

# Litigation Capital Management Ltd 2018 Full Year Results Presentation

20 August 2018

**Patrick Moloney**  
Chief Executive Officer



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# Results Highlights

*Robust performance in FY18 is the result of the methodology employed by LCM over past 3-5 years, including rigorous due diligence, active management of investments and continuity of the team.*

	FY18	FY17	Change
<i>Profit/(loss) before tax</i>	<b>\$12.0m</b>	(\$2.9m)	518%
<i>Statutory NPAT</i>	<b>\$8.6m</b>	(\$2.3m)	469%
<i>Cash NPAT</i>	<b>\$12.0m</b>	(\$2.9m)	518%
<i>Return on Equity</i>	<b>41%</b>	-	N/A
<i>IRR<sup>1</sup></i>	<b>80%</b>	480%	
<i>ROIC</i>	<b>137%</b>	276%	
<i>Gross Revenue</i>	<b>\$29.2m</b>	\$3.4m	754%
<i>Capital deployed</i>	<b>\$14.6m</b>	\$7.2m	103%
<i>Net asset backing per share (cents)</i>	<b>45.1</b>	29.5	53%
<i>Basic Earnings per Share (cents)</i>	<b>15.24</b>	(5.01)	404%

## Project completions drive record results

- Six Litigation Projects completed, compared to two in FY17
- Projects Completed: received \$29.2m revenue contributing \$16.0m EBITDA at ROIC of 137%
- Statutory NPAT of \$8.6m after providing for deferred tax movements of \$3.3m (expense), compared to a Statutory Loss in FY17 of \$2.3m after deferred tax movements of \$0.5m (benefit)
- Proceeds are being reinvested to drive future growth. Capital deployed of \$14.6m during FY18, compared with \$7.2m in FY17 representing an increase of 103%
- Actively pursuing options for further capital to support growth
  - Range of sources include managed funds, debt and where appropriate, additional equity

# Financial Results

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## Litigation Project Completions drive record results

	FY18	FY17	Change
Gross Revenue	\$29.2m	\$3.4m	754%
Litigation Investments derecognised	\$13.2m	\$1.2m	969%
<b>Net Income from Litigation Projects</b>	<b>\$16.0m</b>	<b>\$2.2m</b>	<b>633%</b>
<b>Net Profit Before Tax</b>	<b>\$12.0m</b>	<b>(\$2.9m)</b>	<b>518%</b>
<b>Operating Expenses / Income ratio</b>	<b>21%</b>	<b>124%</b>	<b>(84%)</b>
<b>Total equity</b>	<b>\$25.4m</b>	<b>\$16.7m</b>	<b>53%</b>
<b>Return on equity</b>	<b>41%</b>	<b>-</b>	<b>-</b>
<b>Working capital ratio</b>	<b>6.3:1</b>	<b>6.7:1</b>	<b>(6%)</b>
<b>NTA (cents per share)</b>	<b>18.6</b>	<b>-0.003</b>	<b>7103%</b>
<b>Cash</b>	<b>\$13.8m</b>	<b>\$1.9m</b>	<b>640%</b>
<b>Litigation Investments Capitalised (Intangible assets)</b>	<b>\$13.9m</b>	<b>\$12.5m</b>	<b>12%</b>
<b>Interest cover</b>	<b>n/a</b>	<b>n/a</b>	<b>-</b>
<b>Net debt/equity</b>	<b>nil</b>	<b>nil</b>	<b>-</b>
<b>Share price as at 30 June (cents)</b>	<b>0.70</b>	<b>0.48</b>	<b>46%</b>

- Strong increase in revenue by 754% to \$29.2m driven by the Completion of 5 Litigation Projects funded directly by LCM
- Cash increased by 640% to \$13.8m from \$1.9m in FY17 following project completions, even as cash was reinvested for future growth
- Increase in capitalised Litigation Investments reflects additional investments made, offset by investments that were realised
- Strong increase in balance sheet and shareholder's equity by 53% to \$25.4m with a 41% Return on average equity – reflects successful application of LCM's methodology

