



ASX Announcement (ASX: LAW)

29 April 2022

Quarterly Activities Report – March 2022 Quarter

The Board of LawFinance Limited (“**LawFinance**” or “**the Company**”) is pleased to provide the following quarterly update.

March 2022 quarter (1Q22) KPI and commentary:

- **Current Capital Raise process**

During 1Q22, we prepared to raise fresh capital to significantly strengthen LawFinance’s balance sheet and provide funding to invest in new originations and working capital. The capital raise formally commenced in April 2022, and is comprised of 3 components, being i) an Entitlement Offer, ii) Share Placement which raised A\$1.68m as announced on 6 April 2022, and ii) a new tranche of SAF debt \$A0.1m. In total, these 3 components are expected to raise new capital of between A\$6.1m and \$A9.6m, as detailed in the Investor Presentation of 6 April 2022.

We are in the process of finalising the partially underwritten Entitlement Offer and the new tranche of SAF debt. Results of the Entitlement Offer will be announced on 5 May 2022, as set out in the Replacement Prospectus dated 13 April 2022.

- **Cash Collections (case related) - US\$2.6 million.**

Cash collections remained below target due to lower collections from Michigan receivables, while the remainder of receivables collected in line with expectations. Pleasingly, recovery rates in terms of the Multiple on Capital Employed (MOCE) continued to improve to 1.52x, nearing pre-COVID levels.

We saw release of funds from Michigan claims recommencing in 1Q22. We expect ‘bottlenecks’ that have been holding up disbursement of claim settlement proceeds to continue to reduce with more material release of settlement proceeds expected in early 2Q22.

- **Originations¹ - US\$2 million.**

Originations reached their highest level for a quarter in nearly 2 years. These increasing originations reflect the conversion of “new” recurring funding relationships, which we expect to continue to grow through 2022.

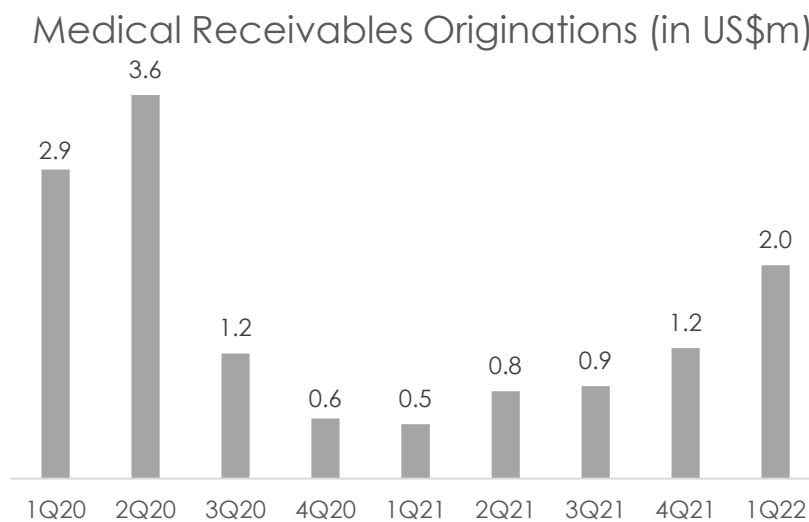
We foresee a significant step-up in originations next quarter. As stated in the Investor Presentation of 6 April 2022, we executed a binding agreement to fund up to \$10 million of medical lien claims in our strategic target state Texas (“the Transaction”). The funding is structured as a letter of credit advance which means that the loans are secured by a pool of collateral consisting of medical bills. We have been undertaking detailed ‘vetting’ of collateral over the last month. We intend to commence funding the Transaction following completion of our current capital raising. The expected equity IRR on the Transaction is in excess of 40% p.a.

¹ Originations: This is the new cash funding deployed for the purchase of medical receivables and the funding of loans backed/collateralised by medical receivables

Operational Overview

Originations

The opportunity in the market continues to grow as NHF develops more strategic relationships in its core financing jurisdictions.



