

2016 CEO Survey Report
Pre-Settlement Funding

*Bryant Park Capital
Pre-Settlement Funding CEO Survey Report
2016*

2016



BRYANT PARK CAPITAL



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Section I

Introduction

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Introduction

- The following presentation outlines the results of the first Bryant Park Capital Pre-Settlement Funding CEO Survey. The survey polled CEOs and leaders of litigation finance companies – in particular, consumer pre-settlement funding companies.

- Summary Statistics:
 - Total respondents: 22
 - 10 of which have been operating for 6-10 years and 8 for 11+ years

 - Approximate dollars funded by respondents for 2015 : \$230 million
 - Total market estimated to be approximately \$600 million

 - Greatest opportunity: Geographic expansion

 - Greatest concern: Regulatory climate

 - Industry CEO Confidence Index: 91.5%

Section II

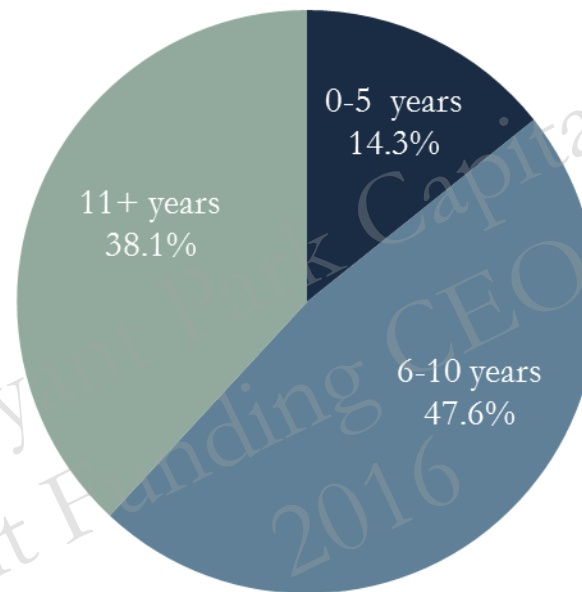
Profile of Respondents

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This is a Relatively Old Industry

Approximate year company started in industry

Years in Industry



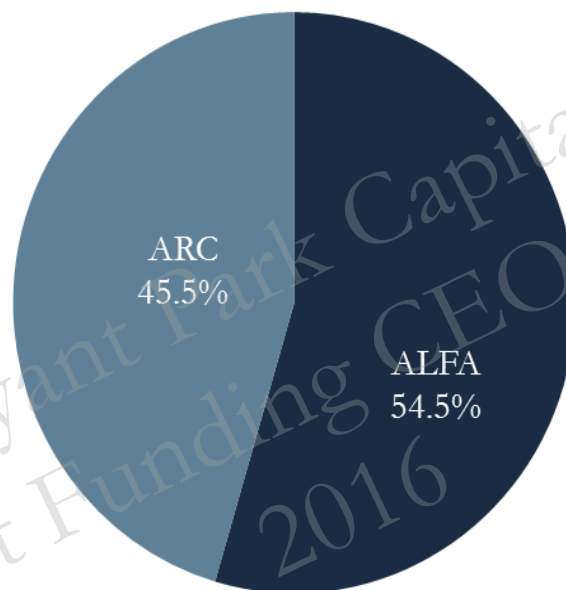
- Only 3 companies were founded less than 5 years ago
- No company in this survey was founded after 2011
- The average year of inception for the survey respondents is 2005



ALFA vs. ARC

ALFA vs. ARC membership

Member of ALFA or ARC?

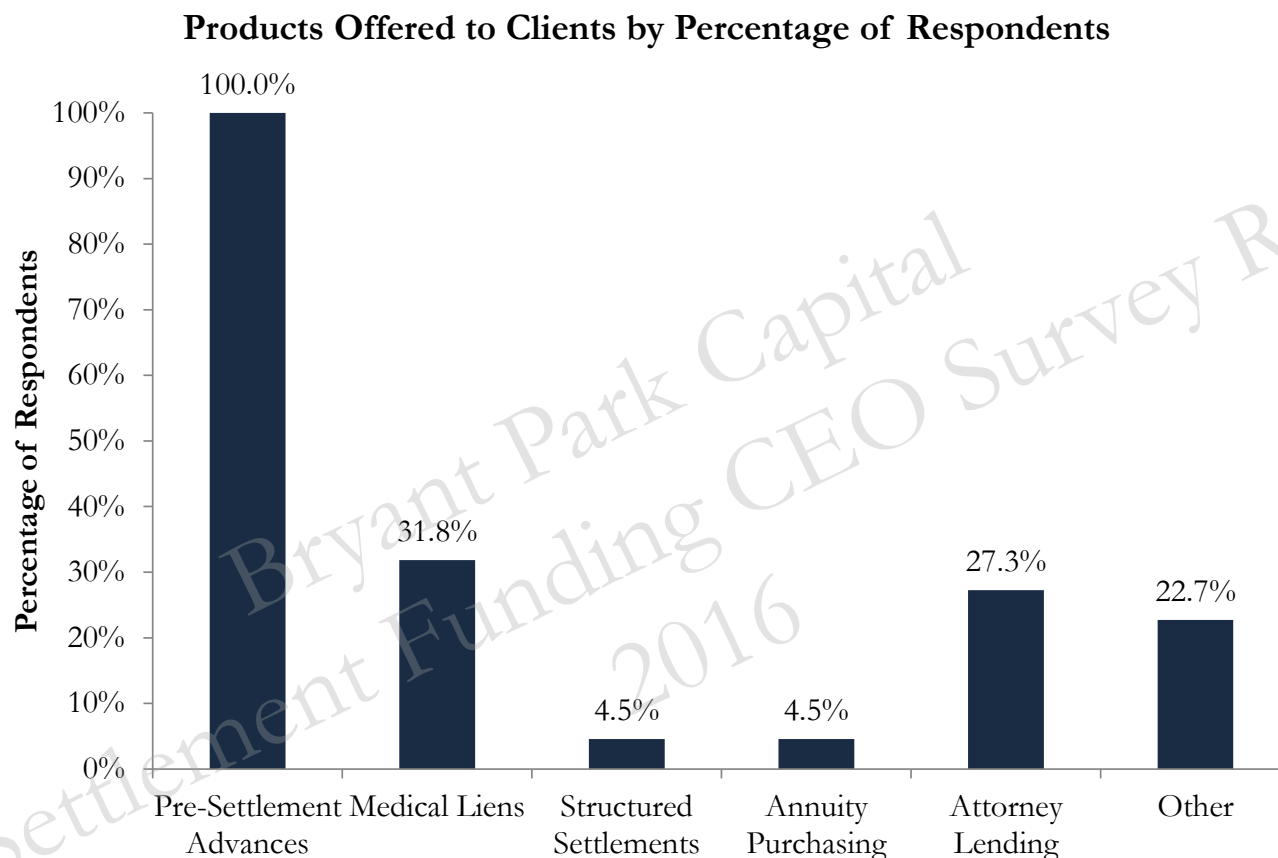


- The American Legal Finance Association (“ALFA”) is the trade association that represents the leading consumer legal funding companies across the country
- The Alliance for Responsible Consumer Legal Funding (“ARC”) is a diverse coalition of legal funding companies established to preserve the industry by advocating for preserving consumer choice to State and Federal regulators
- The 12 ALFA-member respondents represent close to 40% of the 31 ALFA members



Product Offerings are Focused

Products offered to clients

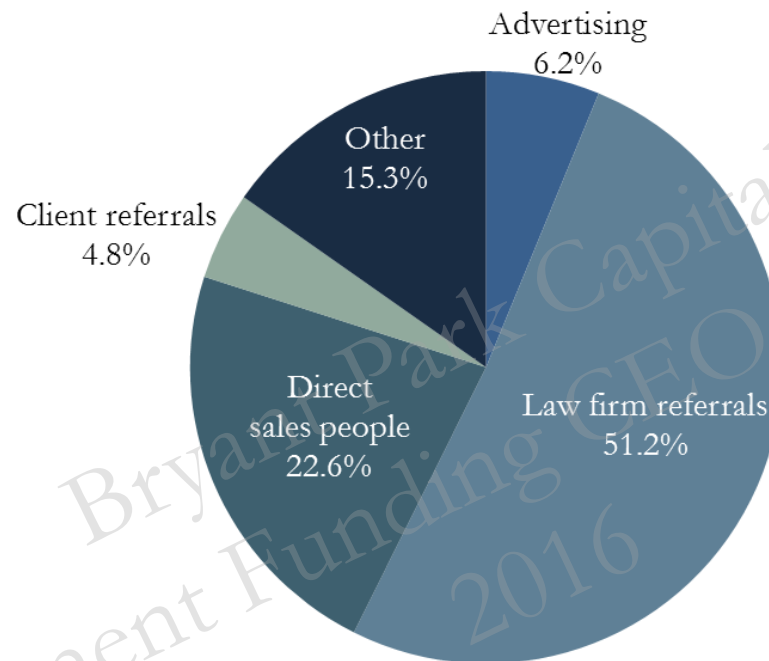


- Respondents are focused on litigation-related financing with 100% funding pre-settlement advances.
- Respondents do not appear to heavily diversify their product mix
 - 32% of respondents are actively funding medical liens
 - 27% are directly providing funding to attorneys
- 55% of respondents offered multiple products rather than only offering pre-settlement advances

Where is Business Sourced?

