

# 1H19 FINANCIAL RESULTS

Investor Presentation  
August 2019

## Disclaimer & Forward Looking Statements

---

This Presentation is provided by LawFinance Limited (the Group).

You should not rely upon anything in this presentation and/or any information obtained from the Group, its Directors or their associates in deciding whether or not to seek to participate in the shares of the Group. This is not an offer to subscribe for securities in the Group.

The Presentation may contain quantitative statements of anticipated future performance such as projections, forecasts, calculations, forward-looking statements or estimates all of which are based on certain assumptions (Forward Looking Statements).

The Forward Looking Statements may involve subjective judgements and are based on a large number of assumptions and are subject to significant uncertainties and contingencies, many of which are outside the control of the Group and may not prove to be correct.

No representation or warranty is made that any Forward Looking Statements will be achieved, or occur, or that the assumptions upon which they are based are reasonable or the financial calculations from which they have been derived are correct. Actual future events may vary significantly from the Forward Looking Statements.

Each Recipient should undertake its own independent review of the Forward Looking Statements, including the assumptions on which they are based and the financial calculations from which they are derived.

## Company Summary (LAW.ASX)

---

### Capital structure

Share Price (30 August 2019)	A\$0.06
Fully paid ordinary shares	483.6m
Warrants	452.7m
Market Capitalisation	A\$29.0m
Cash	A\$3.9m
Debt	A\$208.6m
Enterprise Value	A\$233.7m

### 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	40.1m	8.4%

### Operating Businesses

### Contribution to this Result

National Health Finance (USA) - Medical Lien Funding	6 months
JustKapital Finance (Australia) – Disbursement Funding	6 months
Litigation Funding (Other) - Lawsuit Funding (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: 0.702

- Net revenue of US\$3.3m, up 49% on pcp.
- Net Loss of US\$7.7m is largely due to the impact of AASB9 on the earnings contribution from the NHF business.
- Profits not yet recognised in the profit and loss statement are currently US\$28.4m.
- The wind-down of the litigation funding operation is in full swing with the remaining cases expected to be completed by June 2020.
- The integration of NHF into the LawFinance Group is complete and we have developed strong working relationships across the Group.
- The core asset of the Group is its book of Net Receivables (US\$130.1m), which is the cash we expect to receive from our customers and will generate significant operating cashflow in the years ahead.
- US\$14.9m was collected for customers in 1H19. This is expected to be US\$20m in 2H19 (increase of over 35%).
- 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 rest of 2019.

## Summary P&L

<b>(US\$'000)</b>	<b>JustKapital Finance (Australia) 6 mths</b>	<b>NHF (USA) 6 mths</b>	<b>Other 6 mths</b>	<b>LawFinance Group</b>
<b>Period</b>				
<b>Revenue</b>				
Net Income - disbursement funding/medical liens	2,149	1,016	0	3,165
Other Revenue	19	89	49	157
<b>Total Revenue</b>	<b>2,168</b>	<b>1,105</b>	<b>49</b>	<b>3,322</b>
Other income	-	-	581	581
<b>Total Income</b>	<b>2,168</b>	<b>1,105</b>	<b>630</b>	<b>3,903</b>
<b>Segment Result</b>	1,523	(2,154)	(490)	(1,121)
Depreciation and Amortisation	(23)	(219)	(7)	(249)
Finance Costs	(1,015)	(4,099)	(3,987)	(9,101)
Loss before Income tax benefit	485	(6,472)	(4,484)	(10,471)
Income tax benefit				1,973
<b>Loss after Income tax benefit</b>				<b>(8,498)</b>
Foreign currency translation				786
<b>Total comprehensive Loss for period</b>				<b>(7,712)</b>
Deferred profit earned in period	928	4,570	-	5,498

- For the first time the results reflect a full period contribution (six-months) from both NHF (US) and the Australian operations.
- An accurate depiction of our revenue and profitability is still, however, impacted by the application of the accounting standards on the NHF business.
- The effect of AASB9 (see slide 18) is to defer revenue earned today into future periods. As this is in the early stages of application for NHF, this deferral is not counterbalanced by recognising historical revenue earned, as will be the case in the future. Operating expenses are however recognised in full.
- Cash collections (Receipts from Customers on the Cashflow Statement) are almost 4x the Revenue reported through the profit and loss statement.
- Profits not yet recognised is currently US\$28.4m (including Fair Value adjustments).

