



Burford Capital / MOI Global Best Ideas Conference / January 11, 2019

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Caro-Kann Strategy

- Chess opening against the king's pawn opening.
- A strong position and pawn structure make Caro-Kann Strategy more solid and robust than many alternatives while creating a strong likelihood of Black winning.



Caro-Kann Capital Investment Strategy: Special Situations and Compounders

- We look for mispriced securities due to lack of sellside coverage and buy-side attention.
- We prefer companies with up to \$2B market cap.
- Favorite investment patterns for special situations:
 - ✓ Spin offs
 - ✓ High growth business segment hidden by a larger struggling segment
 - ✓ Sum of the parts.
- Favorite business models for compounding machines:
 - ✓ Platform businesses with network effect
 - ✓ Flywheel business models
- Long bias: typically 80% to 100% net long.

Involvement with Manual of Ideas (1)

- This is the 4th time I am presenting at MOI Global Conference as an instructor. It is a pleasure to be back!
- It is my 2nd time presenting at *The Best Ideas Conference*.

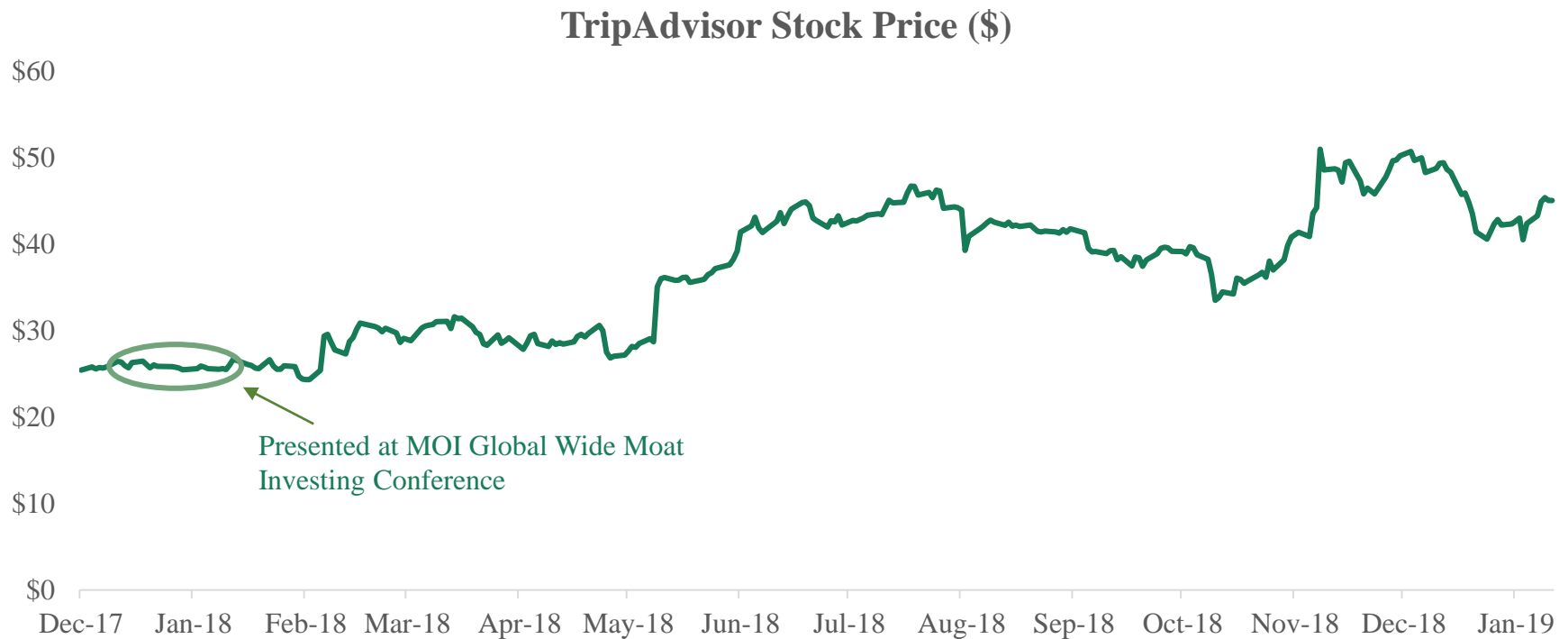
Involvement with Manual of Ideas (2)

- On December 19th 2017 I presented TripAdvisor (ticker: TRIP).



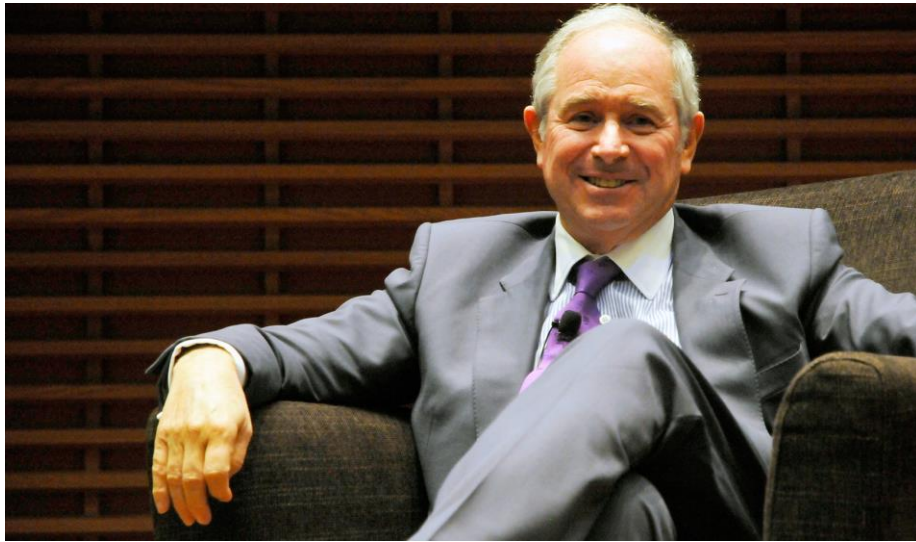
TripAdvisor Shares Are Up ~65% since Presented at December 2017 Best Ideas Conference

- I presented TripAdvisor at MOI Global Best Ideas Investing Conference on December 19, 2017. TRIP closed at \$34.77 that day.
- Return = ~**65%** since the presentation in ~**12 months**. We trimmed our position.



Today's Presentation

Who Is This?



- Stephen Schwarzman, founder of Blackstone.
- Co-founded Blackstone in 1985.
- Market cap of ~\$35B.
- Blackstone is arguably the most successful private equity firm of all time.

Let's Travel Back in Time



- Imagine that you have a time machine.
- You went back to 1995 which is 10 years after Blackstone launched its operations.
- You met 48-year old Stephen Schwarzman who offered you to buy shares of a privately-held Blackstone at ~15x LTM earnings.
- We are talking about *investing in the management company* and not a private equity fund as an LP.

What Would Your Return Be?

*How well would have you
done on this investment?*

~20x !!!

This Your Return on Hypothetical Investment in Blackstone.

- We do not know for sure because Blackstone was a privately-held enterprise back then, we do have a few useful tidbits of information.
- In 1998, AIG bought a 7% stake in Blackstone for \$150M.
 - ✓ The implied valuation was \$2.14B.
 - ✓ I suspect that it was more than 15x which is the multiple Mr. Schwarzman generously offered you.
- Given that you travelled back to 1995, you would have probably got a lower valuation than AIG got. Let's call it \$1.75B.
- Today Blackstone has a market cap of ~\$35B.
- That would mean that your investment has returned *more than 20x your money* and compounded at *~14% during a 23-year period*.
- This math is imprecise as it ignores any dilution that may have occurred.

Today We Have an Opportunity to Invest in the *Next Blackstone* in a New Industry

- If you are feeling sad because you do not have a time machine and just missed out on a potentially life-changing meeting with Mr. Schwarzman and a great investment, please do not.
- My presentation will be about a company led by *two extraordinary founders* that is destined to dominate the **litigation finance and investing in legal claims industry** the same way as Blackstone has dominated the global private equity industry.
- The name of the company is **Burford Capital**.
- It can compound its intrinsic value at a 25%+ rate for many years to come

Burford: Elevator Pitch

What Does Burford Do?

- Burford Capital is a compounding machine, and the investment opportunity can be best described as “growth at unreasonably cheap price”.
- The leading and largest litigation finance provider in the world.
- Burford funds litigation and international arbitration claims by paying legal fees (average check size is ~\$20M) in exchange for a share of a litigation award.
- #1: Burford invests in legal claims from its own balance sheet.
 - ✓ Burford’s own capital is ~\$1.6B.
- #2: Burford manages hedge funds with external capital and charges a management fee (0% to 2%) and performance fees (20% to 42%).
 - ✓ The 42% incentive fee is not a typo as Burford just announced that it would manage ~\$667M for a sovereign wealth fund with a 42% incentive fee.
 - ✓ These are Renaissance Technologies’ style incentive fees.
 - ✓ Burford’s AUM attributable to third parties is \$2.33B.

Burford Has a Compelling Customer Value Proposition

- Burford is at the cutting edge of the transformation of the legal industry where law firms are increasingly facing clients' resistance to high legal fees.
- Burford's customer value proposition is compelling as it allows corporate clients:
 - ✓ to better monetize their litigation assets
 - ✓ avoid unfavorable accounting treatment prescribed by GAAP and IFRS
 - ✓ turn in-house legal departments from cost centers to profit centers.
- Importantly, law firms that operate as classic equity partnership are not well positioned to take large cases on a contingency basis.

Burford Has a Track Record of One of a Kind

- Burford has generated 31% IRR on its capital over ten years.
- These superb investment returns and earnings reinvestment have allowed Burford to *grow its earnings at a pace of 50%+*.
- Burford's ROE has been ~30%.

Burford Returns Are Protected by High Barriers to Entry

- Burford's superior returns are well-protected by high barriers to entry as all top 10 players entered the industry before 2013.
- Lack of new sizable entrants is *the best evidence* of how difficult it is to break into the litigation finance.
- Compared to other existing players, Burford benefits from its *scale, reputation, experience, and proprietary data* that it has been collecting for ten years and that improves Burford's assessment of potential investments and its decision making.

Burford Has a Very Long Growth Runway

- Burford is at the beginning of its incredible journey.
- The legal industry is extremely large, and the penetration of litigation finance is not higher than 1% to 2%.
- Low penetration, compelling customer value proposition, and Burford's undisputed industry leadership create a long growth runway that could last decades.

Burford Offers Compelling Valuation: ~15.5x P/E LTM

- However, one does not need to wait decades to make money by investing in Burford shares.
- Shares are currently priced at ~15.5x P/E.
- However, *earnings will be going substantially higher* because Burford's incentive fees would go from a couple of millions of dollars to tens of millions of dollars if not higher.
- On top of that, Burford would be reinvesting its earnings at its very high IRRs.

Management Is Well Aligned with Public Shareholders

- Two co-founders own 5%+ each.
- Thus, each of them owns ~\$225M+ worth of shares.
- The next ~20 executives collectively own ~\$80M worth of shares.
- Every single employee is a shareholder as well.
- This point speaks volumes about the company culture. Very few companies in the world make every employee a shareholder, and those who do it generally create tremendous shareholder value.

Management Has Long-Term Vision

- Due to the aligned incentives, management has a long-term vision, does not stress about quarterly earnings, and refuses to give guidance.
- Their communication style is candid and straight to the point.
- Annual reports are very comprehensive, and when I was reading the annual reports for the past ten years, it was clear that management is writing those reports because they *want* me to understand the business as opposed to fulfilling some regulatory requirements.

Burford Is Not a Cyclical Business

- Burford's business is *not cyclical* and does not depend on the economy or GDP growth.
- Companies litigate in good economies and in bad economies.
- I would even suspect that the demand for litigation finance would increase in a recessionary environment because the number of disputes would likely go up while companies would be even less willing to pay high legal fees.

150% to 300% Upside in 3 to 4 Years

- I expect Burford to be a multi-year portfolio holding and – who knows – maybe a 20-year position.
- However, I see 150% to 300% upside in the next 3 to 4 years as well.

Burford: Capital Structure




Capital Structure at a Glance

Recent Price:	GBp 1,514.69 or \$19.24
F/D S/O	218.65M
Market Cap:	\$4.2B
Cash and Cash Equivalents	\$529M
Debt (publicly traded bonds)	\$643M
Enterprise value:	\$4.31B
LTM P/E:	15.2x

Even though Burford shares are listed on AIM and quoted in GBp, Burford reports its financials in USD. I am using 1.27 FX rate to convert the share price to USD.

Burford: Why Does This Opportunity Exist?

Why Does This Opportunity Exist?

	Mispricing Factor	Importance	Comments
1	Burford is listed on AIM		Burford became public in early 2009 on the AIM and has remained listed there. Today it is one of the largest companies listed on the AIM. Despite its large size, many investors still have negative bias against AIM-listed companies.
2	Low investor awareness		The AIM listing also contributes to a low investor awareness. A good indicator of such low buyside awareness is the number of write ups devoted to Burford on major investment research websites and communities. I am aware of only one such investment pitch.
3	Misconceptions about litigation finance		Many misconceptions exist about the litigation finance industry. After telling several buyside peers about Burford and hearing their thoughts, I have developed a list of most popular misconceptions.

Common Misconception About Litigation Finance #1:

You Need to Have a View on Litigation Outcomes

- Probably no buyside investor or sellside analyst can develop these views. Thus, Burford becomes uninvestable.
- Here is the truth.
- By investing in Burford, you let its management and investment team have a view on the litigation outcomes.
 - ✓ While they will inevitably make mistakes, their track record is truly outstanding.
 - ✓ Thus, you are betting that Burford's investment process is repeatable and their prior returns have not been driven by pure luck.
 - ✓ Since Burford has been doing this for 10 years, I believe that its investment process *is* indeed repeatable.

Common Misconception About Litigation Finance #2:

Personal Injury and Class Actions Are a Risky Regulatory Business

- Buford has nothing to do with personal injury lawsuits and class actions.
- Burford works only with corporate clients and not individuals.

Legal Claims = New Asset Class

What Is Litigation Finance?

- Litigation finance involves two parties:
 - ✓ the litigation funder and
 - ✓ a claimant whose rights have been violated.
- A claimant either *lacks* money or does *not want* to expend its own financial resources and thus asks a litigation funder to provide financing in exchange for sharing in the litigation recoveries.
- The most conceptually accurate approach is to consider a litigation finance provider as an investor in an **asset class of legal claims**.

Why Is It So Difficult to Think of Legal Claims as an Asset Class?

Looking at legal claims as an asset class may sound somewhat counter-intuitive for at least three reasons.

- (1) Unlike more traditional investments, legal claims never show up on a balance sheet of a party whose rights have been violated.
- (2) The value of legal claims is extremely difficult to ascertain.
- (3) If a case is lost in court, then the value of legal claims ends up being zero.

Why *Can* Legal Claims Be an Asset Class? (1)

- First, legal claims have **payoffs** that can range from zero (if a case is lost) to 100% of the amount of damages requested by a plaintiff / claimant.
- Second, one can **attach probabilities** to various outcomes of a litigation: lost at trial, settled before trial, partial victory in court, full victory in court.

Why *Can* Legal Claims Be an Asset Class? (2)

- Third, combining the two points above, one can calculate the **expected value** of a legal claim.
 - ✓ All other asset classes have expected values as well.
 - ✓ Think about stock investing:
 - When we invest in stocks, we construct various scenarios and payoffs, and estimate the probabilities of these scenarios occurring.
 - Then we calculate an expected value.
- Fourth, buying an asset substantially below its expected value is what *any* investing is about. Investing in legal claims is *no different*.

Why *Can* Legal Claims Be an Asset Class? (3)

- Given that the spirit of investing in legal claims is identical to the spirit of investing in any other asset class, I have a strong belief that *legal claims constitute a new and rapidly growing asset class*.

Why *Can* Legal Claims Be an Asset Class? (4)

“A litigation claim is an asset. It sounds slightly strange to say that, as litigation claim does not comport with our traditional concept of assets, but an asset it is nonetheless. Litigation claims can be bought, sold, hypothecated, securitized and otherwise treated like any other intangible asset. This is a crucial point, as Burford’s business is not the funding of legal fees to bring a claim, as though we were a class or group action lawyer operating on a contingent or conditional fee arrangement. Rather, it is the financing of an asset.”

Source: 2014 Annual Report.

Why *Can* Legal Claims Be an Asset Class? (5)

“Sometimes, that financing takes the form of providing capital in support of the legal fees needed to develop the asset. That’s what we now call basic litigation funding. However, even that type of transaction is still asset financing; Burford’s capital is provided pursuant to a financing arrangement, often accompanied by a perfected security interest in the litigation claim asset. We are not equity partners with our clients, but much more like mezzanine capital providers. We provide fixed dollar investment arrangements, not open ended commitments.”

Source: 2014 Annual Report

Litigation Finance: Total Addressable Market, Low Penetration and Long Growth Runway

What's the Total Addressable Market for Litigation Finance?

It is very difficult to calculate the precise size of total addressable market of litigation finance.

This is because of a variety of factors:

- (1) Law firms are generally private.
- (2) Many matters are confidential.
- (3) While court decisions are public, their quanta are generally not aggregated.
- (4) Many matters presented in front of arbitration panels are confidential.

We Will Use Two Proxies for TAM

These factors and more do not make the TAM analysis easy and straightforward. However, I am willing to be approximately right instead of precisely wrong. Thus, it is useful to look at two proxies for the potential TAM of the litigation finance:

- (1) legal fees and
- (2) quantum of litigation and arbitration awards.

Calculating TAM Using Legal Fees as a Proxy (1)

- Various legal industry publications estimate the amount of annual legal fees globally between \$600B and \$800B.
- Legal fees in the U.S. alone are ~\$400B+.
- There are more than 40K law firms in the U.S. with ~15 of them generating annual revenues in excess of \$1B.
- Top 200 U.S. law firms generate \$100B in legal fees a year.
- It is clear that law firms have become very large enterprises.

Calculating TAM Using Legal Fees as a Proxy (2)

- Of course, not all of the \$600B to \$800B of legal fees are related to litigation.
- When I browse websites of several large U.S. law firms, ~20% of attorneys are litigators.
 - ✓ This number is inherently imprecise, and it is just a best guesstimate.
- If we assume that lawyers across practice group and departments bill the same number of hours, then the litigation legal fees would account for \$120B to \$160B which is still a very large number.

Calculating TAM Using Quantum of Litigation and Arbitration Awards

- While the amount of litigation and arbitration awards is enormous, it is difficult to calculate.
- Suffice to say that people attempt to measure them *as a per cent of GDP*. This fact alone speaks to its massive size.
- The ICC in Paris is just one of a number of arbitration institutions.
- The ICC has a pending case load of ~\$200B+.
- Again, this is *just one arbitration institution*.
- This number does not include any other arbitration institutions.
- More importantly, it also completely ignores courts around the globe: U.S., England, Europe, etc.

