



EXPERIENCE COUNTS

HY20 RESULTS PRESENTATION
17 MARCH 2020

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Expansion of LCM's business into asset management

Two distinct business models:

1 Direct balance sheet investments

Continuation of existing portfolio

2 Asset management

LCM to act as a fund manager investing third-party capital, receiving both performance and outperformance fees

Under those business models, LCM currently pursues three investment strategies:

1 Single-case funding

Investment in a single dispute. Historically, the majority of LCM's investments are in single cases

2 Corporate portfolio funding

Funding of a bundle of single disputes in which LCM's capital investment is collaterally secured against the proceeds of the entire portfolio of disputes. LCM is an emerging global leader in the provision of corporate portfolio financing to corporate clients

3 Acquisition of claims

Investment in smaller disputes (typically insolvency-based) through the acquisition or assignment of the underlying cause of action

Key messages HY20

Clear demonstration of an increase in earnings over the last two half year periods

- Backed by continued investment discipline
- Larger capital base coming into play

Corporate portfolio market opportunity now demonstrable

- First contribution to revenue line
- Early financial performance in line with expectations
- Increasing awareness and engagement across multiple jurisdictions

Asset management platform complements existing direct investment business model

- Immediate scale with first close of new third-party fund of up to US\$150 million
- Sophisticated global cornerstone investors with entrenched rights on two further funds
- Initial seeding of nine cases totaling A\$51million
- Available additional capital will allow LCM to grow its business

Strategic alliance model delivering and expanding

- First global law firm alliance performing above expectations
- Second alliance with a global law firm in Australia agreed during the period
- Delivering healthy volume of applications in both single case and corporate portfolio

Expectations for smoothing of earnings

- Scale of third-party fund and performance fee structure expected to lead to increasing (size and frequency) investment realisations
- The longevity of corporate portfolio relationships
- These factors should begin to smooth LCM's revenue line over time

Delivering clear growth in HY20

Strategic goals:



Corporate portfolios - two resolutions achieved in the building and construction portfolio. First case resolution in aviation portfolio



Third-Party fund - immediate scale with first close of US\$150 million



Strategic alliance - performance of existing global law firm alliance. Entered into second alliance in Australia



Smoothing of earnings - larger capital base delivering consistently higher earnings with ongoing expansion expected

Financial:

A\$24.1m

Gross revenue

A\$6.9m

Adjusted profit before tax

A\$18.9m

Cash generated¹

A\$34.0m

Litigation investments³

**8.5-year portfolio
ROIC**

139%

**8.5-year cumulative
portfolio IRR**

79%

HY20 Financial results overview

	HY20 A\$m	HY19 A\$m	% move from H1 2019
Revenue from litigation projects	24.1	11.7	▲ 105%
Derecognition of contract asset upon recovery	(11.8)	(6.0)	▲ 98%
Gross Profit	12.2	5.7	▲ 113%
Due diligence costs (write off)	-	(0.1)	
Other income (Unrealised FX gains)	0.6	0.3	
Operating expenses ¹	(5.4)	(3.3)	▲ 66%
Exceptional items ²	(0.7)	(1.7)	
Statutory profit before tax	6.7	1.0	▲ 543%
EBITDA	6.7	1.0	▲ 553%
Add: Exceptional items	0.7	1.7	
Less: Unrealised foreign exchange gains in other income	(0.5)	-	
Less: Non-controlling interests	(0.02)	-	
Adjusted profit before tax²	6.9	2.7	▲ 155%
Adjusted profit after tax³	6.9	2.7	▲ 155%
Adjusted basic EPS (cents)	6.61	4.31	▲ 53%