# Accounting Tax

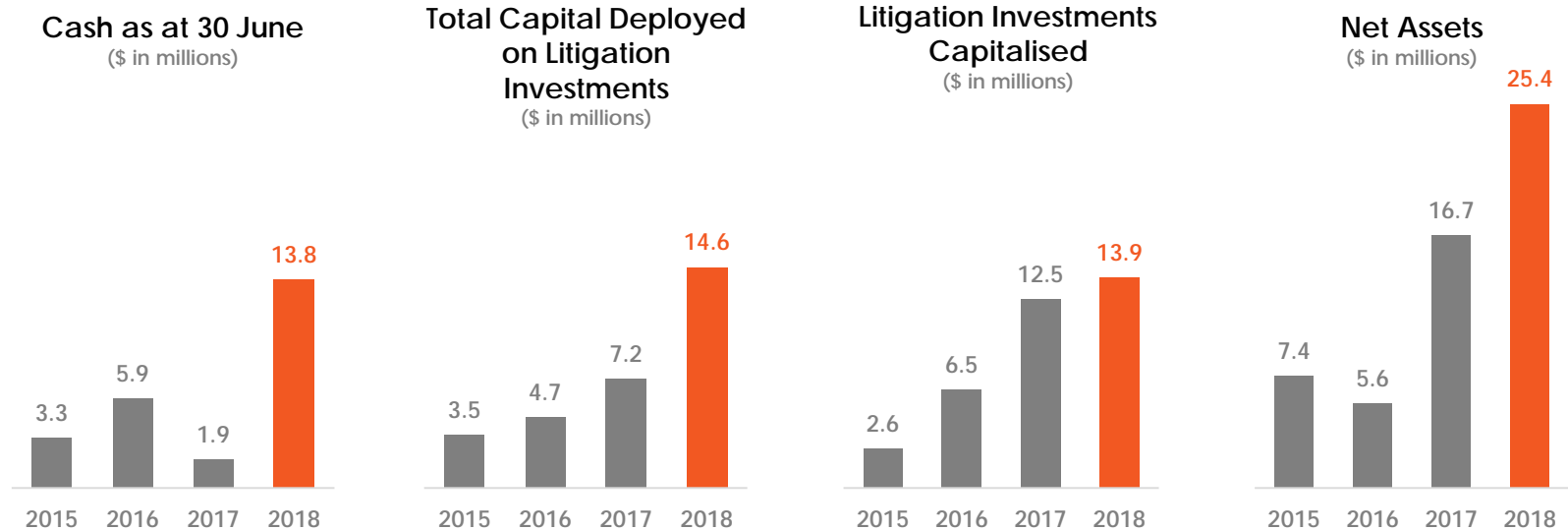
*LCM's reported income tax expense wholly comprises movements in deferred taxes which primarily relates to the derecognition of tax losses from prior years.*

Statutory Annual Report	FY18 (\$m)	FY17 (\$m)
Net profit/(loss) Before Tax	12.0	(2.9)
Income tax expense/(benefit)	3.3	(0.5)
<b>NPAT</b>	<b>8.6</b>	<b>(2.3)</b>
<b>Basic EPS (cents)</b>	<b>15.24</b>	<b>(5.01)</b>

Applicable Tax	FY18 (\$m)	FY17 (\$m)
Net profit/(loss) Before Tax	12.0	(2.9)
Applicable Tax at Statutory rate of 30%	nil	nil
<b>NPAT</b>	<b>12.0</b>	<b>(2.9)</b>
<b>Basic EPS (cents)</b>	<b>21.14</b>	<b>(6.01)</b>