Originations from external sources

Percentage of Originations by Source

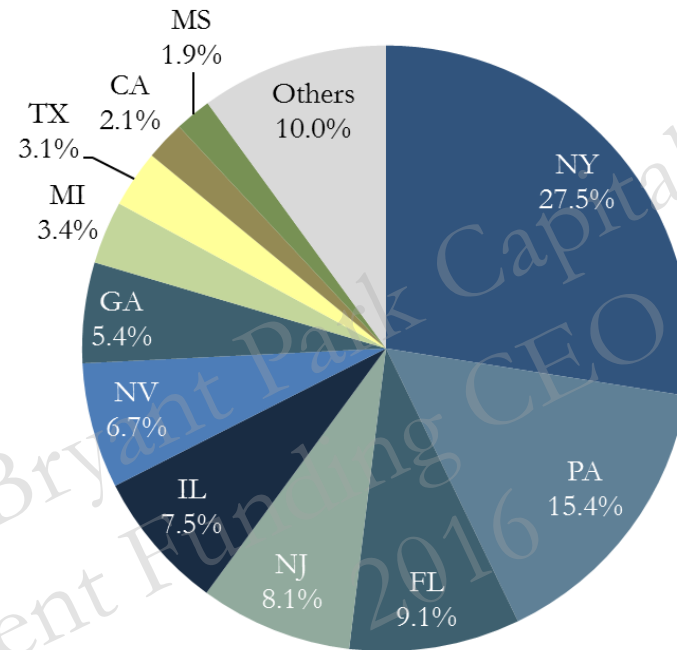


- 51% of originations stem from law firm referrals
 - With a strong proportion of originations coming from law firms referrals, it makes sense that “All Players Competing for the Same Lawyers” is the second greatest concern in the industry in terms of average (page 33), and the top concern in terms of number of respondents with 25% selecting it as number one

What States Provide the Most Business?

Fundings by state

Percentage of Fundings by State



- The greatest opportunity in the industry is deemed to be geographic expansion (as per respondent results on page 32)
 - Results show that there is a real opportunity to expand geographically, with 80% of respondents' business being conducted in only 7 states (NY, PA, FL, NJ, IL, NV, GA)
 - Additional large markets such as TX and CA offer growth opportunities as they only represent about 5% of respondents' fundings

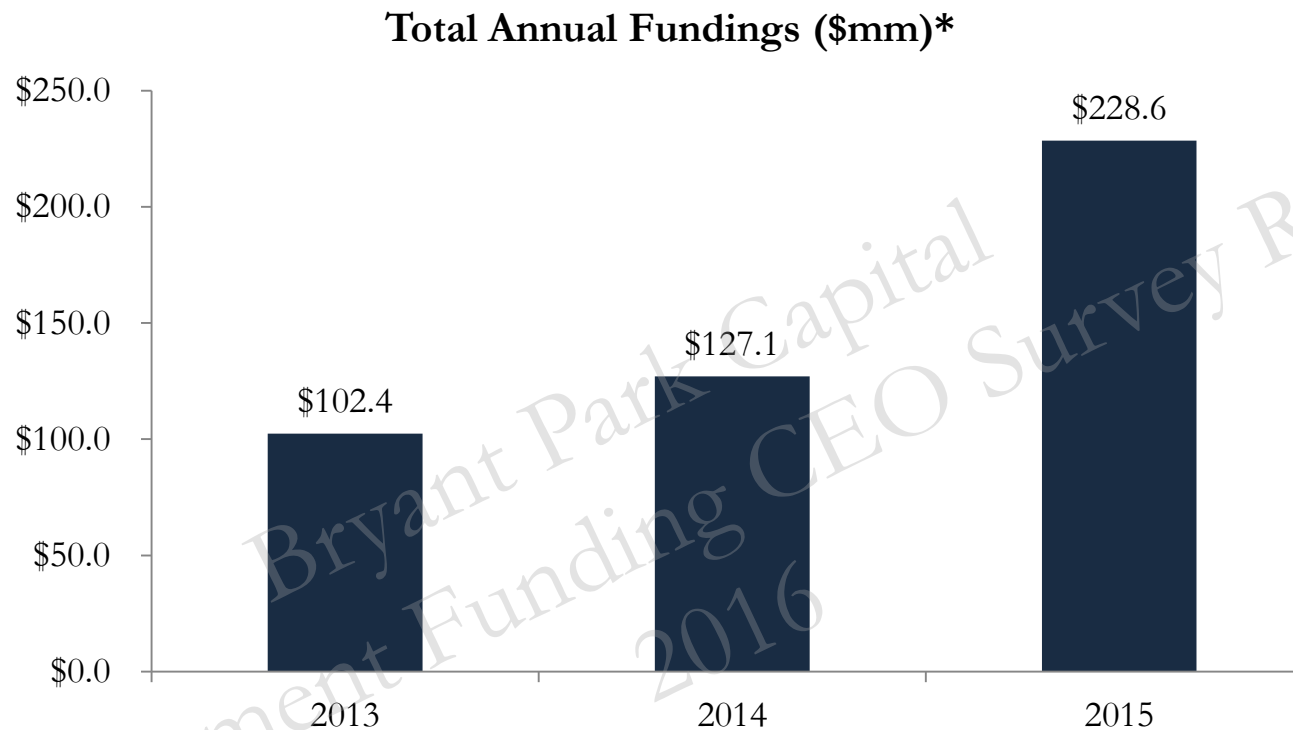
Section III

Historical Performance of Respondents

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Annual Fundings are Growing

Approximate annual fundings of respondents



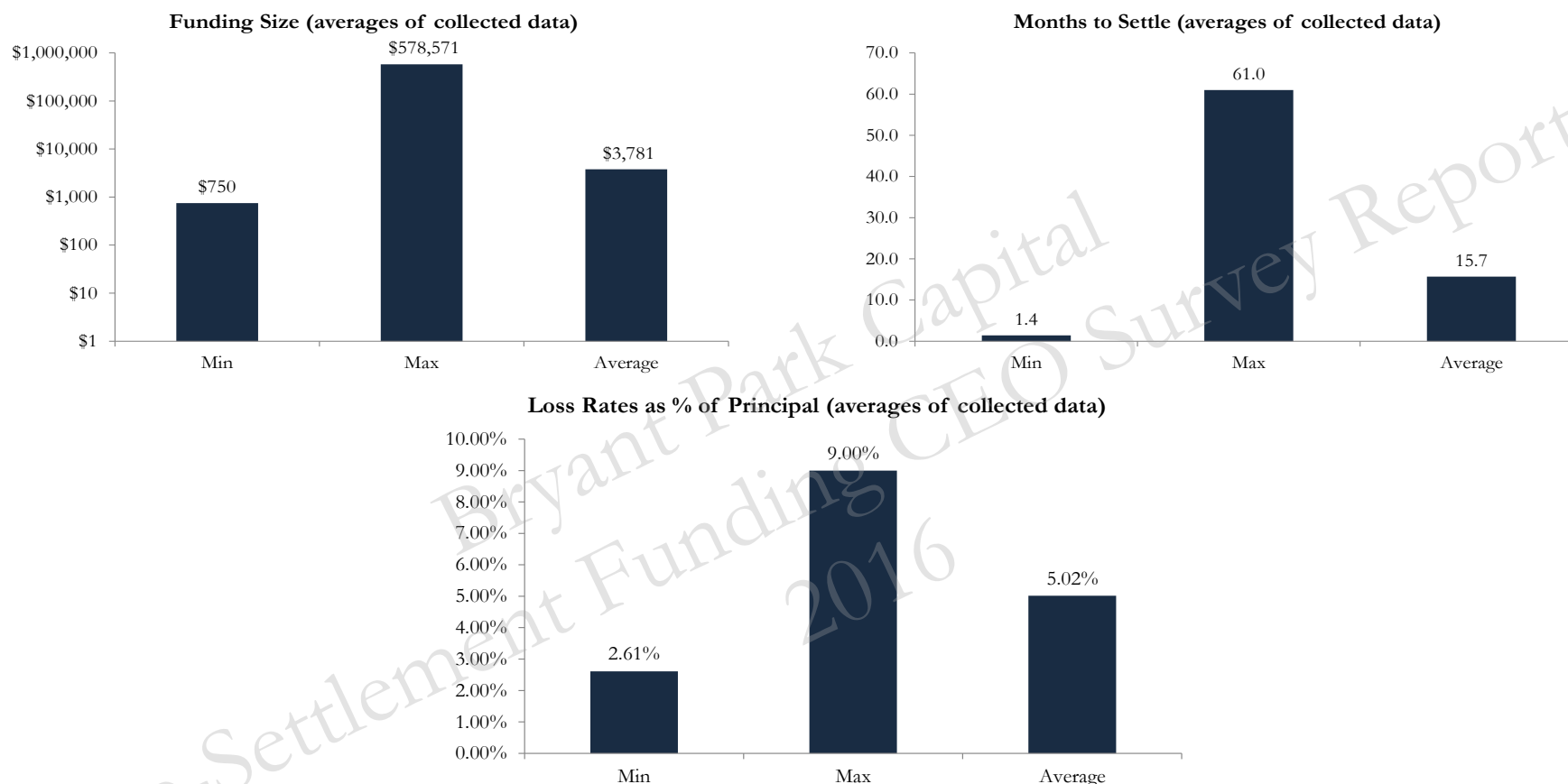
** 1 respondent only included advances for 2015, leaving 2013/2014 blank*

- 14 out of the 22 respondents provided data for yearly advances
- The growth trend in fundings is likely to continue, with 77% of respondents expecting to increase volume and hire staff in order to keep up with the pace (see page 16)
- In addition, growth trend expectations are driven by:
 - Industry players' confidence in the continued success of the industry, with a 91.5% Confidence Index score (see page 35); and
 - Their ability to maintain access to capital, with a median confidence level of 90.0% (see page 22)