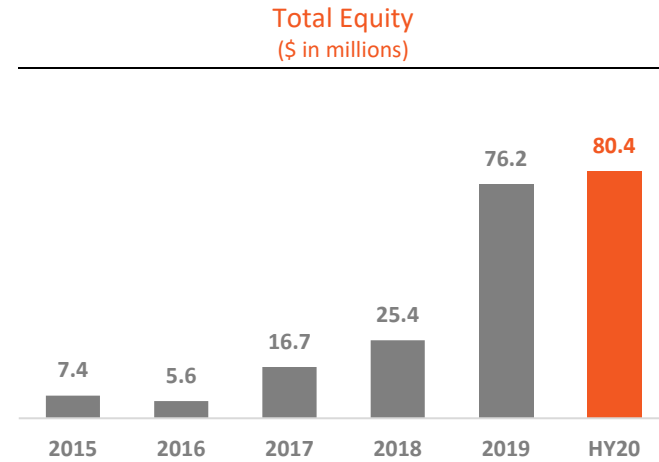
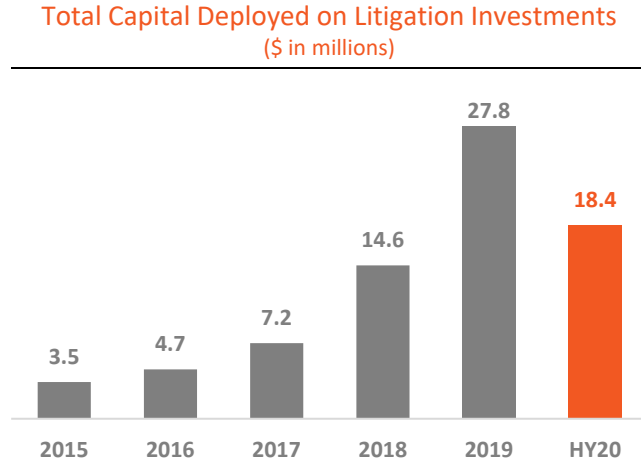
¹HY19 figure is prior to international expansion. The comparable period is therefore H2 2019 where operating expenses were A\$2m. Refer Directors Report for further detail


²HY20 adjusted PBT adjusted for share based payments expense, non-recurring legal fees on litigation, non-recurring consultancy fees and income tax expense has been excluded per Note 3 below

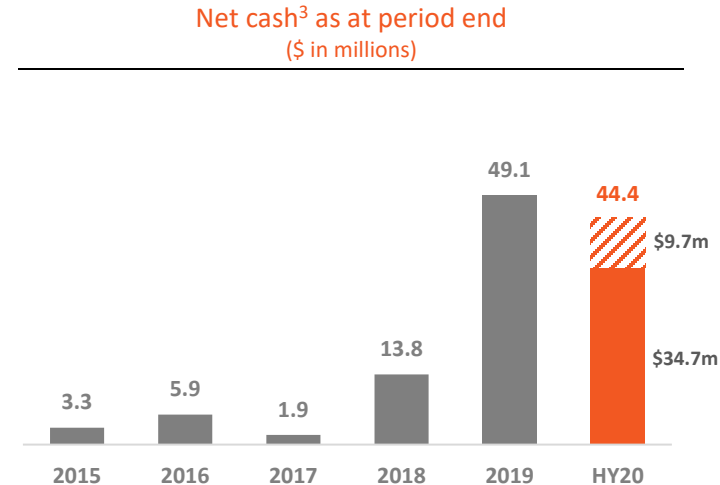
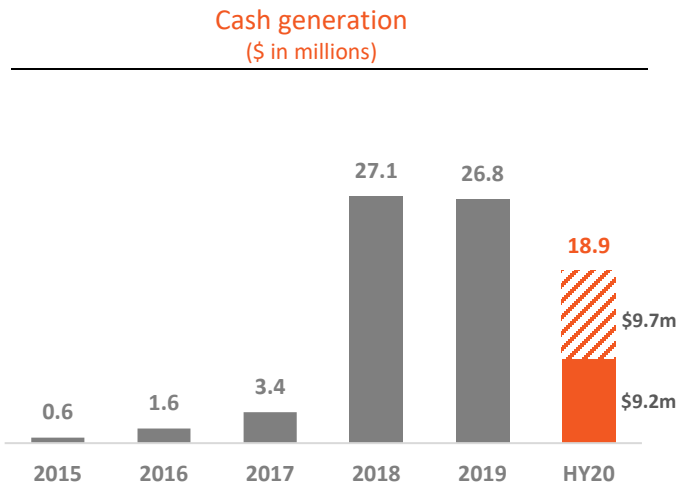
³Income tax expense has been excluded as it wholly comprises movements in deferred taxes ie, non-cash movements