## Cashflow

<b>(US\$'000)</b>	<b>6 months to Jun 2019</b>
<b>Cashflow From Operations</b>	
Receipts from Customers	14,853
Payment to Suppliers and employees	(5,291)
Payments for disbursement reports and medical liens ( <i>Originations</i> )	(15,852)
Drawdowns from working capital facilities*	17,228
Repayment of working capital facilities*	(9,816)
Interest paid	(4,313)
<b>Net Operating Cashflow</b>	<b>(3,191)</b>
<b>Cashflow From Investing</b>	
Payments for Property, Plant and Equipment	(145)
Payments for other intangibles	(493)
Payments for litigation funding	(973)
<b>Net Investment Cashflow</b>	<b>(1,611)</b>
<b>Cashflow from Financing</b>	
Proceeds from issue of shares	-
Proceeds from Borrowings	5,832
Lease payments	(28)
Interest and fees	(1,940)
<b>Net Financing Cashflow</b>	<b>3,864</b>
Movement in cash	(938)
Opening Balance	3,696
Effect on exchange rate changes	(1)
<b>Closing Balance</b>	<b>2,757</b>

- Operating Cashflow was negative US\$3.2m. However, the core businesses in the US and Australia are both funded by working capital facilities with significant headroom for growth (US\$41m).
- As the remaining cases in the litigation portfolio are completed, US\$20.0m in gross cashflow is expected to be generated to the Group over the next 12 months.
- JustKapital Finance generated cash collections of A\$6.2m (US\$4.4m) in the period which was flat on the same six month of last year A\$6.2m (US\$4.8m).
- The NHF operations generated cash collections of US\$10.4m.
- Data analysis from new systems (NetSuite – now deployed) and applying techniques learned from managing collections in Australia are expected to materially increase the NHF collection rate over the remainder of 2019.
- The targeted collection for receipts from customers in 2H19 is US\$20m.

\* working capital facilities refers to the Atalaya and Asset Secure facilities which fund the core businesses.

## Balance Sheet

As at 30 June 2019

(US\$'000)

### Current Assets

Cash	2,757
Accounts Receivable (Carrying Value)	32,911
Other	2,030
<b>Total</b>	<b>37,698</b>

### Non Current Assets

Accounts Receivable (Carrying Value)	68,795
Litigation Portfolio	6,914
Deferred Tax Asset	8,731
Other	2,538
Goodwill (inc Customer Relationships)	42,287
<b>Total</b>	<b>129,265</b>

**Total Assets 166,963**

### Liabilities

Accounts Payable	10,107
Debtor Finance (AssetSecure and Atalaya)	67,228
Debt (Corporate debt incl purchase of NHF)	78,890
Other	1,616

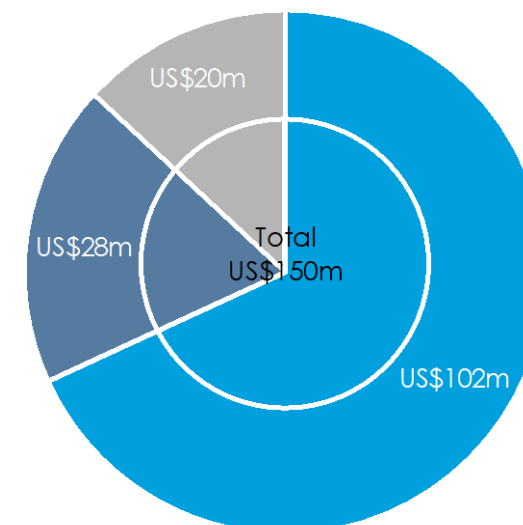
**Total Liabilities 157,841**

**Net Assets 9,122**

- The scale of our business has changed significantly and we now have an estimated US\$130.1m in cash to be collected from outstanding Net Receivables and an additional US\$20m from the litigation portfolio.
- The majority is expected to be collected in the next three years allowing us to substantially reduce corporate debt – used to fund the acquisition of NHF.
- We have headroom of A\$10m (US\$7m) under the Australian facility and US\$34m under the US facility, which will allow us to keep growing our core businesses.
- 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 expected to be collected

- NHF Net Receivables
- JustKapital Finance Net Receivables
- Litigation Portfolio (approx. expected)



## What problem are we solving?

---



### 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.

---



### 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\$28.0m (A\$39.9m)

---



### 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.

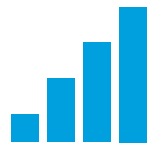
Net Receivables<sup>1</sup>: US\$102.1m (A\$145.4m)

<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 30 June 2019. 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).