Advance Size and Loss Rates

Loss rates and averages for minimum, maximum, and average advance size and time to settlement



- Among the 7 companies that provided their average loss rates, the average rate was 5.0%, with data points ranging from 2.6% to 9.0%
 - The industry expects loss rates to remain relatively low, with 'greater loss rates' being a lesser concern amongst respondents and only 1 respondent selected this concern as their primary one (see page 33)
- Although the industry's average advance was under \$3,800, some of the respondents provide advances worth millions of dollars

Section IV

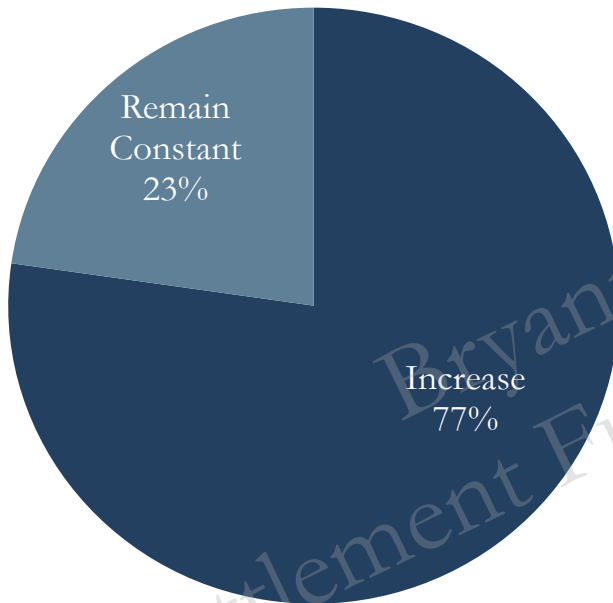
Respondents' Operational Plans

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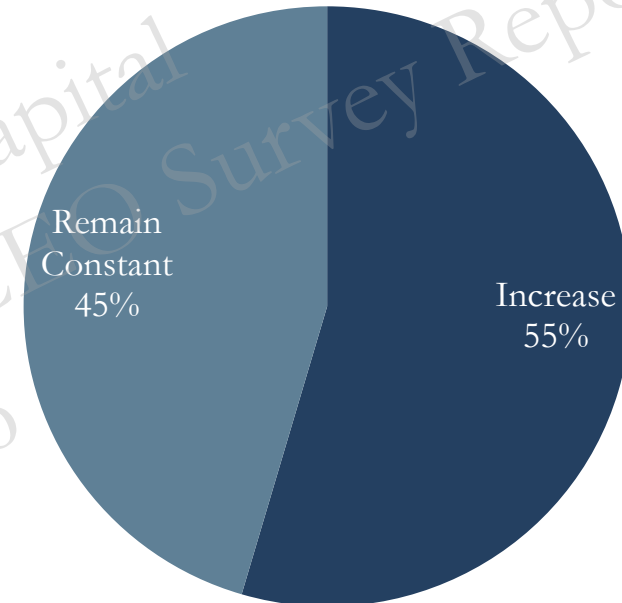
Bullish Expectations for Growth and Hiring

Expected volume of fundings and level of hiring over the next 12-24 months

Expected Volume of Fundings Over Next 12-24 Months



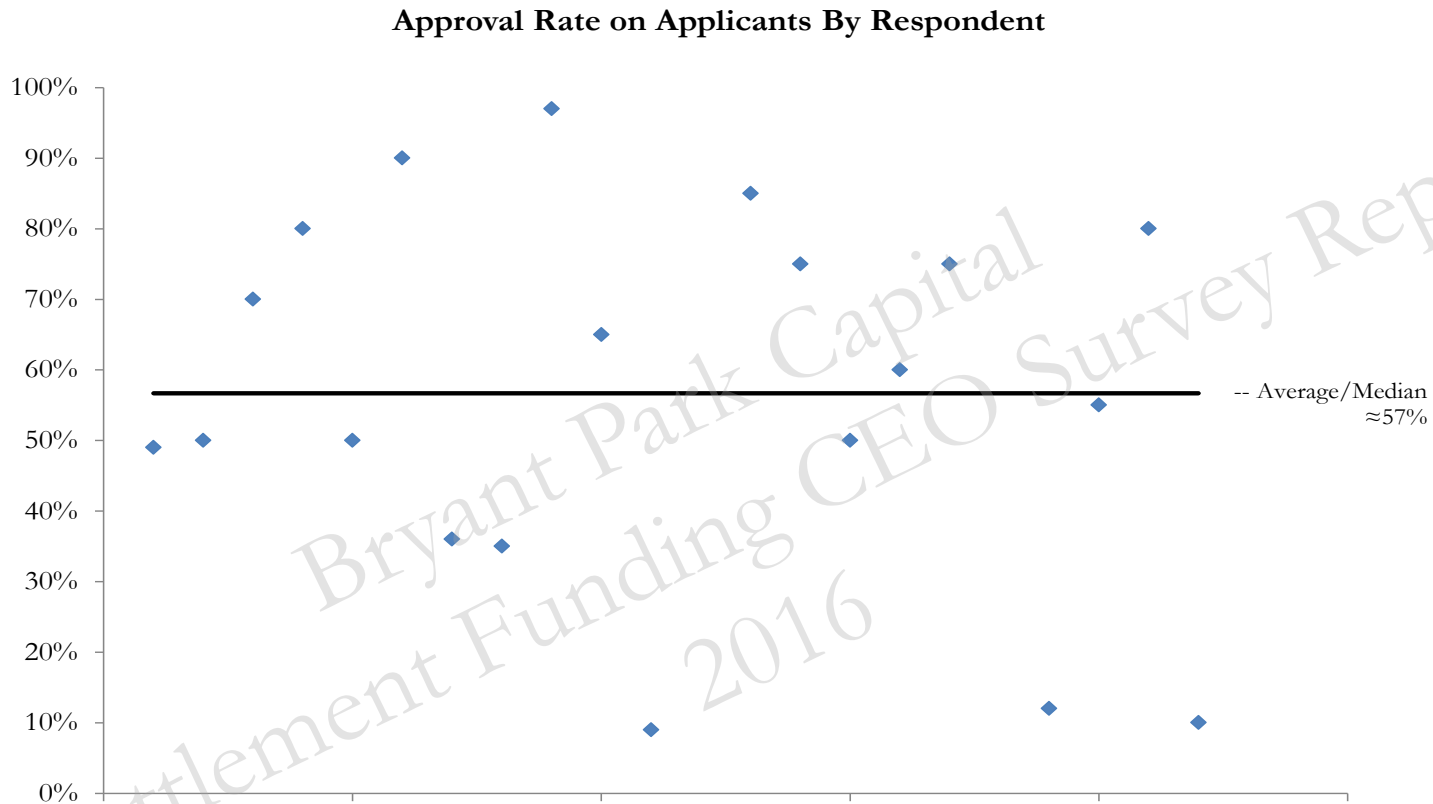
Expected Level of Hiring Over Next 12-24 Months



- 0% of respondents expect to decrease their current volume of advances or levels of hiring over the next 12-24 months
 - Approximately 73% of respondents expect an industry growth rate of over 10% (see page 31)

What is the Industry's Approval Rate?

Applicant approval rate

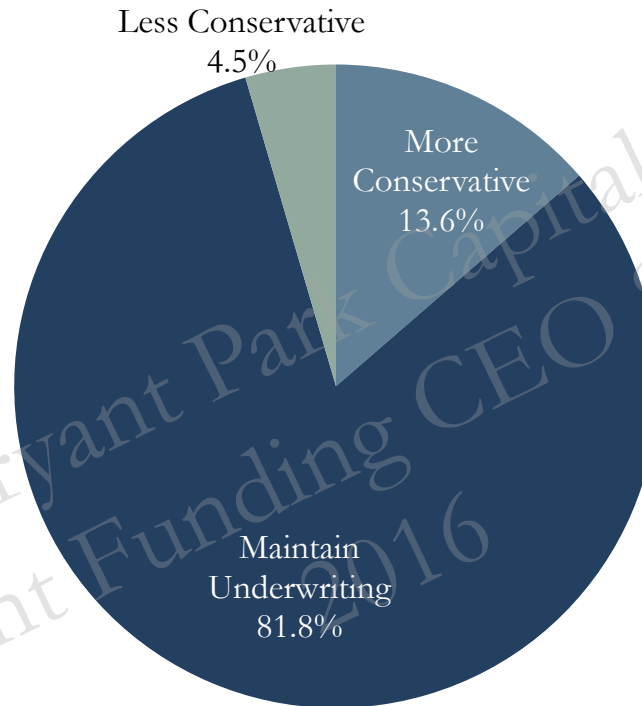


- The average approval rate among the respondents was 56.7%, but there was a relatively high disparity in results as shown by the scattered data points in the above graph
 - This number is likely to remain relatively stable going forward, as 82% of respondents expect to maintain their current underwriting policies (see page 18)
- 45% of respondents have an approval rate of 50% or under, including 3 respondents under 10%