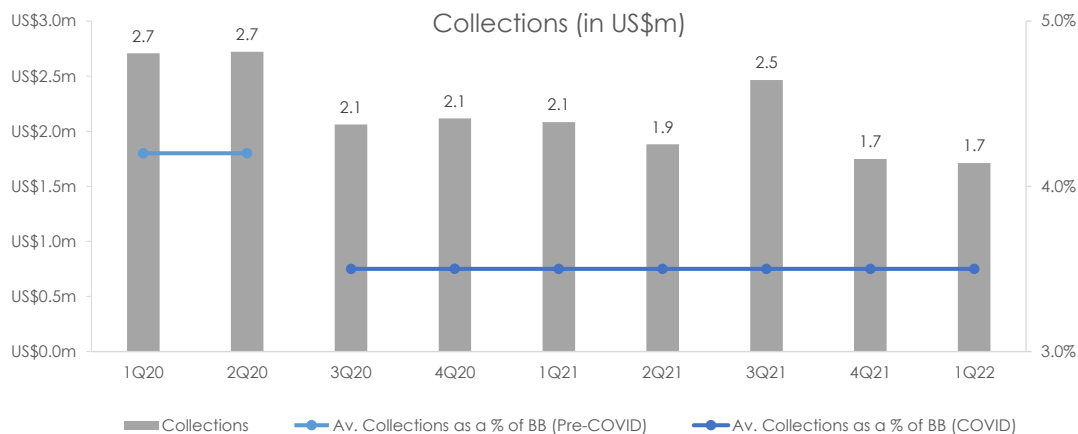
Cash Collections

The NHF portfolio is managed as two separate sub-portfolios funded by different funders. The legacy portfolio is funded by Efficient Frontier Investing (EFI) and is comprised of receivables that are in various stages of litigation to mature receivables in their final stages of their settlement cycle (**EFI portfolio**). The growth portfolio now funded by PFG is the focus of growth initiatives currently being undertaken by the team at NHF (**PFG portfolio**).

Cash Collections (PFG portfolio)

Cash collections in 1Q22, remained at 4Q21 levels, as receipts from the settlement of Michigan claims continued to be delayed due to action taken by another funder to two key medical service provider groups. The bottleneck was resolved in respect of approximately half of the claims originated by our largest Michigan medical service provider Group. This progress saw the re-commencement of funds being disbursed to us in 1Q22, and we are expecting material funds to be released early in 2Q22. We continue to work to resolve remaining bottlenecks, including those at the second medical service provider group.

Given this delay in the receipt of Michigan claim proceeds, 1Q22 collections were 3.1% of the monthly borrowing bases, which was below the overall average collections during COVID impacted period (3.5%).



Recovery rates in terms of the MOCE achieved on collections reached 1.52x in 1Q22, continuing the improvement trend from late 2021. MOCE's achieved in 1Q22 are approaching the pre-COVID levels.