Litigation Finance Is Likely to *Expand* TAM

- My interviews with litigation and arbitration attorneys on their views about the litigation finance industry brought a realization that the litigation finance industry would likely expand the TAM and *looking at the existing TAM can be wrong*.
- There are many cases that parties do not bring to court because it is too expensive regardless of how strong merits are.
- Burford is creating more of a level playing field for corporate America and the rest of world. Thanks to Burford even a small company can take upon a Fortune 500 company if the latter violated its rights.
- In other words, *Burford helps David to fight Goliath*.

Litigation Finance Has a *Very* Low Penetration

- While the TAM is massive, the penetration is very low.
- The top 10 players of the litigation finance industry in the world (and there are not that many players beyond them) have been investing ~\$2B per year over the last few years.
- Thus, if we use this number against the litigation legal fees, the penetration rate is less than 2%.
- If we use this number of annual investment activity against the quantum of litigation and arbitration awards, then the penetration rate is less than 1%.

Penetration Is Low Due to the Novelty of the Industry

- The litigation finance industry in its current shape and form is very new.
- All the top players in the industry are 10 years old or “younger”, and there were no credible players before ten years ago.

The Law Firm Industry Is Ripe for Change

- The law firm industry is a multi-billion dollar industry with *fairly simple capital structures* and *no access to capital markets*
 - ✓ Partially due to laws and regulations.
 - ✓ Partially due to a law firm business model and lack of tangible assets.
- However, clients are increasingly resistant to high legal fees, which puts disruptive pressures on the legal industry and legal profession.
- The industry is ripe for change, and *the litigation finance industry is bringing solutions*.

All Three Components for a Long Growth Runway Are Present

All three components for a long growth runway are present:

- (1) Massive TAM.
- (2) Very low penetration.
- (3) Compelling customer value proposition.

Customer Value Proposition

Which Pain Points Does Burford Solve for Its Clients?

- Normally, when people hear the words “litigation finance”, they think of personal injury cases or car collisions where an economically disadvantaged party may not be able to pursue a legal claim to protect and defend its rights because of financial constraints.
- However, Burford invests in legal claims arising out of **disputes between “big boys”**:
 - One multi-billion corporation suing another multi-billion corporation or
 - An investor filing an arbitration claim under an international investor treaty because a sovereign state violated investor rights.
- Shouldn’t these parties have the cash to pay for legal expenses? *Why would they need Burford?*
- These are legitimate questions, and they bring us to the notion of customer value proposition and which pain points Burford resolves for its clients.

GAAP and IFRS Accounting Rules Create *Unfavorable* and *Asymmetric* Treatment of Legal Claims and Legal Expenses

- First, any legal expenses that a company incurs must be expensed which creates a negative impact for the P&L.
- Second, the company does not record any value (either at cost or expected value) on its balance sheet.
- Third, even if the company wins litigation and receives an award, investors will treat it as a *one-off, extraordinary income* and rightly so.
 - But what is really interesting is that investors generally view *legal expenses as normal and ongoing* while they view *litigation awards as extraordinary*.
 - ✓ Hence, **asymmetry**.
- Thus, a public company paying substantial litigation expenses out of pocket may hurt its share price. *Using litigation finance solves this problem.*

Companies Have an Opportunity Cost of Pursuing Litigation (1)

- Even when a company has financial resources to pursue a litigation or an arbitration, it faces an opportunity cost as these funds may be put to a better use in its core business.
- The story of Rurelec is a great example.
- Rurelec PLC is a publicly-traded owner, operator and developer of power generation capacity that does business internationally.
- Generally, Burford cannot discuss its clients and their cases due to confidentiality obligations. However, Rurelec disclosed a significant amount of information about this litigation which made it possible for Burford to share the Rurelec story with the investment community.

Companies Have an Opportunity Cost of Pursuing Litigation (2)

“Rurelec was pursuing an arbitration claim against Bolivia for the expropriation of one of Rurelec’s power plants. Rurelec did not need capital to pay its lawyers – what is generally called “litigation funding”. Rather, it needed capital to continue to grow its business – but lenders wanted very high interest rates because of the loss of its Bolivian assets. Unlike a traditional lender, Burford was able to evaluate the value of Rurelec’s pending arbitration claim, and thus was able to provide the following facility:

- *A fully recourse, secured \$15 million senior loan at a 12% ... interest rate*
- *A contingent value right to receive a portion of the ultimate arbitration award, expressed on a sliding scale based on time and amount...*”

Companies Have an Opportunity Cost of Pursuing Litigation (3)

“...Rurelec then won its claim, extracted payment from Bolivia, and paid off Burford.

The Rurelec transaction was profitable for Burford, which earned an \$11 million net profit on a \$15 million investment, generating a 73% return and a 34% IRR. However, what is truly noteworthy about this transaction is its innovative structure and its demonstration of the expanding market potential for litigation finance.”

Source: 2014 Annual Report

How to Finance Litigation Is a Decision That Is *No Different* from Any Other Capital Allocation Decision

- How to finance the pursuit of a litigation claim is a decision that is no different from any other capital allocation decision.
- For example, if a company needs to buy PP&E, it would routinely consider all available options such as:
 - ✓ pay with cash,
 - ✓ pay with debt,
 - ✓ lease,
 - ✓ other options.
- Litigation should be no different, and *the corporate world (both General Counsels and CFOs) is embracing that.*

Signaling Effect Is Another Element of Value Proposition (1)

- The presence of a litigation funder is not required to be disclosed in the litigation or arbitration proceedings.
- However, sometimes a judge or an arbitration panel may require such disclosure.
- If that happens, there is a *powerful signaling effect* associated with the fact that Burford is backing the litigation.

Signaling Effect Is Another Element of Value Proposition (2)

“We believe that the disclosed presence of Burford in a case should make a defendant think twice about its position, as it would then know that a dispassionate, highly skilled, profit-motivated entity had evaluated the plaintiff’s case and concluded that it had real merit.”

Source: 2012 Annual Report.

Structurally Constrained Claimants May Have No Other Viable Option

- There are also structurally constrained claimants – parties that would like to bring a matter to litigation but because of their mandate may have difficult time financing such litigation.
- Such structurally constrained claimants are ideal customers for Burford.
- For example, investment fund managers may want to bring claims against fraudulent companies or their management teams but may not want to hit their LPs with litigation expenses.
- Another example would be bankruptcy or liquidation trustees.

Law Firm Economics Also Encourage the Use of Litigation Finance

- Law firms are structured as classic equity partnerships and as a result are unwilling to take clients' litigation risks.
- Even a law firm willing to take a matter on contingency will face challenges.
- Clients are increasingly resistant to high legal fees and the bill-by-the-hour-model.

Law Firms Are Structured as Classic Equity Partnerships and As a Result Are Unwilling to Take Clients' Litigation Risks

- Even though there are ~15 law firms with revenues in excess of \$1B per year, law firms have simple capital structures and balance sheets.
- Law firm structure and economics are very relevant to the litigation finance industry.
- Law firms are usually classic equity partnerships where partners earn annual compensation based on the firm's performance.
 - ✓ Partners generally do not retain their equity stakes once they retire. Law firms almost never raise equity or structural debt (though law firms may have a revolving credit facility with a bank).
 - ✓ As a result, law firm balance sheets are very simple, and law firm partners are generally resistant to reducing their cash compensation in exchange for longer-term potential rewards because partners who retire may not derive these benefits in the long-term.
- As a result, law firms generally avoid taking clients' risks and prefer a billable hour business model.

Even a Law Firm Willing to Take a Matter on Contingency Will Face Challenges

- Even if a more entrepreneurial law firm is willing to take a litigation case on the contingency basis, it would face challenges.
- First, taking a matter on contingency creates a working capital deficit.
- Second, the U.S. tax treatment of litigation provides that law firms that advance client expenses are not permitted to deduct those expenses and therefore must fund them with after-tax dollars.
 - However, a law firm is allowed to deduct interest expenses.
 - Thus, taking a loan appears to be an attractive option.
 - However, most traditional lending institutions are not comfortable with the underlying collateral – legal claims and, thus, are unwilling to lend.

Transaction Structuring

Deal Structuring: Transaction Structures That Burford Uses

- Burford uses a wide range of deal structures in its investment activities.
- A fairly common transaction structure can be described as “capital back + preferred return + share of the award”.

Transaction Structures That Burford Uses – Example (1)

- This is what it means.
- Let's say that Burford has provided \$10M to a client that used those funds to pay for legal services.
- Burford and the client agreed that if the client wins the case, Burford receives its \$10M back plus a 12% preferred return per year for the duration of legal proceedings.
- Let's assume that the case took two years to get resolved, and the client won \$30M in court.

Transaction Structures That Burford Uses – Example (2)

- Thus, Burford would receive \$10M back + \$2.4M ($\$10M * 2 * 12\% = \$2.4M$). This is the “capital back + preferred return component”.
- Let’s assume further that Burford and its client agreed that Burford would be entitled to receive 25% of the remaining award (*i.e.*, award after principal back and preferred return are paid to Burford). The remaining award is \$17.6M ($\$30M - \$10M - \$2.4M = \$17.6M$). Burford is entitled to receive 25% of it or \$4.4M.
- Thus, Burford would receive \$16.8M on its “cost basis” of \$10M.

The Issue of Control

- It is important to emphasize that even though Burford is financing the litigation, it does not control the litigation.
- In other words, Burford does not decide which procedural or substantive action to take.
- Burford cannot force its client to make such decisions either.
- Such actions include filing a motion, offering a settlement, agreeing to an offered settlement, selecting a litigation forum, etc.
- All these decisions are up to the client and its lawyers. This is an important issue from both legal ethics perspective and business perspective.

Unit Economics: ROIC, IRR, and Other Investment Attributes

Unit Economics: ROIC and IRR (1)

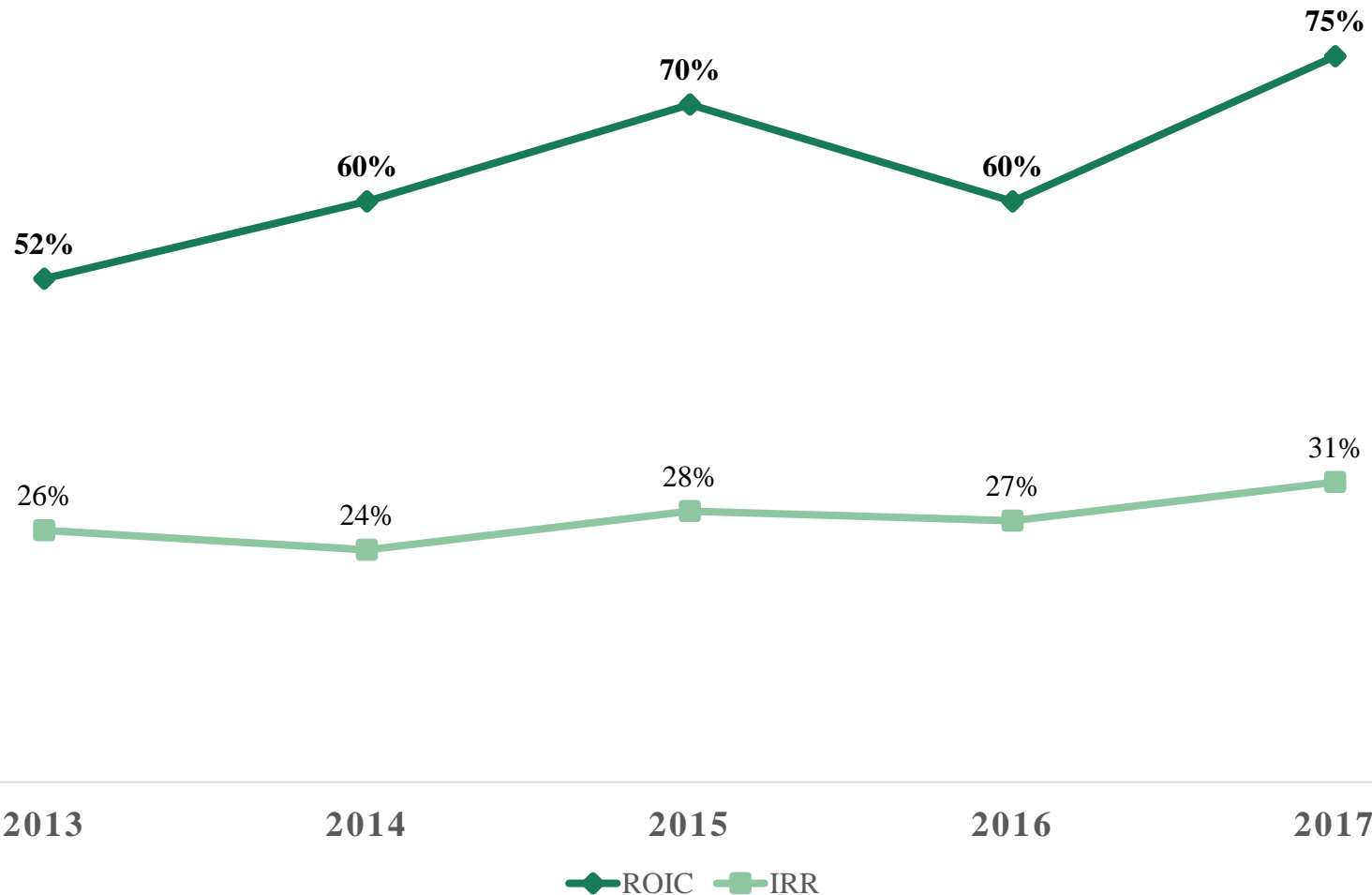
- Not surprisingly and similarly to investing in any other asset class, there are *two key metrics* that define the success of legal investing:
 - ✓ ROIC and
 - ✓ IRR.

Unit Economics: Example

- Imagine that Burford puts \$10M into financing the pursuit of a legal claim.
- Two years later Burford receives its investment back plus \$7.5M of profit for a total of \$17.5M.
- Thus, Burford's ROIC = 75%, and its 2-year IRR = ~32%.

Burford Has Generated 60%+ ROIC and High 20%s IRR Over Several Years (1)

Portfolio returns



Burford Has Generated 60%+ ROIC and High 20%s IRR Over Several Years (2)

- These ROIC and IRR are calculated after losses.
- In other words, if the portfolio has generated a **75% ROIC** *after losses*, it means that winning cases have generated **90% - 100% ROIC** to make up for the losers that have brought the portfolio average down to 75%.

How Are ROIC and IRR calculated? (1)

- First, this data covers only concluded investments (both successful and unsuccessful) and excludes any pending investments even if they are progressing well.
- Second, this is a cumulative dataset and not the vintage analysis.
 - In other words, 2013 ROIC of 52% and IRR of 26% are based on all investment activity from inception in 2009 to 2013.
 - 2017 ROIC of 75% and IRR of 31% include all investment activity from 2009 through 2017.

How Are ROIC and IRR calculated? (2)

- Third, the IRR is calculated by treating the entire investment portfolio as *one undifferentiated pool of capital* and measuring inflows and outflows from that pool. IRRs are computed only as to concluded investments and do not include unrealized gains or losses.
- Burford noted that if it calculated IRRs on individual investment outcomes and then expressed the results on a weighted average basis, the IRRs would be considerably higher than reported above because of certain outlier cases that generated IRRs of 1,000% and above.

Tension between ROIC vs. IRR Is Due to Settled vs. Adjudicated Cases (1)

- There is an inherent tension between ROIC and IRR: higher IRRs generally translate into lower ROIC.
- Why is it the case?
- This tension is driven by differences in unit economics between settled cases and cases that proceed all the way to trial (*i.e.*, adjudicated cases).

Tension between ROIC vs. IRR Is Due to Settled vs. Adjudicated Cases (2)

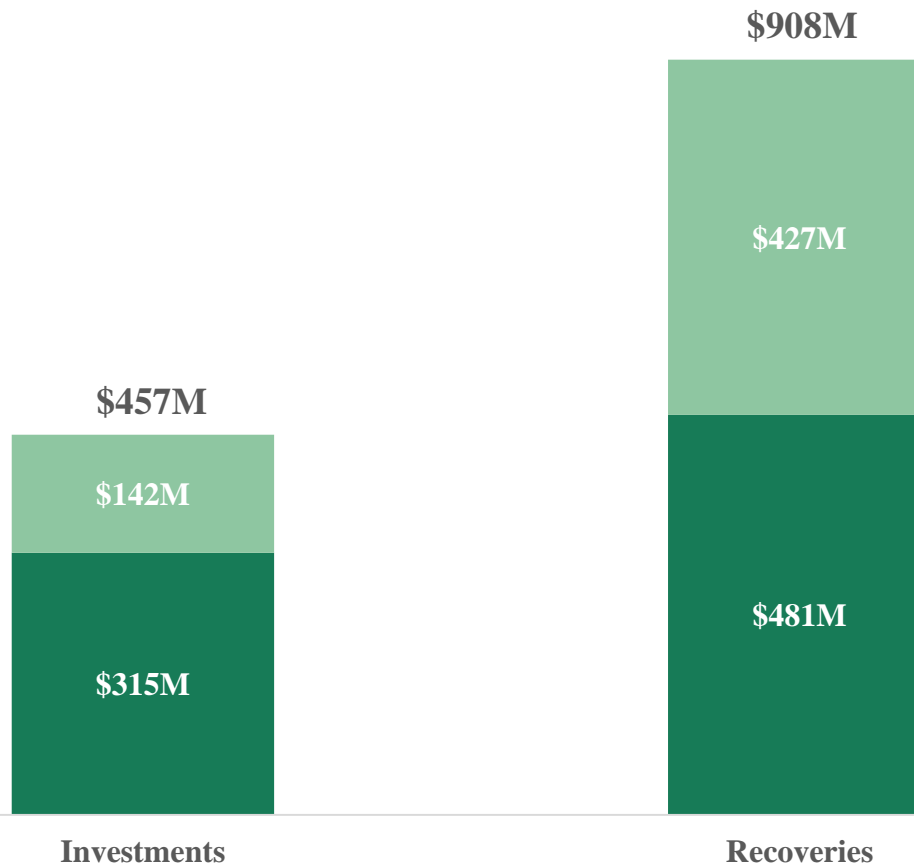
- Settled matters generally take less time as they avoid lengthy trials.
- Thus, *settled matters generate more attractive IRRs but lower ROICs* because, by definition, a settlement requires a claimant to accept less than it is claiming and typically less than it believes it could recover through a trial or arbitration.
- A claimant is willing to accept such discount in exchange for certainty and avoidance of risk of losing the case entirely.
- A couple of years ago Burford disclosed that it has never *lost money on a settled case*.

Tension between ROIC vs. IRR Is Due to Settled vs. Adjudicated Cases (3)

- If a case is not settled and proceeds to trial, then it would take substantially more time: 2 to 5 years is typical.
- However, when a case is adjudicated, the claimant and Burford receive more money than they do with settlements. This of course assumes that a case was resolved in favor of Burford's client.
- During November 2018 Investor Day Burford disclosed useful data on how ROIC and IRR differ between settled and adjudicated cases. These data points include 1H 2018 and, therefore, are different than the historical data I provided above.

