australia)

- The disbursement funding operation continues to enjoy consistent improvement in all areas of operations.
- We are making attractive returns on investment, with a typical payback of just 18 months.
- Net Receivables (the cash we expect to receive over the coming years) has expanded 21% and now stands at A\$38.4m (US\$27.1m).
- We have expanded into all states and are now actively working with 157 legal firms.
- We have excellent visibility with US\$5.8m (A\$8.3m) profit yet to be recognised under AASB 9, and a steady pipeline of disbursement funding opportunities.
- We are optimistic that shareholders can expect solid growth from this division in the year ahead.

	31-Dec-17	31-Dec-18	Change
A\$'000 (statutory AASB9)	12mths	12mths	pcp
Net Revenue Recognised	4,572	5,408	18%
Other Income	743	336	(55%)
COGS	(328)	(190)	(42%)
Gross Profit	4,987	5,554	11%
Operating costs	(1,731)	(1,851)	7%
EBITDA (statutory AASB9)	3,256	3,703	14%

### JustKapital Finance - Quarterly Cash Collections



## Litigation Funding (Australia) – *in run-off*

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The Litigation Funding operations are in run-off. This division funds all fees, including legal costs and disbursements associated with large scale litigation.

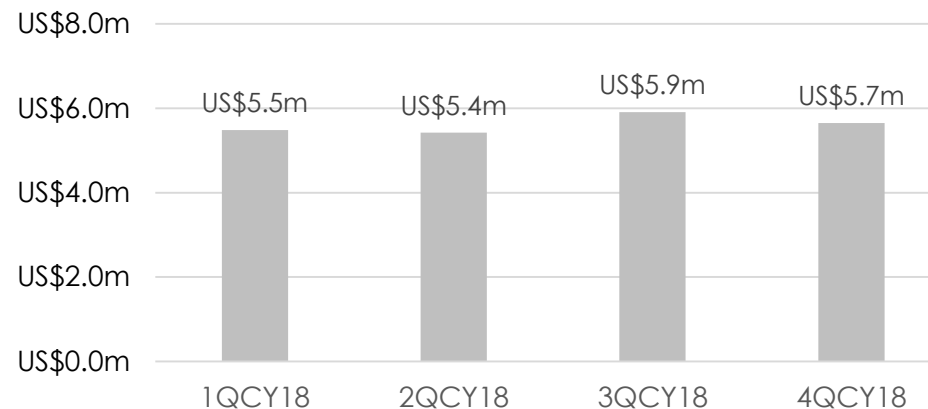
New management made the decision to wind down these operations as litigation funding is unpredictable, requires significant capital and has become more competitive in Australia.

- 11 Cases funded.
- 4 Cases now externally financed.
- 4 Cases settled. Awaiting further funds from 3 of these cases.
- **Expected Proceeds: US\$14.0m (if all remaining cases are successful) expected to be received in next 18 months.**
- Expenses totalling US\$3.7m were incurred in relation to write-downs in the carrying value of the Group's litigation funding assets.