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\$28.0m 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\$102.1m 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.

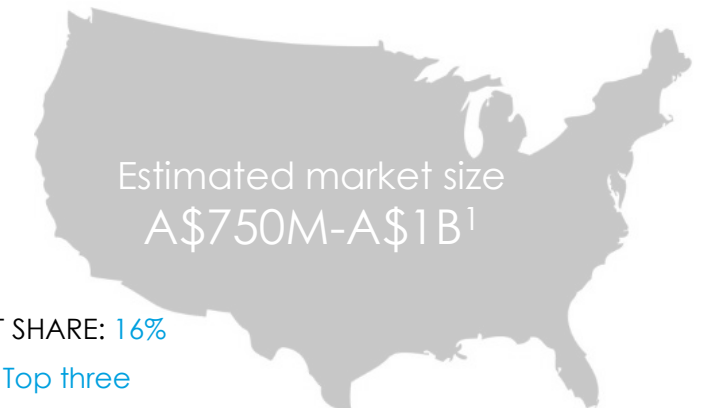


### JUSTKAPITAL

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

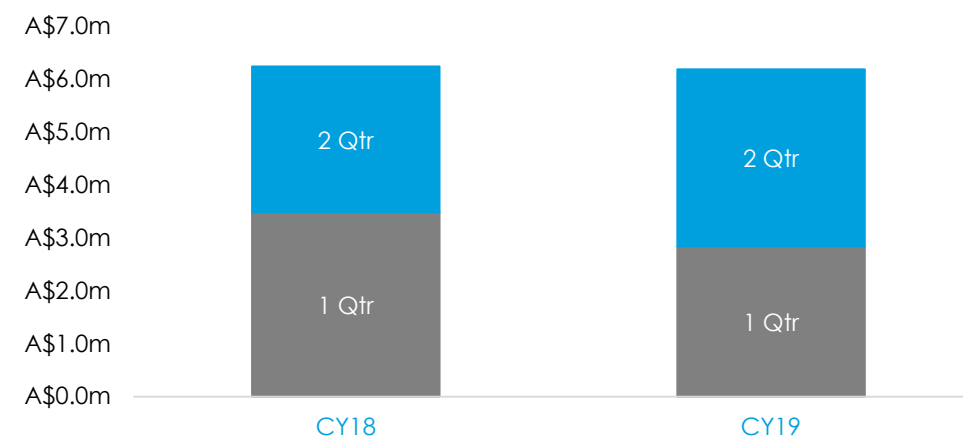
<sup>1</sup> Estimated market size– this is based on management best estimation of the market size, but due to the lack of transparency or independent analysis this may prove to be inaccurate.

## Segments: JustKapital Finance (Australia)

- Our Australian disbursement funding business continues to operate steadily.
- We are making attractive returns on investment, with a typical payback of between 18 - 26 months,
- Net Receivables (the cash we expect to receive over the coming years) has increased by 13% pcp.
- We expect to receive US\$28.0m (A\$39.9m) compared to US\$26.2m (A\$35.4m) 12 months ago.
- We have expanded into all states and are now actively working with 144 legal firms.
- We have excellent visibility with US\$5.3m (A\$7.5m) profit yet to be recognised under AASB9, and a steady pipeline of disbursement funding opportunities.
- Originations and Cash Collections showed an improvement over last year and the prior quarter.
- We are optimistic that shareholders can expect solid performance from this division in the year ahead.