Note: Accounts prepared on historical cost basis, LCM does not adopt fair value accounting. All amounts expressed in Australian dollars

HY20 Balance sheet overview



 Cash received post period¹



¹Post period cash denotes cash received between 1 January 2020 and 16 March 2020

²Cash generation denotes cash received from the successful resolution of litigation projects during the period, or post period where indicated

³LCM does not currently have any debt in its capital structure

Note: Accounts prepared on historical basis, LCM does not adopt fair value accounting. All amounts expressed in Australian dollars

Current portfolio of direct investments

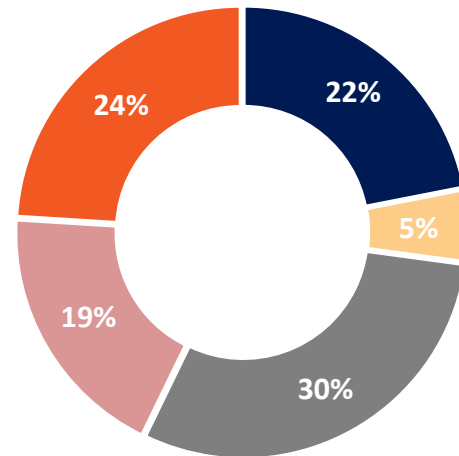
Current Portfolio
as at 16 March 2020
(A\$ millions)

\$96 million
Direct investment
portfolio

\$37 million
Funded

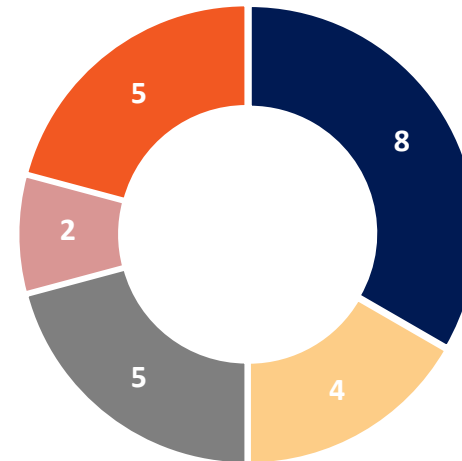
\$59 million
to be deployed

Portfolio by industry sector
(estimated A\$ capital commitment)¹



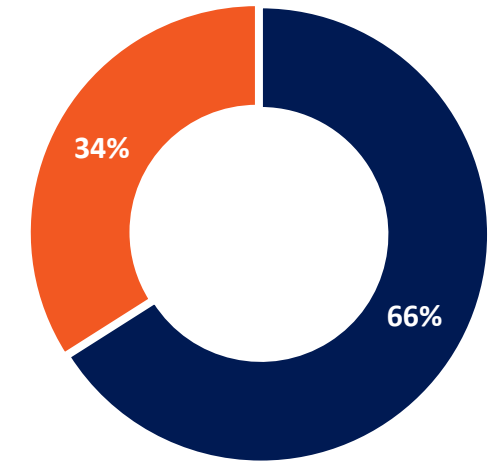
- Commercial Disputes - \$21m
- Insolvency - \$5m
- Class Action - \$29m
- Portfolio - \$18m
- Arbitration - \$23m

Portfolio by industry sector
(number of projects)²



- Commercial Disputes - 33%
- Insolvency - 17%
- Class Action - 21%
- Portfolio - 8%
- Arbitration - 21%