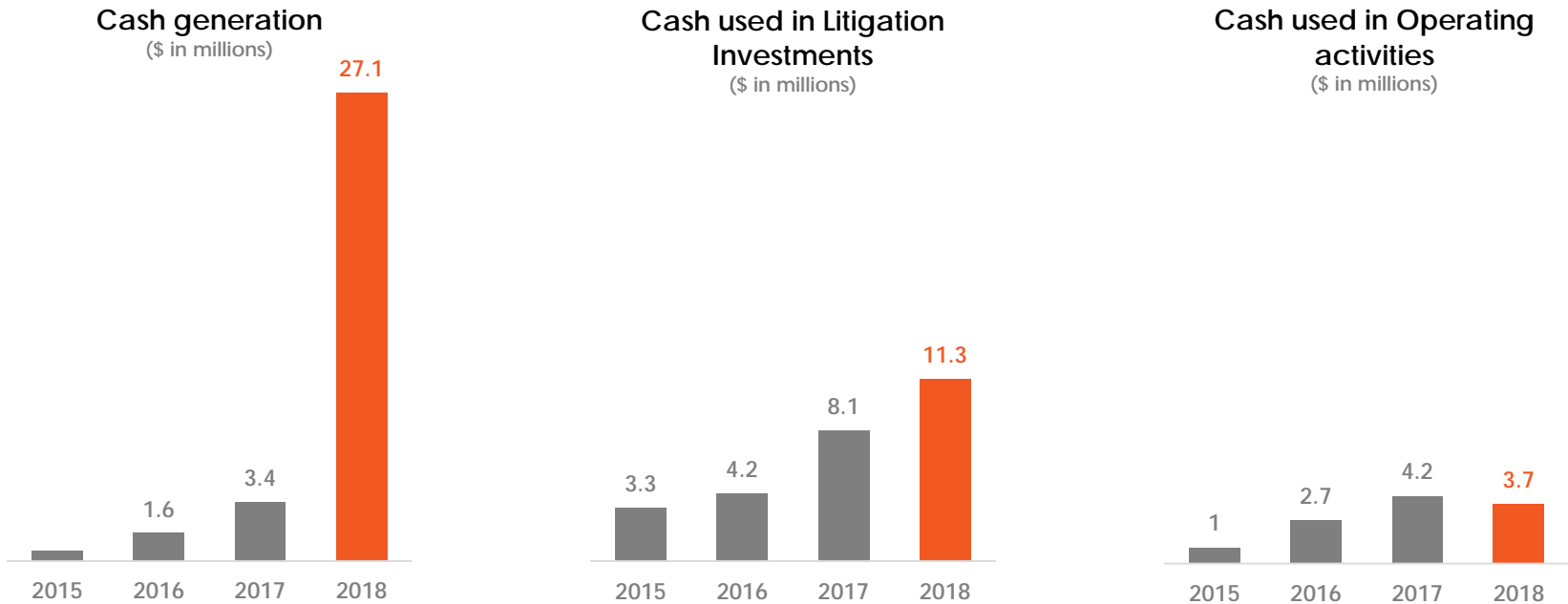
- Tax losses are recognised in the deferred tax asset by LCM only if it is probable that future taxable amounts will be available to utilise those tax losses
- The potential future tax benefit of tax losses arising from prior years is \$4,331,692 as at 30 June 2018 (2017: \$7,100,444)
- The derecognition of the deferred tax asset is a non-cash item

# Building Balance Sheet Strength



- Significant increase to cash balance as Litigation Projects have Completed
- FY17 cash balance result of IPO Costs, costs involved in building the team and in moving Litigation Projects to an “on balance sheet” funding model
- This growth in total capital deployed demonstrates the increase to the size of LCM’s portfolio of Litigation Projects
- Shows the movement of Litigation Projects through the Pipeline, to the stage of being funded and ultimately to Completion
- Strong increase in net assets reflects successful reinvestment of cash into profitable Litigation Investments

