

Financial Results for 1H18
Investor Presentation
February/March 2018





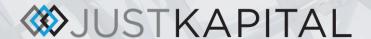
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Operating Divisions



JustKapital Finance

Funding of out-of-pocket expenses (disbursements) and short-term revolving credit facilities for law firms.

- Gross debtor book as at 31 December 2017 is \$36.0m.
- · Debtor is law firm, not plaintiff.
- Law firm is contracted to repay the Group regardless of the outcome of the underlying case.
- Short-Term Loans (STL) as at 31 December 2017 were \$1.4m.
- Each STL is for less than 12 months.
- Attractive double digit annualised returns.
- STL business is in its infancy.

Insurance Broking

Insurance broker services for 'afterthe-event' (adverse cost) insurance which is placed with overseas insurers

- Premiums received for broking services in relation to after-the-event insurance.
- Provides protection for a plaintiff or a defendant who loses a case and has adverse costs awarded against it
- Since establishment, 7 policies have been placed and 41 policies have been commissioned.

Assets Held For Sale

The Board resolved to exit the litigation funding business during the financial half year to enable the Group to focus on its core, profitable, financing business.

- Contract signed with Litigation Finance Trust on 8 December 2017 (associated with P Kapp).
- The contract is subject to several conditions precedent, including an independent expert's report and shareholder approval.
- If the conditions are satisfied, the Group will own units in the Trust.
- As cases complete, the Trust will distribute the invested capital relating to the completed case and 80% of the profits relating to the case to unitholders including JustKapital.

Key Highlights for 1H18

Gross Loan Receivables

- Gross Loan Receivables: \$36.0m +67% (1H17: \$21.7m)
- Short term funding loans: \$1.4m (first year of operations)

Cash Collections

- Customer cash collections: \$5.7m in 1H18 (\$9.8m collected in last 12 months)
- Cash collections expected to trend higher

Organic Growth

- Funded in excess of +10,000 cases with over 160 active clients
- NSW & QLD offices today
- Expansion into VIC, WA and SA underway

Strong Balance Sheet

- Undrawn working capital facilities
- Disbursement Funding facility: \$35m (1H17: \$20m)
- Headroom available: \$11.8m

Operating Expenses

- 1H18 Opex: \$2.5m -7% (1H17: \$2.7m)
- FY18 expected Opex estimated at \$4.2m
- Cost cutting measures implemented

Sale of Litigation Funding

- Nine cases held for sale.
- First completion expected in 2H18
- Corporate debt to be repaid from litigation funding sale proceeds

Outlook FY18

- Gross Loan Receivables: +\$40m
- Opex reduction: continuing
- EBITDA: +\$2.3m¹ (inc litigation funding)
- 1st case win in 2H18, subject to court approval. \$1.3m EBITDA contribution.

Outlook FY19

- Gross Loan Receivables: +\$50m
- Opex reduction: \$3.2m per annum
- EBITDA +\$4.6m¹ (excl litigation funding)
- Repay corporate debt

Restructured Board

- Tim Storey Non-Exec. Chairman
- Anthony Murphy Non-Exec. Director
- Diane Jones CEO and Exec. Director



Overview - AASB 9 Financial Instruments

- The Group has elected to early adopt AASB 9 Financial Instruments which would otherwise be applicable from 1 July 2018.
- The Group has elected to apply the standard on a full retrospective basis as permitted by AASB 9. Therefore AASB 9 has been applied as if it had been used by the Group since the purchase of the Disbursement Funding business in January 2016 and the financial statements have been re-stated since that date.
- AASB 9 defines a financial instrument as any contract that gives rise to a financial asset of one entity and a financial liability of another entity.
- The Group enters into a contract with the law firm to provide financing for legal disbursements in relation to their clients' legal matters. This arrangement is a financial asset for the Group and a financial liability for the law firm.
- The contract provides the Group with a right to receive cash from the law firm upon conclusion of the underlying case relating to the disbursement financing provided. This right to payment exists even if the underlying case is not successful.
- The Group has concluded that the financing arrangement with the law firm meets the definition of a financial instrument. Consequently, the arrangement and income arising from changes in the fair value of the financial instrument falls within the scope of AASB 9 Financial Instruments.

Worked Example – AASB 9 Financial Instruments

AASB 9

Positives

- Aligns recognition of Net Income (or Day 1 Margin) more closely with cash collection
- Means increased earnings visibility stretched out over many years

Negatives

 Under reports the *real* profit performance until we catch up in a number of years.