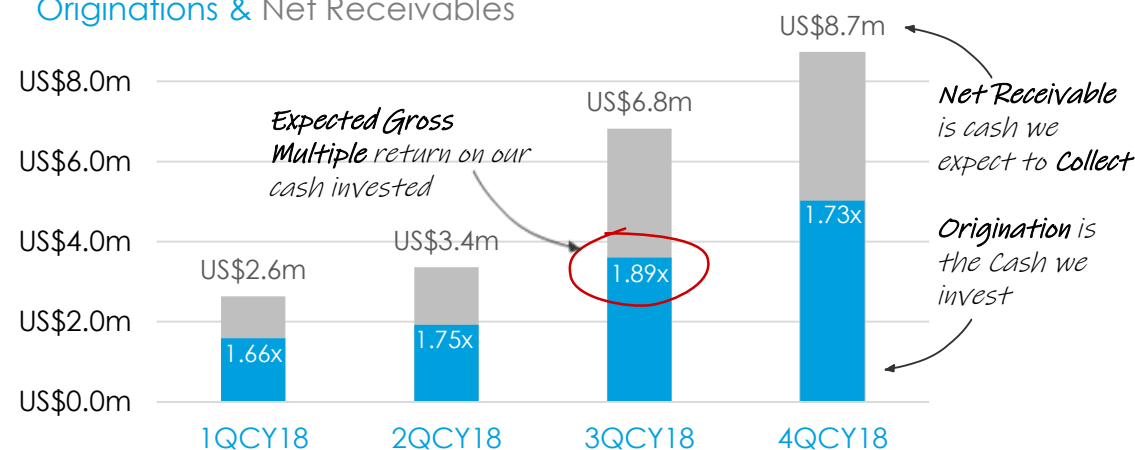
## Segments: NHF – trends explained

- The three key metrics for our NHF business are:
  - Collections – this is the amount of money we are recovering from our receivables.
  - Originations – this is the capital deployed to purchase the lien rights to the medical expenses of the accident victim – this is 90% funded by our financing partner Atalaya.
  - Growth in Net Receivables – cash we expect to receive in future Collections.
- Our return on capital is based on the cash collection (we aim for 1.65x) less the origination costs. We aim for 1.65x the amount deployed.
- In the December 2018 quarter, NHF had a consistent Quarterly Cash Collection profile (US\$5.7m) to the previous quarters.
- We expect to materially improve NHF's average collection period. We estimate there is US\$96.0m of cash to be collected on the current book of Net Receivables and our aim is to collect the majority of this over the next three years.
- New Originations, and resulting growth in Net Receivables, have exhibited a steep uptrend in recent quarters at multiples higher than the targeted 1.65x – this bodes well for the future.

### Total Collections



### Originations & Net Receivables



NHF continued - Business model is beneficial to each entity that is party to the claim



## MEDICAL PROVIDER'S BENEFIT

- Allows the physician to focus on patients.
- Ensures timely payment to medical providers.



## ATTORNEY'S BENEFIT

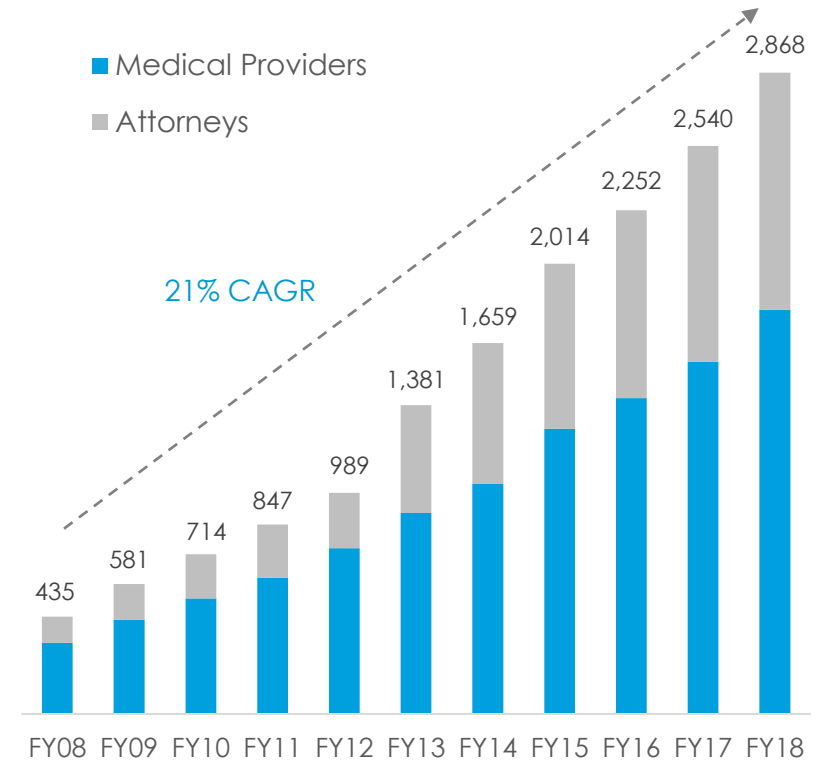
- Assists attorneys to obtain medical care for clients.
- Removes "gap in care" from delayed treatment which can be used to minimise payout of the victim's claim.
- Assists with maximising the victim's claim.
- Strong referral network with medical providers.