# Completion of Litigation Projects drives cash flow

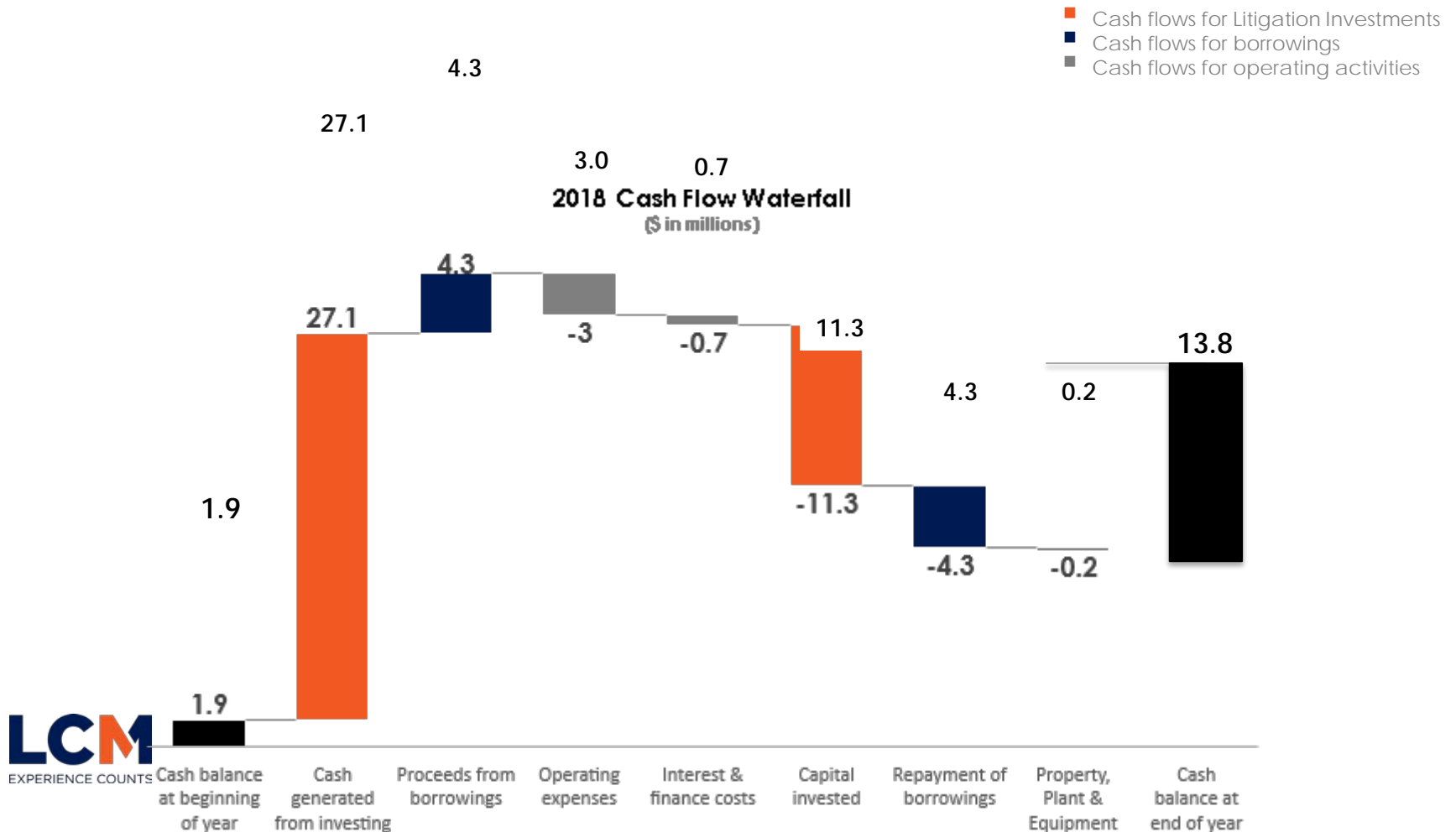


- \$27.1m cash generated by investment activities increased by 694% to \$27.1m (FY17: \$3.4m)
- Stable level of cash used by operating activities



# Organic Cash Generation

*With \$27.1 million of cash generated by the completion of Litigation Projects in 2018, LCM organically generated capital which permitted the growth and expansion of the business and permitted the repayment of all borrowings*



# Litigation Project Portfolio & Pipeline

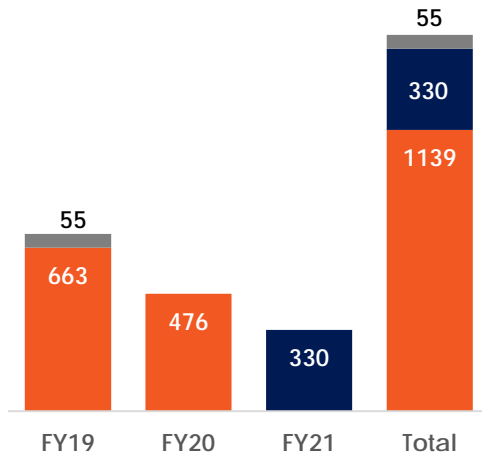
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# Strong Project Portfolio for FY19 and FY20

## Forecast Project Completion

(\$ in millions by reference to Gross Claim Size)

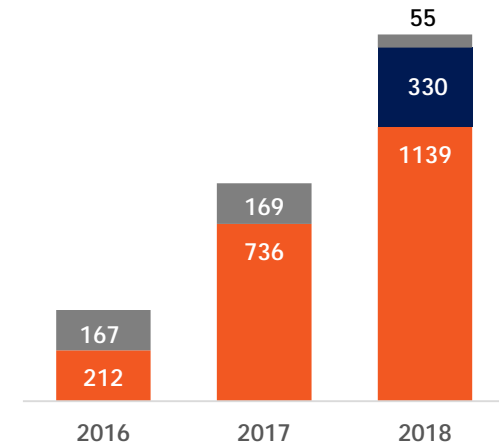
- IFPA
- LCM - Conditional
- LCM - Unconditional



## Gross Claim Size as at 30 June

(\$ in millions)

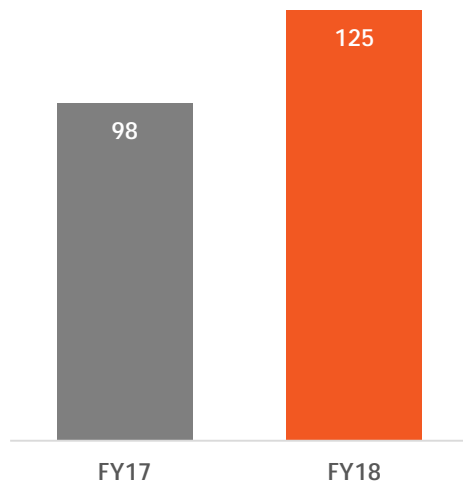
- IFPA
- LCM - Conditional
- LCM - Unconditional



