SHINE CORPORATE LTD

ASX ANNOUNCEMENT

29 January 2016

Shine Corporate Ltd (SHJ)
FY2016 Market Guidance Update

We refer to our ASX Announcement dated 18 January 2016, which advised that the Company expected a review of its Work in Progress (WIP) recovery rates and provisioning would result in a material impact in its previously announced FY2016 EBITDA guidance.

In the lead up to the preparation of its half year accounts, Shine Corporate took the initiative to complete a more detailed analysis of its recovery rates and provision modelling/methodology with an actuarial consultant.

As a result of this analysis, the Company has concluded there is a need to increase its provisioning for WIP and disbursements.

The parts of the business this largely applies to are:

- Some current cases which will not ultimately succeed. This may not be determined until a future reporting period. The review confirmed the need to increase provisioning relative to recovery rates. These cases typically fall within the Personal Injury business and not in respect of the Company's acquisitions nor class actions; and
- To a limited extent, debtors and other disbursements.

The total additional provision is a one-off amount of $17.5m taken up in FY2016. The Company's external auditor has agreed to the revised methodology and the intended increase in provision. Further information about the additional provision and methodology is set out in the attached presentation.

Shine Corporate's Managing Director, Simon Morrison, said "the increase in provisions will not impact operating cashflow in 1H FY2016 and protects the balance sheet against the risk of future write-downs."

Given the recent WIP recovery rate and provisioning review, the Company has brought forward its half yearly business review to ensure the FY2016 guidance update reflects the latest information.

This business update is covered in two parts:

1. Core business

First half performance was below budget largely due to:

- lower income, which was driven by sub-optimal fee-earner to file ratios and under performance by some fee earners, both resulting in a reduction in WIP and income. Tighter performance management and recruitment policies have been introduced and are expected to improve future bench strength and profitability notwithstanding short term revenue reduction. We are also closely managing our fee-earner to file ratios and case management processes;

- greater than expected write-offs due to factors including regulatory reform impacts on WIP from previous periods; and
- continuing market competition, especially in Queensland.

We expect the core business to show improvement in 2H, as has occurred in previous years. The Company continues to execute strategic initiatives to deliver greater efficiencies. These are expected to culminate in improved future results.

2. Acquisitions

Whilst the acquired businesses' performance remains solid, growth forecasts for FY2016 have been revised downwards due to a range of factors.

Guidance

The net effect of the business update and provisioning increase on FY2016 EBITDA is:

	$m	Net guidance $m
Mid-point of original guidance (Aug 2015)	54	54
Less impact of:		
• Business Update	(10.5)	43.5
• Increased provisions (one-off)	(17.5)	26
Mid-point of revised guidance	26	

The Company's revised FY2016 EBITDA guidance is $24m-$28m.

Mr. Morrison said, "Our underlying business model remains solid. We have continued to bolster our senior executive team to address and improve future business performance and we are seeing early benefits. The Company will continue to execute on its long term strategy having addressed the matters set out in this announcement."

Other Matters

The Company has confirmed with its bank that the adjustment and the revised forecast keeps the Company within its banking covenants. Furthermore, our bank has confirmed key terms of the new debt facility which we expect to finalise shortly. Our gearing (net debt basis) remains conservative at circa 23% (unaudited) as at 31 December 2015. The increase largely relates to acquisition funding and acquisition earn-outs.

The Board has decided that it will not declare an interim dividend, however, it expects to be in a position to declare a full year dividend.

The Company will release its 1H FY2016 financial results on Tuesday, 23 February 2016.

Investor enquiries:

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FY2016 MARKET GUIDANCE - UPDATE

29 January 2016

Simon Morrison – Managing Director
Courtney Petersen – Chief Executive Officer
Daniel Wilkie – Chief Financial Officer

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SHINE CORPORATE LTD

INTRODUCTION

- 18 January 2016 ASX Announcement regarding FY2016 EBITDA guidance

- Completed our review of:
  - Work In Progress (WIP) recoverability rates
  - Provisioning

- ***In addition***, reviewed business performance for 1H FY2016 and 2H outlook, as part of our Half Year update process

FY2016 EBITDA GUIDANCE UPDATE

Guidance	$m	Net guidance $m
Original guidance range (Aug 2015)	52 - 56	-
Mid-point of original guidance	54	54
Less impact of:		
• Business review	(10.5)	43.5
• Increased provisions	(17.5)	26
Mid-point of revised guidance	26	-
New guidance range	24 - 28	-

Revised FY2016 EBITDA guidance is now $24m – $28m

PROVISIONING REVIEW

- Issue was identified as part of the ongoing business improvement process and following an actuarial analysis during a recent exercise initiated by the newly appointed Company CFO

- The Company’s external auditor has endorsed the provisioning methodology and consequential adjustment

- The adjustment to provisions is ($17.5m) and is a “one-off”

WHAT PARTS OF OUR BUSINESS DID THE REVIEW APPLY TO:

Essentially two areas:

1. All current cases excluding class actions
   - Not all current cases will ultimately succeed. This may not be determined until a future reporting period
   - Review confirmed need to increase provisioning relative to recovery rates

2. To a limited extent, third party and other debtors as well as WIP disbursements

WHAT PARTS OF OUR BUSINESS DID THE REVIEW APPLY TO (CONT.)