Portfolio by region
(estimated A\$ capital commitment)¹



- APAC - \$63m
- EMEA - \$33m

LCM Global Alternative Returns Fund

Balances as at first close on 10 March 2020 (A\$ millions)

\$51 million²

initial third party capital commitment¹

\$178 million³

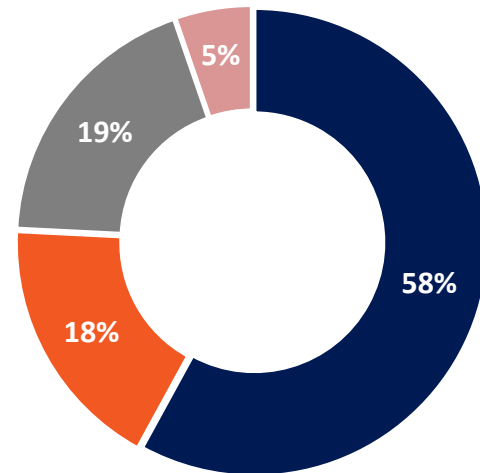
to be committed

\$21 million⁴

LCM direct investment contribution

Portfolio by industry sector

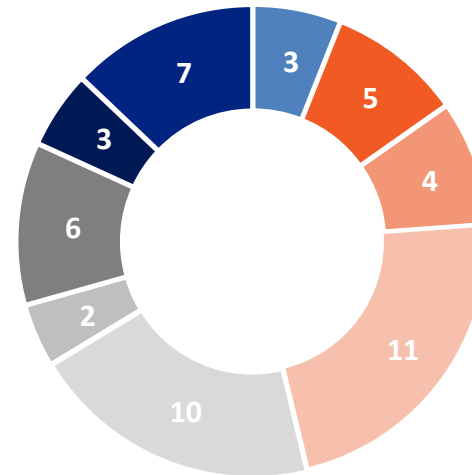
(estimated A\$ capital commitment)¹



- Class Action - \$29m
- Commercial Dispute - \$9m
- Arbitration - \$10m
- Insolvency - \$3m

Portfolio by capital commitment

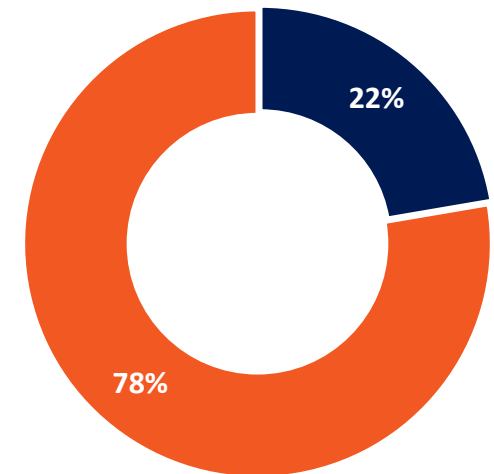
(estimated A\$ capital commitment)¹



- Project 1 - \$3m
- Project 2 - \$5m
- Project 3 - \$4m
- Project 4 - \$11m
- Project 5 - \$10m
- Project 6 - \$2m
- Project 7 - \$6m
- Project 8 - \$3m
- Project 9 - \$7m

Third party fund commitments

(estimated A\$ capital commitment)¹



- Committed to projects - \$51m
- Available capital - \$178m

¹Capital commitment denotes the total estimated budget of the portfolio of projects as at 10 March 2020

²US\$33 million

³US\$ 117 million

⁴US\$ 14 million

Favourable market dynamics



Uncorrelated returns

- Each and every investment whether the subject of a direct investment or as part of the fund portfolio is uncorrelated to each other



Countercyclical business

- Global financial markets are experiencing high volatility. Historically dispute levels rise during period of instability. The levels of insolvency events increases. Finally corporates tend to look for alternatives to disputes spending



Low market penetration

- Despite demand for litigation finance steadily increasing, the levels of market penetration in the various markets in which LCM operates is very low