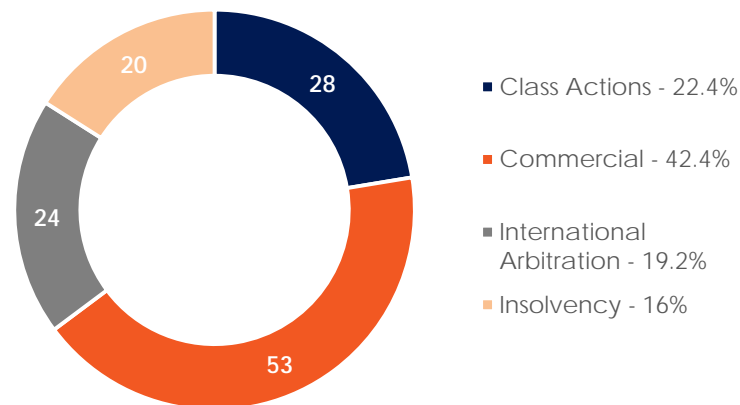
- Following the completion of 6 Litigation Projects in FY18, as at 30 June 2018 there were 14 Litigation Projects in the portfolio, 10 of which are forecast to complete this coming FY19 (1 of which has already completed albeit an IFPA project)
- As at 30 June 2018 LCM is managing a portfolio with an estimated aggregate Gross Claim Size of c.\$1,194m (\$1,139m of which it is funding directly)
- In addition, LCM has conditionally agreed to fund 6 Litigation Projects with an aggregate Gross Claim Size of \$330m and a budget of \$32m
- For single case funding, LCM receives the higher of a multiple of capital invested, or a percentage of the gross proceeds of any award or settlement of the litigation - the percentage is generally between 20% and 40% and LCM is reimbursed for all of the capital deployed to finance the litigation

# Diversity and Enhanced Origination

Total Applications



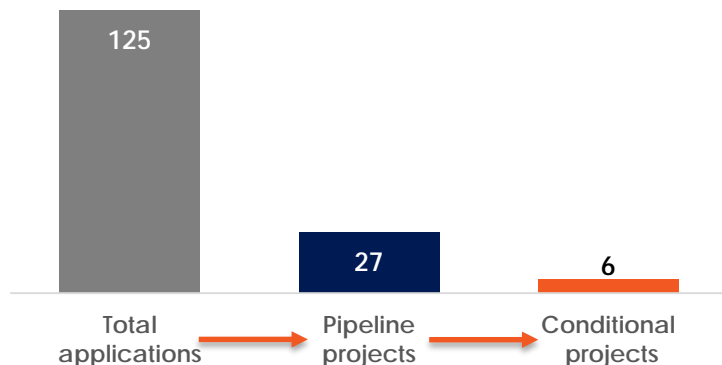
Applications by Type in 2018



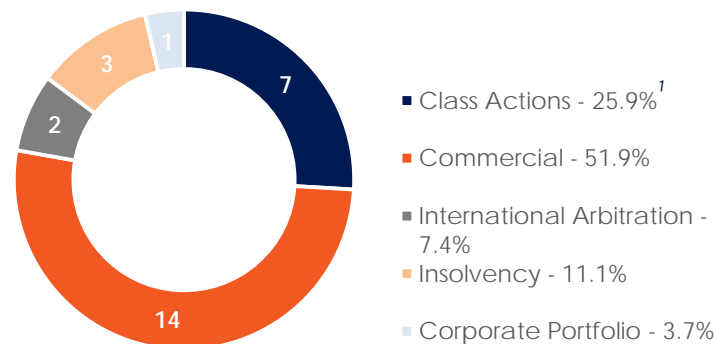
- Total applications increased by 27.6% to 125 applications, compared with 98 applications in FY17
- Not only was there an increase in number of overall applications but also an increase in quality of applications both in size and also in anticipated prospects of success
- Applications across all of our target areas including 24 applications in international arbitration (expected to be a driver of growth going forward)
- Demonstrates success in implementation of marketing/origination strategy

# Litigation Project Pipeline to drive future growth

Pipeline Progression (number of projects)



Pipeline by Type (number of projects)

