



ASX Announcement (ASX: LAW)

30 October 2020

## Quarterly Activities Report – September Quarter 2020

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

### COVID-19 update

In the United States court activity has slowed dramatically since the COVID-19 outbreak, and cases have not been able to move through the system in the normal manner, thereby extending case settlement timeframes. Motor vehicle insurers have taken advantage of the situation to delay settlement discussions and claim payments unless the victim is willing to accept a substantial discount. This has had a material impact on National Health Finance’s (NHF’s) Cash Collections. The latest feedback from NHF’s legal partners is that courts are re-opening to some extent and therefore activity should improve. However, a full recovery to pre-COVID levels is not expected in the near term.

In Australia, there has been a recovery in economic activity as states ease restrictions. The easing of restrictions has allowed a natural flow on effect of people attending non-essential medico legal assessments which are the mainstay of the Company’s disbursement funding activities. The situation remains fluid as the potential resurgence of COVID-19 evolves, however current indications are that there should be continued improvements in funding opportunities for the Australian business.

### Areas of focus

The key focus of management over the next six months is to restructure the Company’s existing loan facilities to provide the Group with more flexibility and funding to grow, as the opportunity for case Originations recovers to historical levels. The Board will keep the market informed of these initiatives and expects to provide a positive announcement to the market on the first of these initiatives shortly.

Management has embarked on various cost saving initiatives across the Group to ensure that overhead levels are aligned with current Cash Collection and Origination levels. Operating Costs are running at half the level recorded in the first quarter of the year.

The table below provides a summary of receipts and expenditures from operating activities for the last quarter (refer also to the accompanying Appendix 4C):

3 months to:	31-Mar \$USD’000	30-Jun \$USD’000	30-Sep \$USD’000	TOTAL \$USD’000
Receipts from Customers	7,489	7,170	6,754	21,413
Operating Costs	-2,862	-1,243	-1,447	-5,552
Net Interest	-3	-5	-4	-12
Payments for disbursement reports and medical liens	-5,268	-3,257	-2,150	-10,675
Movements in Working Capital Facilities (including interest)	-7,149	-3,478	-4,478	-15,105
<b>Net cash from / (used in) operating activities</b>	<b>-7,793</b>	<b>-813</b>	<b>-1,325</b>	<b>-9,931</b>

## September 2020 quarter KPI and commentary:

- **Cash Collections (case related) were US\$6.5 million, down 30% year on year.**

Cash Collections were very disappointing compared to pre-COVID expectations for the business and relative to the prior year. This is not a reflection of the collectability of the receivables, but purely the procedural challenges in the US, where court activity has been significantly curtailed. This fact is corroborated by the performance in Australia, where Cash Collections were a record at US\$3.3m (+16% pcp), or up 10% in Australian dollar terms.

- **Originations<sup>1</sup> were US\$2.7 million, down 67% year on year.**

New business, or Originations, are substantially a reflection of US motor vehicle use and accident levels. These are expected to recover in line with improving economic activity. There are significant opportunities to acquire Receivables from other holders of this paper, which will allow the Company to regrow its Receivables book more rapidly. Significantly, we are receiving enquiries from new medical providers, including hospitals, about our medical lien financing solutions. However, until the US courts return to more normal operating conditions and new funding arrangements are agreed, the Company is not in a position to grasp these opportunities.

- **Net Receivables were US\$98.8 million, down 22% year on year.**

The decline in the Net Receivables book is a function of the collection of Net Receivables (Cash Collections) being higher than the new business being written (Originations).

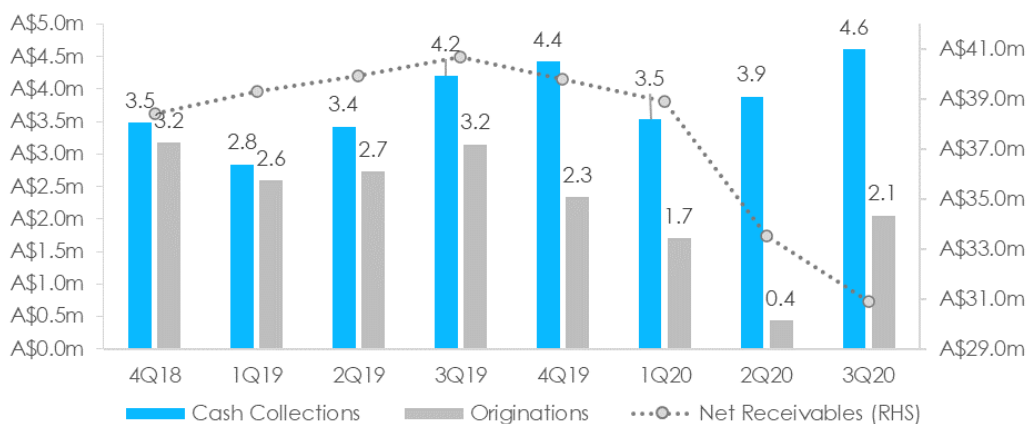
A summary of our key operating metrics is provided at the end of this report.