Settled Investments Have Higher IRR but Lower ROIC. Adjudicated Investments Have Higher ROIC and Lower IRR

Return across settled and adjudicated matters
(\$ in millions)



■ Settlements ■ Adjudications

TOTAL PORTFOLIO

99%	33%
ROIC	IRR

ADJUDICATIONS

201%	27%
ROIC	IRR

SETTLEMENTS

53%	52%
ROIC	IRR

Tension between ROIC vs. IRR Is Due to Settled vs. Adjudicated Cases (4)

- Settled cases generate IRR of 52% which is very close to their ROIC of 53%.
 - ✓ It implies that it takes about one year to reach a settlement.
- Adjudicated cases generate IRR of 27% and ROIC of 201%.
 - ✓ This implies that an adjudicated case takes slightly less than 5 years to get resolved.

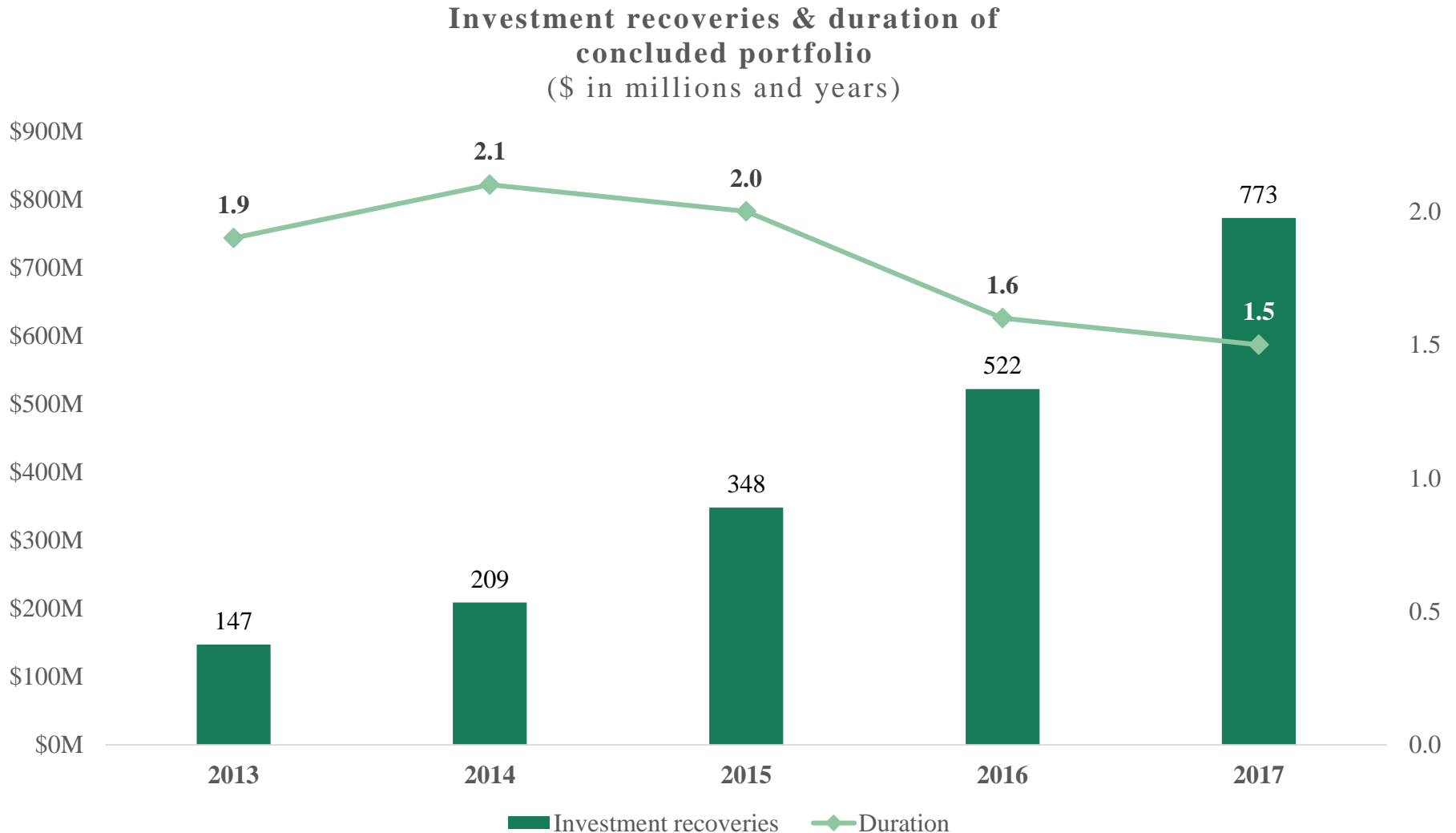
Which Metric Is Better?

- Each investor can decide for themselves which metric is more important.
- Burford management favors ROIC over IRR which is consistent with the corporate finance theory that favors NPV over IRR.

Asset Duration Is Less Than Two Years

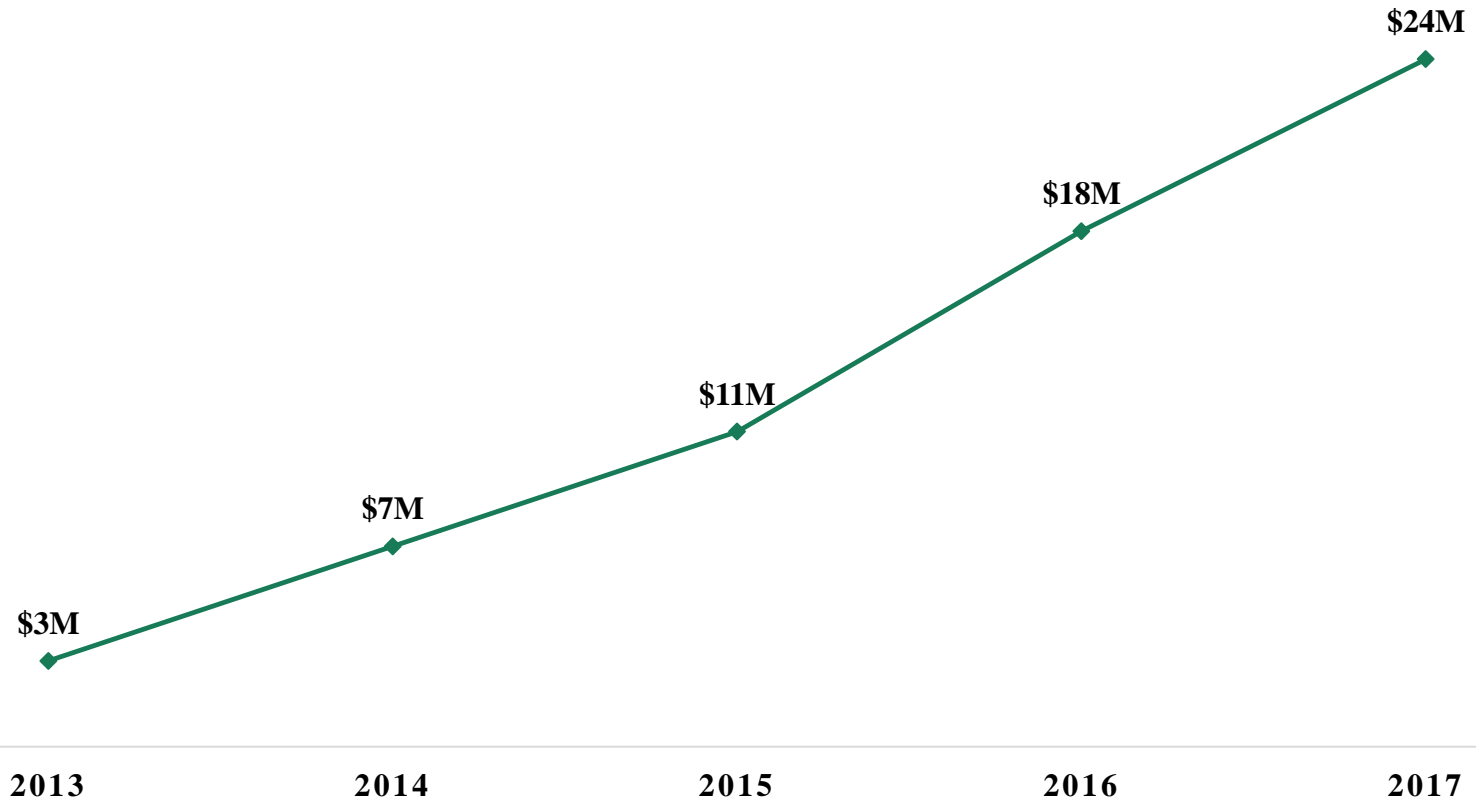
- Another important metric is asset duration.
- Litigation claims are not equity that exists in perpetuity.
- Legal claims always get resolved either favorably or unfavorably.
- Thus, understanding the duration of this asset class is critical.
- As Burford has scaled its portfolio, its duration has decreased from ~2 years to 1.5 years.

As Burford Scaled Its Portfolio, the Average Duration Dropped from ~2 Years to ~1.5 in 2017



Average Size of Commitment Increased 8x over 5 Years from \$3M in 2013 to \$24M in 2017

Average size of commitment
(\$ in millions)



Portfolio Construction

The Importance of Portfolio Construction and Diversification

- Every investor appreciates the importance of portfolio construction and a proper level of diversification.
- This is even more important for Burford as any single case's investment can end as a complete loss.
- Burford management understood it from the very beginning.

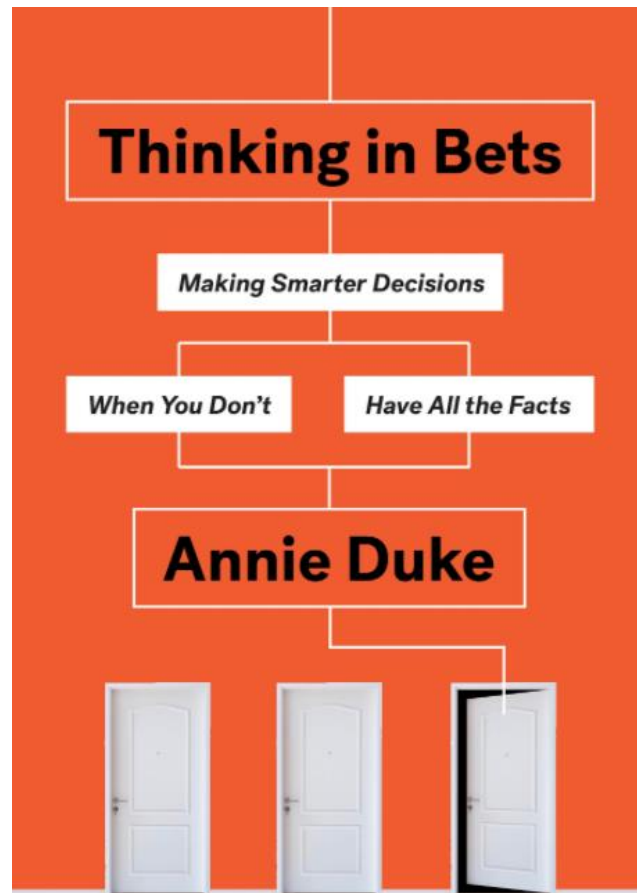
Burford Management About Diversification

“We have always maintained that the right way to invest in litigation risk is through a broadly diversified portfolio, and we have practiced that view assiduously. The Buford portfolio is diversified across a number of metrics, each of which is monitored by the Board for compliance with internal portfolio policies. Those metrics include caps for investment by law firm, claimant, state, judge and area of law”.

Source: 2011 Annual Report.

Burford Management Has an Ingrained Understanding That Investing in Legal Claims Is a Probabilistic Exercise

Management also recognizes – very much in the spirit of what Annie Duke does in her excellent book, [*Thinking in Bets*](#) – that both luck and skill impact the litigation outcomes.



This is What Burford Management Wrote Eight Years Before *Thinking in Bets* Was Published

“The very best trial lawyers will acknowledge that luck and circumstance play a role here, and that every lawyer wins cases that should have been lost, and vice versa. If we shy away from risk for fear of loss, as some litigation investors do, we will not maximize the potential performance of the portfolio.”

Source: 2010 Annual Report.

Burford's Portfolio Is Diversified Across Multiple Factors

- At the end of 2017 (the detailed data is disclosed once a year) Burford had a widely diversified portfolio with 82 separate investments and 877 underlying claims.
- In 2016 these numbers were 64 and 811 respectively.

Portfolio Is Properly Diversified Across Multiple Factors

- No defendant represents even 5% of total commitments.
- No single case's capital loss would amount to more than 2% of total commitments.
- Works with 70% of AmLaw 100 (the largest U.S. law firms by revenue).
- The largest law firm relationship accounts for 14% of investments across more than 30 different partners.
- Litigation matters are spread across more than 30 U.S. states.

Why 14% Exposure to a Single Law Firm Is *NOT* Concerning

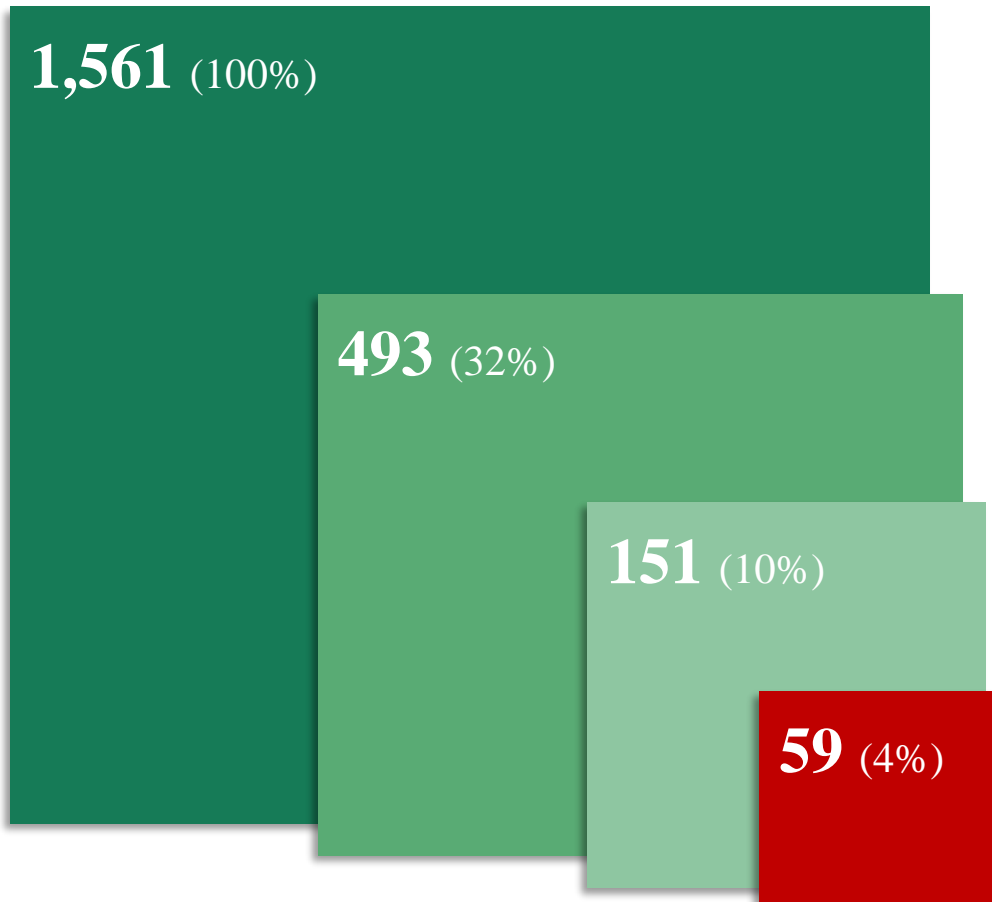
- Law firms have multiple partners who have different areas of expertise (patent litigation, construction litigation, general commercial litigation, etc.), different client base, and different “litigation style”.
- Thus, having 14% of Burford’s investments spread across different partners reduced the concentration risk substantially.

Burford's Investment Process

Burford Is Extremely Selective

- In 2017 Burford received requests for funding for 1,561 cases and funded only 59 of them.
- This is a 4% funding rate.

Only 4% of Requests Received Burford's Funding in 2017



Stage #1: Inbound inquiries are received.

Economic assessment: *Do economics of the case work?*

Inquires received go through a review to determine whether the economics are attractive for Burford *assuming* that the case is won in court.

Stage #2: Analysis of legal merits of the case.

Most heavy lifting and substantive due diligence happen at this stage: legal merits, damages theory, court history with similar cases, chances of a reversal on appeal, etc.

Stage #3: Investment Committee Review

Nine person investment committee makes a final decision. Only ~39% of cases presented to the investment committee became Burford's investments in 2017. This equates to 4% of 1,561 cases that entered Burford's pipeline.

Stage #4: Closed Investments

Burford's Investment Process

- Burford runs its underwriting internally and rarely uses help from outside law firms.
- Burford has an internal team of underwriters that consists of lawyers and financial professionals. Burford's underwriting team has doubled in size from 2016 to 2018.
- It is worth noting that most competitors rely heavily on external law firms as they generally lack the breadth and depth of Burford's experience and expertise.
- This internal expertise is one of the elements of Burford's competitive advantage.

Are Burford's Returns Sustainable? Competition and Barriers to Entry

Will Burford's Success Invite Competition?

- When I look at how successful Burford has been and what an envious track record of success it has, the question that pops in my head is “*Shouldn't other players enter the space and bring the returns down?*”.
- This brings us to the questions of competition and barriers to entry.

Numerous Significant Barriers to Entry to the Litigation Finance Industry Exist

- #1: Scale is needed to build a diversified portfolio.
- #2: Scale is needed to build a top-notch team.
- #3: Relationships are critical in litigation finance.
- #4: Burford has superior underwriting.
- #5: It is difficult to raise capital for new players when capital allocators can invest in Burford managed funds.
- #6: Potential conflicts of interest prevent investment banks from entering the litigation finance industry.

Scale Is Needed to Build a Portfolio

- Any new entrant would need to build a diversified portfolio.
- Burford's most recent average commitment size is ~\$24M.
- Let's reduce that to \$20M to keep math simple.
- It means that even if a new entrant manages to raise a \$200M fund, which is not an easy task, such entrant would be able to build a portfolio of *only 10 investments*.
- This is way too concentrated given the binary nature of any litigation or arbitration.
- Thus, a bigger launch size is necessary, and it is very difficult for a brand-new player to raise lots of money in the litigation finance space.
- Burford has more scale in its operations than any other players.

Scale Is Needed to Build a Top-Notch Team

- The substantial size at launch is also needed to build a top-notch team and hire talent.
- Without it a new player will be at a substantial disadvantage.

Relationships Are Critical in Litigation Finance

- Given the lack of auctions, relationships with law firms play a critical role.
- Relationships boil down to
 - ✓ a prior history of working with a particular litigation funder,
 - ✓ funder's overall reputation in the legal community, and
 - ✓ history of delivering committed capital.
- The last point is worth emphasizing.
- There are anecdotal stories about funders who committed capital but subsequently didn't deliver it.
- Very often the committed capital is not delivered 100% upfront.
- Instead it is delivered in tranches as the case progresses through a judicial system.
- If a funder does not deliver the 2nd or 3rd tranche, it will put a claimant and its law firm into a precarious position.
- Working with reputable players with stellar reputation mitigates this concern.
- *Burford has been building relationships with law firms for a decade. Plus, Burford's scale means that it has worked with more law firms than any of its competitors.*

Burford Has Superior Underwriting

Burford has superior underwriting given

- (1) its in-house underwriting team
- (2) experience and
- (3) proprietary data.