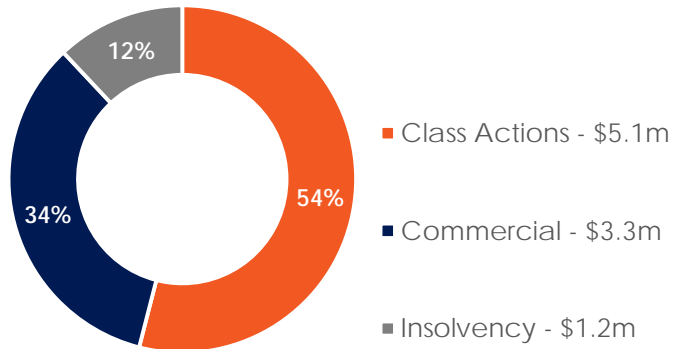


- As at 30 June 2018 there were 27 Pipeline Projects, which have an aggregate Gross Claim Size of \$2.4b and an estimated aggregate budget of \$121m
- There are 6 Litigation Projects which are subject to a conditional funding agreement. These 6 conditional projects have an estimated aggregate Gross Claim Size of C.\$330m and a budget of \$33m
- The 6 conditional projects include the first international arbitration and the first corporate portfolio to be funded by LCM
- 3 of the conditional projects relate to claims to be brought outside of Australia
- International arbitration is expected to be a new driver of growth in FY19, with 24 applications for funding received in FY18 (19.2%)

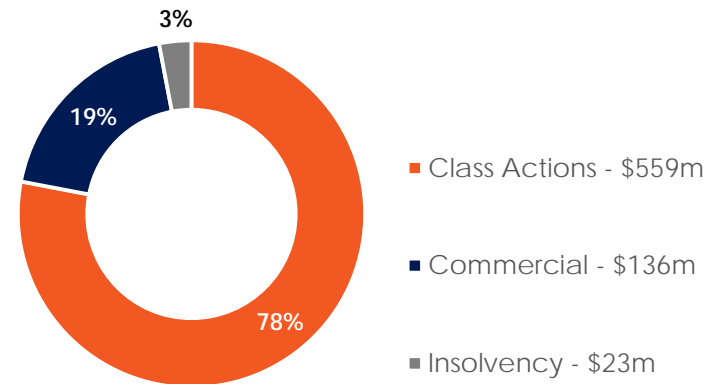
	Gross Claim Size	Budget
Conditional Projects	\$330m	\$33m
Pipeline - Other	\$2.1b	\$88m
<b>Total Pipeline</b>	<b>\$2.4b</b>	<b>\$121m</b>

# Investment Portfolio Diversification

Current Commitments for FY19



Project Type by Gross Claim Size for FY19



- Class Actions are currently a considerable proportion of our portfolio by Gross Claim Size but we expect this to change going forward as other parts of our portfolio develop
- The current buoyant economic conditions mean that Insolvency Litigation is not currently a large part of the portfolio but this will change with an economic downturn (this part of the business is countercyclical)

# Update on Investments

New Litigation Projects	Diversified Portfolio	Growth Areas
<p>12 new funding agreements executed since 1 July 2017 (6 conditional)</p>	<p>Of these 12 new Litigation Projects:</p> <ul style="list-style-type: none"> <li>• 3 are insolvency cases</li> <li>• 5 are class actions</li> <li>• 2 are commercial cases</li> <li>• 1 is an international arbitration</li> <li>• 1 is a corporate portfolio</li> <li>• 3 will be brought outside of Australia</li> </ul>	<ul style="list-style-type: none"> <li>• First funding agreement to fund an international arbitration</li> <li>• First funding agreement to fund a corporate portfolio</li> </ul>
New Class Actions	Quintis Class Action	Discovery Metals Class Action
<p>New class actions brought on behalf of:</p> <ul style="list-style-type: none"> <li>• Shareholders in Quintis Limited</li> <li>• Persons affected by contamination from dredging of Gladstone Port</li> <li>• Investors who suffered loss by investing in a Managed Investment Scheme</li> </ul>	<p>Class action brought for shareholders in Quintis Limited is different to the two other class actions in this space and includes a claim against EY for a negligent audit. This was the result of careful and considered case development over a 12 month period.</p>	<p>Class action for former shareholders in Discovery Metals against KPMG for a negligent valuation is tracking well and has a mediation in Nov 2018 and a final hearing in March 2019.</p>

# Growth Strategy & Outlook

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# Growth Strategy

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<b>Balanced portfolio</b>	Target Litigation Projects which meet Funding Criteria and deliver a balanced portfolio in terms of size, funding structure, area of law and geographical region.
<b>Funding for Corporates</b>	Litigation finance to sophisticated corporates (including by portfolio funding). This market is still new and largely under-developed. LCM has recently negotiated its first funding agreement for a corporate and it is to finance a portfolio of litigation.
<b>International Arbitration</b>	24 applications for funding for international arbitration in FY18. Strong growth potential.
<b>International expansion</b>	LCM has made steps to open an office in Singapore which will be a base for funding of Projects in both Singapore and Hong Kong. Funding of Projects in the UK and other markets which meet our criteria.