Neutral

- No change to total amount of net income (Day 1 Margin) received over time
- No impact on cash receipts or timing
- No impact on gross loan receivables which is the key indicator of growth.

Old vs New – a worked example of one invoice ¹

P&I Year 4

Old Method	l
Sales	\$1,650
Less	
Provisions	(\$300)
Net Sales	\$1,350
Less	
Cost of Sales	(\$1,000)
Net Income	\$350
P&I Year 1	\$350
P&L Year 2	\$0
P&L Year 3	\$0
P&L Year 4	\$0
Total Net Income	\$350

 Total net income from each sale is recorded in the P&L in year 1

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\$1,650
(\$300)
\$1,350
(\$1,000)
\$350
\$161
\$105
\$53

New Method (AASR 9)

 Total net income from each sale is recorded in the P&L over 4 years.

Total Net Income (Day 1 Margin) 2 \$350

Worked Example

- 1. The above worked example is to illustrate how one invoice (only) would be recorded through the P&L.
- 2. The recognition of the Net Income (Day 1 Margin) is determined by an actuarial calculation provided by an external actuarial firm. The total net income (Day 1 Margin) is deferred over time. Our cash collection is faster than currently being recognised. If the P&L and cash become more synchronised, there is an opportunity for faster revenue recognition in future years

\$31

Financial Statement Impact - AASB 9 Financial Instruments

- In its simplest terms the changed accounting means that we will now recognise our expected profit over the life of the Group's financial assets (which are initially recognised at fair value through the P&L as "net income").
- The best evidence of fair value of a financial instrument (at initial recognition) is normally the transaction price. The transaction price of the financial asset is the amount of cash paid to fund the legal disbursement costs.
- However, in the case of a legal disbursement funding arrangement, the fair value of the loan receivable (at initial recognition) may differ from the transaction price because the fair value of the financial asset represents the invoice amount, adjusted for such factors as time value of money, discounts and write offs, and credit risk. The difference between the fair value and the transaction price is called "the day 1 margin".
- The deferred day 1 margin is recognised in the P&L on a systematic basis over the term of the financing arrangement using actuarial methodologies. It is based on the profile of cash collections and the subsequent weighted average calculation of these collections is applied to the recognition of the day 1 margin.
- Effectively, the expected cost of the funded legal disbursement and the margin generated by the Group will be recognised through the Group's P&L over the life of the financial instrument.

Financial Statement Impact (continued) - AASB 9 Financial Instruments

- To assist shareholders understand the financial performance of the Group, the notes to the financial statements will provide shareholders with the Group's actual gross loan receivables, the actuarially determined fair value and carrying value.
- At any given point in time the Group expects to collect about 90% of the total gross loan receivable over a three year period (to account for discounts and write offs).
- In terms of cash collections, the aim of the AASB 9 is to align recognition of net income (Day 1 Margin) to the actual cash collections of the business. Under this adopted regime, the P&L remains inconsistent with the timing of cashflows, but is nevertheless is a more accurate measure of the economics of our business.
- Due to the extended period of the collection of the book of receivables, the profile of cash collections is inconsistent with the recognition through the P&L. However, the weighted average calculation of these expected cashflows is recognised as profit in the P&L as the Day 1 Margin.

