Burford: Investing in the Blackstone of Litigation Finance

Recommendation: Long

GBP 15.32
(December 19, 2018)

Upside: 150% to 300%+ by 2022

4-year holding IRR: 25% to 45%

Margin of Safety: 5% upside in the bear case.

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Introduction: You Can Invest in The Blackstone of Litigation Finance

* * *

Imagine that you have a time machine that enabled you to return to 1995 where you met a 48-year old Stephen Schwarzman who co-founded Blackstone 10 years earlier. Mr. Schwarzman offered you the opportunity to buy shares in Blackstone at 15x LTM earnings. Imagine further that you had your checkbook with you on this imaginary journey, you liked Mr. Schwarzman, and invested money into privately-held Blackstone (*i.e.*, the management company, not the private equity fund).

How well would have you done on this investment? While we do not know for sure because Blackstone was a privately-held enterprise back then, we do have a few useful tidbits of information.

First, in 1998, AIG bought a 7% stake in Blackstone for $150M. Thus, the implied valuation was $2.14B.[1] We do not know what this valuation meant in terms of multiple of earnings or free cash flow but I suspect that it was more than 15x which is the multiple Mr. Schwarzman 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.

Second, Blackstone had a market cap of ~$35.9B as of December 14, 2018.

That would mean that your investment has returned *more than 20 times your money* and compounded at ~14% during a 23-year period.[2]

* * *

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.

I am about to tell you about a company led by two extraordinary founders that is ***destined to dominate the litigation finance and investing in legal claims industry***[3] the same way as Blackstone has dominated the global private equity industry. The name of the company is Burford Capital, and it can compound its intrinsic value at a 25%+ rate for many years to come.

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[1] A.I.G. Will Put $1.35 Billion Into Blackstone. *New York Times*, July 31, 1998.

[2] Please note that this exercise is inherently imprecise, and I am ignoring any dilution that has most likely occurred during this 23-year period. While imprecise, the exercise still illustrates the key point well.

[3] The term "litigation finance" is the term that people tend to use. However, I think it does disservice and does not accurately describe what Burford *truly* does. I think the term "legal investing" or "investing in legal claims" would be more descriptive. I am using the terms "litigation finance", "legal investing", and "investing in legal claims" interchangeably.

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I. Elevator pitch

Burford Capital is a compounding machine, and the investment opportunity can be best described as "growth at ***un***reasonably cheap price".

Burford Capital is the leading and largest litigation finance provider in the world. It invests in legal claims from its own balance sheet. Burford's own capital is ~$1.6B. In addition, 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 and charge 0% management fee and 42% incentive fee. These are Renaissance Technologies' style incentive fees. Burford's AUM attributable to third parties is $2.33B.

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 funds litigation and international arbitration claims by paying legal fees (average check size is ~$20M) in exchange for a share of a litigation award.

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, and 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 such large cases on a contingency basis.

Burford's investment track record is 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'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.

Importantly, 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.

However, one does not need to wait decades to make money by investing in Burford shares. Shares are currently priced at ~15.2x 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 earnings at its very high IRRs.

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 ~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.

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.