*LCM's business is imminently scalable – the team are able to take on a substantial number of additional cases without a significant increase to corporate overheads.*

# International Expansion - Framework

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- As foreshadowed in LCM's previous company announcement, consideration of international expansion opportunities will:
  - Leverage proven core capabilities in origination and due diligence
  - Allow diversification of our investment portfolio
  - Support further growth plans and broaden pool of talent to originate and execute projects
  
- Attractive international markets have the following characteristics:
  - Legal frameworks and jurisdictions with similar foundations to Australian law
  - Maturing and growing recognition of litigation finance as a corporate finance and risk management tool
  - Jurisdictions have in place suitable frameworks and rules for the resolution of international arbitral disputes

# International Expansion – UK Opportunity

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- LCM is receiving an increased number of applications for internationally based projects. A significant number of these are in the UK. LCM's initial response was to retain a Queens Council in the United Kingdom such that we had an experienced source of advice in the relevant jurisdiction to manage the due diligence process. That has been and remains a valuable resource to the business
- More recently, we have been investigating a more permanent presence in that region to not only assist in due diligence, but also provide project origination. That process continues
- In line with LCM's measured approach in entering the International Arbitration space, having experienced international litigation funding practitioners is a precondition for LCM to consider international expansion
- LCM has identified some highly experienced practitioners who are capable of leading a northern hemisphere based team. Preliminary discussions have commenced and are ongoing. These professionals are well known to LCM, they have a strong presence in the litigation financing sector and bring with them a track record in origination of large and complex transactions
- Given that litigation funding remains an emerging market worldwide, LCM is fortunate to be in a position to consider future opportunities with experienced operators

# Risk Management

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*Strict case selection process has underpinned a strong average ROIC of 138% since 2012.*



*LCM only enters into funding agreements in relation to approximately 5% of the applications it receives.*

# Industry Regulation

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## Two independent inquiries this year into Litigation Funding and Class Actions

- Victorian Law Reform Commission Inquiry was in favour of the regulation of litigation funders
- The Australian Law Reform Commission Inquiry recommendations will not be known until December 2018 but are likely to include:
  - Licensing for litigation funders as a bespoke licence until supervision of ASIC;
  - Allowing for contingency fees to be charged by lawyers in class actions
  - Measures for the management of competing class actions
- LCM's view is to support the licensing of litigation funders as to do so will further legitimise the industry, create a barrier to entry and in respect to ASX listed funders, create only a minimal additional compliance requirement
- The introduction of contingency fees for class actions is unlikely to detract from LCM's business as it would be for class actions only, take up by plaintiff firms is likely to be low and there will be opportunities to "go behind" these firms to provide funding to them. That view is totally supported by the US market, where contingency fees or damages based charging has been part of the legal landscape for many years and the litigation finance industry is thriving

# Outlook

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## Capital Management

- During Q1 FY18, LCM entered into a facility which provided \$4m of debt capital, which was repaid in full during the year from organically generated revenue
- LCM is engaged in discussions and negotiations with a number of capital providers for additional capital
  - Range of sources include managed funds, debt and where appropriate, additional equity
- Additional capital will enable LCM to take advantage of opportunities available and increase the size of the Litigation Projects it can finance

## Strong growth expected

- 10 Litigation Projects expected to be completed in FY19
- 3 Litigation Projects expected to complete in FY20 but LCM expects this number will grow as the portfolio builds into that period
- 6 Litigation Projects (conditional) expected to complete in FY21
- Encouraging Pipeline of 27 Litigation Projects, 6 of which are subject to a conditional funding agreement – will drive LCM's next stage of growth
- LCM will continue to apply its methodology of rigorous due diligence, active case management and continuity of the team
- LCM aims to further develop and diversify its portfolio of Litigation Projects
- Exploring options for international expansion in Singapore and Hong Kong, with a Singapore branch office expected to be completed by end of CY18. In relation to the Asian expansion, all Risk Management for the portfolio and Treasury functions for LCM will remain with Head Office in Australia at this time

# Appendix 1 – Industry & Company Overview

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# Industry Overview

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## What is litigation financing?