Confidence in Current Underwriting Practices

Expected underwriting criteria over next 12-24 months

Underwriting Criteria Expectations Over Next 12-24 Months

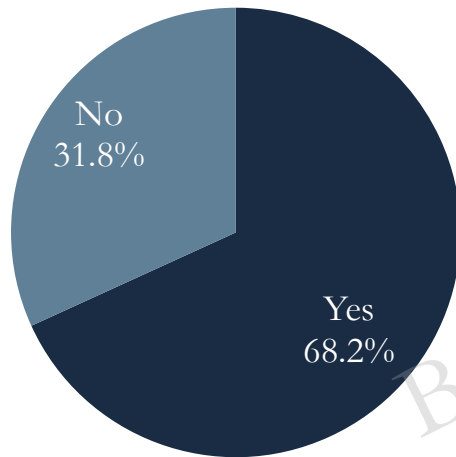


- Over 85% of respondents expect to maintain their current underwriting criteria, with only 3 companies responding that they need to be more conservative with their underwriting policies over the next 12-24 months

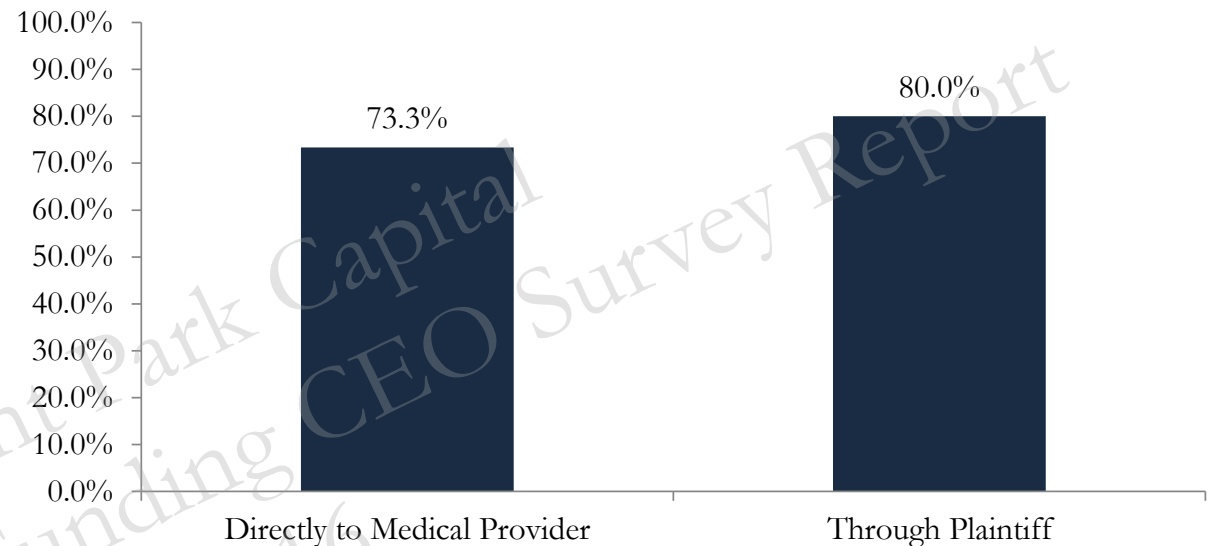
Medical-Related Funding

Percentage of respondents that provide medical funding

Provide Funding for Medical-Related Expenses



Method of Funding Medical Expenses



Note: Methods of funding medical expenses are not mutually exclusive and several respondents fund both through medical providers and plaintiffs

- Of the 68% of respondents that provide funding for medical-related expenses, 73% said that at least a portion of their medical funding is disbursed directly to medical providers and 80% said that at least a portion of their medical funding is disbursed directly to the plaintiff

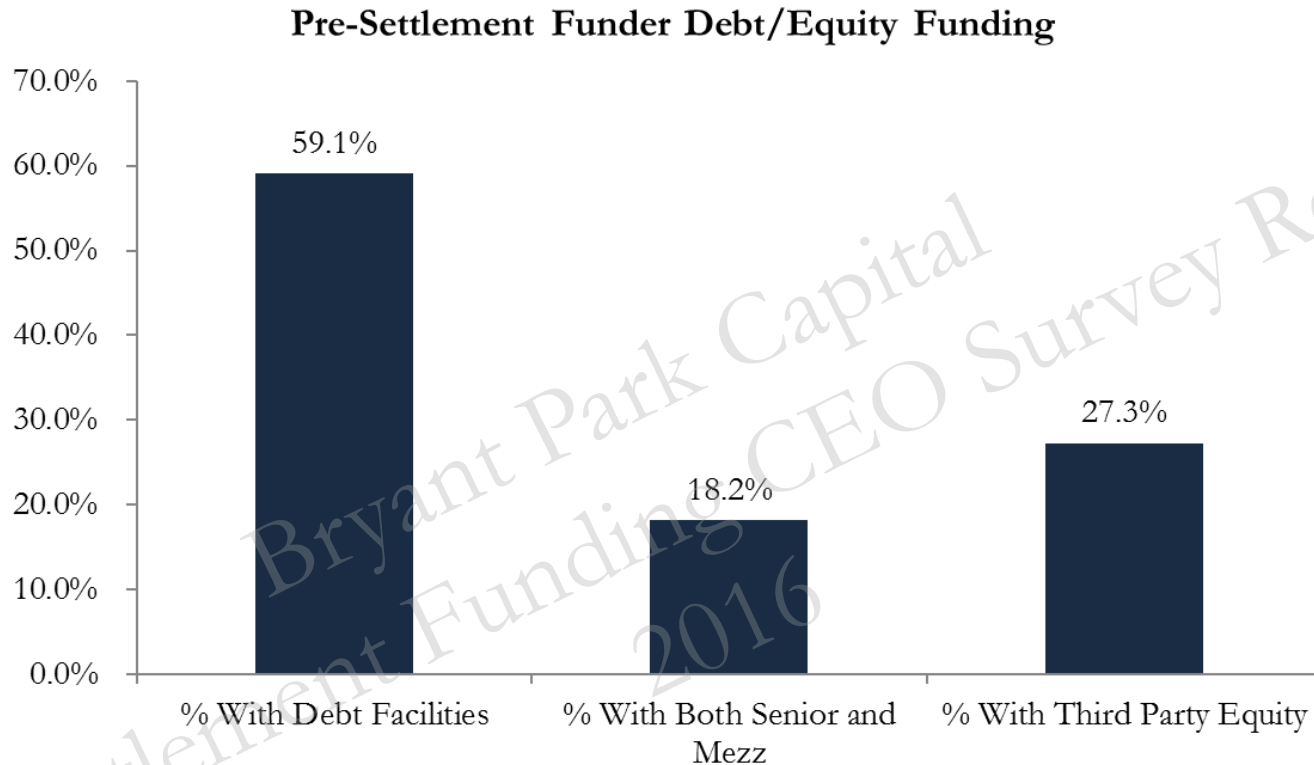
Section V

Financing and Acquisitions

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How are These Companies Funded?

Institutional funding

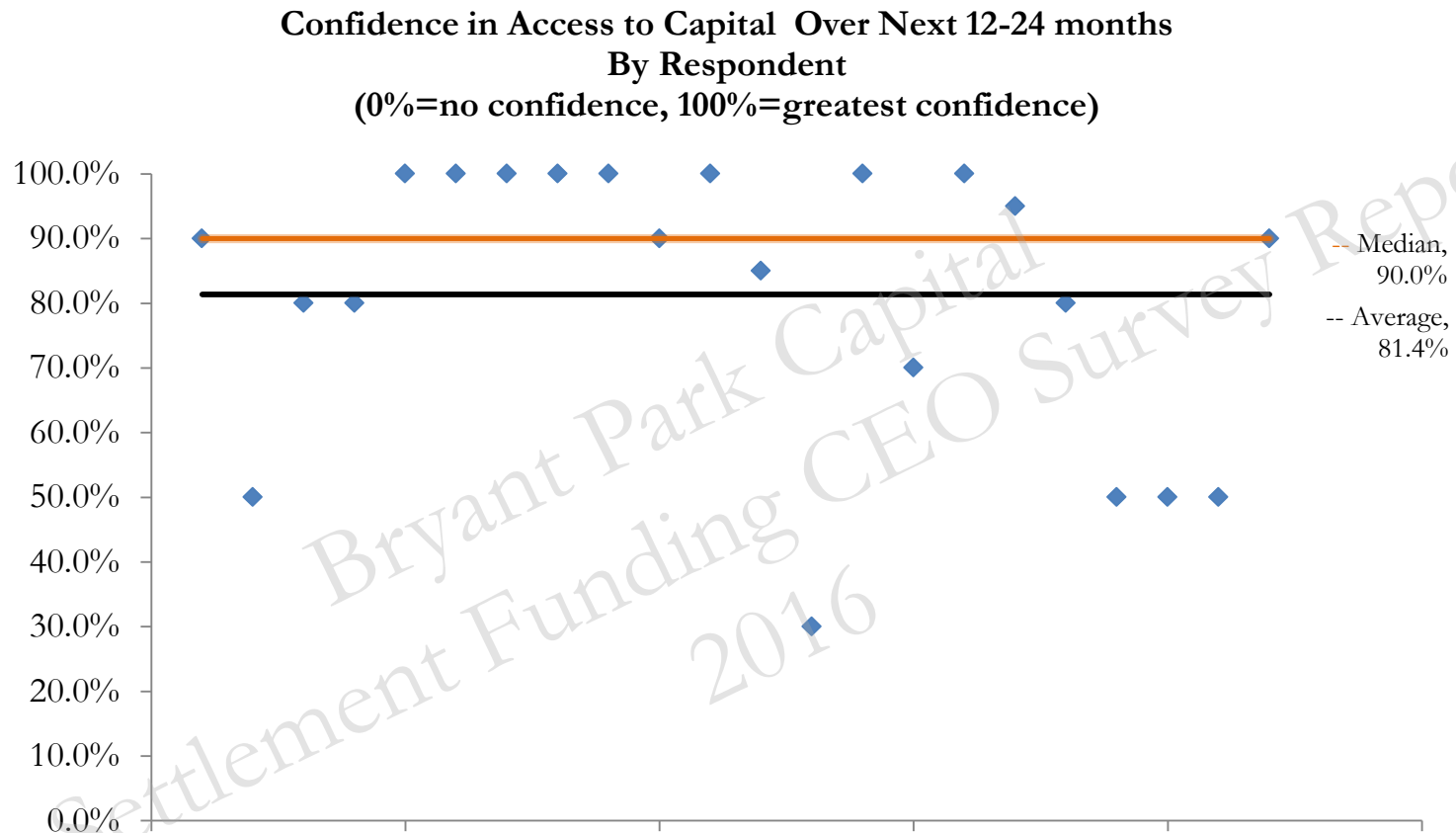


Note: Sources of funding are not mutually exclusive and some respondents are funded by both debt and third party equity

