

# Annual General Meeting

May 2019

## Disclaimer & Forward Looking Statements

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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).

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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.

## FY2018 Results Highlights

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- LawFinance has undergone a profound change over the last 12 months including:
  - The acquisition of National Health Finance Holdco, LLC and its various subsidiaries (“NHF”).
  - The associated acquisition fund raising, cornerstoned by Washington H Soul Pattinson and supported by our two major shareholders: EGP Capital and Lucerne Investment Partners.
  - The wind-down of the Litigation Funding operation.
  - The change in year end to December; adoption of AASB9 & AASB15; and, the change in the reporting currency to US\$.
- We have incurred significant costs of US\$5.8m undertaking this transformation, including expenses suffered due to relisting delays. We recommenced trading on 2 January 2019 under the new ticker LAW.ASX.
- The integration of the two organisations is well underway and we have already developed strong working relationships across the Group.
- Due to one-off expenses, including a US\$3.7m write-down of our litigation funding assets, partial period contributions and a change in the accounting standards, the reported P&L and Cashflow are not meaningful reflections of the company’s ongoing operations, or outlook.
- The core asset of the company is its book of Net Receivables, which is the cash we expect to receive from our customers.
- The acquisition of NHF has materially increased the scale of the company. The Net Receivables as at 31 December 2018 were US\$123.1m (A\$174.4m), up 386% (Dec-17: A\$36.0m).
- The collection of these receivables will generate significant operating cashflow in the years ahead.
- After a long journey completing this transaction we are very excited about the future. 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 course of 2019.

## What problem are we solving?

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### 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.

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### 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\$27.1m (A\$38.4m)

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### 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\$96.0m (A\$136.0m)

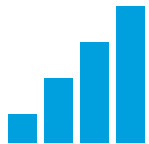
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<sup>1</sup> Net Receivables is calculated as total gross invoiced amount (or Gross Receivables) less a provision for un-recoverability or doubtful debts as at 31 December 2018. The financial statements discounts these amounts further to take into account a fair value adjustment and the unrecognised day 1 margin (in accordance with AASB 9 and AASB15).

## The Opportunity



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\$27m 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\$96m 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-served 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: Underserved - addresses US\$20B personal injury claims market

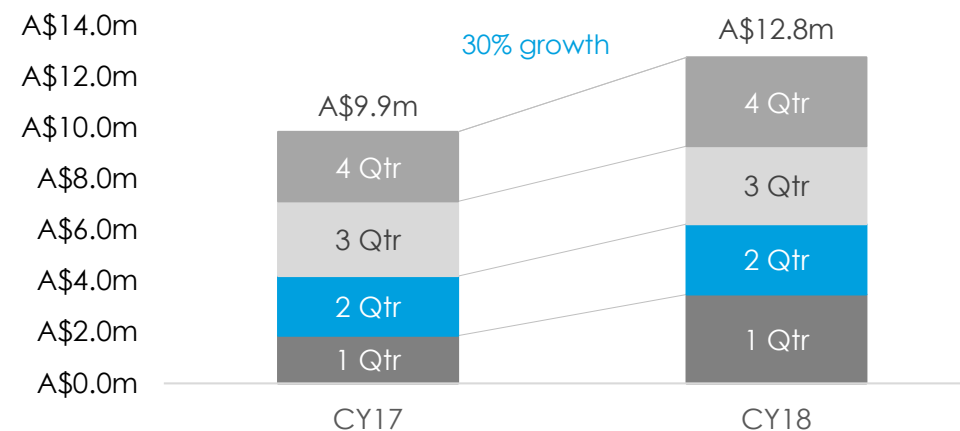
<sup>1</sup> Estimated market size- this is based on management best estimation of the market size, but due to the lack of transparency or independent analysis this may prove to be inaccurate.

## Segments: JustKapital Finance (Australia)

- The disbursement funding operation continues to enjoy consistent improvement in all areas of operations.
- We are making attractive returns on investment, with a typical payback of just 18 months.
- Net Receivables (the cash we expect to receive over the coming years) has expanded 21% and now stands at A\$38.4m (US\$27.1m).
- We have expanded into all states and are now actively working with 157 legal firms.
- We have excellent visibility with US\$5.8m (A\$8.3m) profit yet to be recognised under AASB 9, and a steady pipeline of disbursement funding opportunities.
- We are optimistic that shareholders can expect solid growth from this division in the year ahead.