Why Is It Important to Have Underwriting Team *Inhouse*?

- The importance of having the underwriting team inhouse as opposed to relying on outside law firms all the time is obvious.
- After all, how many hedge funds do you know that have only a portfolio manager and a number of “outsourced” analysts?
- Yet, many competitors do not have strong legal team in-house and instead rely on outside legal counsel.

Burford Has More Proprietary Data Than Anybody Else

- Much information about litigation and arbitration is confidential.
- Burford has seen many more cases than any other litigation finance provider.
- Thus, it has assembled the largest data set in the world because it has invested in more cases than anybody else.
- That proprietary data enables Burford to make better assessment of investment opportunities and make better decisions.
- At the end of the day, *it is all about figuring out the odds.*

It Is Difficult to Raise Capital for New Players When Capital Allocators Can Invest in Burford Managed Funds

- Let's think about fundraising from a capital allocator perspective.
- Imagine that you run a university endowment.
- You can either invest in a fund managed by Burford or a new player.

Capital Allocator's Perspective: Burford vs. Start-Up

- Burford has:
 - ✓ Excellent team that has worked together for a decade.
 - ✓ Best in class infrastructure in place.
 - ✓ A very strong record of making money.
- A new litigation finance fund
 - ✓ Team is new.
 - ✓ Building infrastructure.
 - ✓ No track record.
 - ✓ But offers discount on fees.
- *Which one would you choose?*

Potential Conflicts of Interest Prevent Investment Banks from Entering the Litigation Finance Industry

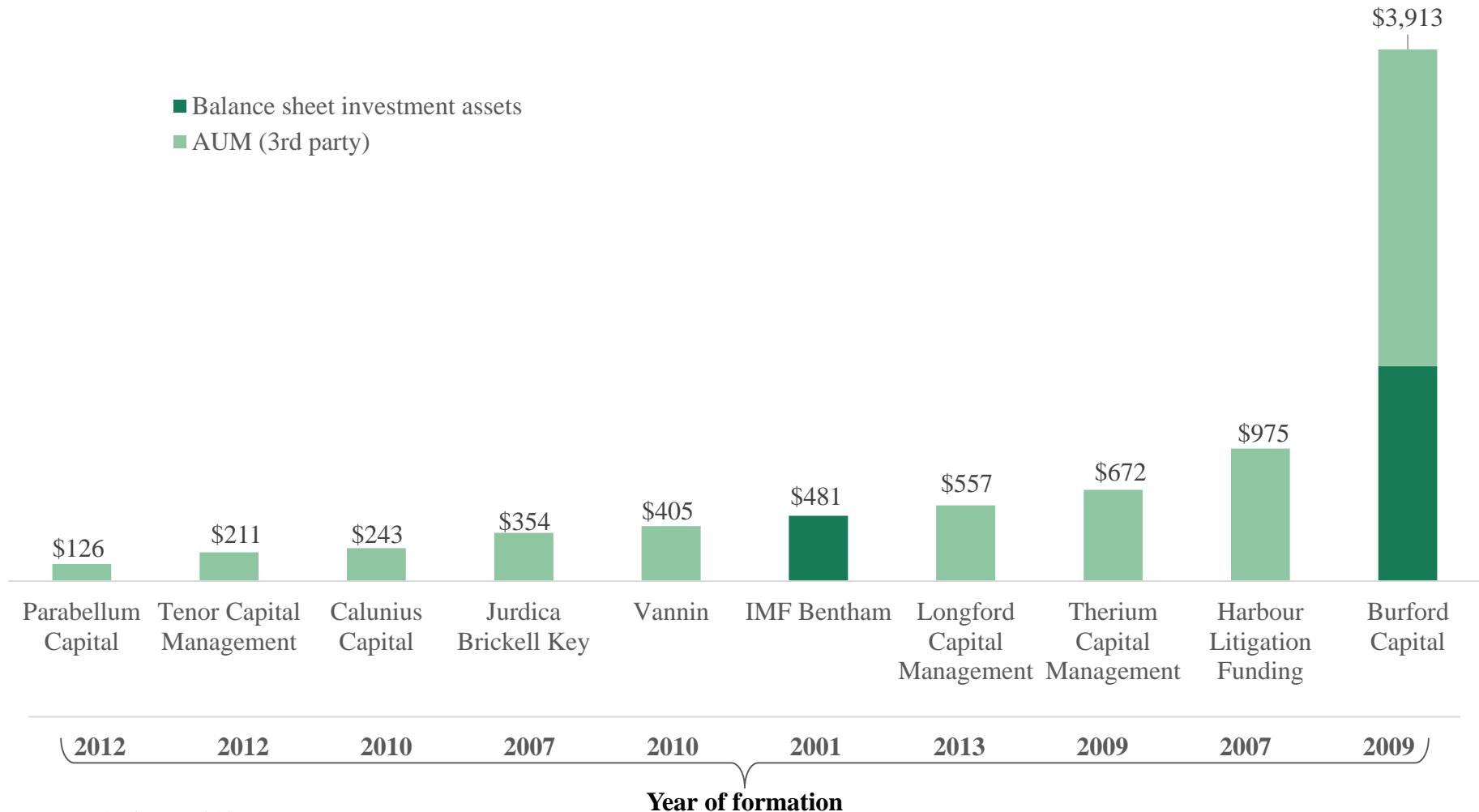
- Investment banks can theoretically be credible entrants into the space.
 - ✓ They have infrastructure.
 - ✓ They have client relationships.
- The litigation finance brings stigma and potential conflicts of interest.
- Providing litigation funding will create lots of new conflicts for investment banks.
- my research indicates that several investment banks used to be players in the litigation finance arena a few years ago but have since exited. Today litigation finance is dominated by pure players.

Burford Has Had Competition Throughout Its Entire Existence

- It would be false to think that Burford did not have competition before.
- In fact, *Burford has always competed with other litigation finance providers.*
- Burford was not even the first one to enter the space.
 - ✓ But it has become the most successful one.

Burford manages ~[4]x more assets compare to its closest competitor

Burford's compared to its competitors



Sources: Burford Capital filings,
Caro-Kann Capital research and analysis

No New Big Entrants After 2013

- It is worth noting that none of the large, credible players entered the space after 2013. This suggests the barriers to entry are very high.

Burford Has Generating Its Outstanding Returns Despite Competition

- Despite all these competitors Burford has generated envious returns.

Price Competition Is *NOT* Fierce Due to Structural Constraints

- Let's compare how the investment process works for private equity investing and litigation finance.
- Let's start with private equity.

How Private Equity Investing Works

- The owner of a middle market business wants to sell it.
- The owner gets in touch with an investment bank that receives the sale mandate.
- The bankers get to work, conduct diligence, do research, and produce a deck.
- Once the deck is ready, it is *blasted to everybody who may have interest in buying the company*.
- This creates *a very competitive sales process* with **auction dynamics**.

How Investing in Legal Claims Works

- The process could not be more different than when a claimant, with the help of its lawyers, looks for a litigation finance provider.
- Sending a deck or memoranda that contains confidential and attorney-client-privileged information to many parties can break attorney-client privilege.
- the legal counsel will need to engage in conversations with potential litigation funders. Very often a law firm will do this free of charge or on a deferred fee arrangement basis. As one can imagine, a law firm typically will not want to engage in the same conversation (non-billable!) with multiple litigation finance providers.
- As a result of these circumstances, the competition among litigation finance providers is fairly limited. Based on my conversations with several litigation and arbitration attorneys, reaching out only to two or sometimes three litigation finance providers is most common.

The Entire Market Is Growing

- The entire litigation finance market is growing.
- The increasing pie means that current players do not have to fight for who gets a bigger slice (*i.e.*, higher market share).

Conclusion: Burford's High Returns Are Sustainable

- Given the combination of
 - ✓ high barriers to entry
 - ✓ lack of fierce price competition and
 - ✓ growing market
- Burford's high returns should be sustainable.

Management Is Highly Aligned with Public Shareholders

Two Co-Founders Have Been Running Burford for 10 Years

- Christopher Bogart and Jonathan Molot co-founded Burford back in 2009.
- They have been running it together ever since.
- Chris Bogart is CEO and Jonathan Molot is CIO.

CEO Chris Bogart: Brief Bio

- CEO Chris Bogart started his career as an investment banker at JP Morgan Chase (1986 – 1988) but then went to law school in Canada.
- After graduation he worked for almost 6 years as a litigator at Cravath, Swaine & Moore LLP which is routinely ranked as the best law firm in the U.S. by Vault.
- After that he was General Counsel and then CEO of Time Warner Cable Ventures.
- He then held executive positions with Churchill Ventures and Glenavy Capital.
- Finally, he started Burford in 2009.

CIO Jonathan Molot: Brief Bio

- CIO Jonathan Molot graduated from Harvard Law School with magna cum laude degree in 1992 and then did a clerkship for the U.S. Supreme Court Justice Breyer.
- Clerkship at the U.S. Supreme Court is the most sought after clerkship in the United States.
- Subsequently, Jonathan Molot was a litigation attorney at Cleary Gottlieb, another top U.S. law firm, and other law firms.
- He has also been teaching at Harvard Law School and Georgetown University Law Center.

Incentives Are Strongly Aligned Due to High Insider Ownership Both at the Top Level and Throughout the Organization

- Top management is well aligned with public shareholders.
- Two co-founders own 5%+ each.
- Thus, each of them owns ~\$225M+ worth of shares.
- The next 22 executives collectively own ~\$80M worth of shares.
- Every single employee is a shareholder as well.
 - ✓ The latter speaks volumes about the company culture.
 - ✓ Very few companies in the world make every employee a shareholder, and those who do it generally create tremendous shareholder value.

Management Has a Long-Term Vision and Refuses to Provide Guidance (1)

- Given management's aligned incentives, it should be no surprise that it has long-term vision and cares less about providing guidance.

Management Has a Long-Term Vision and Refuses to Provide Guidance (2)

“we ... continue to remind investors, that from our perspective, this is a long-term play based on a widely diversified portfolio”

Source: 1H 2018 Earnings Call.

Management Has a Long-Term Vision and Refuses to Provide Guidance (3)

“We are writing this homily because as we have grown in size and prominence, we have attracted an increasing audience that takes the view that we should give “guidance” on not only what is going to happen in the future but when it is going to happen. With respect, we decline to do so”.

Source: 2016 Annual Report.

Management Communications Style (1)

“Our view is that it is our function as corporate managers to be excellent stewards for shareholders’ capital and to provide investors with data and with commentary on the past, and that it is for investors to form their own individual views about what the future holds”.

Source: 2017 Annual Report.

Burford Has Two Core Segments

Burford Has Two Core Segments

- Segment #1: Litigation Investments
- Segment #2: Investment Management

Segment #1: Litigation Investments / Balance Sheet Investing

- This is the largest segment.
- It simply means that Burford makes litigation investments from its balance sheet.

Segment #2: Investment Management

- In late 2016 Burford entered a fund management business by acquiring Gerchen Keller (“Gerchen” or “GKC”), a Chicago-based litigation finance asset manager.
- It is believed that GKC, with ~\$1.3B AUM, was the second largest litigation finance provider at that time.

Segment #1: Balance Sheet Investing Business

How Does Burford Revenue Recognition Work for the Balance Sheet Investing?

- For every investment firm the revenue recognition is critical.
- Burford is not exception.
- Let's address it.

Revenue Consists of Realized Gains and Fair Value Adjustments (*i.e.*, Unrealized Gains)

- Revenue consists of
 - ✓ Realized gains and
 - ✓ Unrealized gains (fair value adjustments).

Realized Gains

- Realized gains on litigation investments are very straightforward.
- If an investment is carried on the balance sheet at \$100 and as a result of a final court decision Burford is entitled to receive \$190, Burford will record a gain of \$90.
- By the same token, if, as a result of a court decision, Burford is entitled to receive nothing, then Burford will record a loss of \$100 on its income statement for the period.

When Are Fair Value Adjustments Recorded?

- Unrealized gains or losses (*i.e.*, fair value adjustments) operate in the same way as realized gains except that there is no final court decision.
- How could Burford then determine that it has unrealized gains?
- Burford marks up its investments if there are tangible and clear developments in the court proceedings that impact the value of its investments.

Is Fair Value Accounting Appropriate?



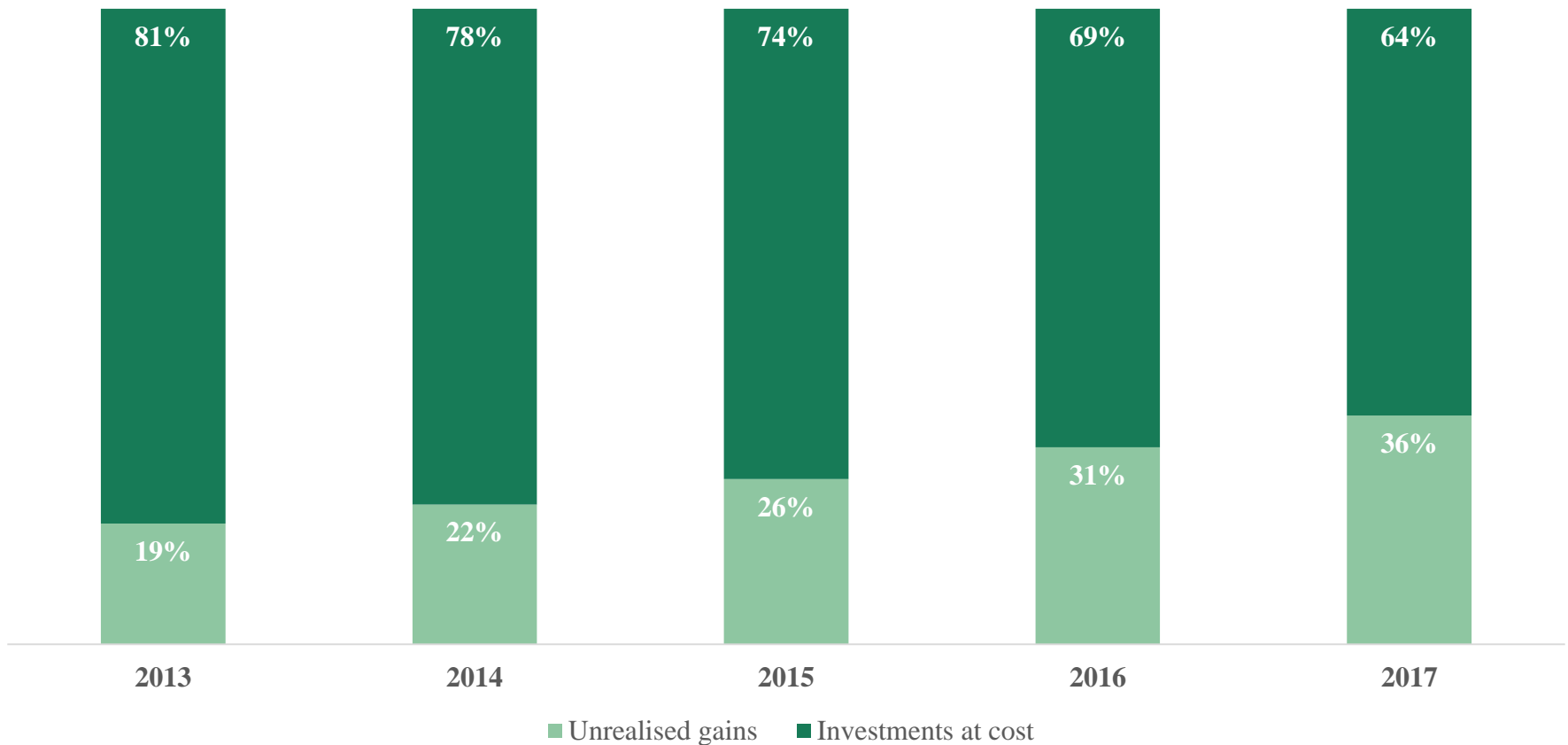
- Let me pause here.
- You may have all types of questions right now.
 - ✓ Doesn't this sound horrible and potentially open to abuse?
 - ✓ Doesn't it mean that management can come up with any amount of unrealized gains in any single reporting period?
 - ✓ Doesn't it mean that no one really knows the “true” value of the investments on Burford's balance sheet?
- These are all legitimate questions and I had them as well.
- However, the company provides sufficient disclosure that shows that its fair value adjustments (*i.e.*, unrealized gains) are very reasonable.
- Let's walk through them.

IFRS Requires Burford to Make Fair Value Adjustments

- It is not up to Burford to decide whether or not to record fair value adjustments.
- Burford is required by IFRS to do so.

Unrealized Gains (*i.e.*, Fair Value Adjustments) Constitute 36% of Litigation Investments

Unrealized gains in investments
(% of investments)



Why Did Unrealized Gains Increase Over Time as Per Cent of the Portfolio?

- This is not concerning because as the entire portfolio continues to mature and cases from older vintages go through litigation and experience substantive developments, more fair value adjustments are needed.
- This is a very logical outcome.

Fair Value Adjustments Are Made Only When There Are Significant Case Developments

“We do not adjust valuations based on sentiment. It’s not that we say, oh, because the judge seems sympathetic, we’re going to write up this investment, or because the other side seems scared, we are going to write up the investment. It’s only when concrete case events occur that we then are required, under our investment policy, to make an adjustment, which the auditors will review”.