US\$'000 (statutory AASB 9)	30 Jun 18 6 mths	30 Jun 19 6 mths	Change pcp
Net Revenue Recognised	2,019	2,149	6%
Other Income	158	19	(88%)
COGS	(68)	(37)	(46%)
Gross Profit	2,109	2,131	9%
Operating costs	(773)	(608)	(21%)
EBITDA (statutory AASB9)	1,336	1,523	14%

### JustKapital Finance - Quarterly Cash Collections



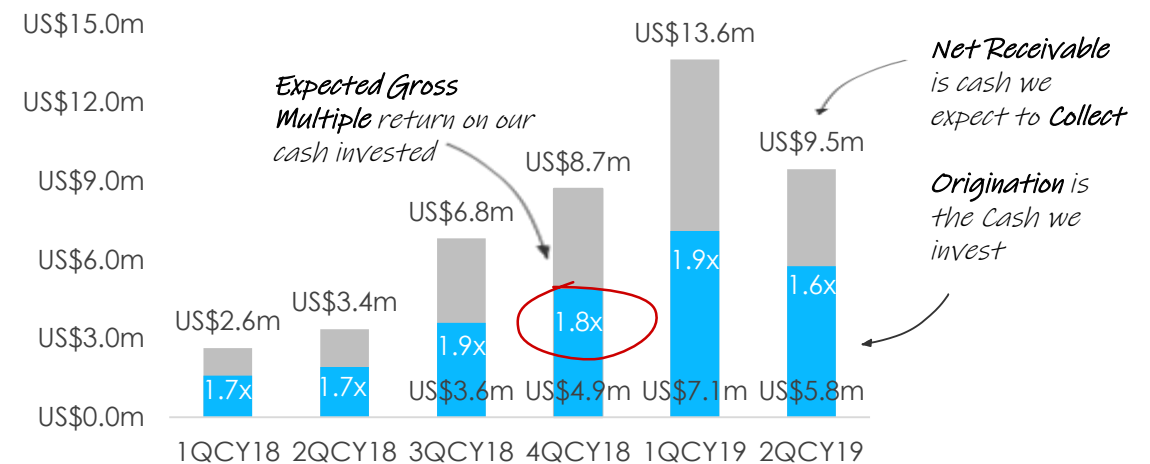
## Segments: NHF (US) – trends explained

- 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 medical lien (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 less the origination costs (we aim for 1.65x).
- In the June 2019 quarter, NHF had a consistent Quarterly Cash Collection profile of US\$5.3m to the previous quarter.
- We expect to materially improve NHF's average collection period. We estimate there is US\$102.1m 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.
- We have grown into a number of states that appear to be collecting quickly so even though the cash on cash return is lower, the IRR is expected to be in excess of 80%.

### Cash Collections



### Originations and Net Receivables



## Segments: NHF (US) – NHF Growth and Success

---

### ER Concierge

ER Concierge is a new programme. In collaboration with hospitals, we have implemented procedures to quickly assess and approve motor vehicle accident victims for funding. This gives immediate access to critical healthcare that the victim may not otherwise be able to afford due to limited or no health insurance coverage.

- A pilot program has been in operation in one hospital.
- We are currently in negotiations and contract review stage with a number of significant US hospital groups to expand the pilot program.