## Operational overview – JustKapital Finance (Australia)

The Australian disbursement funding business delivered a record cash collections quarter, increasing 19% on the prior quarter in Australian dollar terms.

Originations have been impacted by the pandemic, particularly in the prior quarters. In the current quarter, however, there has been a material recovery (+370%) in Originations, returning to ~80% of pre-COVID levels. This recovery and level of activity would appear to be sustainable.

## JustKapital Finance: Originations, Cash Collections & Net Receivables



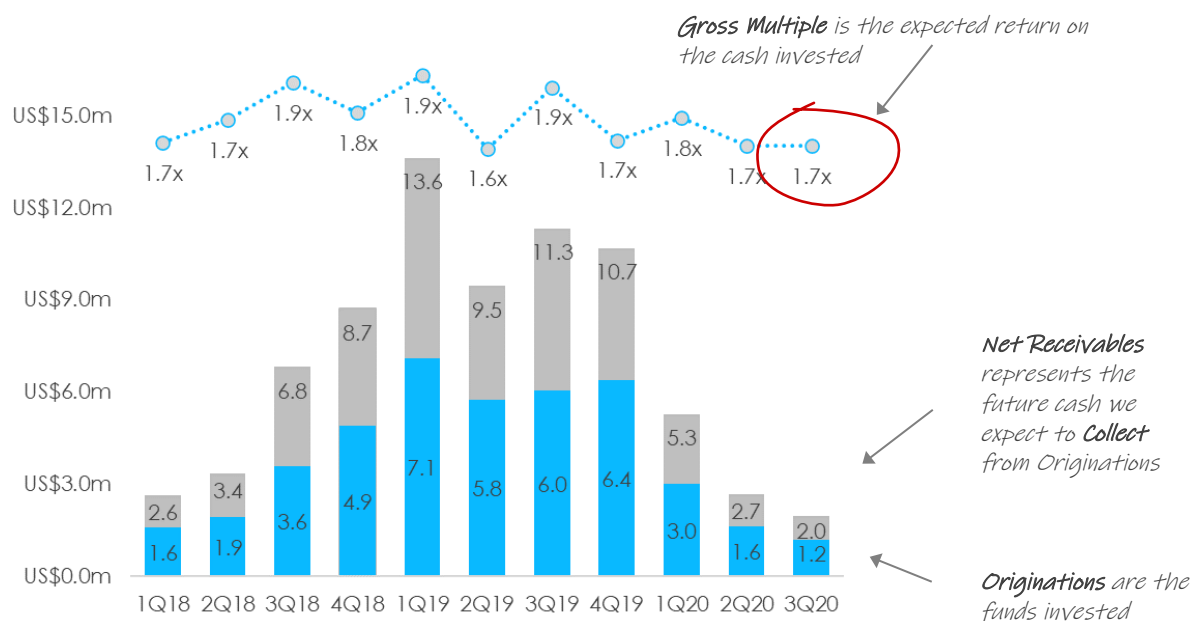
<sup>1</sup> Originations: This represents new cash funding deployed for the purchase of receivables.