Demand expanding rapidly

- The demand for litigation finance is steadily growing from year to year



Growing industry globally

- Not only is there a steady increase in established markets but also new geographies and jurisdictions are opening to litigation finance



Shifting legal market dynamics

- The expectations of corporates are changing. Clients increasingly expect law firms to be flexible and offer alternate solutions to disputes fees, creating an opportunity for LCM

Delivering across LCM's stated principles of growth & focus

01 **Balanced portfolio**

Ensured the natural diversity of our pipeline of opportunities to build on our diverse portfolio of investments

02 **Consistent and unparalleled underwriting**

Maintained the discipline of underwriting quality investments as a key driver to delivering high returns

03 **Unique origination**

Cemented our position in leading the global market in corporate portfolio origination

04 **Innovative finance solutions**

Entered into additional strategic alliance with a global law firm with similar innovative values

05 **International expansion**

Progressed on international expansion both in current and new jurisdictions

06 **Capital and funding**

Achieved first close of new US\$150m third-party fund establishing LCM as an Asset Manager

Positive outlook for H2 and beyond

- First close of third-party fund gives LCM access to materially increased capital
- Difficult global markets: historically, instability drives an increase in disputes
- Corporates are reluctant to allocate financial resources towards those disputes
- Given LCM's heritage, it has strong and deep relationships in the insolvency and restructuring industry, which leads into increased application activity
- These characteristics feed into increased opportunities

APPENDIX

Consolidated statement of profit or loss and other comprehensive income

For the period ended 31 December 2019

	Note	Unaudited six months ended 31 December			Note	Unaudited six months ended 31 December	
		2019 \$'000	2018 \$'000			2019 \$'000	2018 \$'000
Revenue from contracts with customers							
Litigation service revenue	5	24,064	11,714	Profit for the period is attributable to:			
		24,064	11,714	Owners of Litigation Capital Management Limited		4,810	823
Litigation service expense		(11,828)	(6,048)	Non-controlling interest		22	(4)
						<u>4,832</u>	<u>819</u>
Gross margin		12,236	5,666				
Other income		634	301	Total comprehensive income for the period is attributable to:			
Interest income		19	27	Owners of Litigation Capital Management Limited		4,810	823
				Non-controlling interest		22	(4)
						<u>4,832</u>	<u>819</u>
Expenses							
Corporate expenses		(2,096)	(1,806)				
Legal and professional fees		(278)	(546)				
Depreciation expense		(37)	(13)				
IPO and other transaction costs		-	(233)				
Employee benefits expense		(3,751)	(2,247)				
Foreign exchange loss		-	(103)				
		(6,162)	(4,948)				
Profit before income tax expense		6,727	1,046				
Income tax expense	6	(1,895)	(227)				
Profit after income tax expense for the period		4,832	819				
Other comprehensive income		-	-				
Total comprehensive income for the period		<u>4,832</u>	<u>819</u>				

Consolidated statement of financial position

As at 31 December 2019

	Note	Unaudited 31 December 2019 \$'000	Audited 30 June 2019 \$'000
Assets			
Current assets			
Cash and cash equivalents		34,741	49,119
Trade and other receivables	7	21,953	7,266
Contract costs	8	7,425	8,910
Other assets		592	693
Total current assets		<u>64,711</u>	<u>65,988</u>
Non-current assets			
Contract costs	8	27,019	18,476
Property, plant and equipment		215	216
Intangible assets		82	64
Total non-current assets		<u>27,316</u>	<u>18,756</u>
Total assets		<u>92,027</u>	<u>84,744</u>
Liabilities			
Current liabilities			
Trade and other payables		8,163	6,689
Employee benefits		739	986
Total current liabilities		<u>8,902</u>	<u>7,675</u>
Non-current liabilities			
Deferred tax	9	2,655	760
Employee benefits		75	70
Total non-current liabilities		<u>2,730</u>	<u>830</u>
Total liabilities		<u>11,632</u>	<u>8,505</u>
Net assets		<u>80,395</u>	<u>76,239</u>