	31-Dec-17	31-Dec-18	Change
A\$'000 (statutory AASB9)	12mths	12mths	pcp
Net Revenue Recognised	4,572	5,408	18%
Other Income	743	336	(55%)
COGS	(328)	(190)	(42%)
Gross Profit	4,987	5,554	11%
Operating costs	(1,731)	(1,851)	7%
EBITDA (statutory AASB9)	3,256	3,703	14%

### JustKapital Finance - Quarterly Cash Collections



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

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The Litigation Funding operations are in run-off. 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.

- 11 Cases funded.
- 4 Cases now externally financed.
- 4 Cases settled. Awaiting further funds from 3 of these cases.
- Expected Proceeds: US\$14.0m (if all remaining cases are successful) expected to be received in next 18 months.
- Expenses totalling US\$3.7m were incurred in relation to write-downs in the carrying value of the Group's litigation funding assets.

## NHF business model

### Illustrative model

Origination cost	100	...our contribution
Receivable funding	900	...debt financing
Cash invested to fund medical costs	1,000	...cash to be invested
Expected Return multiple	1.65x	...return on investment net of provision for losses
Expected Return	1,650	

Cashflow	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Cash collection profile	-	5%	25%	35%	30%	5%
Cash invested	-1,000					
Cash collected		83	413	578	495	83
Operating costs		-99	-17	-17	-17	-17
Interest		-119	-137	-103	-42	0
Cashflow	-1,000	-136	259	458	437	66



### SUMMARY

Gross Cash Received	1,650
Costs & Interest	-567
Net Cash Received	1,083
Debt Repaid	-900
<b>Net Cash return</b>	<b>183</b>
Our contribution	100
Return on cash invested	83%

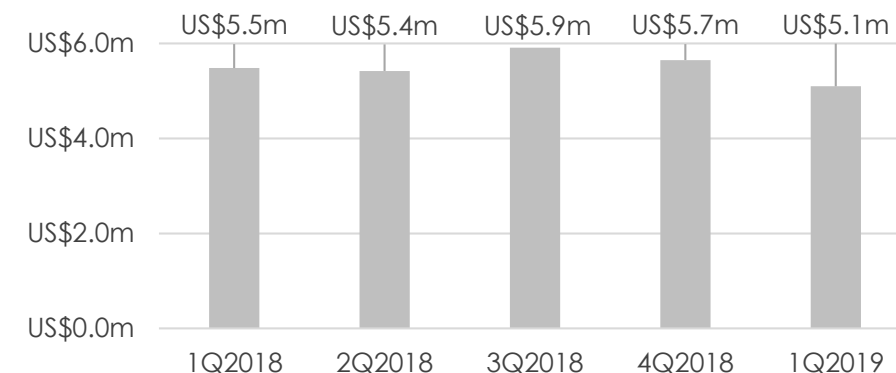
- We invest US\$100 and finance US\$900, which is used to purchase the lien rights for the medical expenses of the accident victim.
- The victim's law firm initiates legal action against the at-fault driver's insurance company for compensation to cover medical costs, other expenses and pain & suffering.
- 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 settle in year 1, sometimes not until year 5 - the sooner the better for the victim and us.
- Overall, using these conservative inputs, NHF makes US\$183 return on each US\$100 invested.
- **By improving the speed of collection and reducing the cost of financing, we expect to be able to increase this return.**