- Approximately 60% of respondents have institutional debt (either senior or mezzanine)
 - These numbers should increase with the industry's confidence in accessing capital (see page 22) and respondents' interest in seeking some form of outside capital (see page 23)

High Expectations for Access to Capital

Confidence level in access to capital needed at reasonable costs over the next 12-24 months (0%=no confidence, 100%=greatest confidence)



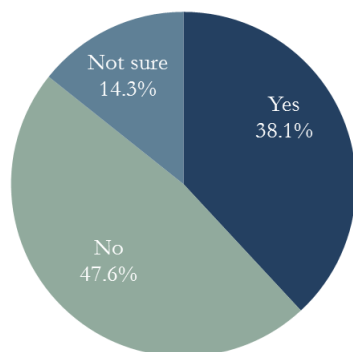
- Respondents were asked to rank their confidence level in accessing capital needed at reasonable costs over the next 12-24 months, with 0% representing “no confidence” and 100% representing “great confidence”
- It is clear from the results that companies in the space have strong confidence that capital needed for growth is accessible, with 8 respondents having 100% confidence



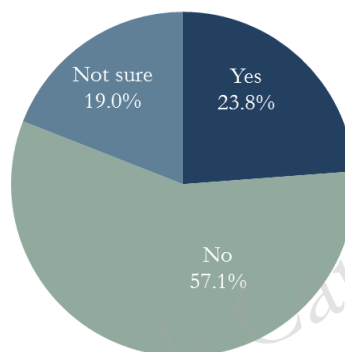
Who is Seeking What Type of Capital?

Expected financing plans over next 12-24 months

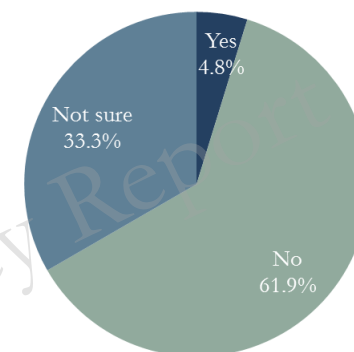
Seek Financing: Senior



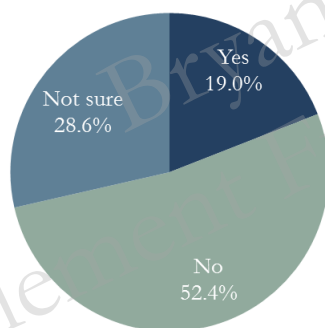
Seek Financing: Mezzanine



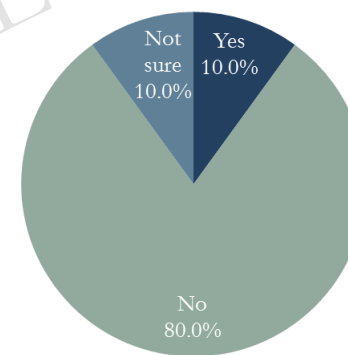
Seek Financing: Asset Sales



Bring in an Institutional Equity Partner



Sell the Majority of the Business

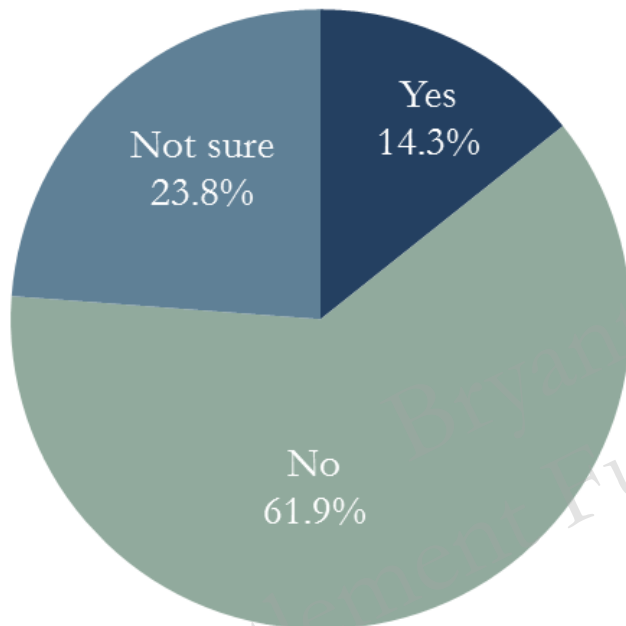


- Respondents were asked if they expected to engage in a variety of financing related activities over the next 12-24 months
- The majority of respondents generally do not seem to expect looking for third-party financing
 - 80% do not expect to sell their business, 62% do not expect to seek asset sales, although 19-38% expect to raise some sort of capital
 - Out of the 10 respondents not looking for senior financing, 7 already have a senior facility in place

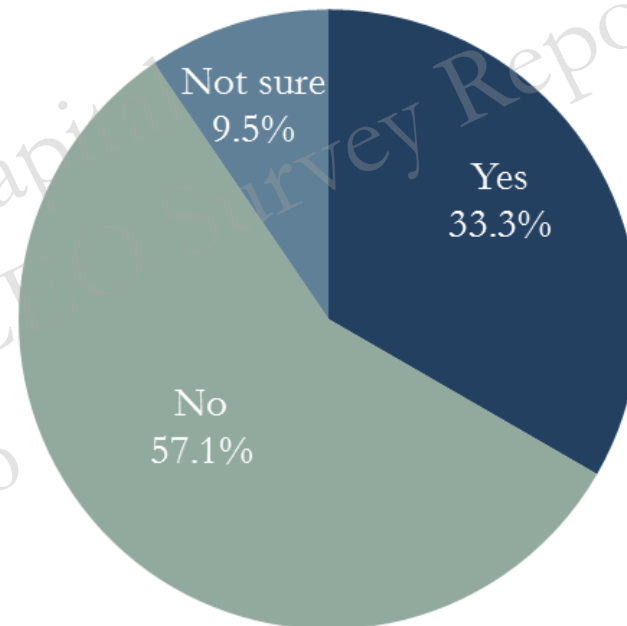
What are the Expectations for Acquisitions?

Expected acquisitions and growth plans over the next 12-24 months

Buy Another Related Business



Start a Related Business

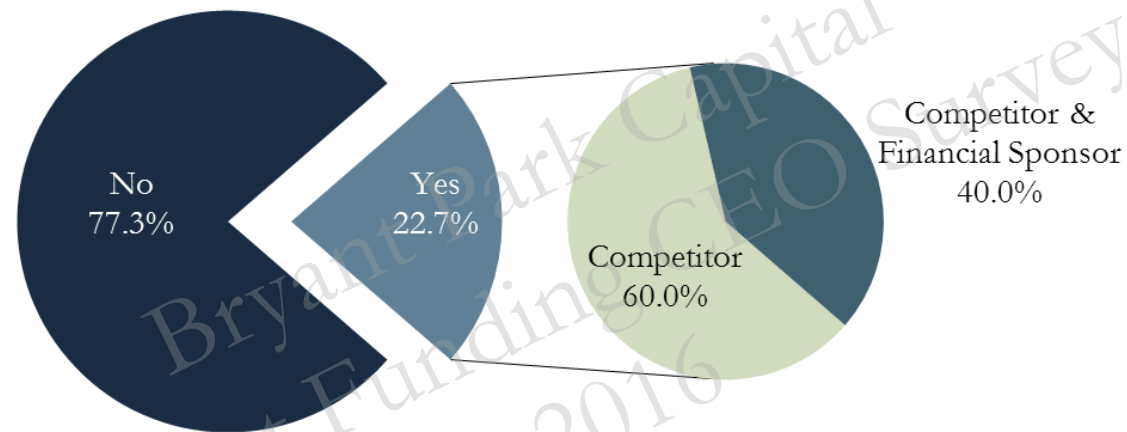


- Respondents were asked if they expected to engage in new business development/acquisition activities over the next 12-24 months
- Although over 60% respondents do not plan on *acquiring* another pre-settlement financing company, one-third of respondents expect to *start* a related business in the next 12-24 months
 - Respondents are over 2 times as likely to start a related business than to acquire one

Have These Companies Been Approached to be Purchased?