Consolidated statement of cash flows

For the period ended 31 December 2019

	Unaudited six months ended 31 December	
	2019 \$'000	2018 \$'000
Cash flows from operating activities		
Proceeds from litigation contracts - settlements, fees and reimbursements	9,201	10,995
Payments to suppliers and employees	(23,237)	(16,259)
Interest received	19	26
Net cash (used in)/from operating activities	<u>(14,017)</u>	<u>(5,238)</u>
Cash flows from investing activities		
Payments for property, plant and equipment	(40)	(57)
Payments for intangibles	(12)	-
Payments for security deposits	(1)	-
Net cash used in investing activities	<u>(53)</u>	<u>(57)</u>
Cash flows from financing activities		
Proceeds from issue of shares	-	46,880
Share issue transaction costs	-	(2,768)
Dividends paid	(874)	-
Payments for fund establishment costs	(296)	-
Net cash (used in)/from financing activities	<u>(1,170)</u>	<u>44,112</u>
Net increase/(decrease) in cash and cash equivalents	(15,240)	38,817
Cash and cash equivalents at the beginning of the financial period	49,119	13,787
Effects of exchange rate changes on cash and cash equivalents	862	-
Cash and cash equivalents at the end of the financial period	<u>34,741</u>	<u>52,604</u>

Adjusted profit & EBITDA reconciliation

	HY20 A\$m	HY19 A\$m	% move from H1 2019
Statutory profit after tax	4.8	0.8	▲ 490%
Add:			
Depreciation & interest	0.02	0.01	
Non-cash tax expense	1.9	0.2	
EBITDA	6.7	1.0	▲ 553%
Add:			
Share based payments	0.2	0.1	
Litigation costs	0.4	0.5	
IPO costs	-	0.2	
Non-recurring consultancy	0.1	0.6	
One-off costs of a non-trading nature	neg	0.2	
Unrealised foreign exchange losses	-	0.1	
Less:			
Unrealised foreign exchange gains in other income	(0.5)	-	
Non-controlling interests	(0.02)	neg	
Adjusted profit before tax	6.9	2.7	▲ 155%
Applicable tax at statutory rate of 27.5%	nil	nil	
Adjusted profit after tax	6.9	2.7	▲ 155%
Adjusted basic EPS (cents)	6.61	4.31	▲ 53%

International disputes financing solutions



Delivering outstanding results for 21 years - one of the first proponents of litigation financing



Experienced team - investment managers are former litigators



211 cases completed since inception



Expanding geographic footprint – offices in Sydney, London, Singapore, Melbourne and Brisbane

Well-resourced



Balance sheet
of permanent capital



Third-party fund
Supplementing balance sheet –
LCM as Fund Manager

Proven strategies



Single case
Traditional investment
strategy



Corporate portfolio
Emerging industry
leader



Small insolvency claims
Significant potential

Unique approach



Disciplined selection
Between 3-5% of applications have satisfied
the selection process to date

