

# Shareholder Update Post Completion of MML Acquisition

February, 2016



**JUSTKAPITAL**

*Litigation Partners Limited*

# Disclaimer and Forward Looking Statements

This Presentation is provided by JustKapital Litigation Partners Limited (the Company).

You should not rely upon anything in this presentation and/or any information obtained from the Company, its Directors or their associates in deciding whether or not to seek to participate in the shares of the Company. This is not an offer to subscribe for securities in the Company.

The Presentation may contain quantitative statements of anticipated future performance such as projections, forecasts, calculations, forward-looking statements or estimates all of which are based on certain assumptions (Forward Looking Statements). The Forward Looking Statements may involve subjective judgements and are based on a large number of assumptions and are subject to significant uncertainties and contingencies, many of which are outside the control of the Company and may not prove to be correct. No representation or warranty is made that any Forward Looking Statements will be achieved, or occur, or that the assumptions upon which they are based are reasonable or the financial calculations from which they have been derived are correct. Actual future events may vary significantly from the Forward Looking Statements. Each Recipient should undertake its own independent review of the Forward Looking Statements, including the assumptions on which they are based and the financial calculations from which they are derived

# Contents

1. Completion of the Acquisition of MML
2. Divisional Overview Post Acquisition
3. Disbursement Funding Division
  - 1) Key Transaction Terms
  - 2) Cash Flow - Growth Funding Model
  - 3) Profitability and Returns
  - 4) Historical Performance of MML
4. Litigation Financing Division
  - 1) Current Case Portfolio
  - 2) Longford Capital Joint Venture with JustKapital
  - 3) Cost Timing Example
5. Financial Information
6. JustKapital Structure
7. Appendix: JustKapital Additional Information



## THE LITIGATION FINANCING MARKET

Litigation Financing is a new and exciting asset class, treating litigation claims as assets that can be financed

It is a unique asset class because returns on investment are not related to the amount invested, rather returns are driven by the settlement amount or damages awarded by a Court

Successful investment depends ultimately on selecting meritorious claims



**JUSTKAPITAL**

*Litigation Partners Limited*



# 1. Completion of the Acquisition of MML



**JUSTKAPITAL**

*Litigation Partners Limited*

# 1. Completion of Acquisition of MML

## Conditional acquisition of MML announced on 25 Nov 2015 and completed on 22 January 2016

- JustKapital Litigation Partners Ltd (ASX code: "JKL") announced on 22 January 2016, the completion of the acquisition of Macquarie Medico Legal & Radiology ("MML").
- MML is a well-established private business and a market leader in the funding of medical reports and related medical professionals' expenses associated with conducting workers' compensation and other personal injury cases.
- As a result of this acquisition, JustKapital will have the benefit of a growing recurring income stream and strong cashflows to complement its pipeline of larger, event-driven litigation investments.



## 2. Divisional Overview Post Acquisition



**JUSTKAPITAL**

*Litigation Partners Limited*

# 2. Divisional Overview Post Acquisition

## JustKapital Operating Divisions

**JustKapital**

**Litigation Funding Actions**

**Litigation Disbursement Funding**

<b>Description:</b>	<ul style="list-style-type: none"> <li>➤ Funding of solicitor fees, with solicitor firms as clients and funding agreement to share success with plaintiff</li> </ul>	<ul style="list-style-type: none"> <li>➤ Loans to law firms to cover outgoings for specialist reports</li> <li>➤ Excludes funding solicitor fees</li> </ul>
<b>Types of Cases:</b>	<ul style="list-style-type: none"> <li>➤ Class action law suits</li> <li>➤ Commercial disputes</li> </ul>	<ul style="list-style-type: none"> <li>➤ Individual personal injury, including MVA and compensation claims</li> </ul>
<b>Example of coverage:</b>	<ul style="list-style-type: none"> <li>➤ Solicitor's fees for litigation actions (includes disbursements)</li> </ul>	<ul style="list-style-type: none"> <li>➤ External outlays (medical reports and expert reports)</li> </ul>
<b>Referral source:</b>	<ul style="list-style-type: none"> <li>➤ Solicitor</li> </ul>	<ul style="list-style-type: none"> <li>➤ Solicitor</li> </ul>
<b>Avg funding size (\$):</b>	<ul style="list-style-type: none"> <li>➤ Varies based on type of action</li> </ul>	<ul style="list-style-type: none"> <li>➤ \$2,000 per case</li> </ul>
<b>Avg time to repay:</b>	<ul style="list-style-type: none"> <li>➤ Average up to 2 years</li> </ul>	<ul style="list-style-type: none"> <li>➤ Average claim settled in 1.5 years</li> </ul>
<b>With/Without recourse:</b>	<ul style="list-style-type: none"> <li>➤ No recourse</li> </ul>	<ul style="list-style-type: none"> <li>➤ With recourse for funder, guaranteed by solicitor; usually without recourse to plaintiff</li> </ul>
<b>Nature of revenue</b>	<ul style="list-style-type: none"> <li>➤ As cases settle or are won</li> </ul>	<ul style="list-style-type: none"> <li>➤ Recurring debtor book settling daily (at 30 June 2015, ~ 9,000 invoices on Debtor Book)</li> </ul>



