



ASX Announcement (ASX: LAW)

29 January 2021

LawFinance Disposes Litigation Funding Business and Market Update

LawFinance Limited (“LAW” or the “Company”) today announced that it has entered into a definitive conditional agreement for the sale of 100% of the shares in its litigation funding business JustKapital Litigation Pty Ltd (“JKL”) to Legal Equity Partners Pty Ltd (“LEP”), a subsidiary of Lucerne Composite Master Fund (“LCF”), for A\$1.00 (the “Transaction”), equating to a debt and cash free transaction value of approximately A\$10 million¹.

In addition, LAW will share in 50% of any excess proceeds after repayment of the secured debt² against the funded legal cases. JKL was determined a non-core activity in December 2017.

LCF is a substantial shareholder in the Company and holds the secured debt against the cases in JKL.

The Transaction is conditional on shareholder approval under Listing Rule 10.1, an independent expert report being obtained which concludes that the transaction is in the best interest of shareholders, approval by various lenders to the Company (including the Syndicated Acquisition Facility (“SAF”) lenders) and continued solvency of JKL.

During the ongoing review of the business by the new management team, it became apparent that:

- (i) the Company is not in a strong enough capital position to constructively remain in and grow the litigation funding business; and
- (ii) the amount of secured debt against the cases and the continued requests for further funding of the cases has resulted in a lower probability of recovery for the Company than originally envisaged.

As a result, the management team concluded that it would need to sell JKL to enable the business to continue to pursue the active cases under new ownership.

The Company had initial interest from two parties but ultimately only LEP was willing and able to enter into the Transaction.

Chief Executive Officer, Daniel Kleijn said: “We are pleased that LEP is prepared to take over the litigation funding business as this should lead in a higher probability to better outcomes for the class actions and ultimately the plaintiff victims.”

“The sale of JKL is another step of de-risking the Company while retaining a share in the upside and ensuring our focus remains on businesses that have the potential of generating strong returns for shareholders.”

¹ LEP has agreed to fund JKL’s ongoing operations from signing of the Transaction until completion (up to A\$1 million) which would increase the transaction value at completion. Any funding by LEP would be repaid by JKL to the extent funds are available if the Transaction does not complete

² For the Quintis case, LAW will receive 50% of the proceeds after costs

Trading Update

National Health Finance (“NHF”)

In the United States (“U.S.”) 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 make payments unless the victim is willing to accept discounts. This has had a material impact on cash collections. As a result, our cash flow from collections in the U.S. is down from our expectations for 2020.

As previously reported to the market, our Atalaya secured finance facility for the front book claims (the “Front Book”) has been in breach of its covenants since August 2019. The facility breach, reduced cash flows and the Company’s limited liquidity position have resulted in an inability to meaningfully invest in new claims during the year. As a result, management expects to write-off the goodwill of US\$30.6 million³ related to the September 2018 acquisition of NHF in the 2020 annual report.

The goodwill write-off is related to LAW’s current financial position and is not a reflection of the industry fundamentals for NHF, which remain highly attractive.

JustKapital Finance

The JustKapital Finance business (“JKF”) has been collecting consistently with expectations but issuing significantly lower new loans during 2020 as a result of the pandemic. The goodwill of US\$4.1 million³ related to the acquisition of JKF in January 2016 is expected to be written off in the 2020 annual report.

JustKapital Litigation

The expected sale of JKL is expected to result in an asset write-off approximately US\$4 million in the 2020 annual report.

Other

The Company continues to review the carrying value of assets and liabilities as part of the audit process for the 2020 accounts and expects further write-offs to be taken to items such as deferred tax assets.

³ As at 30 June 2020

Strategy Update

The new management team's review of the state of the business and its financial position is ongoing but it has identified its key strategic priorities for the short term intended to put the Company back on a path of sustainability and shareholder value creation. The key priorities it has identified are:

- Refinance the Front Book secured finance facility
 - Currently in process
- Aggressively pursue delinquent debtors
 - Legal actions have commenced both in the U.S. and Australia
- Redesign the process of the acquisition of new claims by becoming increasingly data-driven
 - Data collection and reprogramming of software underway
- Restructure corporate debt and other secured and unsecured liabilities
 - Positive engagement with SAF lenders and initiated negotiations with unsecured liabilities
- Raise capital to recommence origination of new paper in the U.S.
 - Subject to a successful restructure of the balance sheet and currently intended by way of entitlement offer

"LAW's primary business operates in a fundamentally attractive sector that provides highly attractive returns on investment. The management team are working towards creating a sustainable capital structure with sufficient investable cash to enable the Company to execute the data-driven strategy of investing in new receivables", Daniel Kleijn said.

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