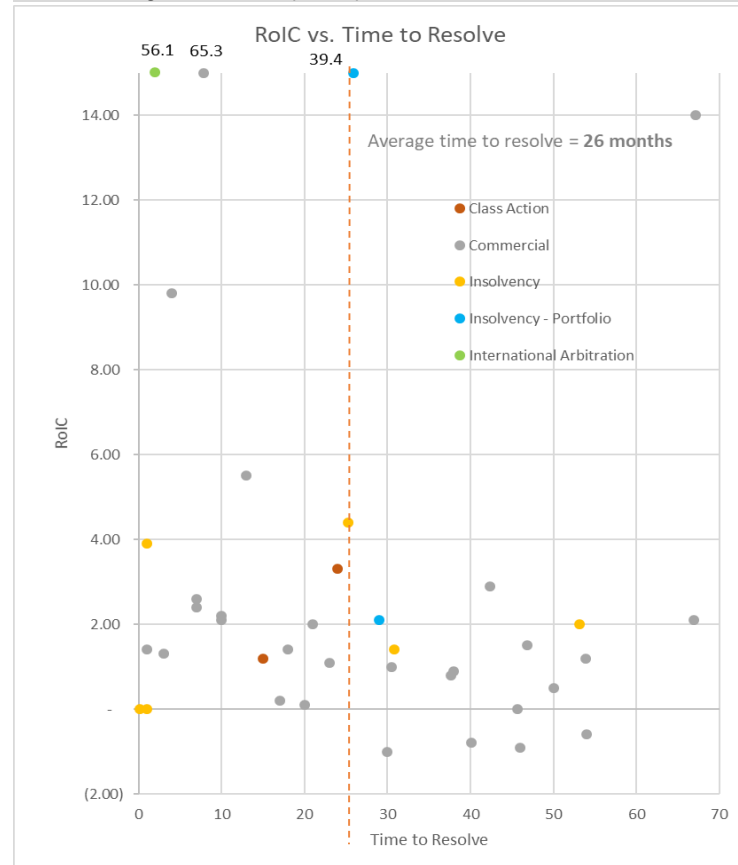


Commitment to transparency
Conservative, cash-based accounting policy

Returns on concluded litigation investments by individual case FY12 to HY20

No.	Type	FY Completion	RoIC (x) ¹	Time to resolve (months)
1	Commercial	12	1.4x	18.0
2	Commercial	12	9.8x	4.0
3	Commercial	12	1.4x	1.0
4	Commercial	12	2.6x	7.0
5	Commercial	13	-0.8x	40.1
6	Commercial	13	2.1x	10.0
7	Insolvency	13	3.9x	1.0
8	Commercial	13	-0.6x	54.0
9	Insolvency - Portfolio	14	2.1x	29.0
10	Commercial	14	1.3x	3.0
11	Commercial	14	2.4x	7.0
12	Class Action	14	1.2x	15.0
13	Commercial	14	-0.9x	46.0
14	Commercial	15	14.0x	67.1
15	Insolvency - Portfolio	15	39.4x	25.9
16	Insolvency	15	n/a ²	1.0
17	Commercial	15	1.1x	23.0
18	Commercial	15	2.0x	21.0
19	Commercial	15	0.1x	20.0
20	Commercial	15	0.2x	17.0
21	Commercial	15	-1.0	30.0
22	Commercial	16	5.5x	13.0
23	Commercial	16	0.9x	38.0
24	Commercial	16	0.5x	50.0
25	Commercial	17	2.2x	10.0
26	Insolvency	17	4.40x	25.3
27	Commercial	18	2.9x	42.4
28	Commercial	18	0.8x	37.7
29	Commercial	18	65.3x	7.8
30	Commercial	18	1.2x	53.9
31	Commercial	18	1.5x	46.8
32	Insolvency	18	1.4x	30.8
33	Commercial	19	0.0x	45.7
34	Commercial	19	1.0x	30.5
35	Arbitration	19	56.1x	2.0
36	Commercial	19	2.1x	66.9
37	Insolvency	19	n/a ²	0.1
38	Class Action	19	3.3x	24
39	Class Action	19	TBA ³	TBA ³

No.	Type	FY Completion	RoIC (x) ¹	Time to resolve (months)
40	Insolvency	20	2.0x	53.1
41	Commercial	20	TBA ³	TBA ³
42	Insolvency	20	TBA ³	TBA ³
Cumulative RoIC (x)			1.39x	
Average time to resolve (months)				26