# 2.1 JustKapital Company Overview

---

JustKapital aims to position itself as a leading litigation and disbursement financier in Australia and New Zealand.

---

JustKapital has identified complementary revenue streams to accelerate growth including full recourse financing of disbursements incurred in litigation. As part of this strategy, JustKapital has acquired Macquarie Medico Legal.

---

To further international expansion, a co-funding agreement in place with Longford Capital, based in the US. This gives JustKapital access to an additional pool of financing and a flow of US based investment opportunities.

---

JustKapital's competitive advantage lies in its case review and selection process which takes a private equity approach to financing.

---

## Types of claims to be pursued

- Business to business litigation
- Breaches of fiduciary duties, in particular by company directors and trustees in managed investment schemes
- Breaches of the continuous disclosure requirements of the ASX listing rules and Corporations Act including shareholder class actions
- Claims for liquidators against company directors, directors & officers' insurance and auditors
- Anti-competitive behaviour including breaches of Competition and Consumer Law (but NOT consumer class actions)
- Misleading and deceptive conduct in commercial transactions in breach of Competition and Consumer law
- Breaches of intellectual property rights, including copyright, trademark and patent infringement
- Claims for professional negligence against advisors, in particular financial advisors, financial planners, auditors and lawyers

## 2.2 JustKapital Business Model

JUSTKAPITAL OFFERS LITIGATION FINANCING TO CORPORATE AND INDIVIDUAL PLAINTIFFS WITH A **MERITORIOUS** CLAIM AGAINST DEFENDANTS WHO HAVE **THE FINANCIAL CAPACITY** TO SATISFY AN ADVERSE JUDGEMENT

---

JustKapital reviews cases in detail before deciding whether to provide financing based on:

- Nature of claim
- Claim size
- Likelihood of success, and
- Defendant's assessed capacity to pay

---

Focus on document-driven litigation to establish merits of claims. Documents clearly evidence that the claim has merit. Prefer not to rely on oral evidence so case outcome is more certain.

---

JustKapital earns 25-50% of claim value by way of judgment or settlement, in addition to recovery of the financial costs.

---

---

In return JustKapital finances the case, manages the case, and indemnifies clients against adverse legal costs.

---

An active and disciplined “investment returns” driven approach is taken to financing cases.

---

In the event of a material reduction in the prospects of a successful case, JustKapital is able to cease financing further costs<sup>1</sup>.

---

If a claim is unsuccessful no amount is received by JustKapital and it bears the cost of the litigation and any adverse cost orders.

---

<sup>1</sup>Reflects standard funding agreement. Individual funding agreement terms may vary.



## 2.3 Disbursement Funding Division Summary

- MML provides expert medico legal reports and medical imaging products to lawyers pursuing (principally) personal injury claims
- Most claims arise from motor vehicle accidents and professional medical negligence. These claims are under the common law
- Almost all claims are insured either via compulsory third party insurance or medical insurance
- Average claim resolved in 18 months
- At this time the MML does not provide medical reports for workers compensation or other statutory claims