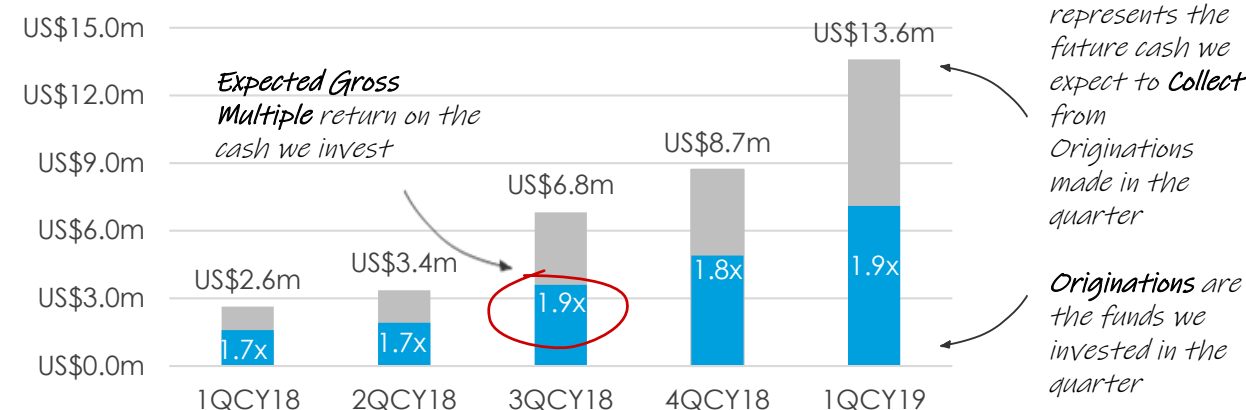
## Segments: NHF – trends explained

- 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 lien rights to the 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 (we aim for 1.65x) less the origination costs. We aim for 1.65x the amount deployed.
- In the March 2019 quarter, NHF had a fairly consistent Quarterly Cash Collection profile (US\$5.1m) to the previous quarters.
- We expect to materially improve NHF's average collection period. We estimate there is US\$96.0m of cash to be collected on the 31 December 2018 book of Net Receivables and our aim is to collect the majority of this over the next three years.
- New Originations, and resulting growth in Net Receivables, have exhibited a steep uptrend in recent quarters at multiples higher than the targeted 1.65x – this bodes well for the future.

### Cash Collections



### Originations & Net Receivables



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

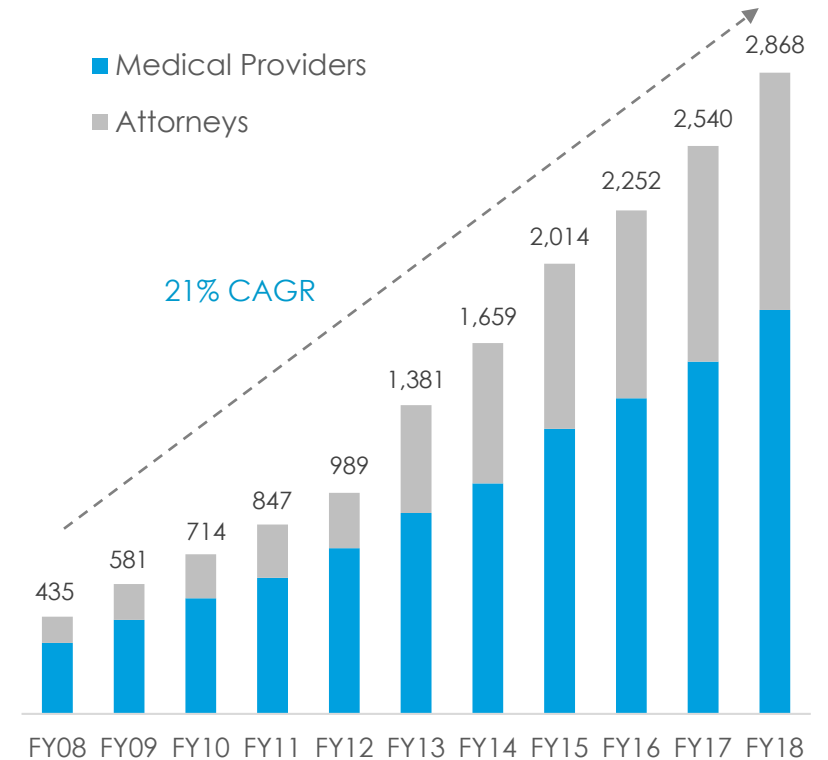
- Assists attorneys to obtain medical care for clients.
- Removes "gap in care" from delayed treatment which can be used to minimise payout of the victim's claim.
- Assists with maximising the victim's claim.
- Strong referral network with medical providers.