## PATIENT'S BENEFIT

- Provides the victim with a level of medical care they would likely not otherwise receive.
- Avoids delays in obtaining medical care.
- Provides the opportunity for the victim to achieve improved compensation under their claim.
- NHF enables the patient to access premium care without the need for personal insurance coverage.


## NHF Referral Network







## Integration plan and milestones

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### Phase 1: first 6 months to March 2019

- Financial integration – deploy NetSuite across NHF and merge accounts – [Netsuite integration completed on 28 February](#).
- Review all existing financing facility arrangements.
- Accelerate originations in US and Australia.
- Initial rollout of NHF 3D render product.
- Change Year-end to December and change to US\$ reporting.
-  Improve NHF Cash Collections and implement autonomy and automation.
-  Appoint key personnel to provide more managerial support.

### Phase 2: to 31 December 2019

-  Complete realisation of Litigation Funding operations.
-  Improve existing financing facility arrangements.
-  Reorganise financing to include term debt.
-  Continue rollout of NHF 3D render product.



Appendix

## NHF business model

### Illustrative model

Origination cost	100	...our contribution
Receivable funding	900	...debt financing
Cash invested to fund medical costs	1,000	...cash to be invested
Expected Return multiple	1.65x	...return on investment net of provision for losses
Expected Return	1,650	

Cashflow	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Cash collection profile	-	5%	25%	35%	30%	5%
Cash invested	-1,000					
Cash collected		83	413	578	495	83
Operating costs		-99	-17	-17	-17	-17
Interest		-119	-137	-103	-42	0
Cashflow	-1,000	-136	259	458	437	66



### SUMMARY

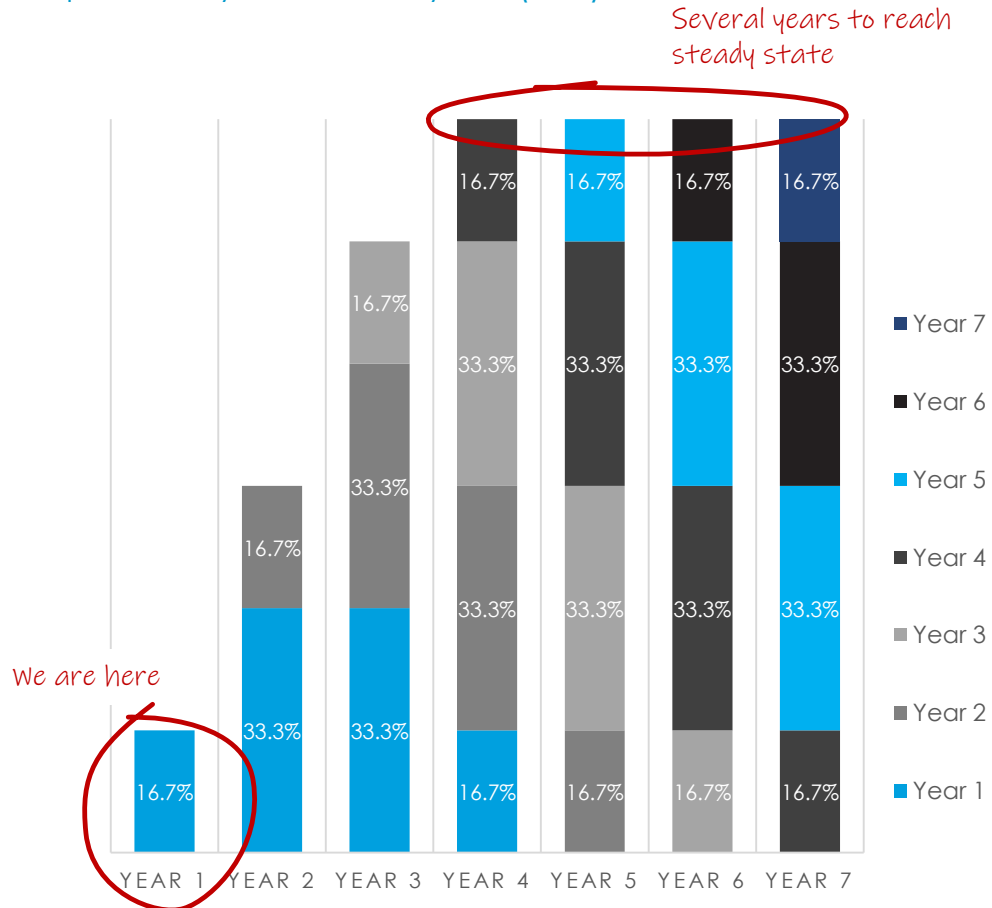
Gross Cash Received	1,650
Costs & Interest	-567
Net Cash Received	1,083
Debt Repaid	-900
<b>Net Cash return</b>	<b>183</b>
Our contribution	100
Return on cash invested	83%

