

ASX Announcement

15 June 2017

UPDATED FY17 PROFIT GUIDANCE

Key points

- LCM effectively operated at 'breakeven' during 2H17
- FY17 expected to be broadly in line with 1H17
- Litigation Project portfolio is improved from time of IPO
- Selected FY17 Litigation Projects now expected to Complete in FY18

Estimated FY17 profit guidance

Litigation Capital Management Limited (LCM) (ASX Code: LCA), has substantially operated at a 'breakeven' level during 2H17.

LCM estimates (subject to post balance date and audit related adjustments) that its FY17 result will be broadly in line with its reported 1H17 financial performance.

Background

LCM derives its revenue through the funding of Litigation Projects. A typical transaction involves LCM being paid a percentage of the outcome of the litigation together with the return of its capital. The provision of revenue forecasts by LCM involves the making of two future predictions.

The first is the quantum of the likely resolution of the litigation which in turn enables LCM to estimate its percentage profit share. The second is the timing of the resolution of the Litigation Projects into which LCM invests capital. There are other factors which influence LCM's forecasts however these are the two principal factors.

LCM provided estimated profit forecasts in its Prospectus in November 2016. Those profit forecasts were determined in accordance with information then available concerning which Litigation Projects were likely to be concluded prior to 30 June 2017. LCM concluded two Litigation Projects during the relevant accounting period in which the returns exceeded the

forecast for those Litigation Projects. Announcements were made to the market on 22 February 2017 and 5 April 2017.

The remaining Litigation Projects which were forecast to resolve during FY17 were linked together and thus made it more likely than not that a resolution would be reached only in circumstances where all matters were resolved together.

The factors considered by LCM in forecasting the resolution of that group of Litigation Projects have evolved since the forecast was provided resulting in LCM now reviewing its forecasting and allocating that revenue recognition to occur during FY18.

Current status of Litigation Project portfolio

LCM wishes to emphasise that unlike businesses operated in other industry sectors, the failure to recognise revenue in a particular financial year does not mean that the revenue is lost – these Litigation Projects in question are expected to resolve in FY18.

LCM reaffirms its view concerning the profitability of the Litigation Projects which it now forecasts to resolve in FY18. LCM believes, based upon the additional information now to hand that these Litigation Projects have enhanced prospects of success and are likely to result in a more favourable outcome when Completed in FY18.

Litigation Project historical performance

The two Litigation Projects Completed in FY17, when considered in aggregate, demonstrated strong performance of 3.8x Return on Invested Capital (ROIC) at an average time to maturity of 18 months at an IRR of 480%¹.

At the time of lodging its Prospectus with ASIC in November 2016 LCM stated that its Litigation Project performance for the last five financial years was 2.3x ROIC at an average time to maturity of 26 months at an IRR of 79%.

Post the two Completed Litigation Projects in FY17 these metrics, now applicable for the last six financial years, have displayed modest improvement to 2.4x ROIC at an average time to maturity of 26 months at an IRR of 81%.

¹ The first Litigation Project to complete in FY17 (announced on 22 February 2017) took 10 months to complete. The second Litigation Project to settle in FY17 (announced on 5 April 2017) was, due to an administrative error, incorrectly described as taking 13.5 months to complete; its actual time to completion was 26 months. Despite this, the IRR of 461% was correctly described in the announcement of 5 April 2017.

Outlook

LCM has not downgraded the profitability of any Litigation Project which formed part of its Prospectus FY17 financial forecast nor has it been unsuccessful in any of those Litigation Projects.

LCM has, however, adjusted its forecast such that some of that revenue previously forecast to be received in FY17 is now expected to be received in FY18.

LCM remains confident that its portfolio of Litigation Projects is maturing well and is considering a very strong pipeline of new Litigation Projects.

Litigation Capital Management Limited provides litigation financing and ancillary services to enable the recovery of funds from legal claims in Australia. It serves companies and individuals primarily in the areas of commercial and insolvency matters, and class actions. Litigation Capital Management Limited was founded in 1998 and is based in Sydney, Australia.