



ASX Announcement (ASX: LAW)

28 February 2020

FY19 Full Year Results

The Board of LawFinance Limited (“**LawFinance**” or “**the Company**”) is pleased to provide the following update to be read in combination to the FY19 Preliminary Final Report released on the ASX today.

Highlights

- FY19 loss has improved 96% to US\$0.4M
- Net assets have improved 10% to US\$19.8M
- Cash on hand has improved 56% to US\$5.8M

FY19 has been a transformational year for the Company as management focused on the operational challenges of integrating and operationally improving, the very substantial National Health Finance acquisition. This work has largely been completed and has led to a material improvement in the way the business is managed, and the returns being generated from the capital being deployed.

Due to the current accounting methodology, much of the economic returns to the Group from Originations are not yet apparent in the P&L Statement. This is exemplified by the fact that during the period under review the Company reported just US\$2.3m in revenue, compared to US\$33.1m in cash collections.

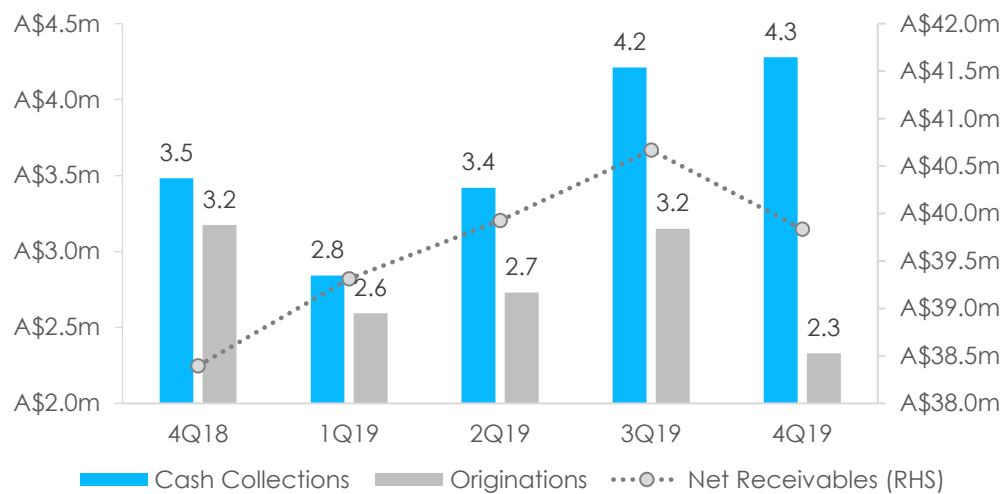
Until such time as the accounting treatment is more reflective of the business, the following set of key indicators should allow investors to access the progress that is being made.

Operational overview – JustKapital Finance (Australia)

Legislative changes in NSW adversely affected demand during FY19 but the resilience of the business was illustrated by the Net receivables book finishing 3% higher at US\$27.8m (A\$39.8m) despite these headwinds, the impact of which has now abated. Cash collections were particularly strong in 2H19 totalling US\$5.9m (A\$8.5m), up 28% on pcip (2H18: US\$4.6m (A\$6.5m)).

The division services over 160 law firms across the country and is based on long standing relationships and a history of providing a simple and efficient service. Demand is not affected by the economic cycle and the outlook remains solid.

JustKapital Finance: Originations, Cash Collections & Net Receivables



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

Due to this business only being owned for 3 months in FY18 and the impact of accounting methodology (AASB9), comparisons with the prior year on a statutory basis are not meaningful.

Management has been required to invest more time into improving the operations of the NHF business than was expected and together with capital constraints this has hampered growth in FY19. The operational improvements are now largely complete and as a result of the recent capital reorganisation, the operations are now considerably better financed to pursue growth.