## Operational overview – National Health Finance

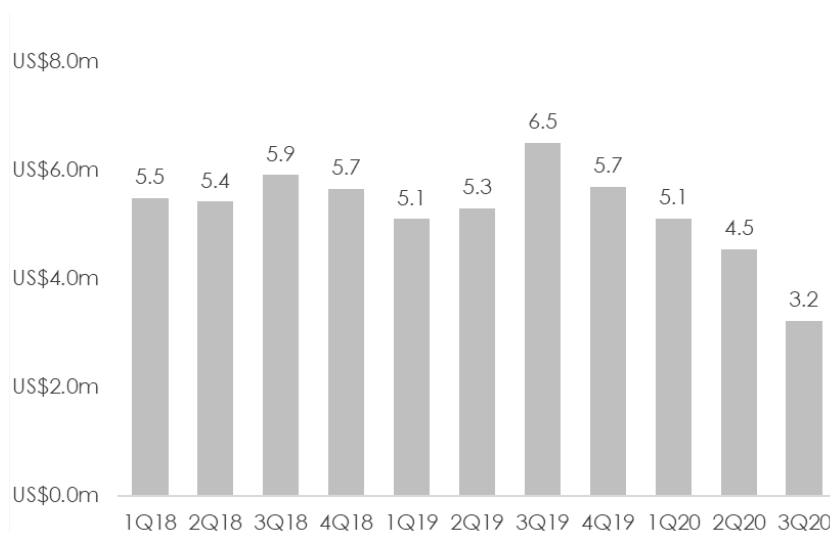
As discussed earlier in this report, the US operations continue to be heavily affected by COVID-19 impacts in the states in which NHF operates and this is putting pressure on the whole Group. Despite the ongoing rise in infections it would appear there are reasons for optimism as the US court systems adapt to a “new normal”. This involves establishing virtual pre-trial hearings, in order to move cases forward, even if a conventional jury trial is not currently an option. Although the cases that NHF funds almost never reach trial, the threat of that possibility, with all its attendant costs and risks, is a powerful motivation for insurers to settle cases.

NHF has surveyed its legal partners across the US and although there are mixed results, the majority are seeing, or are anticipating, a recovery in settlement activity from the historically low activity in the last two quarters.

### NHF Originations and Net Receivables



### NHF Cash Collections: US\$3.2 million (3Q19: US\$6.5 million)



## Operational overview – Litigation Funding (Australia)

As previously advised, this operation is being wound down, with the decision being made to not fund any new cases. Further to the Company's announcement on 22 October 2020, the book is now expected to generate cash of around A\$10 million (being the Company's share of the anticipated proceeds) from the residual cases in the Litigation Funding Portfolio, on the basis they are all successfully concluded.

## Payments to related parties of the entity and their associates

As disclosed in Section 6.1 of the attached Appendix 4C, there were total payments of US\$94,000 to related parties for salaries and directors' fees paid to executive and non-executive directors. There were no other payments to related parties.

## Key Performance Indicators

(US\$m)	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20
Cash Collections								
USA	5.7	5.1	5.3	6.5	5.7	4.5	4.5	3.2
Australia	2.5	2.0	2.4	2.8	3.1	2.7	2.7	3.3
<b>Total</b>	<b>8.2</b>	<b>7.1</b>	<b>7.7</b>	<b>9.3</b>	<b>8.8</b>	<b>7.2</b>	<b>7.2</b>	<b>6.5</b>
Originations								
USA	4.9	7.1	5.8	6.0	6.4	1.6	1.6	1.2
Australia	2.2	1.8	1.9	2.1	1.6	0.3	0.3	1.5
<b>Total</b>	<b>7.1</b>	<b>8.9</b>	<b>7.7</b>	<b>8.2</b>	<b>8.0</b>	<b>1.9</b>	<b>1.9</b>	<b>2.7</b>
Net Receivables								
USA	96.0	105.3	102.1	98.6	85.0*	78.5	78.5	76.8
Australia	27.1	27.9	28.0	27.5	27.8	23.5	23.5	22.0
<b>Total</b>	<b>123.1</b>	<b>133.2</b>	<b>130.1</b>	<b>126.1</b>	<b>112.8</b>	<b>102.0</b>	<b>102.0</b>	<b>98.8</b>
Change in Net Receivables								
USA	96.0	9.3	-3.2	-3.5	-13.6*	-0.2	-0.2	-1.7
Australia	0.2	0.8	0.1	-0.5	0.4	-0.5	-0.5	-1.4
<b>Total</b>	<b>96.2</b>	<b>10.1</b>	<b>-3.1</b>	<b>-4.0</b>	<b>-13.2</b>	<b>-0.7</b>	<b>-0.7</b>	<b>-3.1</b>
FX (AUD/USD)	0.71	0.71	0.70	0.68	0.70	0.62	0.70	0.71

\* The reduction in this quarter stems from write-downs which were offset by a reduction in the NHF Vendor Loans processed through the financial statements at year end.

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