### 3. Litigation Disbursement Funding



**JUSTKAPITAL**

*Litigation Partners Limited*



# 3.1 Disbursement Funding – Key Transaction Terms

## Key Transaction Terms of MML Acquisition (completed 22 January 2016)

The Purchase Consideration to acquire MML was A\$19.3 million

- The implied acquisition metrics are:
  - ✓ EBIT multiple 4.6x
  - ✓ 1.1 x Debtor Book (\$17.1m as at completion, 22 January 2016)
- Purchase consideration was paid as:
  - ✓ A\$10.9 million cash paid on completion of the transaction;
  - ✓ A\$2.0 million deferred cash payment; and
  - ✓ A\$6.4 million share consideration at an average price of approx. \$0.25/share
- In addition to the fixed purchase consideration, the vendor is entitled to additional consideration by way of earn out (expressed as an entitlement to a fixed share of profits above an agreed profit level for each of the first three periods)
- JustKapital believes the substantial proportion of the consideration for the Vendor in JustKapital equity reflects the Vendor's belief in the merits of the transaction and the synergies between the current litigation funding model and the disbursement funding business model

TRANSACTION METRICS	\$m
<b>Purchase Consideration</b>	19.3
Net Assets Acquired	
Debtor Book	17.1
Liabilities	(3.4)
Net Assets	13.7
Goodwill	5.6
EBIT FY15 (Audited)	4.2
EBIT multiple x	4.6 x

## 3.2 Cash Flow – Growth Funding Model

### MML Funding Model

Asset Acquired	New Growth Facility	Example of Funding for a New Disbursement Invoice	
<p><b>Purchased Debtor Book</b></p>	<p><b>\$20m Growth Revolving Facility</b></p>	<p><b>\$1,000</b> <b>Cost of Invoice</b></p>	<p><b>\$2,000</b> <b>Debtor raised to legal firm</b></p>
<ul style="list-style-type: none"> <li>➤ \$17.1m (Gross debtor book at completion was \$19.0m)</li> <li>➤ Cash inflows over time directed to revolving facility</li> <li>➤ Receipts of \$800,000 to \$1,000,000 per month</li> </ul>	<ul style="list-style-type: none"> <li>➤ Drawn to \$7,500,000 on completion. Undrawn availability of \$12,500,000 to be used to fund growth (new disbursement invoices)</li> <li>➤ Asset Secure facility backed by Challenger</li> </ul>	<ul style="list-style-type: none"> <li>➤ Finance Facility to fund up to 60% of Debtor value</li> <li>➤ 3 Year facility</li> </ul>	



## 3.2.1 The Disbursement Growth Opportunity

The Board is investigating expanding the company's product offering into:

- a) The provision of expert reports to litigation law firms in the areas of expert reports in the areas of share and business valuations, economic loss reports and other expert reports such as engineering reports;
- b) Providing funding for other disbursements incurred in the course of litigation such as court filing fees;
- c) New geographical areas such as Melbourne, Brisbane, Adelaide and Perth

The Boards of JKL and MML have not at this time made any definitive decisions in relation to the potential opportunities mentioned above

## 3.3 Profitability and Returns

### Business Model – Example of a Disbursement Funding Transaction

- The counterparty to the disbursement is the law firm and not the plaintiff
- MML has approximately 9,000 cases in its' portfolio, of which approximately 5,000 were written in FY15
- The average disbursement revenue in FY15 was \$2,195 per case, with an associated cost of circa \$944
- Historically MML has a bad debt history of approx. 2%, plus 5.5% allowance for other discounts and credit notes issued
- The average term of a receivable is 18 months.
- Conservatively JustKapital has modelled cash flows assuming an average 24 month collection period

A financial snapshot of a typical receivable is outlined below

Profit & Loss		\$
Sale of medical report		2,194.78
Provision for discounts and w/o	7.5%	(164.61)
		2,030.17
Cost of sale		(943.76)
Net profit per report	57.0%	1,086.42
<i>Net profit %</i>		49.5%

