



ASX Announcement (ASX: LAW)

31 July 2019

Quarterly Business Review - 2Q19

The Board of LawFinance Limited (“**LawFinance**” or “**the Company**”) provides the following update.

1H19 Group Highlights (to 30 June 2019):

- Net Receivables of US\$130.1m, up 6% since 31 December 2018
- Cash Collections for the first half of 2019 were US\$14.8m, down 9% on the six months to 31 December 2018 (proforma)
- Originations¹ for the first half of 2019 were US\$16.6m, up 14% on the six months to 31 December 2018 (proforma)

The Company generated US\$9.5m in Operating Cashflow in the first half and finished the period with US\$2.8m cash on the balance sheet and US\$40.2m in undrawn debt facilities.

A summary of our key operating metrics is provided at the end of this Quarterly Business Review.

Quarterly Operational overview – JustKapital Finance (Australia)

Our Australian disbursement funding business continues to operate steadily, with Net Receivables of US\$28.0m, up 12.9% on the same quarter last year. Although Originations and Cash Collections showed an improvement on last year and the prior quarter, the operations had expected stronger growth.

The introduction of the NSW Motor Accident Injuries Act in December 2017 has permanently reduced the volume of motor vehicle personal injury claims, and this has been a headwind to growth. Since being introduced, we have successfully offset lower demand in our largest state by expansion into other states, particularly Queensland. The NSW legislation requires an 18-month delay before a claimant can pursue their claims with legal representation, but as we are now beyond this period since the legislation was introduced, we expect some growth in NSW in future periods, albeit off a lower base of demand.

In the quarter ahead, we expect the business to report further incremental growth in all key indicators, being: Cash Collections, Originations and Net Receivables.

Operational overview – Litigation Funding (Australia)

As previously advised this operation is being wound-down, with the decision not to fund any new cases. The funded cases continue to progress to completion, and we expect to collect US\$14m (A\$20m) from our share of the proceeds as the portfolio of cases are concluded.

We expect several case finalisations in the six months ahead, with all the cases expected to be concluded by mid-next year. Proceeds from these cases will be used to extinguish corporate debt.

¹ Originations: This is the new cash funding deployed with our customers.

Operational overview – National Health Finance (“NHF”) (US)

We continue to believe the US market remains an extremely appealing way for us to diversify and expand.

Key to our success will be finding attractive opportunities for deploying cash (“**Originations**”) through our network of doctors and lawyers across 21 states in the US and subsequently ensuring our targeted returns are collected in a timely manner (“**Cash Collections**”).

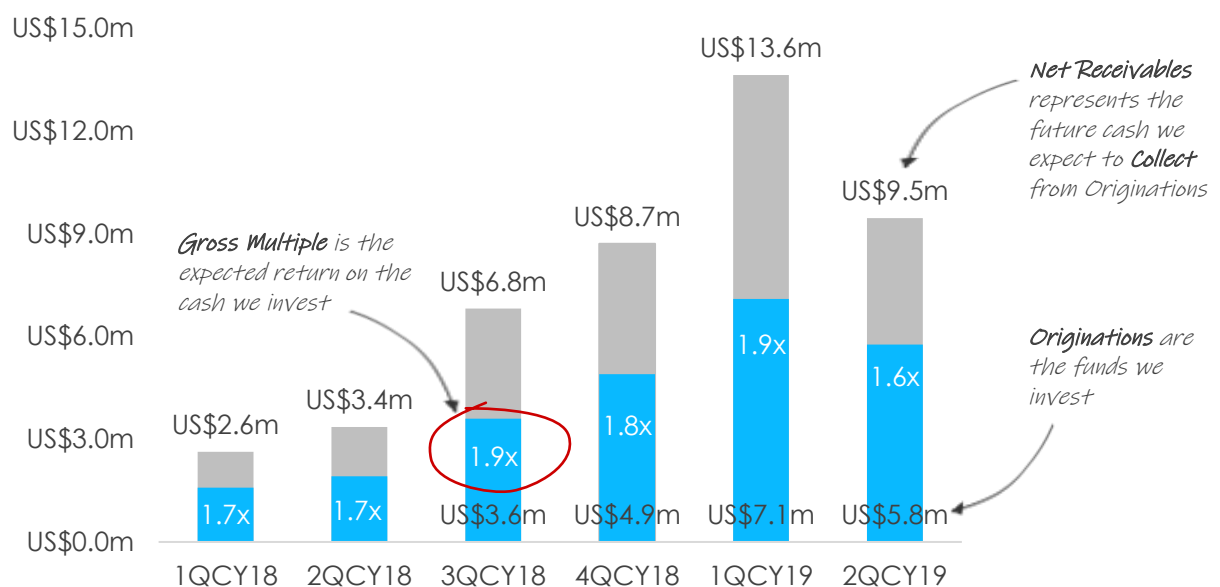
- **Originations: US\$5.8m -19%pp (1Q19: US\$7.1m)**

Originations have been below expectations in the quarter, and this is particularly disappointing following four periods of consecutive growth. NHF management is negotiating on several initiatives that may allow significant and attractive capital deployments, but the timing and surety of these programmes is uncertain. In the meantime, the underlying *business as usual* originations have been unsatisfactory.

A new and highly credentialled Marketing Director (ex GE and eBay) was appointed in June to re-establish the momentum and the current quarter is expected to show improvement.

The expected return of 1.64x in the quarter was marginally below the rate targeted. However, it is expected to collect much quicker than historical collections time frames. Overall, since the acquisition of NHF, deployments with a 1.80x return have been achieved, which is well in excess of the original purchase hurdle of 1.65x.

NHF Originations & Net Receivables



- **Cash Collections: US\$5.3m +4%pp (1Q19: US\$5.1m)**

Cash Collections continue to be a focus of the management team. The deployment and utilisation of NetSuite, which occurred in the last quarter, is expected to have a positive impact on the collections process. We expect the current period (3Q19) to show significant improvement in cash inflows.

NHF Cash Collections



Key Performance Indicators²

(US\$m)	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020
Cash Collections							
USA	5.7	5.1	5.3				
Australia	2.5	2.0	2.4				
Total	8.2	7.1	7.7	0.0	0.0	0.0	0.0
Originations							
USA	4.9	7.1	5.8				
Australia	2.2	1.8	1.9				
Total	7.1	8.9	7.7	0.0	0.0	0.0	0.0
Net Receivables							
USA	96.0	105.3	102.1				
Australia	27.1	27.9	28.0				
Total	123.1	133.2	130.1	0.0	0.0	0.0	0.0
Change in Net Receivables							
USA	96.0	9.3	-3.2				
Australia	0.2	0.8	0.1				
Total	96.2	10.1	-3.1	0.0	0.0	0.0	0.0
Deferred profit (reported half yearly)							
USA	20.4		23.2				
Australia	5.8		5.3				
Total	26.2		28.4		0.0		0.0
FX (AUD/USD)	0.71	0.71	0.70	0.00	0.00	0.00	0.00

² 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.

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