- Litigation financing involves the financing of third parties' legal claims in exchange for receiving a share of amounts recovered from those claims
- Litigation financing started in Australia in the 1990s as financing for liquidators of insolvent companies to bring claims vested in the liquidators or in those companies

## Industry growth

- Litigation financing continues to have significant growth and expansion beyond insolvency claims to commercial claims and class actions
- Ongoing growth of the Australian litigation financing market is likely to be fostered by the prohibitive cost of large scale litigation, the desire to avoid significant risks and the recognition of the value of professional management of litigation which financiers provide

## LCM's point of view

- Successful litigation financing requires expertise in sourcing suitable Litigation Projects, assessing Litigation Projects on their legal merits and managing cash flow levels over varying time periods. Strong referral networks are an advantage in sourcing new Litigation Projects



# Overview of LCM

Our Strengths	Background
<p><b>Established player with recognised capability and network</b></p>	<ul style="list-style-type: none"> <li>▪ Established in 1998 and listed on the ASX in December 2016 (ASX: LCA)</li> <li>▪ LCM was one of the pioneers in litigation financing, which was first developed in Australia</li> <li>▪ LCM has an established network for the referral of Litigation Projects within the legal profession and with insolvency practitioners</li> </ul>
<p><b>Strong track record and success rate</b></p>	<ul style="list-style-type: none"> <li>▪ LCM has a 20 year track record in litigation financing - involved in over 54 Litigation Projects covering approximately 198 cases</li> <li>▪ 83% of LCM's Litigation Projects have been profitable</li> <li>▪ The majority of LCM's Litigation Projects have reached settlement (approximately 95% success rate)</li> <li>▪ The average time to completion is 27 months</li> <li>▪ The CEO of LCM, Patrick Moloney, has been with LCM since 2003 and has over 25 years experience as a commercial litigator</li> </ul>
<p><b>Litigation Project selection and active management</b></p>	<ul style="list-style-type: none"> <li>▪ LCM applies a rigorous selection criteria including its five key pillars of litigation financing:               <ol style="list-style-type: none"> <li>1. Clear legal principles</li> <li>2. Documentary evidence</li> <li>3. Ability to recover</li> <li>4. Cost/benefit analysis</li> <li>5. Active litigation project management</li> </ol> </li> <li>▪ Once a Litigation Project has passed this initial selection criteria, LCM then applies an established investment approval process<sup>1</sup> to manage and mitigate the risks associated with its Litigation Projects</li> </ul>
<p><b>Fully financed litigation</b></p>	<ul style="list-style-type: none"> <li>▪ All but one Project is fully funded by LCM</li> </ul>

<sup>1</sup>More information on LCM's investment approval process can be seen in Slide 20

# Revenue Model

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## How does LCM generate its income?

- LCM's income is generated from the successful financing and management of Litigation Projects
- LCM's income model is reflected in each litigation financing agreement it enters into with its clients. A typical litigation financing agreement provides for the following:
  - a) LCM meets all or part of the costs of the litigation, which can include solicitors' fees, barristers' fees, charges of liquidators, charges of independent experts and Court fees; and/or
  - b) LCM provides an indemnity to the litigant(s) in favour of the defendant, in the event that their litigation is unsuccessful
- In return, LCM receives a percentage of the recovered amounts plus repayment of all costs. The percentage LCM receives will vary between 15% and 40% depending on the level of financing provided
- Key drivers of LCM's income include the **size**, the **number** and the **profitability** of each of the Litigation Projects that LCM finances

# Board of Directors

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## **Dr David King - Non-Executive Chairman**

- Appointed as a Director of LCM on 9 October 2015 (i.e. on incorporation) and was appointed as a Director of LCM Litigation in February 2014
- Was a founder and non-executive director of Sapex Ltd, Gas2Grid Ltd and Eastern Star Gas Ltd.
- David is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australasian institute of Mining and Metallurgy and a Fellow of the Australian Institute of Geoscientists. He is also the Non-executive Chairman of Cellmid Ltd and African Petroleum Corporation Ltd, and a non-executive director (formerly Chairman) of Galilee Energy Ltd.



## **Patrick Moloney – Chief Executive Officer**

- Appointed as a Director of LCM on 9 October 2015 (i.e. on incorporation) and was appointed as a Director of LCM Litigation in June 2003
- Patrick was previously the principal of Moloney Lawyers, which he established in 2003 and specialised in commercial litigation having a diverse client base. Patrick has acted in more than 200 commercial litigation cases for clients in the District Court of NSW, the Supreme Court of NSW, the Federal Court of Australia and the High Court of Australia
- Patrick was admitted to practice law in 1996



## **Steven McLean – Non-Executive Director**

- Appointed as a Director of LCM on 9 November 2015
- Steven has an investment banking background, with over 20 years' experience, commencing with Ernst & Young Corporate Finance before moving to J.P. Morgan both in Australia and Europe
- Steven has led equity transactions which have raised in excess of A\$50bn for corporates across various countries including Australia, USA, UK, Switzerland, Finland, Holland, Austria, France, Russia, Singapore and Bermuda

# Contact Details

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