Explanation of old vs new accounting standards – Balance Sheet Comparison

Reconciliation of Loan receivables in the Balance Sheet as at 30 June 2017

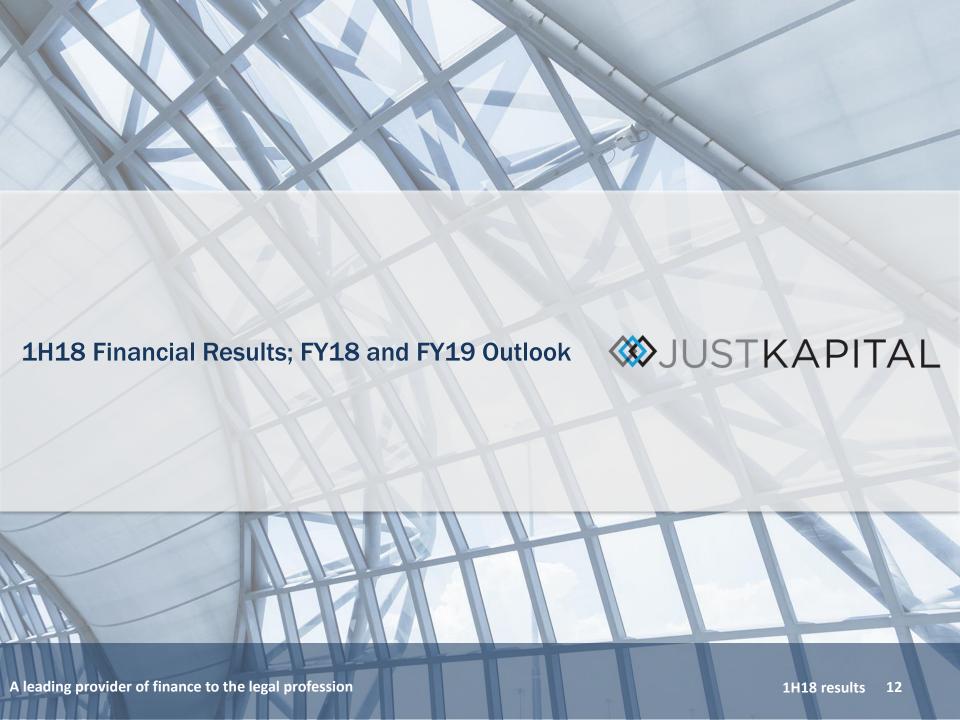
\$'000	2H17	2H17	Variance
	Old	New	
Loan receivables – Disbursement Funding (Gross)	31,999	31,999	-
Fair Value Adjustment	(1,534)	(3,628)	(2,094)
Provisions	(3,485)	(3,508)	(23)
Loan receivables – Disbursement Funding (Fair Value)	26,980	24,863	(2,117)
Day 1 Margin to be recognised ¹	-	(4,396)	(4,396)
Loan Receivables – Disbursement Funding (Carrying Value)	26,980	20,467	(6,513)

- 1. The Day 1 Margin to be recognised is future profit from <u>existing sales</u> which will be recognized in the P&L in future periods. As at 31 December 2017 the unrecognized Day 1 Margin had increased to \$4.482m.
- 2. The Fair Value Adjustment will also be recognised in the P&L in future periods as the time value of money unwinds.
- 3. Together, future profit to be recognised in the P&L is \$8.024m and this has increased to \$8.27m as at 31 December 2017

Balance Sheet Loan Receivables – Disbursement Funding

- Day 1 Margin to be recognised is future profit from existing sales to be reported in future periods.
- Fair Value Adjustment is also future profit from existing sales to be reported in future periods.
- Both of these items represent profit and cash yet to be received.
- Loan book equity now \$12.9m, +35% growth over the last 12 months.

Reconciliation							
\$'000	1H17	2H17	1H18				
Loan Receivables – Disbursement Funding (Gross)	21,725	31,999	36,057				
Fair Value Adjustment	(2,947)	(3,628)	(3,788)				
Provisions	(2,430)	(3,508)	(3,915)				
Loan Receivables – Disbursement Funding (Fair Value)	16,348	24,863	28,354				
Day 1 Margin to be recognised	(3,061)	(4,396)	(4,482)				
Loan Receivables – Disbursement Funding (Carrying Value)	13,287	20,467	23,872				
Equity Value of Loan Receivables							
\$'000	1H17	2H17	1H18				
Loan Receivables – Disbursement Funding (Gross)	21,725	31,999	36,057				
Loan Receivables - Debt	(12,208)	(20,384)	(23,194)				
Equity - Loan Receivables	9,517	11,615	12,863				



Summary

- The past year has been a tremendous period of change for the Group and an unacceptable one for shareholders. The Group had previously announced an expected FY18 loss before tax of \$3.7m which is tracking to forecast under the old accounting standards. As a result of the change in accounting standards, the FY18 loss before tax is now expected to be approximately \$5.4m.
- The new management team has a clear understanding of where the Group's strengths and opportunities are and a clear vision on how to achieve a return to profitability.
- The business plan is to grow the disbursement funding loan receivables book and short term lending book.
- The proceeds from the exit of the Litigation Funding business will be used to repay corporate debt, which will return the Group to profitability and recover shareholder value.
- The underlying performance in the Group's core business continues to show improvement (removing the noise around accounting changes, one off restructuring expenses and the cost of the attempted NHF acquisition).
- We expect +70% pcp EBITDA improvement in FY20 as the change in accounting standards catches up with our increasing profitability from the growth in our loan receivables book.
- The NHF acquisition remains an attractive and earnings accretive expansion opportunity. Should discussions progress, details will be provided at the appropriate time.