Percentage of companies that have been approached to be purchased in the past 12 months, and who has approached them

Breakdown of Companies Approached to be Purchased

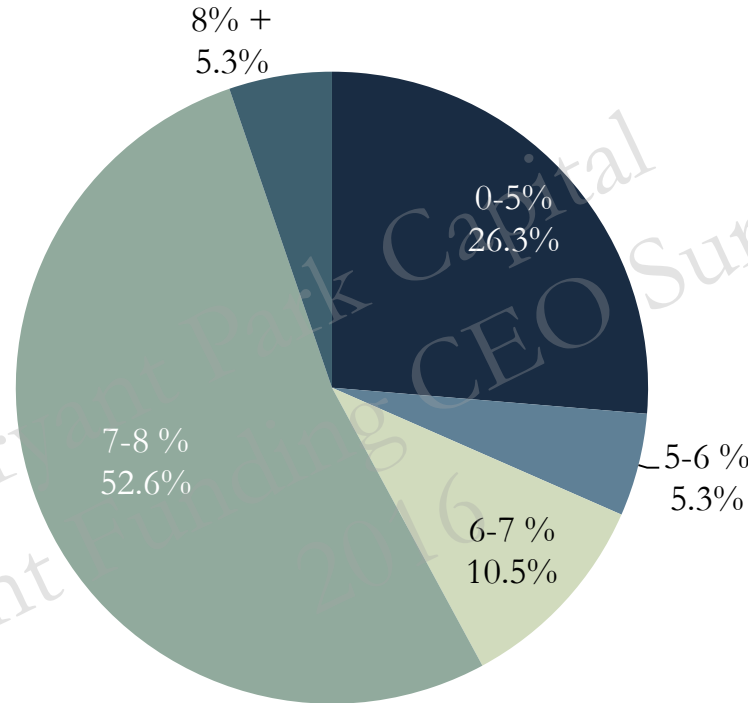


- Less than a quarter of the companies have been approached to be purchased
 - Of the ones that have, 60% were approached by a competitor and 40% were approached by both a competitor and financial sponsor
 - The relatively low amount of companies that have been approached to be purchased by a competitor is in line with the low interest among companies to grow through acquiring a related business (see slide 24)

What are the Expected Costs of Capital?

Assumed range of interest rates for senior debt financing in the pre-settlement funding industry

Pre-Settlement Funding Expected Rate for Senior Debt Financing

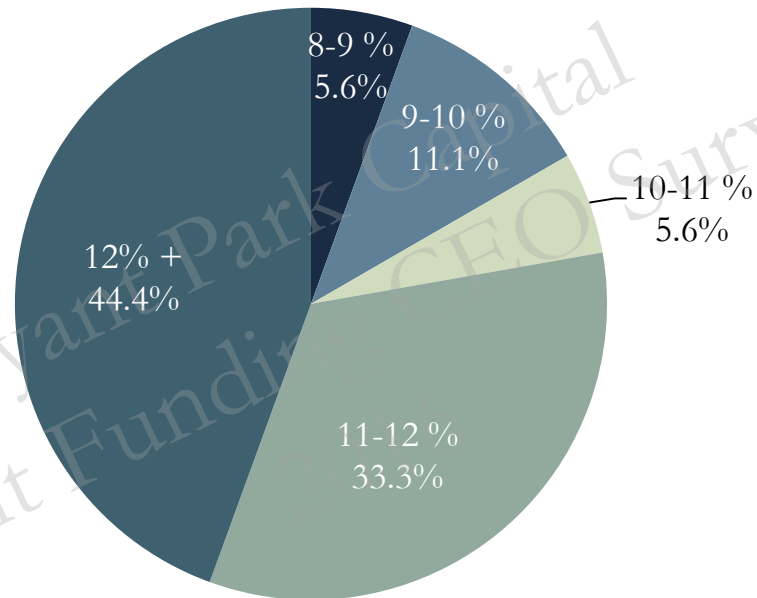


- Respondents do not expect to incur high interest rates for a senior debt facility, with only 1 respondent expecting over 8%
 - Based on the respondents that already have a senior line, 53% responded with a 7-8% rate and 26% responded with 0-5%, implying relative disparity in actual rates (which also depend on individual credit factors)

What are the Expected Costs of Capital?

Assumed range of interest rates for junior debt financing in the pre-settlement funding industry

Pre-Settlement Funding Expected Rate for Junior Debt Financing

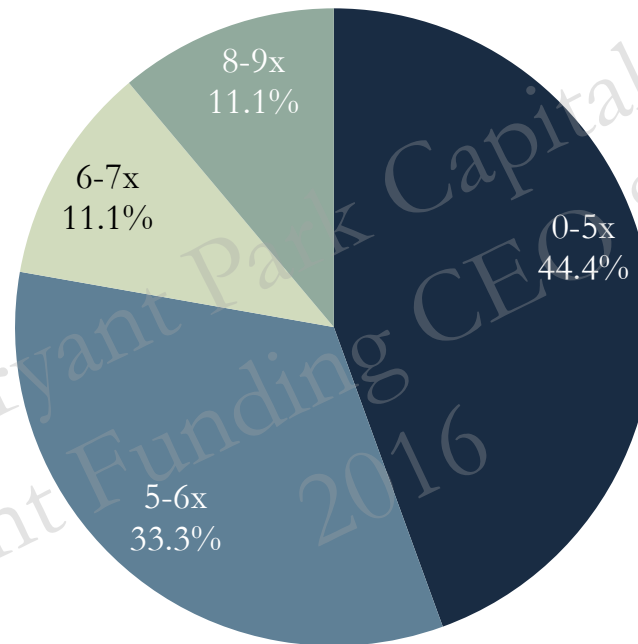


- The industry expects relatively high rates for junior debt facility
 - Almost half of the industry (44%) expects junior debt rates to be greater than 12%

What are the Expected Valuation Ranges?

Assumed range of EBITDA multiples for acquisitions in the pre-settlement funding industry

Pre-Settlement Funding Expected EBITDA Multiples for Acquisitions



- Almost 80% of the industry expects EBITDA multiples for acquisitions to be between 0-6x

Section VI

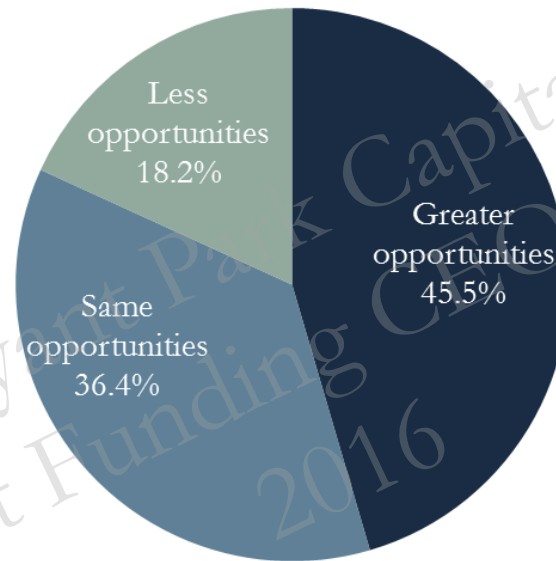
Industry Sentiment

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Optimistic View on Current Opportunities in Industry

Current opportunities in the pre-settlement funding industry compared with 2 to 3 years ago

Current Opportunities in the Pre-Settlement Funding Industry, Compared With 2-3 Years Ago

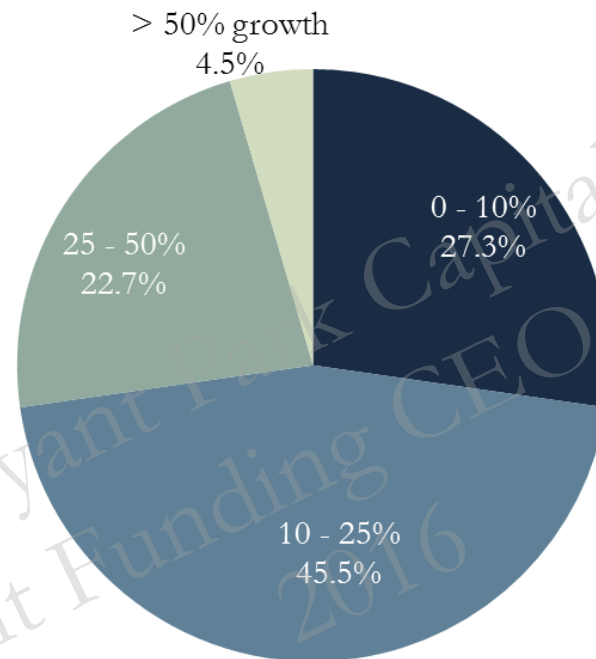


- 82% of the industry believes that there are equal or greater opportunities compared with 2 to 3 years ago