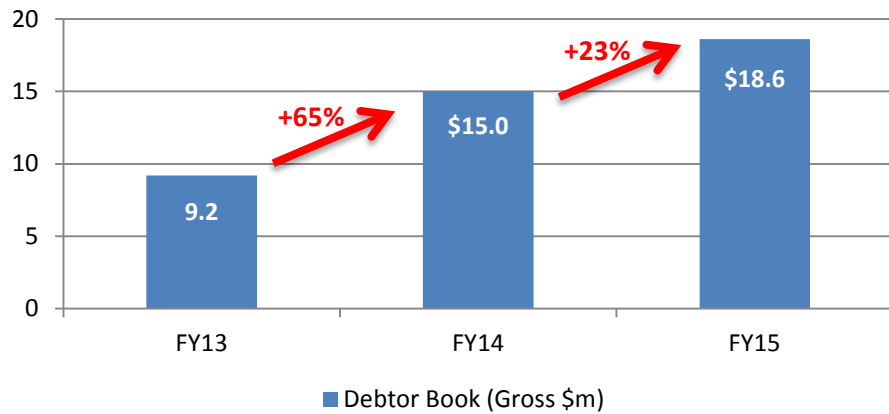
Cash flow (example)	Jul-2015	Jun-2016	Jun-2017
	\$	\$	\$
Purchase medical report	(943.76)		
Financing cost (@ WACC)		(94.38)	(94.38)
Collect debtor (net of provision 7.5%)			2,030.17
Gross profit	(943.76)	(94.38)	1,935.80
WACC	10.0%		
<b>IRR</b>	<b>38.3%</b>		



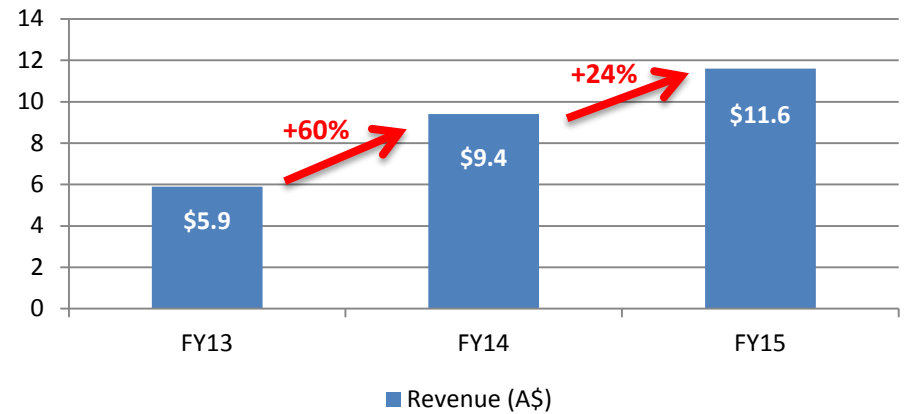
# 3.4 Historical Performance of MML

## Macquarie Medico Legal & Radiology Metrics Overview (“MML”)

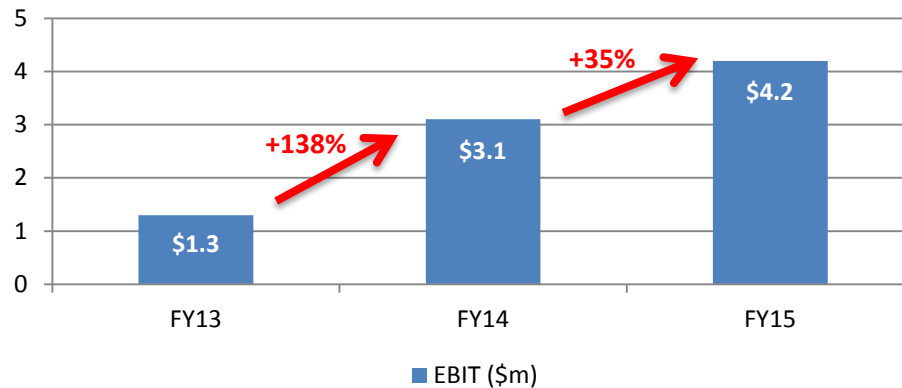
### Debtor Book (Gross \$m)



### Revenue (A\$)



### EBIT (\$m)



## 4. Litigation Financing Division



**JUSTKAPITAL**

*Litigation Partners Limited*



## 4.1 Current Cases Portfolio

TYPE OF CLAIM	DEFFENDANT	ESTIMATED QUANTUM*	COMMENTS
Shareholder Class Action	Top 200 ASX listed Company	\$44m signed (total class \$300m)	Action in progress
Patent Infringement	Global Software Company	\$300m	Action in progress

### **Pipeline:**

*JustKapital is reviewing a number of pipeline cases. These cases being reviewed are subject to an extensive independent process prior to any funding commitment provided.*

\*Gross expected settlement amount. Represents total proceeds if all potential claims join the claim and are successful in winning the maximum in damages. JustKapital would receive 25%-50% of these proceeds.