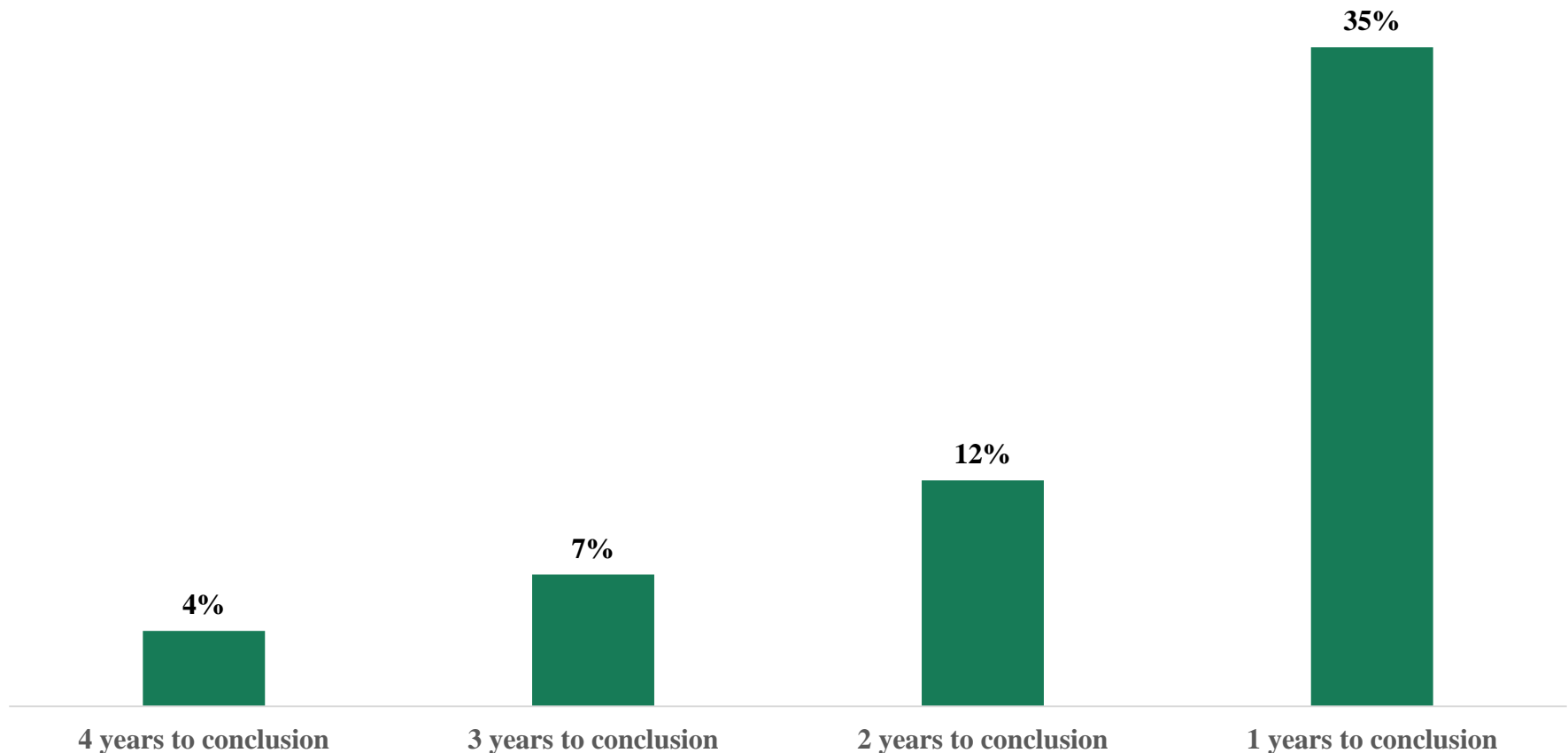
Source: 2017 Burford Earnings Call.

Burford Has *Almost Never* Written Down an Investment That Was Previously Marked Up

- The best evidence of Burford's conservatism in making fair value adjustments is that *these adjustments are almost never reversed.*
- The company has had only two cases where it first made positive fair value adjustments (*i.e.*, had unrealized gains) that subsequently turned into a loss.
- The number of these adjustments is a mere 0.2% of total write ups by dollar value.
- *This is the most compelling evidence to me that Burford fair value accounting is indeed conservative.*

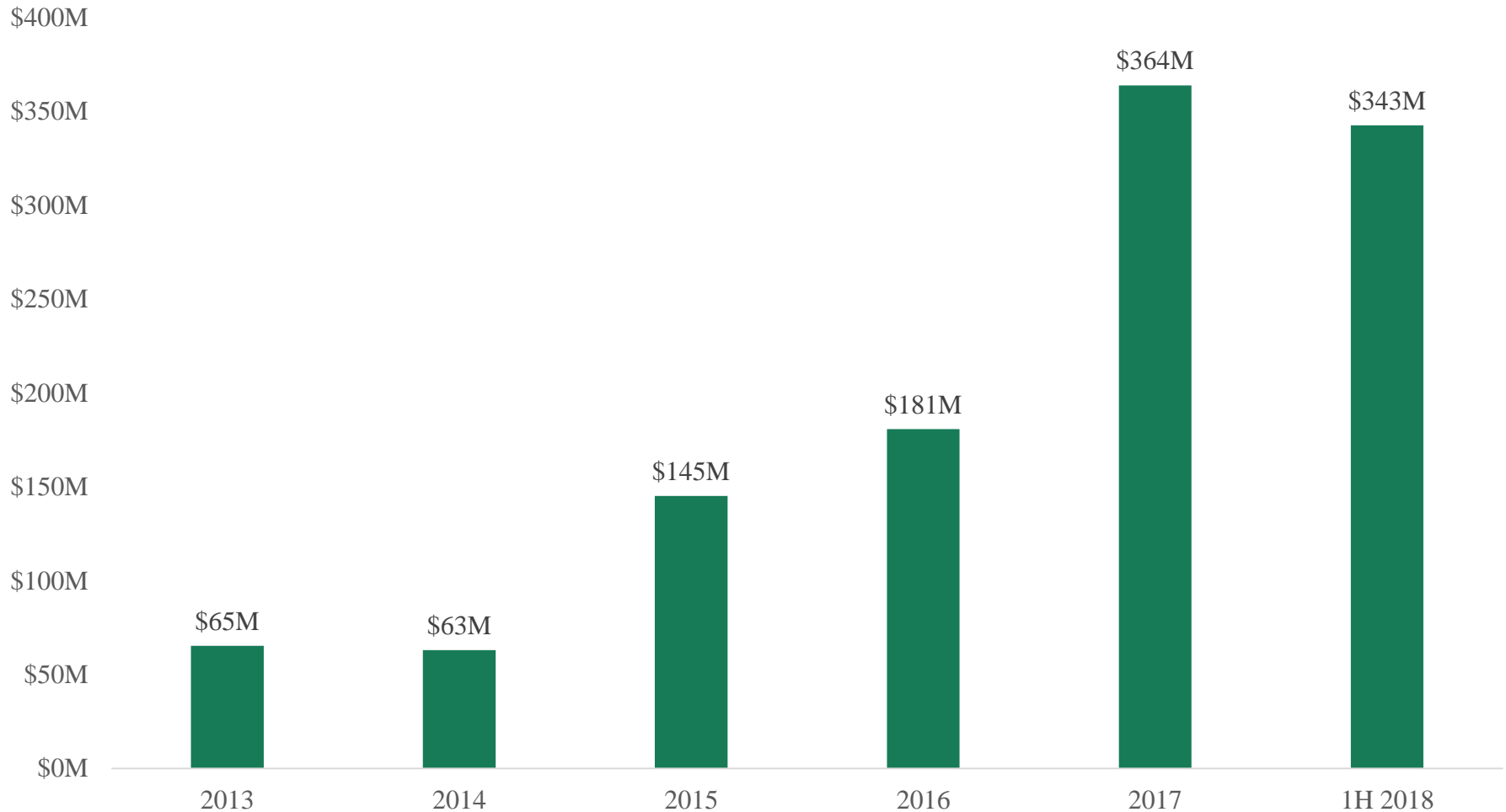
Only 35% of Gains Are Recognized Before the Investment Is Concluded. This Shows that Accounting Is Conservative.

Timing and quantum of cumulative valuation changes in concluded portfolio
(% of total income)



Substantial Cash Inflows from Litigation Investments Further Confirm that Fair Value Accounting Is Appropriate

Proceeds from litigation investments
(\$ in millions)

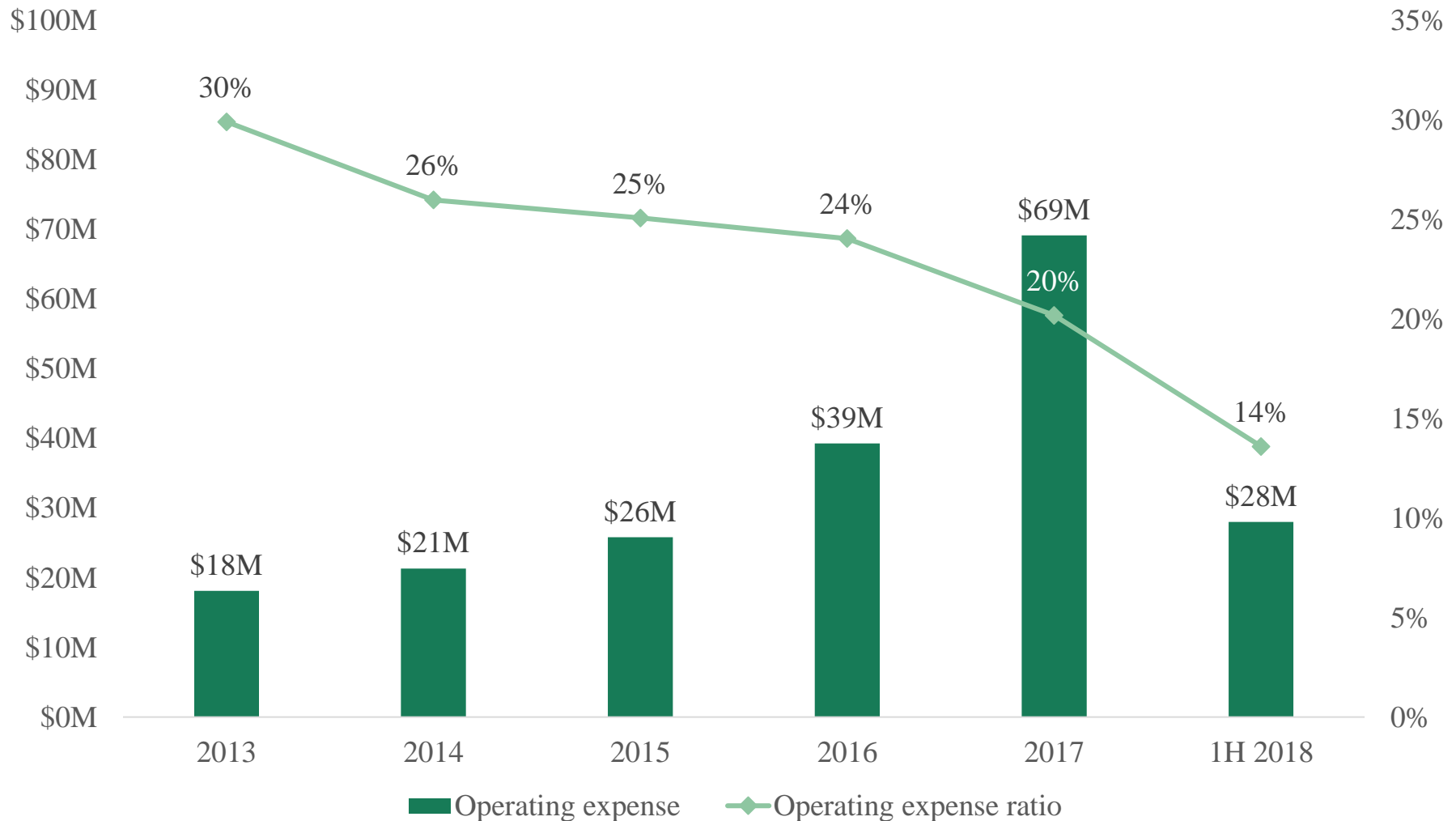


Operating Expenses in Balance Sheet Investing Consist Largely of Salaries

- More than 75% of them are salaries and the balance is general and administrative expenses (such as rent).

Burford Has Demonstrated Substantial Operating Leverage as OpEx as % of Revenue Decreased Every Single Year

Burford's operating expense and OpEx as % of revenue



Why Does Buford Have Strong Operating Leverage?

- Shouldn't Buford's business be labor intensive?
- Yes and no.
- Of course, Buford's business is not a SaaS business that scales extremely well. More cases do require more people.
- However, there are two phenomena at play here.
- First, the infrastructure itself is very scalable.
- Second, as the size of average investments has increased, personnel expenses have not increased at the same pace.
 - ✓ In other words, the amount of time and effort necessary to underwrite a \$24M investment in 2017 is not eight times larger than time and effort necessary to underwrite a \$3M investment in 2013.

Segment #2: Investment Management Business

Segment #2: Investment Management

- We have covered segment #1: balance sheet investing.
- Let's talk now about Segment #2: Investment Management.

Why Did Burford Enter into the Investment Management Business?

- The demand for litigation finance has been growing so fast that Burford was running out of capital.
- In other words, *Burford could deploy more capital into equally attractive cases than it had available.*
- Exploring other sources of capital (other than its own equity and debt) was prudent.
- Managing investment funds for outside investors was an attractive option.
- Once the attractiveness of entering the asset management business was established, it boiled down to a buy vs. build decision.
- “Build” takes time, and time is precious when demand is growing fast.
- Hence, buying looked more attractive.

Did Burford Get A Good Deal When It Bought GKC? (1)

- Burford paid ~\$175M for an asset management business with ~\$1.3B in AUM and was in the process of raising another \$300M.
- An investor who is used to valuing asset managers on a percent of AUM basis may roll their eyes at this multiple paid by Burford.
- *Burford's purchase price was ~13.5% of AUM. Were they nuts?*

Did Burford Get A Good Deal When It Bought GKC? (2)



- Not so fast.
- In addition to ~1.5% management fees, Burford is now entitled to incentive fees.
- With returns comparable to Burford's that can be very attractive.
- The incentive fees have not been paid to GKC at the time of the purchase, and Burford as a buyer became entitled to those incentive fees.

Valuation of GKC

- Here is a valuation sketch.
- AUM = \$1.3B at the time of the purchase.
- Let's say that all management fees are spent on salaries and back office expenses.
- Let's use a ROIC of 60% (very similar to Burford's ROIC).
- The incentive fee = 20%.
- Let's say that the average duration is three years as opposed to Burford's actual duration of less than 2 years.
- That brings us to \$156M of pre-tax incentive fees over three years or \$52M "normalized" incentive fees per year.
- It translates into less than 3.5x pre-tax income! ***This is a great acquisition multiple.***

Burford Has Raised Another \$350M Fund Since Then and on Dec. 19, 2018, Announced ~\$967M in Additional Commitments

- Burford has raised another \$350M fund (plus added \$150M of its own capital for a total of \$500M) using the acquired platform. It would have taken Burford a lot longer to do so if it did not acquire GKC.
- On December 19, 2018, Burford announced that it has \$300M of commitments for one more fund where Burford would charge 2% and 20%.
- More importantly, on the same day Burford announced that it has received a commitment from a sovereign wealth fund (though Burford did not disclose which country) for \$667M to Burford's strategy and Burford would charge 0% management fee and **42% incentive fee**.

Allocation of Investments is Based on a Set Formula

- Burford has put this formula in place.
- 25% of every opportunity goes to its own balance sheet, 50% goes to the sovereign wealth fund investment vehicle, and another 25% go to investment funds with 3rd party capital.

Burford Is Getting Multiple Benefits from Managing Outside Capital

- Non-financial benefit.
 - ✓ Burford can now invest in very large cases that it may have to pass on otherwise given its concentration limits.
 - ✓ For example, taking a case with expected legal fees of \$50M on its own balance sheet may be too risky from the concentration perspective.
 - ✓ However, allocating it among three sources of capital makes such investment appropriate.
- Financial benefit.
 - ✓ Burford can earn large incentive fees without doing any substantial extra work.
 - ✓ Burford is already doing all legal and financial diligence anyway but now it can “leverage” that work by charging incentive fees.

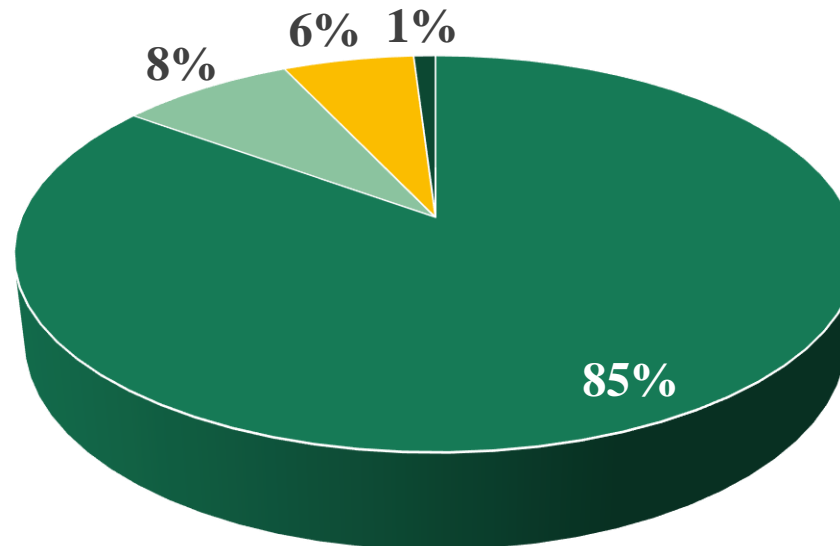
Incentive Fees: European Waterfall

- So far Burford has recorded only de minimis amount of incentive fees in prior reporting periods.
- Why is that?
- Burford funds operate based on the so-called **European waterfall structure**.
 - ✓ Burford cannot start recording any incentive fees unless investors have already received all their money back.
- As a result of this – and despite high returns to date on concluded investments – Burford was able to record only a couple of million dollars of incentive fees on the income statement.
- However, it is about to change starting 2H 2018 and 2019.

A Few Words About Currency

Investor in Burford Shares Does Not Take a GBp Risk

- Even though Burford shares are quoted in GBp, an investor in Burford shares does not take a GBp risk.
- ~85% of Burford's investment activity is in USD, 8% in EUR, and only 6% is in GBp. The last place goes to AUD (1%).



■ USD ■ EUR ■ GBp ■ AUD

Modelling Burford

How to Model and Value Burford?

- Given that two segments have very different economics, I am modelling and valuing them separately.
- Thus, I am effectively using the sum-of-the-parts approach.

Modelling and Valuing Balance Sheet Investing Business

Modelling Balance Sheet Investing:

- The key assumption is the IRR.
 - ✓ Bear case = 20%
 - ✓ Base case = 25%
 - ✓ Bull case = 30%.
- Reminder: most recent IRRs were in excess of 30%.
- Hence, the recent reality has been better than even my bull case.
- I apply the IRR to Burford's investment assets. I grow the amount of investment assets by net income after dividends paid to shareholders (*i.e.*, retained earnings).

IRR Is The Key Assumption

Burford: Balance Sheet Investment		1H 2018	2H 2018E	2018E	2019E	2020E	2021E	2022E
BOP Investment Assets	\$ M		1,777		1,918	2,261	2,655	3,104
Net income after dividends	\$ M	144	141	285.3	343.3	394.3	449.0	506.0
EOP - Investment assets	\$ M	1,777	1,918	1,918	2,261	2,655	3,104	3,610
					17.9%	17.4%	16.9%	16.3%
Annual IRR	%		25.0%		25.0%	25.0%	25.0%	25.0%
<i>Bear</i>	%		20.0%		20.0%	20.0%	20.0%	20.0%
<i>Base</i>	%		25.0%		25.0%	25.0%	25.0%	25.0%
<i>Bull</i>	%		30.0%		30.0%	30.0%	30.0%	30.0%
Semi-annual IRR	%		11.8%					

Modelling Litigation Revenue

- I calculate litigation revenue by applying the assumed IRR to the investment (*i.e.*, income producing) assets. This brings litigation revenue to ~\$626M in 2022. As you can see, the litigation revenue growth slows down because of my lower IRR assumption.