Expected Growth Rates

Expected industry growth rate over next 12-24 months

Expected Industry Growth Rate Over Next 12-24 Months

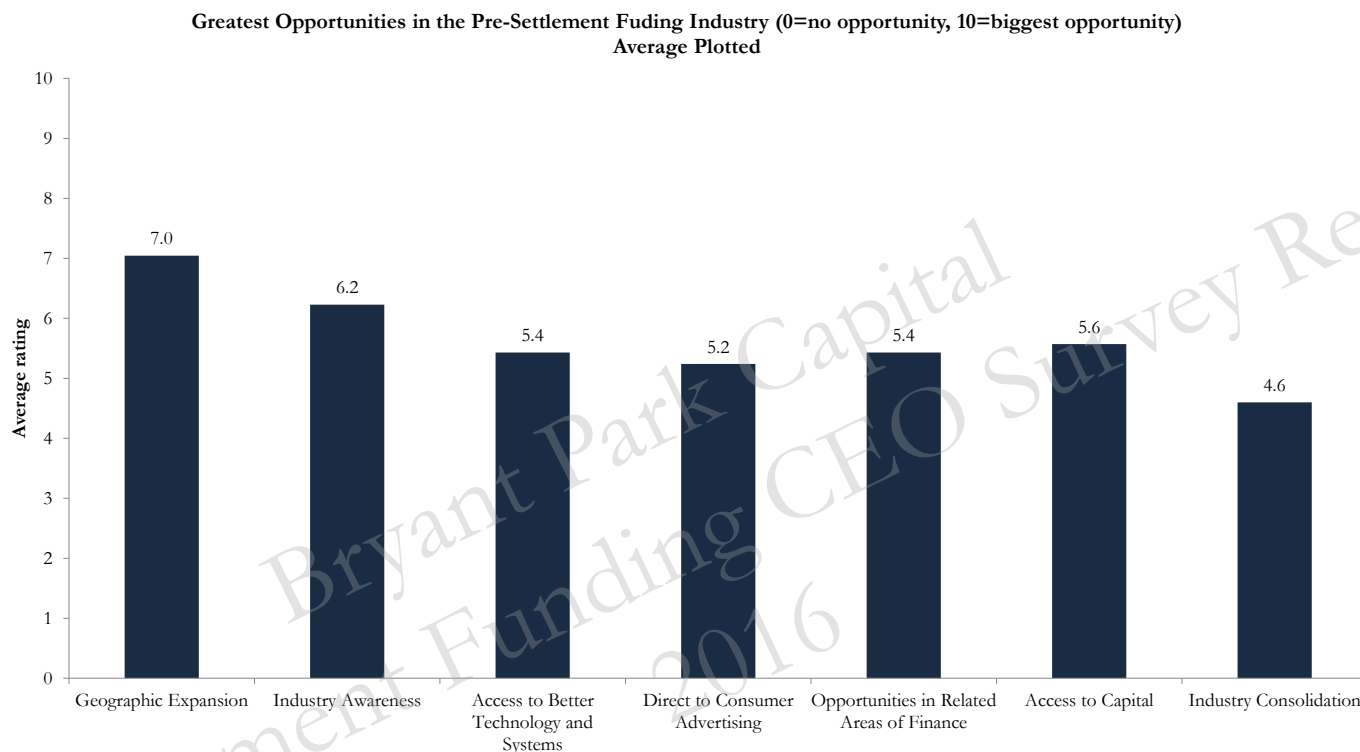


- While only about 5% of the total respondents believe that the industry will grow by over 50% in the next 12-24 months, nearly 70% believe that it will grow by 10-50%, implying a general consensus of strong growth



Geographic Expansion is the Greatest Opportunity in the Industry

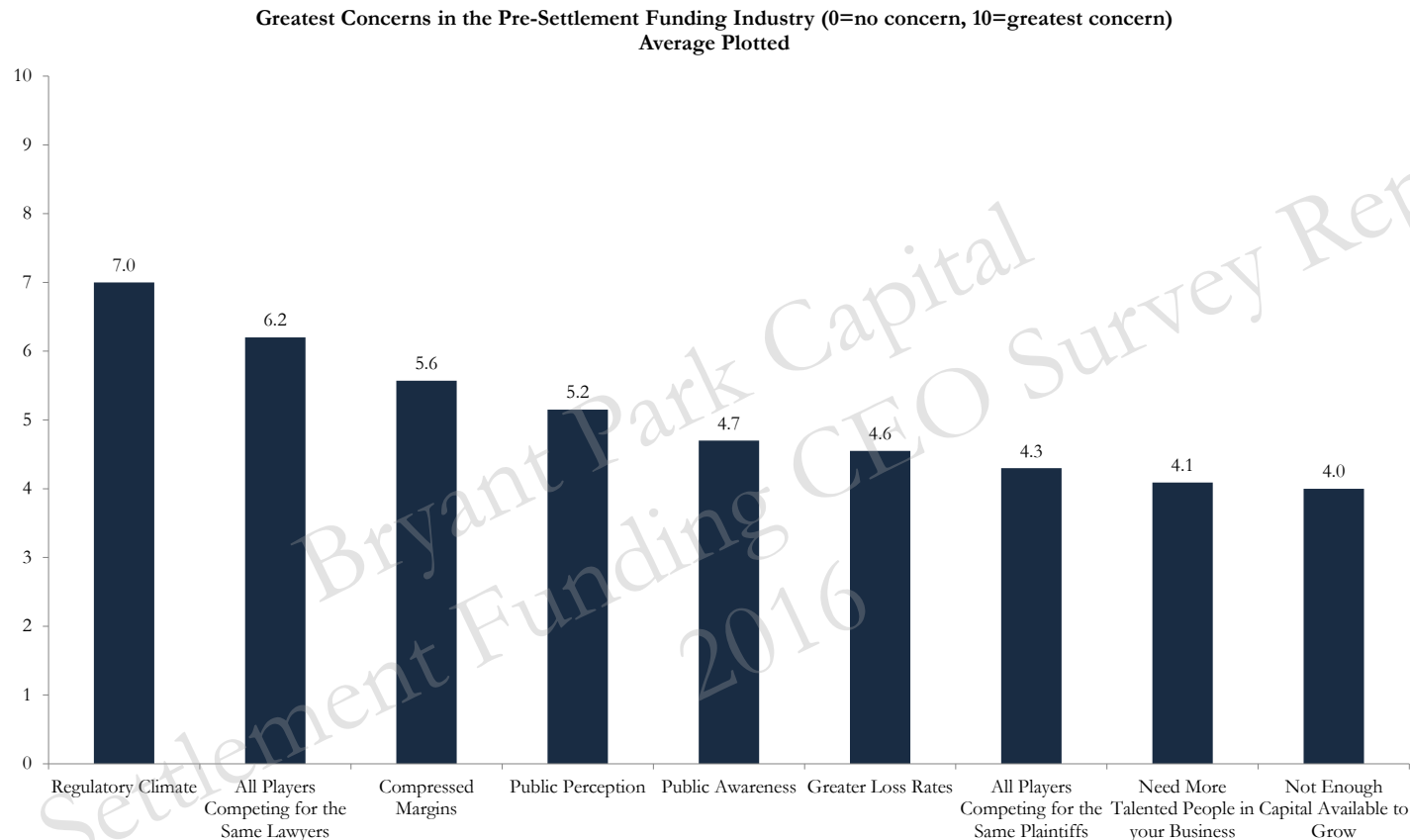
Greatest opportunities in the pre-settlement funding industry (0=no opportunity, 10=greatest opportunity)



- Respondents were asked to rank each category where 0 represents “no opportunity” and 10 represents “greatest opportunity”
- The greatest opportunities are deemed to be geographic expansion, industry awareness, and access to capital
 - The results were quite varied by respondent, yielding relatively uniform/mean-centric averages for the criteria
 - Results show that there is a real opportunity to expand geographically with 80% of respondents’ business being conducted in only 7 states, excluding large markets such as Texas or California
 - Respondents have confidence in their continued ability to access capital with a median confidence index of 90% (see page 22)

Regulatory Climate is the Greatest Concern in the Industry

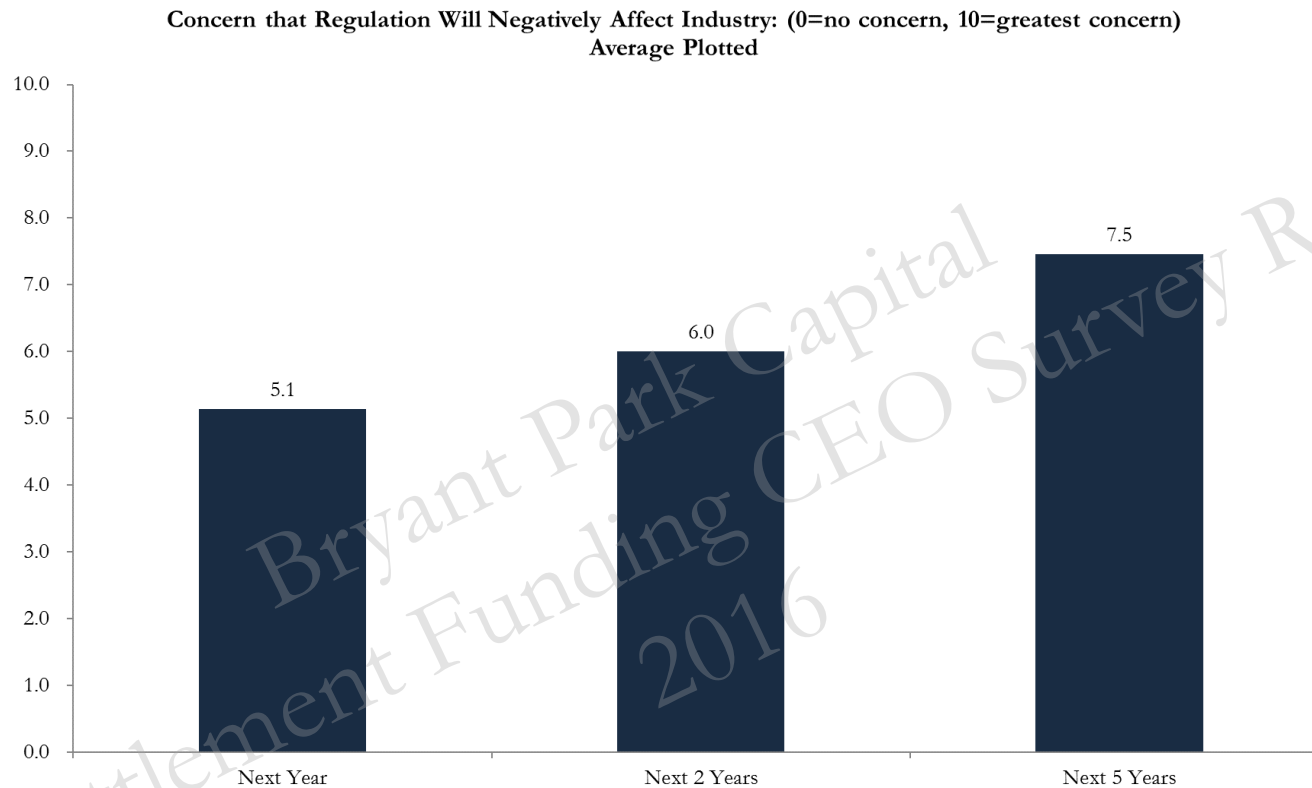
Greatest concerns in the pre-settlement funding industry (0=no concern, 10=greatest concern)