## 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



## Key Performance Indicators

(US\$m)	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020
Cash Collections							
USA	5.7	5.1					
Australia	2.5	2.0					
Total	8.2	7.1	0.0	0.0	0.0	0.0	0.0
Originations							
USA	4.9	7.1					
Australia	2.2	1.8					
Total	7.1	8.9	0.0	0.0	0.0	0.0	0.0
Net Receivables							
USA	96.0	105.3					
Australia	27.1	27.9					
Total	123.1	133.2	0.0	0.0	0.0	0.0	0.0
Change in Net Receivables							
USA	96.0	9.3					
Australia	0.2	0.8					
Total	96.2	10.1	0.0	0.0	0.0	0.0	0.0
Deferred profit (reported half yearly)							
USA	20.4						
Australia	5.8						
Total	26.2		0.0		0.0		0.0
FX (AUD/USD)	0.7058	0.7087	0.0000	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** reflects the profit that has been earned but not yet recognised through the P&L (also referred to as Unrecognised Day 1 Margin).

## Integration plan and milestones

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### Phase 1: first 6 months to March 2019

- ✓ Financial integration – deploy NetSuite across NHF and merge accounts – [Netsuite integration completed on 28 February](#).
- ✓ 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.
- 🕒 Improve NHF Cash Collections and implement autonomy and automation.
- 🕒 Appoint key personnel to provide more managerial support.

### Phase 2: to 31 December 2019

- 🕒 Complete realisation of Litigation Funding operations.
- 🕒 Improve existing financing facility arrangements.
- 🕒 Reorganise financing to include term debt.
- 🕒 Continue rollout of NHF 3D render product.

## Ordinary Business - Resolutions

- **RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purpose of section 250R(2) of the Corporations Act and for all other purposes, approval is given for the adoption of the Remuneration Report as contained in the Company’s Annual Financial Report for the financial year ended 31 December 2018.”*

**Note:** The vote on this Resolution is advisory only and does not bind the Directors or the Company.

**Voting Exclusion Statement:** In accordance with the Corporations Act, LawFinance will disregard any votes cast on Resolution 1 by or on behalf of a member of the KMP, or any of that person’s Closely Related Parties (such as close family members and any controlled companies of those persons) (each a **Restricted Voter**). However, the Company need not disregard a vote if:

- (a) it is cast by a person as a proxy appointed in writing that specifies how the proxy is to vote on Resolution 1; and
- (b) it is not cast on behalf of a Restricted Voter.

If you appoint the person chairing the Meeting (**Chair**) and you are not a Restricted Voter, by submitting the Proxy Form you authorise the Chair to exercise the proxy even though Resolution 1 is connected directly or indirectly with the remuneration of a KMP, and you will be taken to have directed the Chair to vote in accordance with his or her stated intention to vote in favour of Resolution 1. If you do not want your vote exercised in favour of Resolution 1, you should direct the Chair to vote “against”, or to abstain from voting on, this Resolution.

- **RESOLUTION 2 – RE-ELECTION OF MR DAVID WATTEL AS DIRECTOR**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That Mr David Wattel, a Director who retires by rotation in accordance with the Company's Constitution and ASX Listing Rule 14.5, and being eligible offers himself for re-election as a Director of the Company, effective immediately.”*

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- **RESOLUTION 3 – RE-ELECTION OF MR TIM STOREY AS DIRECTOR**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That Mr Tim Storey, a Director appointed as an additional Director and holding office until the next general meeting of the Company after his appointment in accordance with the Company's Constitution and ASX Listing Rule 14.4, be re-elected as a Director of the Company, effective immediately.”*

- **RESOLUTION 4 – ASX LISTING RULE 7.1A APPROVAL OF FUTURE ISSUE OF SECURITIES**

To consider and, if thought fit, to pass with or without amendment, the following resolution as a **special resolution**:

*“That, for the purposes of ASX Listing Rule 7.1A and for all other purposes, the Shareholders approve the issue of equity securities up to 10% of the issued capital of the Company (at the time of issue) calculated in accordance with the formula prescribed in ASX Listing Rule 7.1A.2 and otherwise on the terms and conditions set out in the Explanatory Statement which accompanies and forms part of this Notice of Meeting.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast in favour of Resolution 4 by or on behalf of:

- (a) a person who is expected to participate in, or who will obtain a material benefit as a result of, the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in the Company); and
- (b) an Associate of those persons.

However, the Company will not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- (b) it is cast by the Chair as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

THANK YOU

## LawFinance Limited (LAW.ASX)

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May 2019