		FY 2016	FY 2017	1H 2018	2H 2018E	2018E	2019E	2020E	2021E	2022E
Litigation investment revenue	\$ M	140.2	313.3	195.3	209.7	405.0	474.1	558.6	655.5	765.7
<i>y-o-y growth, %</i>	%	59.5%	123.5%	20.8%	38.3%	29.3%	17.1%	17.8%	17.3%	16.8%

- It is important to keep in mind that I am not trying to predict semi-annual revenue which is likely to impossible given the unpredictability of court decisions. Instead, my goal it to show the overall dynamics of Burford's litigation revenue.

Modelling Operating Expenses for Balance Sheet Investing Business (1)

- Despite slower growth in litigation revenue, I keep a high growth rate for operating expenses: 30% in the base case.
- I apply a higher growth rate to corporate expenses as well (25%). Some corporate expenses should be allocated to the investment management segment, but I am accounting for all corporate expenses here.
- I would emphasize that my assumptions about the expense growth relative to the litigation revenue growth are very likely to prove conservative.

Modelling Operating Expenses for Balance Sheet Investing Business (2)

		FY 2017	1H 2018	2H 2018E	FY 2018E	2019E	2020E	2021E	2022E
Operating expenses	\$ M	34.9	13.9	31.6	45.4	59.1	76.8	99.8	129.8
<i>y-o-y growth, %</i>	%	34.2%	30.6%	30.0%	30.2%	30.0%	30.0%	30.0%	30.0%
<i>Bear</i>	%			35.0%		35.0%	35.0%	35.0%	35.0%
<i>Base</i>	%			30.0%		30.0%	30.0%	30.0%	30.0%
<i>Bull</i>	%			25.0%		25.0%	25.0%	25.0%	25.0%
<i>as % of litigation revenue</i>	%	11.1%	7.1%	15.1%	11.2%	12.5%	13.7%	15.2%	17.0%
Corporate expenses	\$ M	22.8	9.2	12	21	26	33	41	51
<i>y-o-y growth, %</i>	%	265.7%	(31.4%)	25.0%	(8.2%)	25.0%	25.0%	25.0%	25.0%
<i>Bear</i>	%			30.0%		30.0%	30.0%	30.0%	30.0%
<i>Base</i>	%			25.0%		25.0%	25.0%	25.0%	25.0%
<i>Bull</i>	%			20.0%		20.0%	20.0%	20.0%	20.0%
Operating income	\$ M	256	172	166	339	389	449	515	585
<i>y-o-y growth, %</i>	%	136.8%	25.2%	41.0%	32.5%	14.8%	15.5%	14.6%	13.6%

Burford Debt and Interest Expense

Tranche	Face Value	Coupon	Issuance Date	Maturity Date	Interest expense	FX (£/\$)	Face Value, \$	Interest exp., \$
Bond 1	£90,000	6.50%	19-Aug-14	19-Aug-22	£5,850	1.27	\$114,300	\$7,430
Bond 2	£100,000	6.125%	19-Apr-16	26-Oct-24	£6,125	1.27	\$127,000	\$7,779
Bond 3	£175,000	5.00%	1-Jun-17	1-Dec-26	£8,750	1.27	\$222,250	\$11,113
Bond 4	\$180,000	6.125%	12-Feb-18	12-Aug-25	\$11,025	1.00	\$180,000	\$11,025
Total							\$643,550	\$37,346

Modelling Income Taxes

- Burford has been a de minimis cash taxpayer due to its domicile in Guernsey and sophisticated international tax planning.
- I am modelling a modest increase in the tax rate.

Where Does It Bring Us?

		2017	1H 2018	2H 2018E	2018E	2019E	2020E	2021E	2022E
GBP interest expense	£, 000			(10.4)		(20.7)	(20.7)	(20.7)	(20.7)
FX rate	\$			1.27		1.27	1.27	1.27	1.27
USD interest expense on GBP bonds	£ M			(13.2)		(26.3)	(26.3)	(26.3)	(26.3)
USD interest expense on USD bonds	\$ M			(5.5)		(11.0)	(11.0)	(11.0)	(11.0)
Total Interest Expense	\$ M	(24.3)	(18.9)	(18.7)	(37.6)	(37.3)	(37.3)	(37.3)	(37.3)
Pre-tax income	\$ M	231.3	153.3	147.6	301.0	351.5	411.7	477.4	547.3
<i>y-o-y growth, %</i>	<i>%</i>				30.1%	16.78%	17.13%	15.95%	14.66%
Tax rate: expense / (refund)	%	(0.9%)	(1.8%)	3.0%		3.0%	3.0%	3.0%	3.0%
<i>Bear</i>	%			5.0%		5.0%	5.0%	5.0%	5.0%
<i>Base</i>	%			3.0%		3.0%	3.0%	3.0%	3.0%
<i>Bull</i>	%			1.5%		1.5%	1.5%	1.5%	1.5%
Tax (expense) / refund	\$ M	2.4	3.2	(4.4)	(1.2)	(10.5)	(12.4)	(14.3)	(16.4)
Net Income	\$ M	257.9	175.5	161.9	337.4	378.3	436.7	500.4	568.3
<i>y-o-y growth, %</i>	<i>%</i>	129.0%	28.2%	33.7%	30.8%	12.1%	15.4%	14.6%	13.6%

Few Comments

- Using these inputs, I arrive at ~\$568M of net income in 2022.
- Please note that using this set of assumptions the net income will increase by “only” ~68% from 2018 to 2022.
- I expect that the company will do better than that.

Dividends, Dilution, and Retained Earnings (1)

- Since Burford has been a consistent dividend payer, I am modelling continuous increases in dividends due to rising net income.
- I am modelling ~1% dilution per year even though the company has been issuing fewer shares than that in the past.
- Combination of net income and dividends brings us to retained earnings (*i.e.*, I use the term “net income minus dividends” in the table) that will feed back into litigation investments.

Dividends, Dilution, and Retained Earnings (2)

		FY 2017	1H 2018	2H 2018E	2018E	2019E	2020E	2021E	2022E
Dividends per share	\$	\$0.11	\$0.0367	\$0.10	\$0.13	\$0.16	\$0.19	\$0.23	\$0.27
<i>y-o-y growth, %</i>	%			20.0%		20.0%	20.0%	20.0%	20.0%
<i>Bear</i>	%			15.0%		15.0%	15.0%	15.0%	15.0%
<i>Base</i>	%			20.0%		20.0%	20.0%	20.0%	20.0%
<i>Bull</i>	%			25.0%		25.0%	25.0%	25.0%	25.0%
BOP - S/O	\$ M			218.6		218.6	220.8	223.1	225.3
Dilution as %	%			0.0%		1.0%	1.0%	1.0%	1.0%
Dilution: shares issued	\$ M			0		2.2	2.2	2.2	2.3
EOP S/O	\$ M			218.6	218.6	220.8	223.1	225.3	227.6
Dividends	\$ M			20.9	28.9	35.0	42.4	51.4	62.3
<i>y-o-y growth, %</i>	%					21.2%	21.2%	21.2%	21.2%
Net Income minus Dividends	\$ M			141.0	308.5	343.3	394.3	449.0	505.9
LTM Net Income	\$ M	257.9	296.6	337.4	337.4	378.3	436.7	500.4	568.3

~120% Upside in the Base Case from Balance Sheet Investing Business Alone (1)

- I use a 17x P/E multiple in my base case due to
 - (1) strong growth
 - (2) superior ROE (30%+)
 - (3) consistent increases in dividends
 - (4) outstanding business model.
- This creates an upside of ~50% in 2019 to 120%+ by 2022.

~120% Upside in the Base Case from Balance Sheet Investing Business Alone (2)

		2018E	2019E	2020E	2021E	2022E
P/E	x	17.0x	17.0x	17.0x	17.0x	17.0x
<i>Bear</i>	x	12.0x	12.0x	12.0x	12.0x	12.0x
<i>Base</i>	x	17.0x	17.0x	17.0x	17.0x	17.0x
<i>Bull</i>	x	19.0x	19.0x	19.0x	19.0x	19.0x
Market Cap	\$ M	5,736	6,431	7,424	8,507	9,660
Target price of B/S Investing Business <u>Only</u>	\$	\$26.23	\$29.12	\$33.28	\$37.76	\$42.45
Cumulative dividends	\$ M	28.9	63.8	106.2	157.6	219.8
Cumulative dividends per share	\$	\$0.13	\$0.29	\$0.48	\$0.71	\$0.98
B/S Investing Business + Cumulative Dividends	\$	\$26.36	\$29.41	\$33.76	\$38.47	\$43.44
Stock price today	GBp	15.32	15.32	15.32	15.32	15.32
FX		1.27	1.27	1.27	1.27	1.27
Stock price today	\$	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46
Upside / (Downside)	%	35.5%	51.2%	73.5%	97.7%	123.3%
IRR	%		49.3%	31.1%	25.2%	22.04%

~300% Upside in the Bull Case

		2018E	2019E	2020E	2021E	2022E
P/E	x	19.0x	19.0x	19.0x	19.0x	19.0x
Bear	x	12.0x	12.0x	12.0x	12.0x	12.0x
Base	x	17.0x	17.0x	17.0x	17.0x	17.0x
Bull	x	19.0x	19.0x	19.0x	19.0x	19.0x
Market Cap	\$ M	7,220	9,406	11,598	14,293	17,603
Target price of Investments Business <u>Only</u>	\$	\$33.02	\$42.59	\$52.00	\$63.44	\$77.36
Cumulative dividends	\$ M	29.8	67.3	114.6	174.4	249.9
Cumulative dividends per share	\$	\$0.14	\$0.31	\$0.52	\$0.78	\$1.12
Investments Business + Cumulative Dividends	\$	\$33.16	\$42.90	\$52.51	\$64.23	\$78.48
Stock price today	GBp	15.32	15.32	15.32	15.32	15.32
FX		1.27	1.27	1.27	1.27	1.27
Stock price today	\$	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46
Upside / (Downside)	%	70.4%	120.5%	169.9%	230.1%	303.3%
IRR	%		115.4%	63.0%	48.3%	41.31%

Minus 19% in the Bear Case

		2018E	2019E	2020E	2021E	2022E
P/E	x	12.0x	12.0x	12.0x	12.0x	12.0x
<i>Bear</i>	x	12.0x	12.0x	12.0x	12.0x	12.0x
<i>Base</i>	x	17.0x	17.0x	17.0x	17.0x	17.0x
<i>Bull</i>	x	19.0x	19.0x	19.0x	19.0x	19.0x
Market Cap	\$ M	3,536	3,213	3,389	3,466	3,384
Target price of Investments Business <u>Only</u>	\$	\$16.17	\$14.55	\$15.19	\$15.39	\$14.87
Cumulative dividends	\$ M	28.0	60.5	98.2	142.1	193.0
Cumulative dividends per share	\$	\$0.13	\$0.28	\$0.44	\$0.64	\$0.86
B/S Investing Business + Cumulative Dividends	\$	\$16.30	\$14.82	\$15.64	\$16.03	\$15.73
Stock price today	GBp	15.32	15.32	15.32	15.32	15.32
FX		1.27	1.27	1.27	1.27	1.27
Stock price today	\$	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46
Upside / (Downside)	%	(16.2%)	(23.8%)	(19.6%)	(17.6%)	(19.1%)
IRR	%		(23.2%)	(10.2%)	(6.2%)	(5.13%)

Are We Done? Not Yet!

- We have done valuation of the balance sheet investing business.
- However, let's not forget about Burford's investment management business.

Modelling and Valuing Investment Management Business

Key Assumptions Are AUM and Returns.

- I am building three scenarios here that differ from each other, mostly by level of AUM.
 - ✓ As a reminder, the current level of AUM is \$2.33B (both deployed and commitments).
- My assumption for ROIC is 50% which is significantly lower than what Burford has historically achieved.
- Please note that I am using 0.90% management fee and 20% incentive fee. This is very conservative, and both fees are actually below than what Burford is currently charging.

Other Assumptions

- I am using a range of 1% to 2% for fund expense (audit, administration, legal fees charged to the funds). These fund expense are charged to the funds and therefore reduce returns to investors. I believe that 1% in fund expenses applied to the AUM of \$2b is conservative as the fund expenses are very unlikely to be more than ~\$20M.
- I am modelling incentive fees for a two-year period which corresponds to my assumption about the average duration of claims. Then I calculate total fees (management + incentive) for two years and then derive “normalized” annual fees.
- I am using LTM operating expenses of the investment management business and then add 150% of those as bonuses. Again, I think this will prove to be conservative.
- My assumption for the tax rate is 21%.

Where Does It Bring Us?

- This brings me to \$90M to \$211M in net income from the investment management business.
- One can pick a multiple that they see appropriate for this business. I am using 10x, 12x, and 15x for bear, base, and bull cases respectively.
- This leads to additional value per share between GBp 3.75 to 8.76 per shares.

Investment Management Business: Model and Valuation

Scenario		#1: Today	#2: Future	#3: Optimistic
AUM	\$ M	2,330	3,000	5,000
Effective management fee	%	0.90%	0.90%	0.90%
Management fees	\$ M	21.0	27.0	45.0
Duration		2.0	2.0	2.0
Management fees for 2 years	\$ M	41.9	54.0	90.0
ROIC	%	50%	50%	50%
Gross return	\$ M	1,165	1,500	2,500
Fund expenses (cumulative)	%	2.0%	1.5%	1.0%
Fund expenses	\$ M	23.3	22.5	25.0
Net return before incentive fee	\$ M	1,100	1,424	2,385
Incentive fee	%	20%	20%	20%
Incentive fee for 2 years	\$ M	220	285	477
Total fees for 2 years (management fees + incentive fees)	\$ M	262	339	567
Normalized total <u>annual</u> fees	\$ M	131	169	284

Investment Management Business: Model and Valuation (2)

Scenario		#1: Today	#2: Future	#3: Optimistic
1H 2018 LTM Expenses	\$ M	6.6	6.6	6.6
Bonuses as % of LTM Expenses	%	150.0%	150.0%	150.0%
Bonuses	\$ M	9.9	9.9	9.9
Total expense		16.5	16.5	16.5
Pre-tax income	\$ M	114	153	267
Tax rate	%	21.0%	21.0%	21.0%
Tax Due	\$ M	24	32	56
Investment Management Net Income	\$ M	90	121	211
Multiple	2	12.0x	12.0x	12.0x
<i>Bear</i>		10.0x	10.0x	10.0x
<i>Base</i>		12.0x	12.0x	12.0x
<i>Bull</i>		15.0x	15.0x	15.0x
Value of Investment Management Business	\$ M	1,085	1,449	2,531
S/O in 2020	M	228	228	228
Value per share	\$	\$4.77	\$6.37	\$11.12
FX	\$/£	1.27	1.27	1.27
Value per share	£	3.75	5.01	8.76

Valuation: Putting It All Together

Value per share		Bear	Base	Bull
Balance Sheet Investing Business	\$	15.73	43.44	78.48
Asset management Business	\$	4.77	6.37	11.12
Total	\$	20.50	49.80	89.60
Current price	£	15.32		
FX	£/\$	1.27		
Current price	\$	19.46		
Upside	%	5.4%	156.0%	360.5%
IRR	%	1.3%	26.5%	46.5%

Key Risks

- Two key risks:
 1. Competition
 2. Regulations

Competition: Risk and Mitigating Factors

- Competition is the biggest risk as it can bring Burford's returns down.
- I have discussed at length why I think competition will not reduce Burford's ROIC and IRR at least in the next 5 – 10 years.
- If my assessment of the competitive dynamics, client behavior and lawyers' behavior is inaccurate, I could be wrong in my judgments.
- After all, I spoke only with several attorneys and litigation finance clients, and my sample may not be representative.

Regulations: Risk and Mitigating Factors (1)

- If regulations that unfavorable to the litigation finance industry in general and Burford in particular are adopted by various countries, this may hurt Burford's growth.
- However, I am not concerned about this for several reasons.

Mitigating Factors #1: Burford Is Already Subject to Lots of Regulations

- Burford is already subject to lots of regulations.
- More importantly, the chief regulator for what Burford does is a particular judge or an arbitration panel that presides over the case.
- They have authority to request any information from litigants pertinent to the case, including whether any third party is providing financing.
- This has happened to Burford in a number of cases and the judge was satisfied with arrangements. The key here is to ensure that any funding arrangement does not violate legal ethics and procedural rules. Burford is a highly experienced litigation funder that plays by the rules.

Mitigating Factors #2: Burford Is Already Subject to Lots of Regulations

- The global regulatory trends are actually favorable to litigation finance industry. For example, Hong Kong just expanded the range of cases where litigation funding is permissible. Singapore also introduced new regime that allows litigation finance.
- Interestingly, Burford has worked closely with governments and regulatory bodies of both Hong Kong and Singapore on those regulations and not surprisingly it is already building its presence in both cities as they likely become the arbitration capitals of Asia in the same way as London, Paris, and Stockholm have become the arbitration capitals of Europe.

Catalysts

- Burford Capital is a compounding machine, so catalysts are not needed as earnings growth will take care of itself.
- However, I see one soft catalyst. As I explained, Burford's current earnings include very little incentive fees. However, starting 2H 2018 Burford will start recording substantially higher earnings fees which will accelerate its earnings growth even further. This may serve as a soft catalyst.