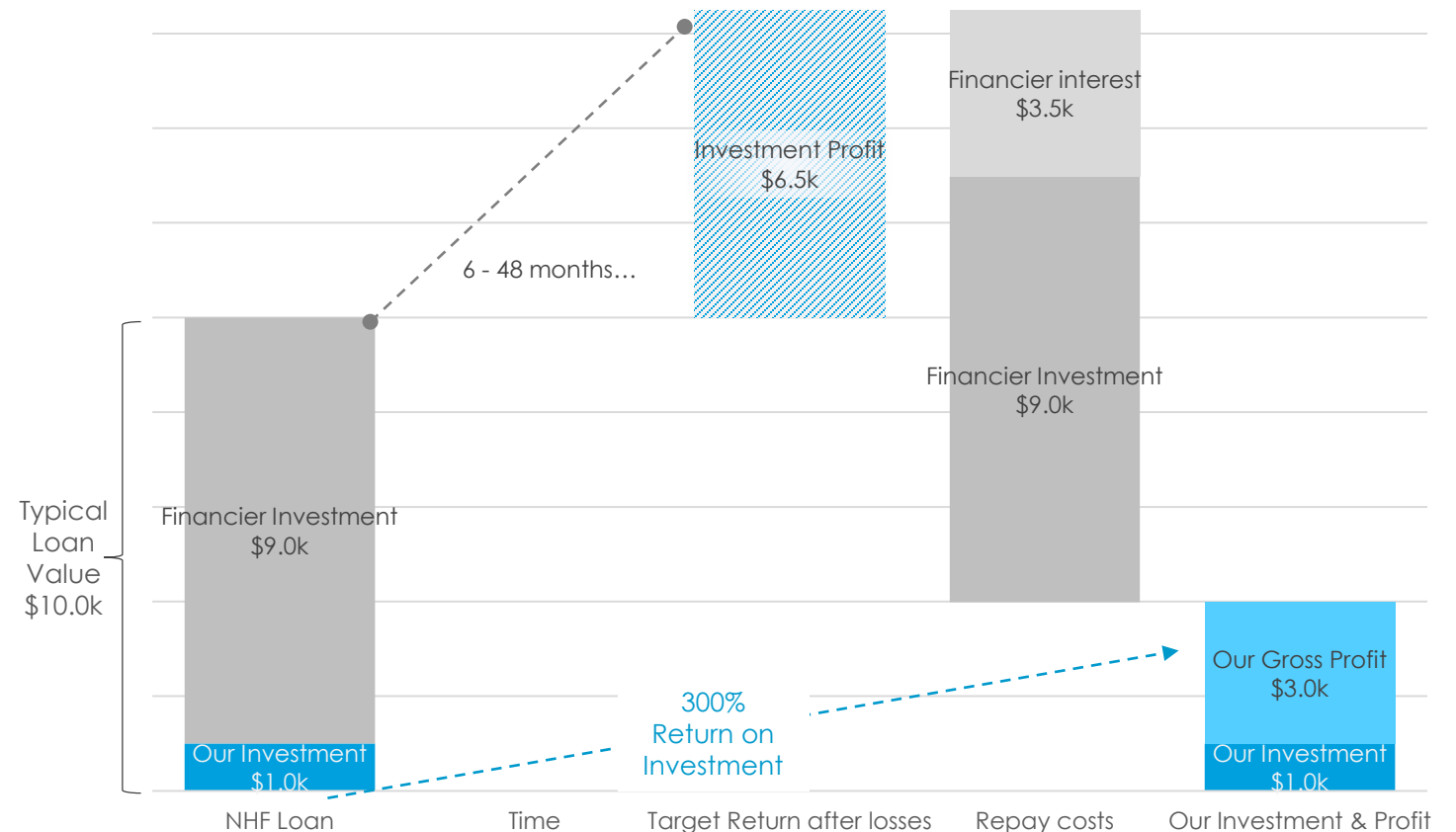
### New funding

Since the merger with NHF we have worked extensively on the funding opportunity pipeline. This has been done in conjunction with a stricter vetting procedure and assessment process. These efforts have yielded some very pleasing results.

- Over the last six months 20% of the new cases have been collected within 8 months. This is compared to the historical average of 48 months.
- The return on the new cases, is 1.77x the cash outlay versus 1.65x used during our acquisition assessment and forecasting.
- We have enjoyed significant growth in one new state and three other are targeted for the second half of FY19.

## The NHF Business model

- Although there are some complexities to the NHF business, it is, in essence, a financing company.
- In a typical *origination* of \$10k we borrow 90% of the cost.
- We expect, on average, to make a 65% return on the *origination cost*, after factoring in some losses.
- When case is completed and the cash realised (6 to 48 months on average) our financiers principal and interest is repaid first.
- We keep the residual funds, which is the return of our Initial Investment and Gross Profit.
- This equates to a Gross Return on Investment of 300% (over a 6 - 48 month period).
- Due to the high returns, low loss rates and high leverage, this is very attractive return.
- From this return we must deduct our costs to establish and manage the *receivable*. (See slide 18 for more details).



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

---

The Litigation Funding operations are in run-off with an expected completion date of June 2020.

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.

- Gross proceeds of A\$28.4m (US\$20.0m) if all remaining cases are successful expected to be received in next 12 months.
- Cases are externally financed and place no cash flow burden on the Group.