- Respondents were asked to rank each category where 0 represents “no concern” and 10 represents the “greatest concern”
- The greatest concerns in the industry are considered to be the regulatory climate, all players competing for the same lawyers (i.e. origination channel), and compressed margins; on the other hand, there is less concern over sourcing enough capital, employees, or plaintiffs to grow
 - The results were quite varied by respondent, yielding relatively uniform/mean-centric averages for the criteria

Rising Concerns Over Regulation in the Next 5 Years

Concern that regulation (federal or state) will negatively affect companies in the industry (0=no concern, 10=greatest concern)

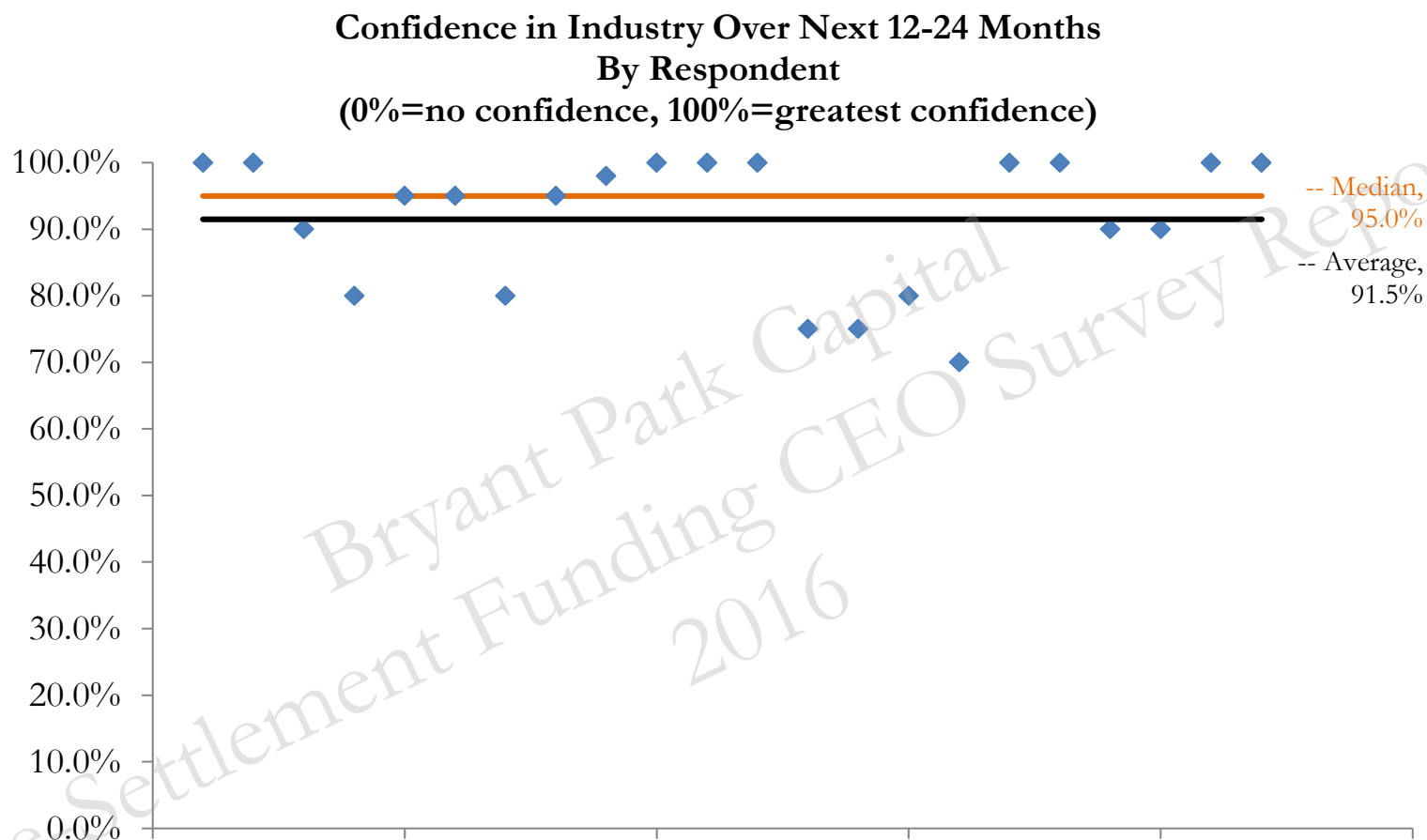


- Respondents were asked to rank their concern over regulation negatively affecting the industry, where 0 represents “no concern” and 10 represents the “greatest concern”
- There is some concern that regulation will negatively affect the industry in the coming year, but relatively high concern that it will over the next 5 years
 - The regulatory climate was the greatest concern in the industry (see page 33)



Industry Confidence Levels Over the Next 12 Months

Confidence level in the success of the pre-settlement funding industry over the next 12 months (0%=no confidence, 100%=greatest confidence)



- Respondents were asked to rank their confidence level in the continued success of the industry over the next 12-24 months, with 0% representing “no confidence” and 100% representing “great confidence”
- Companies in the space appear to have an extremely high degree of confidence in the continued success of the industry
 - The average total Industry CEO Confidence Index is **91.5%**

Section VII

Comments

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Comments on Greatest Opportunities in Industry

Greatest opportunities

- *“Our medical business is growing dramatically, capital is becoming more interested in our space, our initial investment in technology has paid off tremendously and has led to Phase II of our technology buildout. We are expanding geographically and also looking to acquire smaller regional players.”*

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Comments on Greatest Concerns in Industry

Greatest concerns

- *“I am not concerned about A & B [all players competing for the same lawyers & all players competing for the same plaintiffs] as presented. I am very concerned about A & B as it relates to D & E [not enough talented people & compressed margins]. We have too many people entering the marketplace with no experience and whose only “vision” is to offer more “competitive” pricing. Competitive prices are now dangerously low and these newer participants will find out that the lower rates will not sustain their businesses/ make investors happy/offset losses. I welcome competition, but not competitors who don’t understand the risks of this market.”*
- *“The industry is full of marginal professionals. The opportunity lies in building systems and focusing on the customers needs by providing professional, value added services in line with better outcomes for both attorneys and plaintiffs. These marginal professionals provide both opportunity and risk. Opportunity to set up the business correctly and take market share but risk in destroying public and legislative perceptions.”*
- *“I am always concerned about bad players/companies that will bring bad publicity to the industry and/or bring bad lawsuits and create bad case law.”*
- *“Legislative/regulatory risks are the greatest by far.”*
- *“I believe the largest threat to our industry is the insurance company legislative advocate, which will cause laws that will so greatly reduce our potential profit margins, that it will be impractical to write business in certain states. Not to mention, of course, those states that have or will in the future pass laws that will make it impossible to write business in that particular state.”*
- *“Unregulated companies.”*



Comments on Effect of Regulation on Industry

Concern that regulation (federal or state) will negatively affect companies in the industry

- *“I feel about regulation the same way I feel about competition: “Walk a mile in my shoes.” Regulators are politicians and politicians are focused on appearing to be fighting for the consumer while appeasing corporate interests. This is the same focus as those politicians that fight for “tort reform.” They claim to be citizen focused, but they are skills for the insurance and big pharmaceutical industries. In our industry, regulation almost always takes the form of regulating capped rates that mimic “loan products.” But “loans,” by definition, do not include a risk of loss. They are not, traditionally or truly, non-recourse. While lawsuit funders certainly have the ability to “cherry pick,” even that practice can’t prevent losses, because the funders have absolutely no control over the management of the underlying collateral. Regulating lawsuit funders on behalf of big business can be made to look like the regulators are trying to save clients money or protect them from “loan sharks.” In reality, they are only making the service unavailable to their constituents. We get a ton of applications from people who are shut out of the lawsuit funding system by regulation and searching the web for anyone who can help them. They will become victims twice, once as the result of their injury/disability, and, again, by predator insurance companies who will take advantage of their desperate need for money, offering far less than full case value.”*
- *“This is the number one concern. It is why I am involved with ALFA and one of the only players capable of communicating effectively with legislators. I will spend 20-30% of my time on these issues going forward.”*

Comments on Financing and Growth Plans Over the Next 12 Months

Financing and growth plans over next 12-24 months

- *“We expect to seek an additional \$20-30 million in capital.”*
- *“We would like to acquire both pre-settlement and medical funding companies. These target acquisitions could be any size, and targets will range from \$1-3 million local pre-settlement books to mid-sized \$20 million medical funding companies.”*
- *“Acquisition \$1-1.5 million / Related business up to \$2 million / Mezzanine \$5-8 million.”*



General Comments on Industry

Additional comments on the current and future states of the industry

- *“Need price stabilization at higher than current numbers.”*
- *“There is tremendous opportunity. Platforms built to effectively service the entire legal funding industry will be the winners and we are building to be one of these players. Regulatory hurdles will be our biggest challenge, but proactively, these can be managed.”*

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