Questions and Further Inquiry

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Burford: Appendix

Base Case: IRR Assumption

Burford: Balance Sheet Investing Only		FY 2017	1H 2018	2H 2018	FY 2018	1H 2019E	2H 2019E	2019E	1H 2020E	2H 2020E	2020E	1H 2021E	2H 2021E	2021E	1H 2022E	2H 2022E	2022E
Total income producing assets																	
BOP	\$ M			1,777		1,918	2,099	1,918	2,261	2,472	2,261	2,655	2,899	2,655	3,104	3,383	3,104
Net income after dividends	\$ M		144	141	285.3	181.8	161.5	343.3	211.0	183.3	394.3	243.4	205.6	449.0	278.6	227.4	506.0
Non productive cash				(45.2)	(45.2)	(12.0)	(15.5)	(27.4)	(13.7)	(17.9)	(31.7)	(15.6)	(20.7)	(36.3)	(17.5)	(23.7)	(41.2)
EOP - Total income producing assets	\$ M		1,777	1,918	1,918	2,099	2,261	2,261	2,472	2,655	2,655	2,899	3,104	3,104	3,383	3,610	3,610
						18.2%	17.9%	17.9%	17.7%	17.4%	17.4%	17.3%	16.9%	16.9%	16.7%	16.3%	16.3%
Annual IRR	%		25.0%			25.0%	25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%	
Bear	%		20.0%			20.0%	20.0%		20.0%	20.0%		20.0%	20.0%		20.0%	20.0%	
Base	%		25.0%			25.0%	25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%	
Bull	%		30.0%			30.0%	30.0%		30.0%	30.0%		30.0%	30.0%		30.0%	30.0%	
Semi-annual IRR	%		11.8%			11.8%	11.8%		11.8%	11.8%		11.8%	11.8%		11.8%	11.8%	

Base Case: Revenue

		FY 2017	1H 2018	2H 2018	FY 2018	1H 2019E	2H 2019E	2019E	1H 2020E	2H 2020E	2020E	1H 2021E	2H 2021E	2021E	1H 2022E	2H 2022E	2022E
Litigation investment revenue	\$ M	313.3	195.3	209.7	405.0	226.3	247.8	474.1	266.9	291.8	558.6	313.4	342.1	655.5	366.4	399.3	765.7
y-o-y growth, %	%	123.5%	20.8%	38.3%	29.3%	15.9%	18.2%	17.1%	17.9%	17.7%	17.8%	17.4%	17.3%	17.3%	16.9%	16.7%	16.8%

Base Case: Operating expense

		FY 2017	1H 2018	2H 2018	FY 2018	1H 2019E	2H 2019E	2019E	1H 2020E	2H 2020E	2020E	1H 2021E	2H 2021E	2021E	1H 2022E	2H 2022E	2022E
Operating expenses	\$ M	34.9	13.9	31.6	45.4	18.0	41.1	59.1	23.4	53.4	76.8	30.4	69.4	99.8	39.6	90.2	129.8
y-o-y growth, %	%	34.19%	30.56%	30.0%	30.17%	30.0%	30.0%	30.00%	30.0%	30.0%	30.00%	30.0%	30.0%	30.00%	30.0%	30.0%	30.00%
Bear	%			35.0%		35.0%	35.0%		35.0%	35.0%		35.0%	35.0%		35.0%	35.0%	
Base	%			30.0%		30.0%	30.0%		30.0%	30.0%		30.0%	30.0%		30.0%	30.0%	
Bull	%			25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%	
as % of litigation revenue	%	11.1%	7.1%	15.1%	11.2%	8.0%	16.6%	12.5%	8.8%	18.3%	13.7%	9.7%	20.3%	15.2%	10.8%	22.6%	17.0%
Corporate expenses	\$ M	22.8	9.2	12	21	11	15	26	14	18	33	18	23	41	22	29	51
y-o-y growth, %	%	265.7%	(31.4%)	25.0%	(8.1%)	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Bear	%			30.0%		30.0%	30.0%		30.0%	30.0%		30.0%	30.0%		30.0%	30.0%	
Base	%			25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%	
Bull	%			20.0%		20.0%	20.0%		20.0%	20.0%		20.0%	20.0%		20.0%	20.0%	
Operating income	\$ M	256	172	166	339	197	192	389	229	220	449	265	250	515	304	280	585
y-o-y growth, %	%	136.8%	25.2%	41.0%	32.5%	14.3%	15.4%	14.8%	16.4%	14.6%	15.5%	15.7%	13.5%	14.6%	14.9%	12.2%	13.6%
operating margin, %	%	81.6%	88.2%	79.3%	83.6%	87.0%	77.5%	82.0%	85.8%	75.4%	80.4%	84.6%	73.0%	78.5%	83.1%	70.2%	76.4%

Base Case: Interest Expense, Taxes, and Net Income

		FY 2017	1H 2018	2H 2018	FY 2018	1H 2019E	2H 2019E	2019E	1H 2020E	2H 2020E	2020E	1H 2021E	2H 2021E	2021E	1H 2022E	2H 2022E	2022E
GBP interest expense	£, 000			(10.4)		(10.4)	(10.4)	(20.7)	(10.4)	(10.4)	(20.7)	(10.4)	(10.4)	(20.7)	(10.4)	(10.4)	(20.7)
FX rate	\$			127.0%		1.3	1.3	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27
USD interest expense on GBP bonds	\$ M			(13.2)		(13.2)	(13.2)	(26.3)	(13.2)	(13.2)	(26.3)	(13.2)	(13.2)	(26.3)	(13.2)	(13.2)	(26.3)
USD interest expense on USD bonds	\$ M			(5.5)		(5.5)	(5.5)	(11.0)	(5.5)	(5.5)	(11.0)	(5.5)	(5.5)	(11.0)	(5.5)	(5.5)	(11.0)
Total Interest Expense		(24.3)	(18.9)	(18.7)	(37.6)	(18.7)	(18.7)	(37.3)	(18.7)	(18.7)	(37.3)	(18.7)	(18.7)	(37.3)	(18.7)	(18.7)	(37.3)
Pre-tax income		231.3	153.3	147.6	301.0	178.2	173.3	351.5	210.4	201.3	411.7	246.3	231.0	477.4	285.7	261.6	547.3
y-o-y growth, %	%				30.1%	16.2%	17.4%	16.8%	18.1%	16.1%	17.1%	17.1%	14.8%	16.0%	16.0%	13.2%	14.7%
Tax rate: expense / (refund)	%	(0.9%)	(1.8%)	3.0%		3.0%	3.0%		3.0%	3.0%		3.0%	3.0%		3.0%	3.0%	
Bear	%			5.0%		5.0%	5.0%		5.0%	5.0%		5.0%	5.0%		5.0%	5.0%	
Base	%			3.0%		3.0%	3.0%		3.0%	3.0%		3.0%	3.0%		3.0%	3.0%	
Bull	%			1.5%		1.5%	1.5%		1.5%	1.5%		1.5%	1.5%		1.5%	1.5%	
Tax (expense) / refund	\$ M	2.4	3.2	(4.4)	(1.2)	(5.3)	(5.2)	(10.5)	(6.3)	(6.0)	(12.4)	(7.4)	(6.9)	(14.3)	(8.6)	(7.8)	(16.4)
Net Income	\$ M	257.9	175.5	161.9	337.4	191.5	186.8	378.3	222.8	213.9	436.7	257.6	242.8	500.4	295.8	272.4	568.3
y-o-y growth, %	%	129.0%	28.2%	33.7%	30.8%	9.1%	15.4%	12.1%	16.3%	14.5%	15.4%	15.6%	13.5%	14.6%	14.8%	12.2%	13.6%

Base Case: Dividends, Dilution, and Retained Earnings

		FY 2017	1H 2018	2H 2018	FY 2018	1H 2019E	2H 2019E	2019E	1H 2020E	2H 2020E	2020E	1H 2021E	2H 2021E	2021E	1H 2022E	2H 2022E	2022E
Dividends per share	\$	\$0.11	\$0.04	\$0.10	\$0.13	\$0.04	\$0.11	\$0.16	\$0.05	\$0.14	\$0.19	\$0.06	\$0.16	\$0.23	\$0.08	\$0.20	\$0.27
y-o-y growth, %	%			20.0%		20.0%	20.0%		20.0%	20.0%		20.0%	20.0%		20.0%	20.0%	
Bear	%			15.0%		15.0%	15.0%		15.0%	15.0%		15.0%	15.0%		15.0%	15.0%	
Base	%			20.0%		20.0%	20.0%		20.0%	20.0%		20.0%	20.0%		20.0%	20.0%	
Bull	%			25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%	
BOP - S/O	mln			218.6		218.6	219.7	218.6	220.8	221.9	220.8	223.1	224.2	223.1	225.3	226.4	225.3
Dilution as %	%			0.0%		0.5%	0.5%	1.0%	0.5%	0.5%	1.0%	0.5%	0.5%	1.0%	0.5%	0.5%	1.0%
Dilution shares issued	mln			0		1.1	1.1	2.2	1.1	1.1	2.2	1.1	1.1	2.2	1.1	1.1	2.3
EOP S/O	mln			218.6	218.6	219.7	220.8	220.8	221.9	223.1	223.1	224.2	225.3	225.3	226.4	227.6	227.6
Dividends	\$ M			20.9	28.9	9.7	25.3	35.0	11.7	30.6	42.4	14.2	37.1	51.4	17.2	45.0	62.3
y-o-y growth, %	%					n/a	21.20%	21.20%	21.20%	21.20%	21.20%	21.20%	21.20%	21.20%	21.20%	21.20%	21.20%
Net income minus Dividends	\$ M			141.0	308.5	181.8	161.5	343.3	211.0	183.3	394.3	243.4	205.6	449.0	278.6	227.4	505.9
LTM Net Income	\$ M	257.9	296.6	337.4	337.4	353.4	378.3	378.3	409.6	436.7	436.7	471.6	500.4	500.4	538.6	568.3	568.3

Base Case: Balance Sheet Investing Business Valuation

		FY 2018	1H 2019E	2H 2019E	2019E	1H 2020E	2H 2020E	2020E	1H 2021E	2H 2021E	2021E	1H 2022E	2H 2022E	2022E
P/E	x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x
Bear		12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x
Base		17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x
Bull		19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x
Market Cap	\$ M	5,736	6,007	6,431	6,431	6,963	7,424	7,424	8,016	8,507	8,507	9,156	9,660	9,660
Target price of Investments Business <u>Only</u>	\$	\$26.23	\$27.34	\$29.12	\$29.12	\$31.37	\$33.28	\$33.28	\$35.76	\$37.76	\$37.76	\$40.44	\$42.45	\$42.45
Cumulative dividends	\$ M	28.9	38.6	63.8	63.8	75.6	106.2	106.2	120.4	157.6	157.6	174.8	219.8	219.8
Cumulative dividends per share	\$	\$0.13	\$0.18	\$0.29	\$0.29	\$0.34	\$0.48	\$0.48	\$0.54	\$0.71	\$0.71	\$0.79	\$0.98	\$0.98
Investments Business + Cumul Divs	\$	\$26.36	\$27.51	\$29.41	\$29.41	\$31.71	\$33.76	\$33.76	\$36.30	\$38.47	\$38.47	\$41.22	\$43.44	\$43.44
Stock price today	GBp	15.32	15.32	15.32	15.32	15.32	15.32	15.32	15.32	15.32	15.32	15.32	15.32	15.32
FX		1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27
Stock price today	\$	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46
Upside	%	35.5%	41.4%	51.2%	51.2%	63.0%	73.5%	73.5%	86.6%	97.7%	97.7%	111.9%	123.3%	123.3%
IRR	%		93.9%	49.5%	49.5%	37.7%	31.2%	31.2%	28.0%	25.2%	25.2%	23.7%	22.05%	22.05%

Base Case: Investment Management Business Valuation

Scenario		#2: Future
AUM	\$ M	3,000
Effective management fee	%	0.90%
Management fees	\$ M	27.0
Duration		2.0
Management fees for 2 years	\$ M	54.0
ROIC	%	50%
Gross return	\$ M	1,500
Fund expenses (cumulative)	%	1.5%
Fund expenses	\$ M	22.5
Net return before incentive fee	\$ M	1,424
Incentive fee	%	20%
Incentive fee for 2 years	\$ M	285
Total fees for 2 years (management + incentive)	\$ M	339
Normalized total annual fees	\$ M	169
1H 2018 LTM Expenses	\$ M	6.6
Bonuses as % of LTM Expenses	%	150%
Bonuses	\$ M	9.9
Total expenses		16.5
Pre-tax income	\$ M	153
Tax rate	%	21%
Tax Due	\$ M	32
Investment Management Net Income	\$ M	121
Multiple		12.0x
<i>Bear</i>		10.0x
<i>Base</i>		12.0x
<i>Bul</i>		15.0x
Value of IM Business	\$ M	1,449
S/O in 2020	M	228
Value per share	\$	\$6.37
FX	USD : GBp	1.27
Value per share	GBp	5.01

Base Case: Consolidated Valuation – Balance Sheet Investing Business + Investment Management Business

Value per share		Base
Balance Sheet Investing Business	\$	43.44
Asset management Business	\$	6.37
Total	\$	49.80
Current price	£	15.32
FX	£/\$	1.27
Current price	\$	19.46
Upside	%	156.0%
IRR	%	26.5%

Bear Case: IRR Assumption

Burford: Balance Sheet Investing Only		FY 2017	1H 2018	2H 2018	FY 2018	1H 2019E	2H 2019E	2019E	1H 2020E	2H 2020E	2020E	1H 2021E	2H 2021E	2021E	1H 2022E	2H 2022E	2022E
Total income producing assets																	
BOP	\$ M			1,777		1,876	2,008	1,876	2,111	2,254	2,111	2,356	2,506	2,356	2,601	2,754	2,601
Net income after dividends	\$ M		144	99	243.5	132.6	102.6	235.2	142.8	101.8	244.7	150.4	94.6	245.0	153.6	77.5	231.1
Non productive cash				(45.2)	(45.2)	(8.4)	(11.3)	(19.7)	(8.7)	(12.1)	(20.9)	(8.7)	(12.8)	(21.4)	(8.0)	(13.1)	(21.1)
EOP - Total income producing assets	\$ M		1,777	1,876	1,876	2,008	2,111	2,111	2,254	2,356	2,356	2,506	2,601	2,601	2,754	2,832	2,832
						13.0%	12.5%	12.5%	12.2%	11.6%	11.6%	11.2%	10.4%	10.4%	9.9%	8.9%	8.9%
Annual IRR	%			20.0%		20.0%	20.0%		20.0%	20.0%		20.0%	20.0%		20.0%	20.0%	
Bear	%			20.0%		20.0%	20.0%		20.0%	20.0%		20.0%	20.0%		20.0%	20.0%	
Base	%			25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%	
Bull	%			30.0%		30.0%	30.0%		30.0%	30.0%		30.0%	30.0%		30.0%	30.0%	
Semi-annual IRR	%			9.5%		9.5%	9.5%		9.5%	9.5%		9.5%	9.5%		9.5%	9.5%	

Bear Case: Revenue

		FY 2017	1H 2018	2H 2018	FY 2018	1H 2019E	2H 2019E	2019E	1H 2020E	2H 2020E	2020E	1H 2021E	2H 2021E	2021E	1H 2022E	2H 2022E	2022E
Litigation investment revenue	\$ M	313.3	195.3	169.6	364.9	179.0	191.7	370.7	201.5	215.1	416.6	224.8	239.2	464.0	248.2	262.9	511.1
y-o-y growth, %	%	123.5%	20.8%	11.8%	16.5%	(8.3%)	13.0%	1.6%	12.5%	12.2%	12.4%	11.6%	11.2%	11.4%	10.4%	9.9%	10.1%

Bear Case: Operating expense

		FY 2017	1H 2018	2H 2018	FY 2018	1H 2019E	2H 2019E	2019E	1H 2020E	2H 2020E	2020E	1H 2021E	2H 2021E	2021E	1H 2022E	2H 2022E	2022E
Operating expenses	\$ M	34.9	13.9	32.8	46.7	18.7	44.3	63.0	25.2	59.8	85.0	34.1	80.7	114.8	46.0	109.0	155.0
y-o-y growth, %	%	34.19%	30.56%	35.0%	33.65%	35.0%	35.0%	35.00%	35.0%	35.0%	35.00%	35.0%	35.0%	35.00%	35.0%	35.0%	35.00%
Bear	%			35.0%		35.0%	35.0%		35.0%	35.0%		35.0%	35.0%		35.0%	35.0%	
Base	%			30.0%		30.0%	30.0%		30.0%	30.0%		30.0%	30.0%		30.0%	30.0%	
Bull	%			25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%	
as % of litigation revenue	%	11.1%	7.1%	19.3%	12.8%	10.4%	23.1%	17.0%	12.5%	27.8%	20.4%	15.2%	33.7%	24.7%	18.5%	41.5%	30.3%
Corporate expenses	\$ M	22.8	9.2	12	21	12	16	28	16	21	36	20	27	47	26	35	61
y-o-y growth, %	%	265.7%	(31.4%)	30.0%	(6.1%)	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Bear	%			30.0%		30.0%	30.0%		30.0%	30.0%		30.0%	30.0%		30.0%	30.0%	
Base	%			25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%	
Bull	%			20.0%		20.0%	20.0%		20.0%	20.0%		20.0%	20.0%		20.0%	20.0%	
Operating income	\$ M	256	172	124	297	148	131	280	161	135	295	171	132	302	176	119	295
y-o-y growth, %	%	136.8%	25.2%	5.6%	16.1%	(13.9%)	5.6%	(5.7%)	8.3%	2.4%	5.5%	6.1%	(2.3%)	2.3%	3.2%	(9.6%)	(2.4%)
operating margin, %	%	81.6%	88.2%	73.4%	81.3%	82.9%	68.6%	75.5%	79.8%	62.6%	70.9%	75.9%	55.0%	65.1%	70.9%	45.2%	57.7%

Bear Case: Interest Expense, Taxes, and Net Income

		FY 2017	1H 2018	2H 2018	FY 2018	1H 2019E	2H 2019E	2019E	1H 2020E	2H 2020E	2020E	1H 2021E	2H 2021E	2021E	1H 2022E	2H 2022E	2022E
GBP interest expense	£, 000			(10.4)		(10.4)	(10.4)	(20.7)	(10.4)	(10.4)	(20.7)	(10.4)	(10.4)	(20.7)	(10.4)	(10.4)	(20.7)
FX rate	\$			127.0%		1.3	1.3	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27
USD interest expense on GBP bonds	\$ M			(13.2)		(13.2)	(13.2)	(26.3)	(13.2)	(13.2)	(26.3)	(13.2)	(13.2)	(26.3)	(13.2)	(13.2)	(26.3)
USD interest expense on USD bonds	\$ M			(5.5)		(5.5)	(5.5)	(11.0)	(5.5)	(5.5)	(11.0)	(5.5)	(5.5)	(11.0)	(5.5)	(5.5)	(11.0)
Total Interest Expense		(24.3)	(18.9)	(18.7)	(37.6)	(18.7)	(18.7)	(37.3)	(18.7)	(18.7)	(37.3)	(18.7)	(18.7)	(37.3)	(18.7)	(18.7)	(37.3)
Pre-tax income		231.3	153.3	105.8	259.2	129.7	112.8	242.5	142.0	115.9	258.0	151.9	112.9	264.8	157.3	100.2	257.5
y-o-y growth, %	%				12.1%	(15.4%)	6.6%	(6.4%)	9.5%	2.8%	6.4%	6.9%	(2.6%)	2.6%	3.6%	(11.2%)	(2.7%)
Tax rate: expense / (refund)	%	(0.9%)	(1.8%)	5.0%		5.0%	5.0%		5.0%	5.0%		5.0%	5.0%		5.0%	5.0%	
Bear	%			5.0%		5.0%	5.0%		5.0%	5.0%		5.0%	5.0%		5.0%	5.0%	
Base	%			3.0%		3.0%	3.0%		3.0%	3.0%		3.0%	3.0%		3.0%	3.0%	
Bull	%			1.5%		1.5%	1.5%		1.5%	1.5%		1.5%	1.5%		1.5%	1.5%	
Tax (expense) / refund	\$ M	2.4	3.2	(5.3)	(2.0)	(6.5)	(5.6)	(12.1)	(7.1)	(5.8)	(12.9)	(7.6)	(5.6)	(13.2)	(7.9)	(5.0)	(12.9)
Net Income	\$ M	257.9	175.5	119.2	294.7	141.9	125.8	267.7	153.6	128.8	282.4	163.0	125.9	288.9	168.1	113.9	282.0
y-o-y growth, %	%	129.0%	28.2%	(1.5%)	14.3%	(19.1%)	5.6%	(9.2%)	8.2%	2.4%	5.5%	6.1%	(2.3%)	2.3%	3.1%	(9.5%)	(2.4%)