## 4.2 Longford Capital – Co-Funding Agreement

In July, JustKapital signed a Joint Venture and Co-Funding agreement with Longford Capital, an established leader in the United States litigation and financing industry. The terms of the five year agreement are as follows:

- JustKapital and Longford Capital will jointly finance cases in Australia, New Zealand, the United States and other jurisdictions.
- JustKapital will take the lead in identifying potential cases in Australia and New Zealand.
- Longford Capital will take the lead in identifying cases in the United States
- JustKapital and Longford Capital will collaborate to look for opportunities in other jurisdictions.
- Decisions to co-fund will be made on a case by case basis.

Longford are co-funding both active actions in the current case portfolio.



## 4.2 Longford Capital – Co-Funding Agreement

The key members of the Longford Capital team are:

---

### **Bill Strong Chairman**

Bill has worked in the financial services industry for more than 35 years, most recently as a member of Morgan Stanley's Global Management Committee and co-CEO for its Asia Pacific Region. During his career, he has advised clients in more than 25 countries involved in capital-raising transactions across all product classes.

---

### **Bill Farrell Managing Director**

Bill is responsible for the overall operations of Longford Capital, with a particular focus on transaction sourcing, investment selection, and portfolio management. He is an accomplished attorney with more than 20 years of complex litigation experience, including extensive trial and appellate experience as both a government prosecutor and as a partner in two commercial litigation departments.

---

### **Tim Farrell Managing Director**

Tim is responsible for the corporate management and investor relations of Longford Capital. He is a seasoned executive with more than 20 years of broad management experience. Over the course of his career, Tim has overseen marketing, finance, human resources, and investment functions, and has extensive experience overseeing complex litigation matters.

---

---

### **Mike A. Nicolas Managing Director**

Mike is responsible for the portfolio management of Longford Capital, including underwriting, investment selection, and overseeing the efforts of independent attorneys and other professionals as part of Longford Capital's due diligence process. He is an accomplished attorney with more than 15 years of experience representing a wide array of corporate clients involved in complex litigation throughout the United States.

---

## 4.2 Longford Capital – Benefits

The benefits to JustKapital of the Co-Funding Agreement with Longford Capital are as follows:

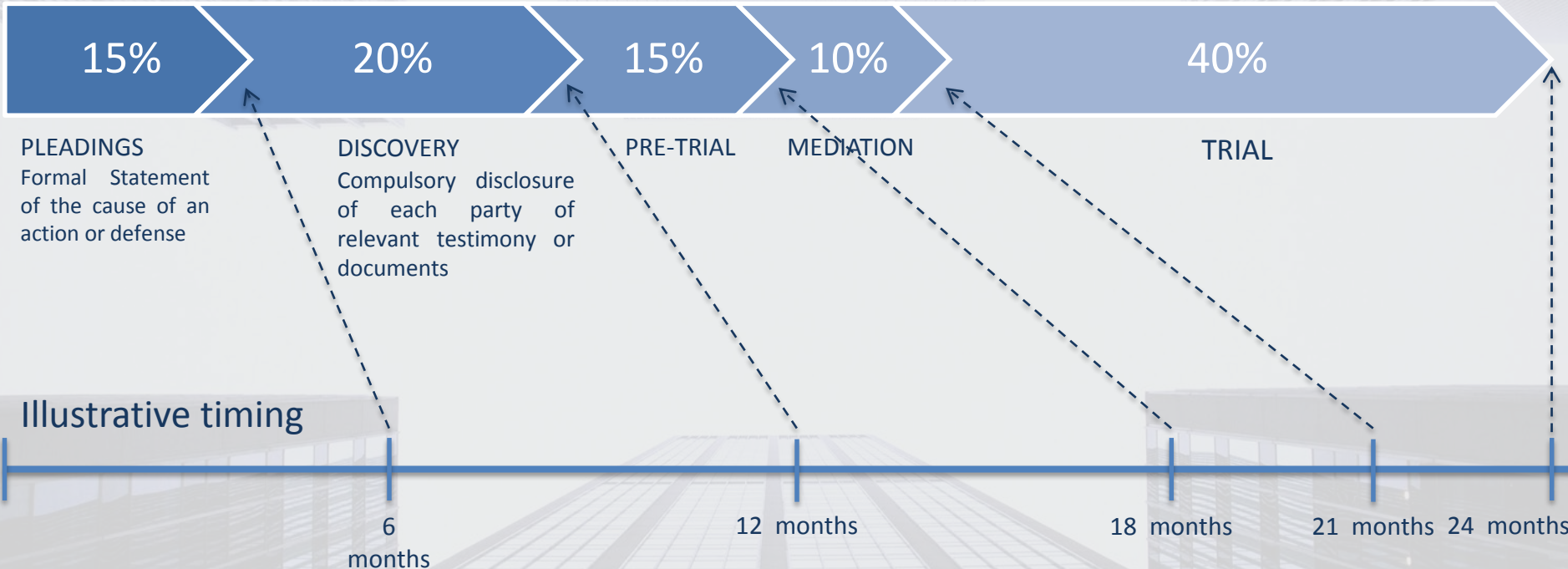
- Capital to fund additional and larger cases in Australia and New Zealand
- Access to case investment opportunities in the United States
- Risk mitigation from the consequent larger portfolio of case investments
- Visibility of a larger combined balance sheet which will drive defendants to earlier settlements
- Joint resources of JustKapital and Longford Capital are expected to reduce or eliminate courts' requirements for security for costs