Personal Injury Business:

- If a case is assessed during a reporting period as “likely to be unsuccessful”, then Work in Progress and associated disbursement provisioning is increased
- However, review of past periods suggests there will be a residual percentage of current cases at the end of a reporting period, which will not be successful in future
- This will be adjusted in 1H FY2016 accounts

A more conservative approach to WIP and disbursement provisioning

IMPACT OF INCREASED PROVISIONS ON OPERATING CASHFLOW

- No impact in 1H FY2016
- Impact on future cashflow with higher provisioning and reduced recovery rates
- Consequence of a reduced recovery rate is lower income
- It follows less cash will ultimately flow through the business for each dollar of work ascribed to a file

BUSINESS UPDATE

- Management completed a detailed review of:
  - Actual business performance; and
  - Outlook for FY2016 as part of its half year process

- Review was completed in two parts:
  - Core business
  - Acquisition businesses

BUSINESS UPDATE (CONT.)

- Core business
  - 1H FY2016 performance was below budget, largely due to:
    - ➢ Lower income
      - ▪ Sub-optimal fee-earner to file ratios; and
      - ▪ Under performance by some fee earners

      both resulting in a reduction of WIP and income.

      Although we make no upward assumptions for 2H, tighter performance management and recruitment policies have been introduced to improve future bench strength and profitability, notwithstanding short term revenue reduction. Fee-earner to file ratios and case management processes are being closely managed.
    - ➢ Higher write-offs, in the short term, largely attributable to regulatory reforms
    - ➢ Continuing strong competition (mainly Queensland)
  - 2H FY2016 – traditionally stronger performance in second half

UPDATE ON BUSINESS TRANSFORMATION

Continuing our focus on improving recoverability and optimising our business model

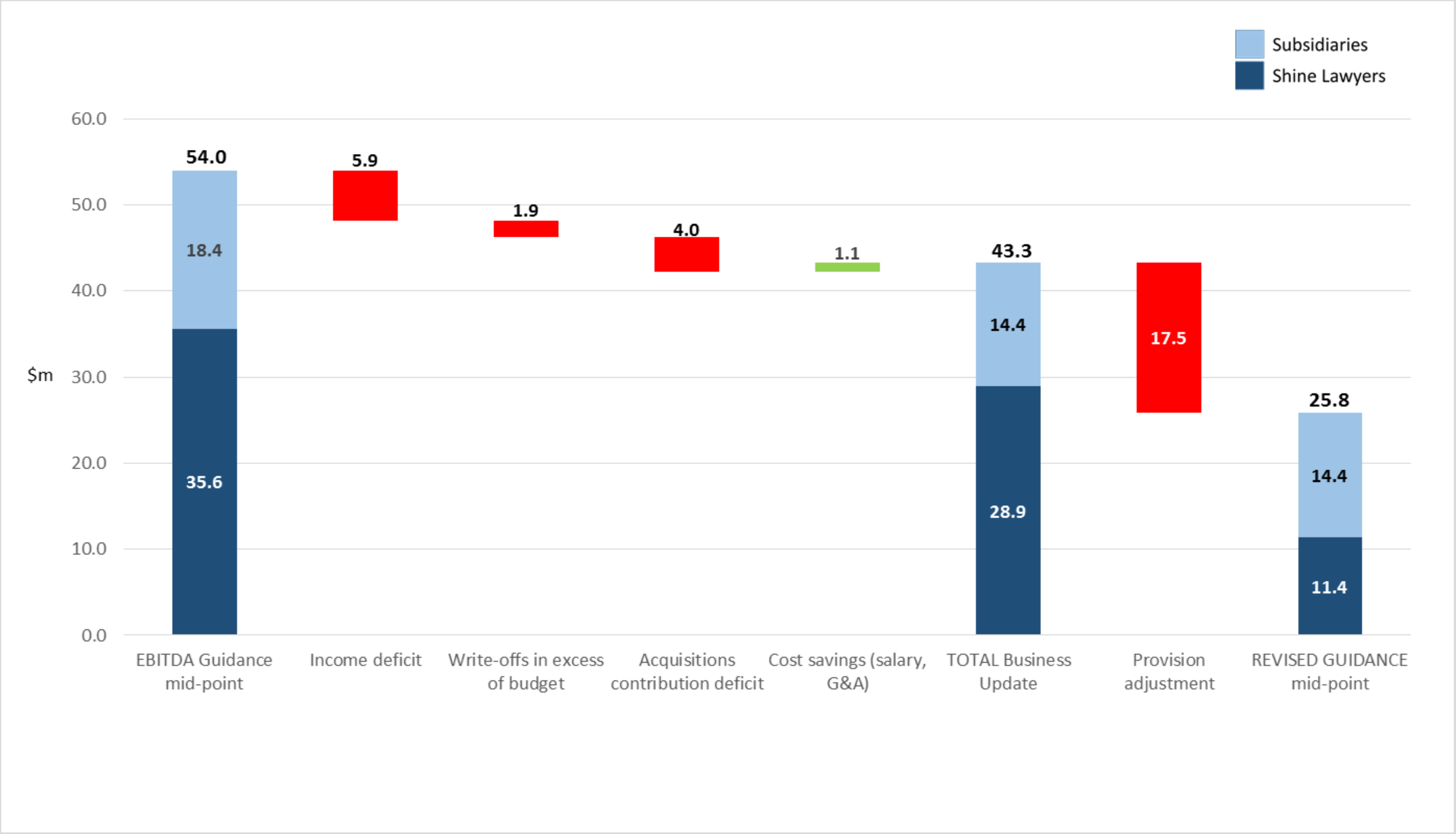
First half focused on:

- Cultural change:
  - Strengthening our accountability model
  - Refining our WIP management processes
  - Ongoing continuous improvement in case selection
  - Succession planning to retain high achievers
- Improving the bench strength of our legal team (changed our recruitment policies) and our management team
- Our marketing strategy
- IT platform scoping and process mapping

BUSINESS UPDATE (CONT.)

- Acquisitions (since listing)
  - Slower 1H than expected
  - Underlying business performance across the companies was solid
  - However, growth forecasts set for FY2016 have now been revised downwards given a range of factors

FY2016 REVISED EBITDA GUIDANCE



DEBT

- No impact on current debt covenants
- The main convenants are:
  - Interest cover ratio
  - Borrowing to WIP ratio
- New debt facility:
  - Bank advised of provisioning and business review
  - Bank has confirmed key terms of new facility and expect to finalise shortly
- Gearing remains conservative:
  - 23% (net debt basis) unaudited as at 31 December 2015
  - The increase largely reflects acquisition funding and acquisition earn-outs

SHINE CORPORATE LTD

DIVIDEND

The Board has decided that it will not declare an interim dividend, however, it expects to be in a position to declare a full year dividend.

SUMMARY AND OUTLOOK (CONT.)

- FY2016 EBITDA guidance range reduced due to 2 factors being:
  1. One-off provision uptake
  2. Business update

  Our focus is now to deliver on or above this guidance

- The Company remains within its banking covenants, Bank has confirmed key terms of new facility which we expect to finalise shortly

- Board has decided not to declare an interim dividend, however, it expects to be in a position to declare a full year dividend

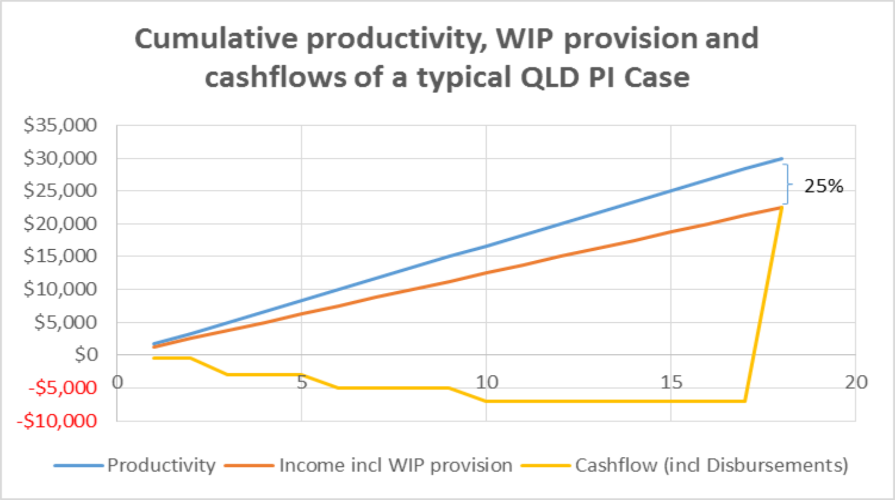
- Underlying business model remains strong and we continue to execute our program of strategic initiatives to deliver greater efficiencies

- Although immediate focus is operational performance, we continue to have a strong pipeline of acquisition opportunities, which continue to form a key part of the Company's strategy moving forward

- 1H FY2016 results will be released on Tuesday, 23 February 2016

SUPPORTING INFORMATION

RECAP ON A TYPICAL CASE CYCLE THROUGH THE BUSINESS



- Revenue as work in progress is recognised progressively over the case life
- Case life varies by type of matter from as little as 6 mths in the case of Shine Direct to greater than 5 years in the case of class actions
- Typically disbursements are outlayed in the first 12 mths of a matter and increase significantly if it proceeds to trial
- Whilst this table is a typical example of a Personal Injury file, there is a distribution of outcomes with a skew to the right

ACCOUNTING POLICIES

Revenue recognition

- Revenue is recognised in the period in which the legal services are provided to the client
- The basis for charging the client is work performed and recorded in time sheets

Provisioning

- Amounts are provisioned against work in progress monthly based on historical recoverability rates for each work-type
- Where it is no longer probable that a matter will be successful, the work in progress is fully provided until the matter is closed