Bear Case: Dividends, Dilution, and Retained Earnings

		FY 2017	1H 2018	2H 2018	FY 2018	1H 2019E	2H 2019E	2019E	1H 2020E	2H 2020E	2020E	1H 2021E	2H 2021E	2021E	1H 2022E	2H 2022E	2022E
Dividends per share	\$	\$0.11	\$0.04	\$0.09	\$0.13	\$0.04	\$0.11	\$0.15	\$0.05	\$0.12	\$0.17	\$0.06	\$0.14	\$0.19	\$0.06	\$0.16	\$0.22
y-o-y growth, %	%			15.0%		15.0%	15.0%		15.0%	15.0%		15.0%	15.0%		15.0%	15.0%	
Bear	%			15.0%		15.0%	15.0%		15.0%	15.0%		15.0%	15.0%		15.0%	15.0%	
Base	%			20.0%		20.0%	20.0%		20.0%	20.0%		20.0%	20.0%		20.0%	20.0%	
Bull	%			25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%	
BOP - S/O	mln			218.6		218.6	219.7	218.6	220.8	221.9	220.8	223.1	224.2	223.1	225.3	226.4	225.3
Dilution as %	%			0.0%		0.5%	0.5%	1.0%	0.5%	0.5%	1.0%	0.5%	0.5%	1.0%	0.5%	0.5%	1.0%
Dilution shares issued	mln			0		1.1	1.1	2.2	1.1	1.1	2.2	1.1	1.1	2.2	1.1	1.1	2.3
EOP S/O	mln			218.6	218.6	219.7	220.8	220.8	221.9	223.1	223.1	224.2	225.3	225.3	226.4	227.6	227.6
Dividends	\$ M			20.0	28.0	9.3	23.2	32.5	10.8	27.0	37.8	12.5	31.3	43.9	14.5	36.4	51.0
y-o-y growth, %	%					n/a	16.15%	16.15%	16.15%	16.15%	16.15%	16.15%	16.15%	16.15%	16.15%	16.15%	16.15%
Net income minus Dividends	\$ M			99.2	266.7	132.6	102.6	235.2	142.8	101.8	244.6	150.4	94.6	245.0	153.6	77.5	231.0
LTM Net Income	\$ M	257.9	296.6	294.7	294.7	261.1	267.7	267.7	279.4	282.4	282.4	291.8	288.9	288.9	294.0	282.0	282.0

Bear Case: Balance Sheet Investing Business Valuation

		FY 2018	1H 2019E	2H 2019E	2019E	1H 2020E	2H 2020E	2020E	1H 2021E	2H 2021E	2021E	1H 2022E	2H 2022E	2022E
P/E	x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x
Bear		12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x
Base		17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x
Bull		19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x
Market Cap	\$ M	3,536	3,133	3,213	3,213	3,353	3,389	3,389	3,501	3,466	3,466	3,528	3,384	3,384
Target price of Investments Business <u>Only</u>	\$	\$16.17	\$14.26	\$14.55	\$14.55	\$15.11	\$15.19	\$15.19	\$15.62	\$15.39	\$15.39	\$15.58	\$14.87	\$14.87
Cumulative dividends	\$ M	28.0	37.3	60.5	60.5	71.3	98.2	98.2	110.8	142.1	142.1	156.6	193.0	193.0
Cumulative dividends per share	\$	\$0.13	\$0.17	\$0.28	\$0.28	\$0.32	\$0.44	\$0.44	\$0.50	\$0.64	\$0.64	\$0.70	\$0.86	\$0.86
Investments Business + Cumul Divs	\$	\$16.30	\$14.43	\$14.82	\$14.82	\$15.43	\$15.64	\$15.64	\$16.12	\$16.03	\$16.03	\$16.29	\$15.73	\$15.73
Stock price today	GBP	15.32	15.32	15.32	15.32	15.32	15.32	15.32	15.32	15.32	15.32	15.32	15.32	15.32
FX		1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27
Stock price today	\$	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46
Upside	%	(16.2%)	(25.8%)	(23.8%)	(23.8%)	(20.7%)	(19.6%)	(19.6%)	(17.2%)	(17.6%)	(17.6%)	(16.3%)	(19.1%)	(19.1%)
IRR	%		(43.5%)	(23.3%)	(23.3%)	(14.1%)	(10.2%)	(10.2%)	(7.2%)	(6.2%)	(6.2%)	(4.9%)	(5.13%)	(5.13%)

Bear Case: Investment Management Business Valuation

Scenario		#1: Today
AUM	\$ M	2,330
Effective management fee	%	0.90%
Management fees	\$ M	21.0
Duration		2.0
Management fees for 2 years	\$ M	41.9
ROIC	%	50%
Gross return	\$ M	1,165
Fund expenses (cumulative)	%	2.0%
Fund expenses	\$ M	23.3
Net return before incentive fee	\$ M	1,100
Incentive fee	%	20%
Incentive fee for 2 years	\$ M	220
Total fees for 2 years (management + incentive)	\$ M	262
Normalized total annual fees	\$ M	131
1H 2018 LTM Expenses	\$ M	6.6
Bonuses as % of LTM Expenses	%	150%
Bonuses	\$ M	9.9
Total expenses		16.5
Pre-tax income	\$ M	114
Tax rate	%	21%
Tax Due	\$ M	24
Investment Management Net Income	\$ M	90
Multiple		12.0x
<i>Bear</i>		10.0x
<i>Base</i>		12.0x
<i>Bul</i>		15.0x
Value of IM Business	\$ M	1,085
S/O in 2020	M	228
Value per share	\$	\$4.77
FX	USD : GBp	1.27
Value per share	GBp	3.75

Bear Case: Consolidated Valuation – Balance Sheet Investing Business + Investment Management Business

Value per share		Bear
Balance Sheet Investing Business	\$	15.73
Asset management Business	\$	4.77
Total	\$	20.50
Current price	£	15.32
FX	£/\$	1.27
Current price	\$	19.46
Upside	%	5.4%
IRR	%	1.3%

Bull Case: IRR Assumption

Burford: Balance Sheet Investing Only		FY 2017	1H 2018	2H 2018	FY 2018	1H 2019E	2H 2019E	2019E	1H 2020E	2H 2020E	2020E	1H 2021E	2H 2021E	2021E	1H 2022E	2H 2022E	2022E
Total income producing assets																	
BOP	\$ M			1,777		1,959	2,192	1,959	2,417	2,704	2,417	2,980	3,333	2,980	3,672	4,107	3,672
Net income after dividends	\$ M	144	183	327.0		232.8	224.7	457.5	286.9	276.2	563.1	353.4	339.1	692.4	435.0	416.0	851.0
Non productive cash			(45.2)	(45.2)		(15.5)	(19.8)	(35.3)	(19.1)	(24.4)	(43.5)	(23.5)	(30.0)	(53.5)	(28.8)	(37.0)	(65.8)
EOP - Total income producing assets	\$ M	1,777	1,959	1,959		2,192	2,417	2,417	2,704	2,980	2,980	3,333	3,672	3,672	4,107	4,523	4,523
						23.4%	23.4%	23.4%	23.3%	23.3%	23.3%	23.3%	23.2%	23.2%	23.2%	23.2%	23.2%
Annual IRR	%		30.0%			30.0%		30.0%	30.0%			30.0%		30.0%	30.0%		
Bear	%		20.0%			20.0%		20.0%	20.0%			20.0%		20.0%	20.0%		
Base	%		25.0%			25.0%		25.0%	25.0%			25.0%		25.0%	25.0%		
Bull	%		30.0%			30.0%		30.0%	30.0%			30.0%		30.0%	30.0%		
Semi-annual IRR	%		14.0%			14.0%		14.0%	14.0%			14.0%		14.0%	14.0%		

Bull Case: Revenue

		FY 2017	1H 2018	2H 2018	FY 2018	1H 2019E	2H 2019E	2019E	1H 2020E	2H 2020E	2020E	1H 2021E	2H 2021E	2021E	1H 2022E	2H 2022E	2022E
Litigation investment revenue	\$ M	313.3	195.3	249.0	444.3	274.6	307.3	581.9	338.8	379.0	717.8	417.7	467.2	885.0	514.8	575.7	1,090.5
y-o-y growth, %	%	123.5%	20.8%	64.2%	41.8%	40.6%	23.4%	31.0%	23.4%	23.3%	23.3%	23.3%	23.3%	23.3%	23.2%	23.2%	23.2%

Bull Case: Operating Expenses

		FY 2017	1H 2018	2H 2018	FY 2018	1H 2019E	2H 2019E	2019E	1H 2020E	2H 2020E	2020E	1H 2021E	2H 2021E	2021E	1H 2022E	2H 2022E	2022E
Operating expenses	\$ M	34.9	13.9	30.4	44.2	17.3	38.0	55.3	21.6	47.5	69.1	27.1	59.3	86.4	33.8	74.2	108.0
y-o-y growth, %	%	34.19%	30.56%	25.0%	26.69%	25.0%	25.0%	25.00%	25.0%	25.0%	25.00%	25.0%	25.0%	25.00%	25.0%	25.0%	25.00%
Bear	%			35.0%		35.0%	35.0%		35.0%	35.0%		35.0%	35.0%		35.0%	35.0%	
Base	%			30.0%		30.0%	30.0%		30.0%	30.0%		30.0%	30.0%		30.0%	30.0%	
Bull	%			25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%	
as % of litigation revenue	%	11.1%	7.1%	12.2%	10.0%	6.3%	12.4%	9.5%	6.4%	12.5%	9.6%	6.5%	12.7%	9.8%	6.6%	12.9%	9.9%
Corporate expenses	\$ M	22.8	9.2	11	21	11	14	25	13	16	30	16	20	35	19	23	43
y-o-y growth, %	%	265.7%	(31.4%)	20.0%	(10.2%)	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Bear	%			30.0%		30.0%	30.0%		30.0%	30.0%		30.0%	30.0%		30.0%	30.0%	
Base	%			25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%	
Bull	%			20.0%		20.0%	20.0%		20.0%	20.0%		20.0%	20.0%		20.0%	20.0%	
Operating income	\$ M	256	172	207	380	246	256	502	304	315	619	375	388	763	462	478	940
y-o-y growth, %	%	136.8%	25.2%	75.8%	48.5%	43.0%	23.3%	32.3%	23.4%	23.3%	23.3%	23.3%	23.2%	23.3%	23.2%	23.1%	23.2%
operating margin, %	%	81.6%	88.2%	83.3%	85.4%	89.7%	83.2%	86.3%	89.7%	83.2%	86.3%	89.7%	83.1%	86.2%	89.7%	83.0%	86.2%

Bull Case: Interest Expense, Taxes, and Net Income

		FY 2017	1H 2018	2H 2018	FY 2018	1H 2019E	2H 2019E	2019E	1H 2020E	2H 2020E	2020E	1H 2021E	2H 2021E	2021E	1H 2022E	2H 2022E	2022E
GBP interest expense	£, 000			(10.4)		(10.4)	(10.4)	(20.7)	(10.4)	(10.4)	(20.7)	(10.4)	(10.4)	(20.7)	(10.4)	(10.4)	(20.7)
FX rate	\$			127.0%		1.3	1.3	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27
USD interest expense on GBP bonds	\$ M			(13.2)		(13.2)	(13.2)	(26.3)	(13.2)	(13.2)	(26.3)	(13.2)	(13.2)	(26.3)	(13.2)	(13.2)	(26.3)
USD interest expense on USD bonds	\$ M			(5.5)		(5.5)	(5.5)	(11.0)	(5.5)	(5.5)	(11.0)	(5.5)	(5.5)	(11.0)	(5.5)	(5.5)	(11.0)
Total Interest Expense		(24.3)	(18.9)	(18.7)	(37.6)	(18.7)	(18.7)	(37.3)	(18.7)	(18.7)	(37.3)	(18.7)	(18.7)	(37.3)	(18.7)	(18.7)	(37.3)
Pre-tax income		231.3	153.3	188.7	342.0	227.6	237.1	464.7	285.2	296.6	581.8	356.1	369.7	725.8	443.2	459.4	902.7
y-o-y growth, %	%				47.9%	48.4%	25.7%	35.9%	25.3%	25.1%	25.2%	24.8%	24.7%	24.7%	24.5%	24.3%	24.4%
Tax rate: expense / (refund)	%	(0.9%)	(1.8%)	1.5%		1.5%	1.5%		1.5%	1.5%		1.5%	1.5%		1.5%	1.5%	
Bear	%			5.0%		5.0%	5.0%		5.0%	5.0%		5.0%	5.0%		5.0%	5.0%	
Base	%			3.0%		3.0%	3.0%		3.0%	3.0%		3.0%	3.0%		3.0%	3.0%	
Bull	%			1.5%		1.5%	1.5%		1.5%	1.5%		1.5%	1.5%		1.5%	1.5%	
Tax (expense) / refund	\$ M	2.4	3.2	(2.8)	0.4	(3.4)	(3.6)	(7.0)	(4.3)	(4.4)	(8.7)	(5.3)	(5.5)	(10.9)	(6.6)	(6.9)	(13.5)
Net Income	\$ M	257.9	175.5	204.5	380.0	242.9	252.2	495.1	299.6	310.8	610.4	369.4	382.8	752.2	455.2	471.2	926.5
y-o-y growth, %	%	129.0%	28.2%	68.9%	47.3%	38.4%	23.3%	30.3%	23.4%	23.2%	23.3%	23.3%	23.2%	23.2%	23.2%	23.1%	23.2%

Bull Case: Dividends, Dilution, and Retained Earnings

		FY 2017	1H 2018	2H 2018	FY 2018	1H 2019E	2H 2019E	2019E	1H 2020E	2H 2020E	2020E	1H 2021E	2H 2021E	2021E	1H 2022E	2H 2022E	2022E
Dividends per share	\$	\$0.11	\$0.04	\$0.10	\$0.14	\$0.05	\$0.12	\$0.17	\$0.06	\$0.16	\$0.21	\$0.07	\$0.19	\$0.27	\$0.09	\$0.24	\$0.33
y-o-y growth, %	%			25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%	
Bear	%			15.0%		15.0%	15.0%		15.0%	15.0%		15.0%	15.0%		15.0%	15.0%	
Base	%			20.0%		20.0%	20.0%		20.0%	20.0%		20.0%	20.0%		20.0%	20.0%	
Bull	%			25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%		25.0%	25.0%	
BOP - S/O	mln			218.6		218.6	219.7	218.6	220.8	221.9	220.8	223.1	224.2	223.1	225.3	226.4	225.3
Dilution as %	%			0.0%		0.5%	0.5%	1.0%	0.5%	0.5%	1.0%	0.5%	0.5%	1.0%	0.5%	0.5%	1.0%
Dilution shares issued	mln			0		1.1	1.1	2.2	1.1	1.1	2.2	1.1	1.1	2.2	1.1	1.1	2.3
EOP S/O	mln			218.6	218.6	219.7	220.8	220.8	221.9	223.1	223.1	224.2	225.3	225.3	226.4	227.6	227.6
Dividends	\$ M			21.7	29.8	10.1	27.4	37.6	12.7	34.6	47.4	16.1	43.7	59.9	20.3	55.2	75.6
y-o-y growth, %	%					n/a	26.25%	26.25%	26.25%	26.25%	26.25%	26.25%	26.25%	26.25%	26.25%	26.25%	26.25%
Net income minus Dividends	\$ M			182.8	350.3	232.8	224.7	457.5	286.9	276.2	563.0	353.4	339.1	692.4	435.0	416.0	850.9
LTM Net Income	\$ M	257.9	296.6	380.0	380.0	447.4	495.1	495.1	551.8	610.4	610.4	680.2	752.2	752.2	838.1	926.5	926.5

Bull Case: Balance Sheet Investing Business Valuation

		FY 2018	1H 2019E	2H 2019E	2019E	1H 2020E	2H 2020E	2020E	1H 2021E	2H 2021E	2021E	1H 2022E	2H 2022E	2022E
P/E	x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x
Bear		12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x
Base		17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x	17.0x
Bull		19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x	19.0x
Market Cap	\$ M	7,220	8,500	9,406	9,406	10,484	11,598	11,598	12,924	14,293	14,293	15,923	17,603	17,603
Target price of Investments Business <u>Only</u>	\$	\$33.02	\$38.68	\$42.59	\$42.59	\$47.24	\$52.00	\$52.00	\$57.65	\$63.44	\$63.44	\$70.33	\$77.36	\$77.36
Cumulative dividends	\$ M	29.8	39.8	67.3	67.3	80.0	114.6	114.6	130.7	174.4	174.4	194.7	249.9	249.9
Cumulative dividends per share	\$	\$0.14	\$0.18	\$0.31	\$0.31	\$0.36	\$0.52	\$0.52	\$0.59	\$0.78	\$0.78	\$0.87	\$1.12	\$1.12
Investments Business + Cumul Divs	\$	\$33.16	\$38.87	\$42.90	\$42.90	\$47.60	\$52.51	\$52.51	\$58.24	\$64.23	\$64.23	\$71.20	\$78.48	\$78.48
Stock price today	GBp	15.32	15.32	15.32	15.32	15.32	15.32	15.32	15.32	15.32	15.32	15.32	15.32	15.32
FX		1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27
Stock price today	\$	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46	\$19.46
Upside	%	70.4%	99.8%	120.5%	120.5%	144.7%	169.9%	169.9%	199.4%	230.1%	230.1%	265.9%	303.3%	303.3%
IRR	%		275.2%	115.9%	115.9%	79.7%	63.1%	63.1%	54.4%	48.3%	48.3%	44.5%	41.35%	41.35%

Bull Case: Investment Management Business

Scenario		#3: Optimistic
AUM	\$ M	5,000
Effective management fee	%	0.90%
Management fees	\$ M	45.0
Duration		2.0
Management fees for 2 years	\$ M	90.0
ROIC	%	50%
Gross return	\$ M	2,500
Fund expenses (cumulative)	%	1.0%
Fund expenses	\$ M	25.0
Net return before incentive fee	\$ M	2,385
Incentive fee	%	20%
Incentive fee for 2 years	\$ M	477
Total fees for 2 years (management + incentive)	\$ M	567
Normalized total <u>annual</u> fees	\$ M	284
1H 2018 LTM Expenses	\$ M	6.6
Bonuses as % of LTM Expenses	%	150%
Bonuses	\$ M	9.9
Total expenses		16.5
Pre-tax income	\$ M	267
Tax rate	%	21%
Tax Due	\$ M	56
Investment Management Net Income	\$ M	211
Multiple		12.0x
<i>Bear</i>		10.0x
<i>Base</i>		12.0x
<i>Bul</i>		15.0x
Value of IM Business	\$ M	2,531
S/O in 2020	M	228
Value per share	\$	\$11.12
FX	USD : GBp	1.27
Value per share	GBp	8.76

Bull Case: Consolidated Valuation – Balance Sheet Investing Business + Investment Management Business

Value per share		Bull
Balance Sheet Investing Business	\$	78.48
Asset management Business	\$	11.12
Total	\$	89.60
Current price	£	15.32
FX	£/\$	1.27
Current price	\$	19.46
Upside	%	360.5%
IRR	%	46.5%