

9 October 2017

ASX Announcement (ASX: JKL)

Independent Valuation of Litigation Funding Portfolio at ~\$17m

The Board of Directors of JustKapital Limited (**JustKapital** or **Group**) is pleased to announce an update on the valuation of the Group's litigation funding portfolio. As referred to in the Group's announcement on 3 July 2017 (**Restructure**), to complement the operations of JustKapital Finance, the current litigation funding portfolio (**Portfolio**) is to be transferred into a new trust structure named the JustKapital Litigation Finance Trust (**Trust**).

The Portfolio has been valued in an Independent Valuation Report (**Valuation**) prepared for the Board of JustKapital. Based on a discounted cash flow method, the independent valuer has selected a valuation range for the Portfolio of between \$13.5m - \$17.5m. This compares with the Group's investment in the Portfolio of \$7.8m as at 30 June 2017 (this investment amount includes external costs and capitalised overheads).

Overview

In May 2017, JustKapital announced that its disbursement funding and short-term lending divisions would be merged into a single division to be known as JustKapital Finance. With the continuing growth of JustKapital Finance, and the differing cash flow profiles of the two divisions, the Board of JustKapital believes that the true value of both businesses is not accurately reflected in JustKapital's current market capitalisation.

The revenues and costs for JustKapital Finance are relatively predictable whereas the timing and quantum of revenues and costs for the litigation funding division are uncertain due to the nature of litigation. Furthermore, due to the uncertain revenue streams of litigation funding, the Board of JustKapital believe that most mainstream debt financiers are unwilling to provide debt finance for litigation funding. The Board of JustKapital believe that the improved finance facility for JustKapital Finance, announced on 27 September 2017, supports this view.

The key terms of the Restructure include:

- JustKapital will initially hold all of the units of the Trust valued at ~\$17m.
- JustKapital will also participate in the profits of the Trust by receiving a specific share of profits from each case. This profit share will be on a time-based sliding scale in relation to the completion dates of existing cases.
- Up to an additional \$20m of capital is expected to be raised through the issue of new units in the Trust to wholesale investors. These funds will be used to fund the portfolio of cases to completion and to fund new cases.
- JustKapital will be appointed the manager of the Trust and will receive management fees for managing the Trust's portfolio of cases.
- As each case in the Trust is completed, the Trust will distribute case profits to unitholders. JustKapital will participate in these profits based upon its proportionate interest in the Trust.

The merger of the Portfolio into the Trust will result in a profit for JustKapital, however this profit will be offset on consolidation (as the Trust is expected to be consolidated with the Group) and will have no impact on the Group's Income Statement or Balance Sheet.



Advantages for JustKapital Shareholders

The principal advantages of the Restructure to JustKapital's shareholders include:

- As litigation funding provides lumpy and unpredictable cash flows and earnings, it is possible that the market may not be attributing full intrinsic value to the Litigation Funding business. By creating the Trust, the Group's revenue from management fees will be more predictable.
- Shareholders will continue to share in the profit generated upon case completions, based upon JustKapital's proportionate interest in the Trust and the terms of the Restructure.
- An expected lower capital requirement for the Group as all future investments in cases by the litigation funding business will be undertaken by the Trust. This is expected to result in a lower cost of capital for JustKapital (both debt and equity).
- The Restructure should result in additional capital being available to be deployed to other parts of the business which are more strategic for growing the business.

Philip Kapp, Executive Chairman and founder of JustKapital said:

"The Restructure of JustKapital's Litigation Portfolio is an exciting next step for the Company. It means that current shareholders will have no further obligation to fund the ongoing litigation costs, whilst preserving the rights of the current shareholders to participate in all resolution amounts on a pro rata basis. Equally those shareholders who qualify as sophisticated investors who wish to have ongoing exposure to an investment in a litigation fund are able to do so.

The Restructure transforms JustKapital into a pure finance company of non-contingent disbursements in the litigation process in Australia.

Shareholders will also be aware of the Company's intended expansion into the US disbursements funding market by the acquisition of a controlling stake in Arizona based National Health Finance as announced on 12 September 2017."

Longford Capital Update

In September 2015, JustKapital entered into a co-funding agreement with Longford Capital Management LP (**Longford**), a litigation funding company based in the United States. The Board of JustKapital are pleased to update shareholders that on 18 September 2017, Longford announced the successful closing of the Longford Capital Fund II, LP (**Fund II**), a US\$500 million fund focussed on investments in commercial litigation finance. The successful closing of Fund II makes it the largest private equity fund of its kind in the United States and will allow Longford to pursue more co-funding opportunities with JustKapital in Australia, New Zealand, the U.S. and other jurisdictions such as Southeast Asia.

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