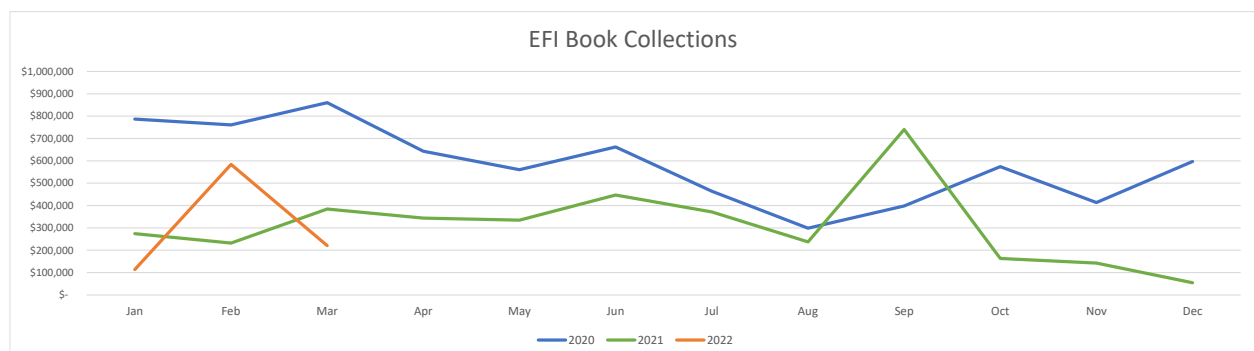
The impact of COVID on recovery rates in terms of MOCE's achieved was significant in the first 3 quarters of 2021. MOCE's averaged 1.36x in 2021 compared to pre-COVID averages of 1.61x. Insurers slowed settlement cycles and proposed lower settlement offers which has had a resultant impact on the overall reduction in MOCE. These impacts significantly reduced in the second half of 2021.

We continue to engage with key Michigan medical service providers to resolve outstanding contractual claims arising pursuant to the terms of the funding agreements and/or as a consequence of breaching agreement terms. We remain optimistic of reaching consensual arrangements to resolve these claims in the coming months.

Cash Collections (EFI portfolio)

EFI Portfolio collections significantly increased in 1Q22 (\$0.9m) as compared to 4Q21(\$0.4m). Despite this stronger performance the bottlenecks experienced in Michigan continued to delay collections. Progress made in 1Q22 to remove these bottlenecks is discussed above.

Average monthly recoveries continue to fluctuate in line with the composition of the portfolio being in part, in various stages of litigation and in part, mature receivables nearing the end of their respective settlement cycle.



The EFI portfolio currently maintains a compliant Loan to Value Ratio (LVR) of around 72%. However, as detailed on page 27 of the Investor Presentation dated 6 April 2022, there is a subsisting Review Event under the EFI Facility and there is also the risk that the LVR covenant could be breached in the short term which could lead to an event of default under the EFI Facility. As detailed in the Investor Presentation, while subordination arrangements remain in place with the lenders to the Syndicated Acquisition Facility

(SAF Lenders), EFI's rights upon an event of default being triggered would be limited to the borrower (SPV III).

Update on Origination Pipeline

The Company continues to simultaneously focus its efforts on (re)establishing recurring funding relationships through NHF's network of medical providers and attorneys as well as sourcing and negotiating larger opportunities that typically have a longer sales cycle.

- As stated, in the Investor Presentation of 6 April 2022, we executed a binding agreement to fund up to \$10 million of medical lien claims in our strategic target state Texas ("the Transaction"). Funding of this transaction is expected to commence in May 2022, following completion of the current Entitlement Offer to raise capital as detailed in the Replacement Prospectus dated 13 April 2022.
- In 1Q22 we submitted a non-binding indicative offer to acquire a second portfolio of medical lien claims, which is also largely comprised of claims originated in Texas. We are currently undertaking exclusive due diligence including 'detailed vetting' of the claims which we expect to take 6–8 weeks to complete. Subject to the outcome of that process, we may submit a binding offer (in line with the terms of the non-binding offer) to acquire the portion of the portfolio that passes vetting. Based on a detailed review of c.10% of the claims, indications are that the opportunity may be in the order of \$10–15m. The acquisition of this book is subject to a number of conditions, including completion of vetting and underwriting, Board approval and consent by our debt funders (PFG).
- The Trident Health Group joint venture continues to progress with the signing of the joint venture agreement. Trident is comprised of NHF and two (non-lien) partners that would acquire Hospital/ER paper which would otherwise be funded by public healthcare insurance. Trident and the transformational opportunity it provides is detailed in the Investor Presentation of 6 April 2022.

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\$138,621 to related parties for salaries and directors' fees paid to executive and non-executive directors. There were no other payments to related parties.

Authorised by:

The Board of Directors

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