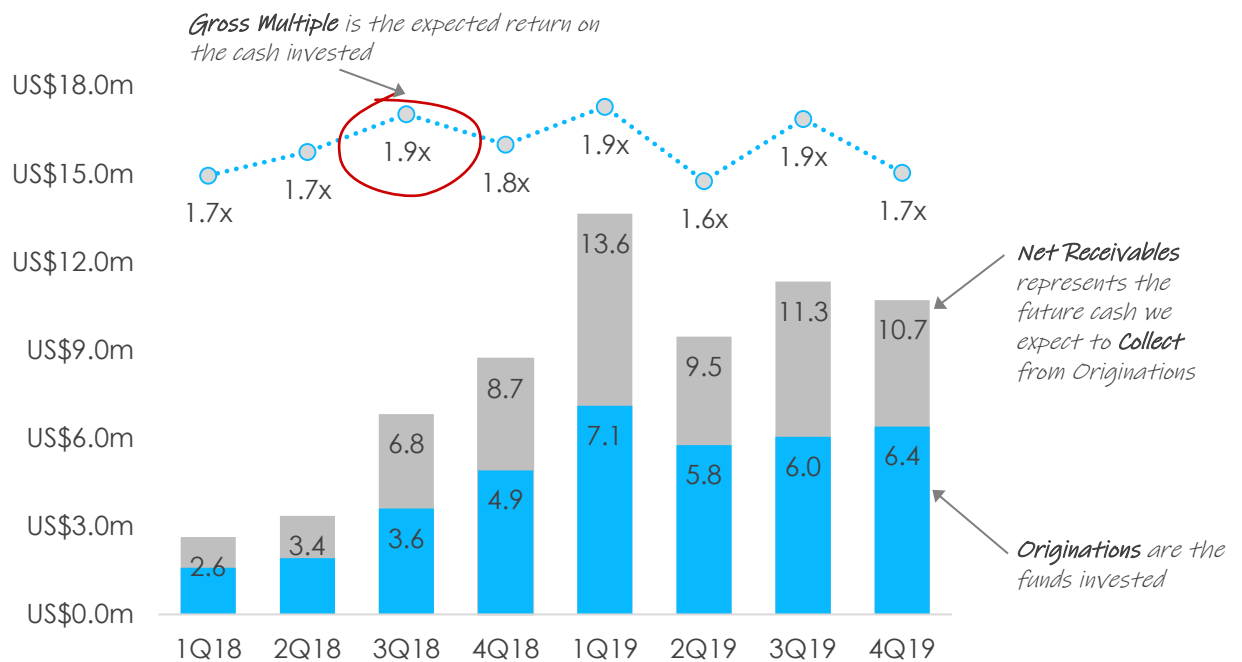
Although there are complexities to the operations of NHF, at its core, the business is very simple. In essence, the business pays a proportion of the medical expenses for a not at fault motor vehicle accident victim while they await settlement from the counterparty’s insurance provider.

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

Originations have been below expectation in FY19, but nevertheless showed substantial progress on CY18. Over the year NHF deployed US\$25.3m, up 109% on the prior year (CY18: US\$12.1m).

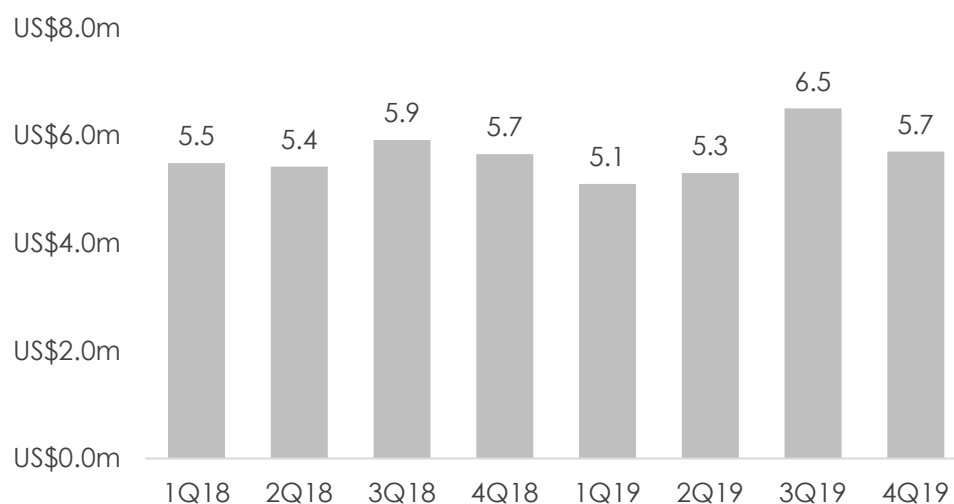
The Net Receivables book declined over the year from \$US96.0m to US\$85.0m and this included a write down of US\$18.0m. This revised assessment follows a year of working within the NHF business and relates to older receivables that were acquired by NHF several years prior to the purchase of the business, where the time being taken to recover value was proving sub-economic. This was disappointing, however, management has confidence that the written down value of the older book is conservative, and funding provided in recent years, is performing better than original expectations.

NHF Originations and Net Receivables



Cash Collections continue to be the focus of the management team. The utilisation of NetSuite has had a positive impact on the collections process, and as the better performing newer loans form a larger component of the receivables book, we expect this metric to trend higher in the year ahead.

NHF Cash Collections



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 are expected to generate US\$14m (A\$20m) in cash proceeds as the portfolio of cases are concluded. One smaller case was settled after the FY19 year end.

Capital Reorganisation

The capital reorganisation undertaken in recent months has been substantial. Shareholder approval of the resolutions at the forthcoming Extraordinary General Meeting, being held on 10 March 2020, is crucial to finalising this transformation to allow the Company to pursue the significant opportunity presented by the US medical liens market.

Like the Australian disbursements business, medical liens are not cyclical and suffer very low default rates. In addition, the NHF operation generates US dollar earnings, which is particularly attractive given the majority of the group's interest expense is in Australian dollars and the local currency is trading at 10-year lows.

Details of the various balance sheet initiatives are summarised in the Subsequent Events section of the FY19 Preliminary Results and in detail in the Notice of Extraordinary Meeting released to the ASX on 7 February 2020.

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