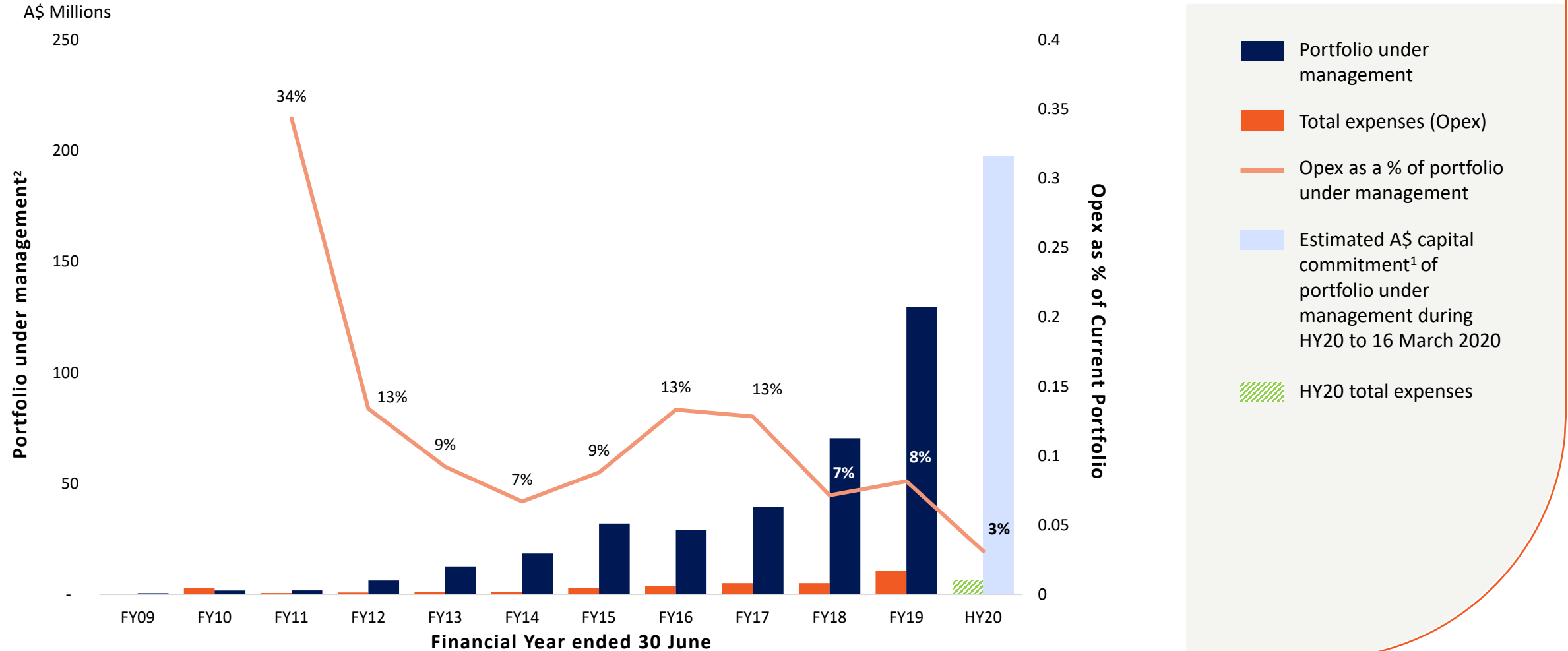
¹Return on invested capital for FY12 – HY20

²Cannot be defined (no cash actually deployed)

³Performance metrics to be finalised upon receipt of all cash

Note: The parameters of some performance calculations have been changed to more clearly and accurately reflect our investment performance. Those changes may result in some performance numbers changing from previously published project data.

Portfolio growth with proportionally reduced Opex



¹Capital commitment denotes the total estimated budget of the portfolio of projects. ²Portfolio under management denotes the total direct investments and fund investments managed by LCM each financial year and its aggregate actual total capital deployed or in the case of matters yet to be completed, the estimated aggregate budget. The portfolio under management each year does not include projects which completed in a prior year however includes projects which completed in that particular year.
 Note: Current portfolio of direct investments and fund investments as at 16 March 2020 (including conditional projects).