The relationship with Longford Capital established in 2015 was a key step in the development of JustKapital in the Australasian and International litigation financing markets.



## 4.3 Case Stages and Cost Distribution

% of costs



**JUSTKAPITAL STAYS ACTIVELY INVOLVED IN MANAGING THE CLAIM AND CAN CANCEL ITS FUNDING AGREEMENT WITH NOTICE AT ANY TIME<sup>1</sup>**

<sup>1</sup>Reflects standard funding agreement. Individual funding agreement terms may vary.

## 5. Financial Information



**JUSTKAPITAL**

*Litigation Partners Limited*



# 5.1 Financial Performance

Profit & loss	6 months to 31 December 2015
Underlying operating loss	(1,091)
Non-recurring items	
Acquisition and due diligence expenses	(587)
Legal settlement and associated costs	(450)
<b>Reported loss</b>	<b>(2,128)</b>

The underlying operating loss for the year ended 30 June 2015 was in line with the expectations and represents the staff, premises and administration costs required to establish and operate the business. The prior year underlying operating loss represents the costs of the shell company which acquired the litigation financing business. The impairment provision related to this acquisition and the discontinued operations of the former mining business.

## 5.2 Financial Performance

Cash flow statement	6 months to 31 Dec 2015	Y/e 30 June 2015	Y/e 30 June 2014
Operating expenses	(1,316)	(2,197)	(641)
Litigation case funding	(119)	(301)	-
Finance income	138	72	11
Net proceeds from share issues	-	12,924	350
Non-recurring items /other	(10)	(2,656)	3,112
<b>Net cash inflow/(outflow)</b>	<b>(1,307)</b>	<b>7,842</b>	<b>2,832</b>

Balance sheet	6 months to 31 Dec 2015	Y/e 30 June 2015	Y/e 30 June 2014
Intangible assets – Litigation case funding	766	754	-
Cash & cash equivalents	9,988	11,295	3,224
Trade payables	(1,162)	(104)	(3,136)
Other / mining associated	332	100	2,652
<b>Net assets</b>	<b>9,924</b>	<b>12,045</b>	<b>2,740</b>

Operating expenses in the year ended 30 June 2015 included amounts previously accrued in the acquired company and disclosed in the April prospectus that were paid following the board approval in April.

Non-recurring items relate to the acquisition of the litigation financing business and the disposal of the mining business.

As at 30 June 2015, the balance sheet comprised amounts paid in respect of litigation financing and cash & cash equivalents. The prior year balances relate to mining activities that has since been discontinued.