- We invest US\$100 and finance US\$900, which is used to purchase the lien rights for the medical expenses of the accident victim.
- The victim's law firm initiates legal action against the at-fault driver's insurance company for compensation to cover medical costs, other expenses and pain & suffering.
- In most cases the parties settle the claim and on average NHF has enjoyed a 1.77x return on the Cash Invested (we assume 1.65x in future).
- Cash Collection profile – sometimes cases settle in year 1, sometimes not until year 5 - the sooner the better for the victim and us.
- Overall, using these conservative inputs, NHF makes US\$183 return on each US\$100 invested.
- **By improving the speed of collection and reducing the cost of financing, we expect to be able to increase this return.**



## AASB9 - The problem with profit recognition

Example of how the change to AASB9 impacts profitability in the initial years (NHF)



In CY19 both NHF and LawFinance would be profitable under historical accounting treatment

New accounting treatment means that we are changing the way profit is recognised to reflect the approximate cash receipts rather than the profit as it is created.

Ultimately this is a positive as it will provide more profit visibility, more stable profits and more accurately match the Cashflow with the P&L.

In the initial years of implementation, as we have no historical profit to recognise, this will significantly impact profitability, albeit with no change to cashflow and therefore the real economics of our business.

For the next couple of years, cashflow not profit will be the better measure of the Company's economic performance.

LawFinance (Australia) will recognise profits over ~2 years, we expect NHF to recognise profits over ~3.5 years

## Key Performance Indicators

(US\$m)	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020
<b>Cash Collections</b>							
USA	5.7						
Australia	2.5						
Total	8.2	0.0	0.0	0.0	0.0	0.0	0.0
<b>Originations</b>							
USA	4.7						
Australia	2.4						
Total	7.1	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Receivables</b>							
USA	96.0						
Australia	27.1						
Total	123.1	0.0	0.0	0.0	0.0	0.0	0.0
<b>Deferred profit including Fair Value (reported half yearly)</b>							
USA	20.4						
Australia	5.8						
Total	26.2		0.0		0.0		0.0
FX (AUD/USD)	0.7058	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

- Due to the challenges of providing a P&L that accurately reflects the economics of the business while we await the profit recognition under AASB 9 to *catch-up*, management will be providing updates on the key performance indicators of the operations.
- Deferred Profit** is an internal measure and reflects the profit that has been earned but not yet recognised through the P&L. This figure will include Fair Value adjustments, which removes the reduction in the profit from the time value of money to give the actual profit which will flow through the P&L in future years.



THANK YOU

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