



ASX Announcement (ASX: LAW)

24 December 2019

## Strategic Capital Raising

The Board of LawFinance Limited (“**the Company**” or “**the Group**”) is pleased to announce a series of transactions to enhance its balance sheet, reduce costs and to fund the growth in its US medical receivables business, National Health Finance (NHF).

The NHF receivables book has an expected realisable value of circa \$US85 million and is exhibiting strong and improving Return on Assets (ROA). The capital raising will enable the Group to achieve its strategic aim of doubling the size of the NHF book over the short to medium term, as well as lowering funding costs.

The Company has completed a US\$3.4 million (A\$5.0m) equity placement with existing and new sophisticated investors at 6.4cps. The 78,125,000 new fully paid ordinary shares to be issued under this placement will rank equally with all other shares on issue, using existing capacity under Listing Rule 7.1 (72,545,205 shares) and Listing Rule 7.1A (5,579,795 shares). The funds raised from this placement will be used for working capital purposes.

All shareholders will be offered the opportunity to participate in a further capital raising to be undertaken via a 1:1 Pro-Rata Non-Renounceable Entitlement Offer at 6.4 cents per share (Rights Issue), representing a 16% discount to the 30-day VWAP. Strategic investor, Lucerne Investment Partners, has agreed to underwrite US\$13.6 million (A\$20.0m) of the total offer to raise up to US\$24.4 million (A\$36.0m). Further details of the Rights Issue, including the Rights Issue booklet will be available in January 2020.

The Offer proceeds will be used to reduce debt by US\$8.5 million (A\$12.5m) and the balance retained for working capital and to fund growth.

As part of the broader strategy to increase the balance sheet strength of the Company, an EGM will be called to seek shareholder approval to convert existing debt into debt and equity instruments with the following terms:

- US\$3.4 million – existing Convertible Bonds - to be converted to Equity at 6.4cps.
- US\$17.3 million - existing subordinated debt - convert to a new Capitalising Converting Note with a 10.0cps conversion option and a 6% capitalised coupon.
- US\$22.1 million – existing NHF Vendor loans converting to out-of-the-money options.

Further details of these proposed transactions will be included in the EGM notice which will be sent to all shareholders in the first half of January 2020 with a meeting proposed to be held in February 2020.

If all EGM resolutions are approved, total Group net debt will be reduced by \$42 million (A\$61.2m) and this material improvement in the balance sheet will provide an immediate and significant reduction in interest cost of approximately US\$5.4 million (A\$8.0m) per annum. This will provide the headroom to allocate capital to NHF's strongly performing new originations ("New Book"), to grow in scale and potentially generate material free cashflow.

Under current management, the Australian receivables business has enjoyed a tripling of its receivables book, material increases in ROA, significant system and process improvement, and substantially reduced funding costs. The Company's management is applying the same approach to NHF, which is expected to create significantly greater shareholder returns due to the scale of the US market.

The Company has owned NHF for over 12 months and, as was the case with its Australian disbursement funding business, management's initial focus has been on applying technology and processes to corporatise the business. As reported to the market on 31 October 2019, the resulting performance of the New Book has been strong.

These transactions will enable the next phase of shareholder value creation. Free from its historical capital constraints, the Group is now funded to materially grow the NHF New Book in the much larger US market (\$US15 billion+).

NHF is a well-established operator, with a twenty-year track record. The chief competitive advantage is NHF's national network of over 3,600 medical practitioners, medical institutions and law firms that service the US medical lien funding market. This market position allows NHF to deliver exceptional social and economic returns.

Management is targeting an improvement in NHF's ROA from 23% to over 30% following the implementation of processes deployed in the Australian operations, along with the benefits unlocked by an improved balance sheet strength derived from the initiatives announced today.

Diane Jones, CEO, said:

"As our business continues to grow in scale and the older receivables are collected, we anticipate a reduction in financing costs. The combination of growth, the improving return from the book, and lower interest expenses, will have a significant positive impact on shareholder returns.

"The transactions announced today are profound and lay the foundations for the Group to transition from being a niche operator in the domestic market, to one of the leading players in the US medical lien funding industry."

Further details on the transactions, and the Australian and US operations can be found in the Investor Presentation released to the ASX. The Entitlement Offer documents and Notice of EGM will be announced and despatched in the first half of January 2020.

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