Group Financial Performance

Group			
\$'000 (net income restated under AASB 9)	1H17	1H18	% change
Net Income	1,551	2,869	85%
Cost of Sales	(18)	(136)	
Gross Margin	1,533	2,733	78%
Less: Expenses	(2,692)	(2,472)	
EBITDA before One Off Costs	(1,159)	261	123%
Less:			
Interest (JustKapital Finance)	(894)	(1,534)	
Interest (Corporate Debt)	(331)	(997)	
Depreciation, Amortisation	(34)	(50)	
Net Profit/(Loss) before One Off Costs	(2,418)	(2,320)	
Less: Due Diligence and Restructure Costs	-	(2,207)	
Net Profit/(Loss) before Income Tax Benefit	(2,418)	(4,527)	-

Group overheads

- Cost reduction measures in place to reduce operating expenses.
- Significant investment in Due Diligence (\$1.9m) and Litigation funding restructure (\$0.3m) in 1H18.

Group Financial Position

Gro	oup		
\$'000	1H17	2H17	1H18
Cash & Cash Equivalents	1,871	7,627	1,909
Loan Receivables – Disbursement Funding (Carrying Value)	13,287	20,467	23,872
Litigation Funding Assets (Intangibles and Assets Held for Sale)	7,940	10,355	16,333
Goodwill	5,943	5,943	5,943
Trade Payables	(1,172)	(2,429)	(1,027)
Loan Receivables Debt	(12,208)	(20,384)	(23,194)
Corporate Debt	(10,400)	(19,400)	(19,000)
Other includes Fixed Assets, Prepayments & Deferred Tax Assets	7,313	8,013	4,173
Net Assets	12,574	10,192	9,009

- Loan Receivables held at Carrying Value which ignores Day 1 Margin yet to recognised through the P&L totalling \$4.5m as at 31 December 2017.
- Litigation Funding Assets at cost (except for \$1m relating to the conditional case settlement) to be sold in 2H18.
- JustKapital Finance has a \$35m disbursement funding facility which is drawn to \$23.2m as at 31 December 2017 for its Loan Receivables.
- Corporate Debt will be repaid from sale of litigation funding assets.

FY18 Outlook Summary



^{1.} Under AASB 9

FY19 Outlook Summary



^{1.} Under AASB 9

JustKapital Corporate Overview

Capital Structure	
ASX code	JKL
Shares on issue (including escrowed shares)	147.9m
Options on issue	9.8m
Exercisable at:	
A\$0.25 before 10 Mar 2018	6.4m
A\$0.25 before 27 Mar 2018	1.9m
A\$0.25 before 22 Jan 2019	1.5m
Performance Rights on issue	1.4m
Current cash @ 31 December 2017	\$1.9m

Shareholder Summary	% held
Board & Management	4.10%
Top 20 Shareholders	54.42%

Worked Example – AASB 9 Financial Instruments

Old vs New	Example assumes 5	vears of sales)
OIG VS INCVV	LAUITIPIC USSUITICS S	ycurs of suics,

\$ millions	Amount recognised	1 Year	2 Year	3 Year	4 Year	5 Year	6 Year	7 Year	8 Year	9 Year
BUSINESS MODEL										
Sales		1,650	1,650	1,650	1,650	1,650	n/a	n/a	n/a	n/a
Provisions		-300	-300	-300	-300	-300	n/a	n/a	n/a	n/a
Net Sales		1,350	1,350	1,350	1,350	1,350	n/a	n/a	n/a	n/a
Cost of Sales		-1,000	-1,000	-1,000	-1,000	-1,000	n/a	n/a	n/a	n/a
Net Income		350	350	350	350	350	n/a	n/a	n/a	n/a
REVENUE RECOGNITION (P&L changes)										
OLD: All Net Income booked upfront										
Net Income reported	100%	350	350	350	350	350	0	0	0	0
Total Net income recogised - old										1,750
NEW: Net Income - AASB9 (Day 1 Marg	gin)									
1 Year	46%	161	105	53	31					
2 Year	30%		161	105	53	31				
3 Year	15%			161	105	53	31			
4 Year	9%				161	105	53	31		
5 Year	0%					161	105	53	31	
Net Income reported	100%	161	266	319	350	350	189	84	31	0
Total Net income recogised - new										1,750

Worked Example

- 1. The above worked example is to illustrate how five invoices over five years would be recorded through the P&L.
- 2. The recognition of the Net Income (Day 1 Margin) is determined by an actuarial calculation provided by an external actuarial firm. The total net income (Day 1 Margin) is deferred over time. Our cash collection is faster than currently being recognised. If the P&L and cash become more synchronised, there is an opportunity for faster revenue recognition in future years



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