## Integration plan and milestones

---

### Phase 1: first 9 months to June 2019

- ✓ Financial integration – deploy NetSuite across NHF and merge accounts
- ✓ 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.
- ✓ Appointed new Marketing Director.
- 🕒 Improvements have been made in the NHF Cash Collections department but due to a time lag this has not yet translated into higher cash collections.

### Phase 2: to 31 December 2020

- 🕒 Complete realisation of Litigation Funding operations.
- 🕒 Improve existing financing facility arrangements.
- 🕒 Reorganise financing to include term debt.
- 🕒 Cash collections improvements.
- 🕒 Origination increases.



## Appendix



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

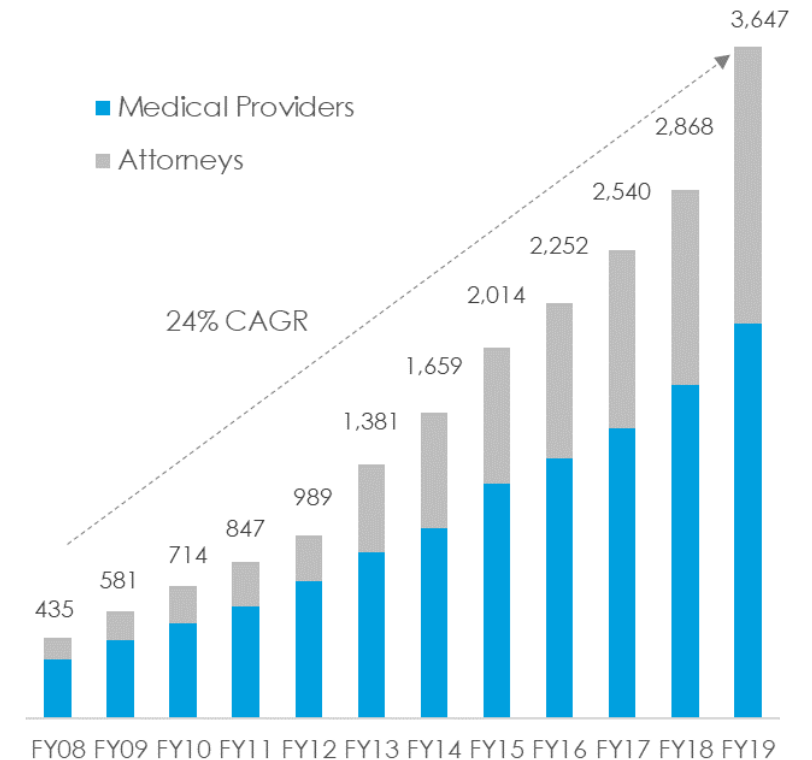
- Assists attorneys to obtain medical care for clients.
- Removes "gap in care" from delayed treatment which can be used to minimise payout of the victim's claim.
- Assists with maximising the victim's claim.
- Strong referral network with medical providers.



## 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



## NHF business model

### Illustrative model

Origination cost	1,000	...our contribution
Receivable funding	9,000	...debt financing
Cash invested to fund medical costs	10,000	...cash to be invested
Expected Return multiple	1.65x	...return on investment net of provision for losses
Expected Return	16,500	

Cashflow	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Cash collection profile	-	5%	25%	35%	30%	5%
Cash invested	-10,000					
Cash collected		825	4,125	5,775	4,950	825
Operating costs		-990	-165	-165	-165	-165
Interest		-1,193	-1,372	-1,029	-422	0
Cashflow	-10,000	-1,357	2,588	4,581	4,363	660