## 6. JustKapital Structure



**JUSTKAPITAL**

*Litigation Partners Limited*

## 6. JustKapital Corporate Overview

### CAPITAL STRUCTURE

ASX code	JKL
Shares on issue	115.6m
Options on issue	14.1m
Exercisable at:	
A\$0.25 before 31 Dec 2016	3.7m
A\$0.25 before 10 Mar 2018	6.7m
A\$0.25 before 27 Mar 2018	1.9m
A\$0.25 before 22 Jan 2019	1.5m
A\$0.30 before 1 May 2020	0.3m
Cash @ 31 December 2015	\$10.0m

### SHAREHOLDERS

Board & Management	8.66%
Top 20 Shareholders	64.00%

### BOARD & MANAGEMENT % SHARES HELD

Philip Kapp, Executive Chairman	4.91%
Tim Storey, Executive Director	2.09%
Mike Hill, Director	1.66%



## 7. Appendix: JustKapital Additional Information



**JUSTKAPITAL**

*Litigation Partners Limited*

# 7.1 Litigation Financing Overview

## What is litigation financing?

- Financing of legal claims of third parties to meet the costs of conducting litigation
- Financed cases typically related to insolvency, large commercial claims and class actions

## What is the litigation financing landscape in Australia?

- Fast growing market for the past two decades
- Market has been facilitated by:
  - Prohibition on contingency-based legal fees
  - Adverse cost insurance now available

## LITIGATION FINANCING

## What regulation is there?

- Litigation financing is currently not a regulated industry
- In its draft report dated April 2014, Productivity Commission has recommended that litigation financiers should hold AFSL and meet capital adequacy requirements
- This remains an open topic

## What are the typical costs and returns?

- Costs may relate to one or more of legal fees, disbursements, insurance for adverse costs
- Returns are a % of the settlement or damages awarded, typically ranging between 25-50%



## 7.2 Disbursement Funding Timeframe



## 7.3 Advisory Committee

JustKapital has established an Advisory Committee with the following purposes:

- Provide guidance, advice and networking assistance to the Board and senior management
- Aid the identification, analysis and management of opportunities and risks, particularly in relation to litigation
- Add to the skillsets and experience in JustKapital's leadership

The Advisory Committee will play an important role in the business and operations of JustKapital though all decision making authority remains with the Company's Board.

David Denton, QC has been appointed to the Advisory Committee, joining Tim Storey and Philip Kapp who chairs it.

John Bannister, CEO of Macquarie Medico Legal, joins the Advisory Committee as a fourth member. John has extensive business experience and was a former specialist orthopedic surgeon.



## 7.4 Founders

### FOUNDED AND MANAGED BY TWO OF AUSTRALIA'S MOST EXPERIENCED CORPORATE LAWYERS

---

#### **Philip Kapp** Executive Chairman

Co-founder of JustKapital Litigation Partners. Previously senior partner of Corrs Chambers Westgarth Lawyers and widely regarded as one of Australia's leading corporate lawyers.

More than 25 years' legal experience in M&A, capital restructuring and private equity. Former Director of Energy Developments Ltd, INT Corporation Ltd and Modun Resources Ltd. Prior to joining Corrs Chambers Westgarth, was a Senior Partner with Clayton Utz, Chairman of Minter Ellison and Founder and Managing Partner of Andersen Legal. Extensive networks in the Australian business and legal community.

---

#### **Tim Storey** Executive Director

Co-founder of JustKapital Litigation Partners. Over twenty five years experience as a commercial lawyer and company director, practicing in Australia and New Zealand. Previously a partner at Bell Gully, one of New Zealand's premier law firms. Director of a number of public and private companies including chairman of NZ listed DNZ Property Fund Ltd. Currently a principal of Prolex Advisory, a private company providing commercial advisory services to clients. Member of NZ Law Society, Institute of Directors and Financial Services Institute of Australasia.

## CONTACT

### AUSTRALIA

Philip Kapp  
[philip.kapp@justkapital.com.au](mailto:philip.kapp@justkapital.com.au)

### NEW ZEALAND

Tim Storey  
[tim.storey@justkapital.com.au](mailto:tim.storey@justkapital.com.au)

Suite 2 Level 16, 56 Pitt Street, Sydney NSW 2000 P: +61 (0) 2 9696 0220



**JUSTKAPITAL**

*Litigation Partners Limited*