### SUMMARY

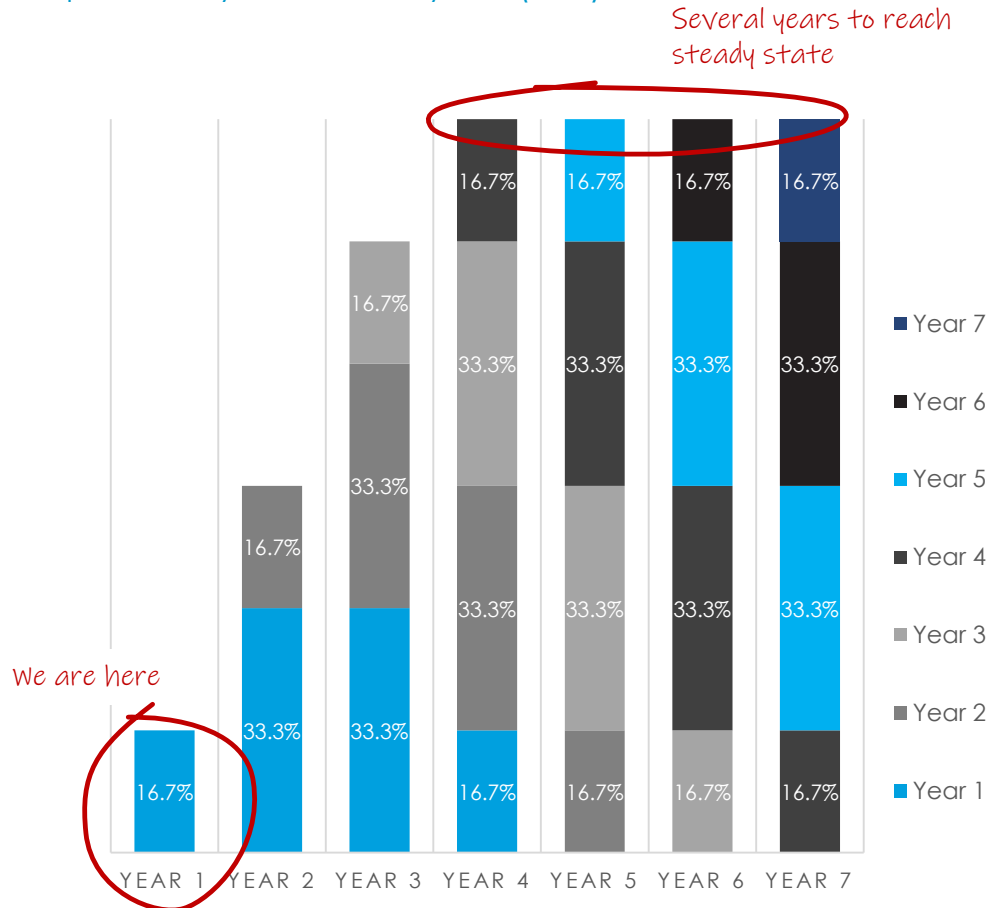
Gross Cash Received	16,500
Costs & Interest	-5,667
Net Cash Received	10,833
Debt Repaid	-9,000
<b>Net Cash return</b>	<b>1,833</b>
Our contribution	1,000
Return on cash invested	83%

- We invest US\$1000 and finance US\$9000, which is used to purchase the medical lien (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 complete in year 1, sometimes not until year 5 - the sooner the better for the victim and NHF.
- Overall, using these conservative inputs, NHF makes US\$1,833 return on each US\$1000 invested after costs.
- **By improving the speed of collection and reducing the cost of financing, we expect to be able to increase this return.**

In this example we have used a Cash collection profile that reflects the various maturities across a typical book.

## AASB9 - The problem with profit recognition

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



In FY19 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	5.1	5.3				
Australia	2.5	2.0	2.4				
Total	8.2	7.1	7.7	0.0	0.0	0.0	0.0
<b>Originations</b>							
USA	4.7	7.1	5.8				
Australia	2.4	1.8	1.9				
Total	7.1	8.9	7.7	0.0	0.0	0.0	0.0
<b>Net Receivables</b>							
USA	96.0	105.3	102.1				
Australia	27.1	27.9	28.0				
Total	123.1	133.2	130.1	0.0	0.0	0.0	0.0
<b>Deferred profit including Fair Value (reported half yearly)</b>							
USA	20.4		23.2				
Australia	5.8		5.3				
Total	26.2		28.4		0.0		0.0
FX (AUD/USD)	0.7058	0.7087	0.7020	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

LawFinance Limited (LAW.ASX)  
(Formerly JustKapital Limited)

Diane Jones – CEO  
+61 (0) 2 9696 0222  
[diane.jones@LawFinance.com.au](mailto:diane.jones@LawFinance.com.au)

August 2019