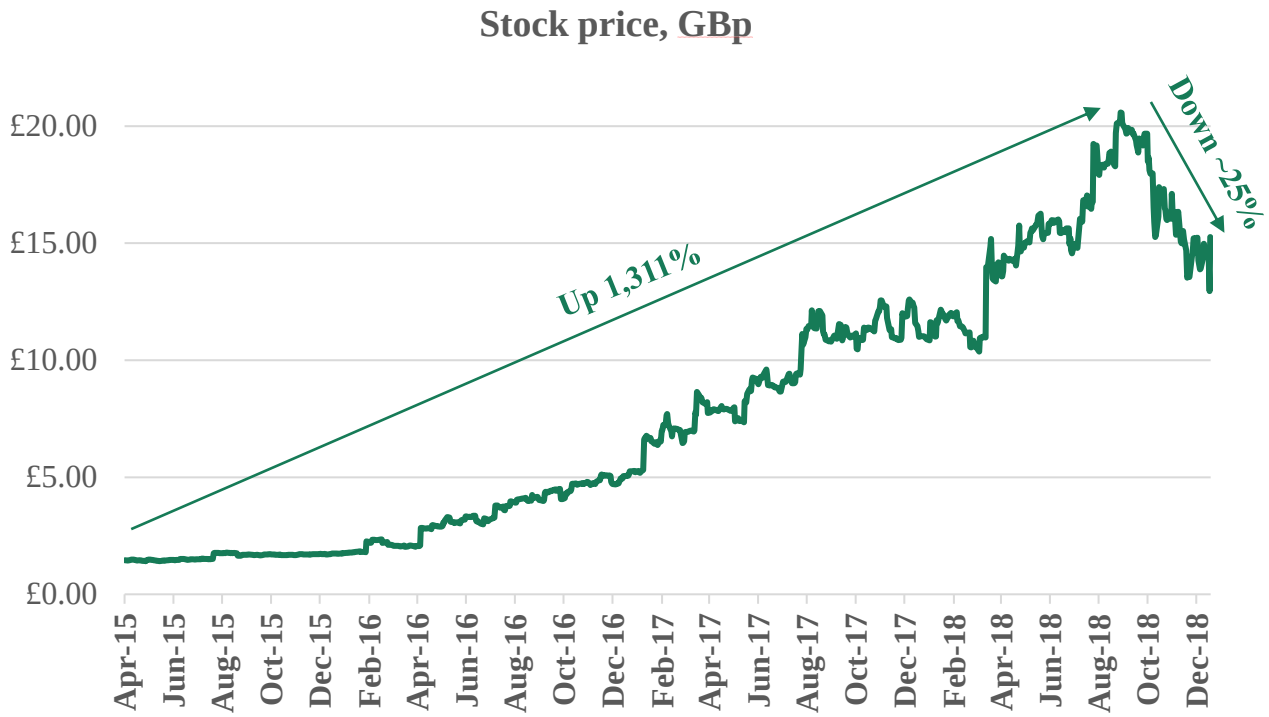
I would also note that Burford's business is *not cyclical* and does not depend on the economy or GDP growth. Companies litigate in good economies and in bad economies. I would even suspect that the demand for litigation finance would increase in a recessionary environment because the number of disputes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

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.

II. Historical Price Chart

Burford stock has performed incredibly well over the past five years: up ~1,300%. The stock performance was driven by strong earnings growth. However, shares are down ~26% from its peak in early October 2018.

Burford Share Price Increased 1,311% Over Three Years But Declined by ~25% Since Its Peak Over the Last Three Months



Source: Factset.

III. Capital Structure at a Glance and Key LTM Valuation Metrics

Price as of market close on 12/19/2018:	GBp 1,514.69 or $19.24[4]
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

[4] 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.

IV. Why Does This Opportunity Exist?

There are a few reasons why this investment opportunity exists:

(1) AIM listing.
(2) Low investor awareness.
(3) Misconceptions about litigation finance.

1. Burford Is Listed on the AIM

Burford became public in early 2009 on the AIM and has remained listed there for a decade. Today, Burford is one the largest companies listed on the AIM (generally in top 3 subject to market fluctuations). 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. Misconception about Litigation Finance

Even more importantly, lots of 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***. I discuss two of these misconceptions below and explain why they are not accurate.

a. Misconception #1: You Need to Have a View on Litigation Outcomes

The most popular misconception about the litigation finance industry in general and Burford in particular is that an investor would need to have a view on the underlying legal claims and their outcomes. Probably no buyside investor or sellside analyst can develop these views. Thus, Burford becomes uninvestable.

This is not true, and here is why. A public investor is extremely unlikely to have an accurate view on the litigation outcome of a particular case. Even Burford does not get it right all the time. Both public markets investing and investing in legal claims are inherently probabilistic. 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 repeatable.

b. Misconception #2: Doing Personal Injury and Class Actions Is a Risky Business from a Regulatory Perspective

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

V. Legal Claims Is a New and Rapidly Growing Asset Class

1. What Is Litigation Finance?

Litigation finance involves two parties: the ligation 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***.

2. 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.

3. Why ***Can*** Legal Claims Be an Asset Class?

However, legal claims have a lot more in common with other asset classes than one may think.

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.

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.

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***.

Burford management did a terrific job at describing legal claims as an asset class in 2014 Annual Report.

> *"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****.*
>
> *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." (All emphasis is mine.)*

Source: 2014 Annual Report.

VI. Litigation Finance: Massive Total Addressable Market and Long Growth Runway Due to Low Penetration

1. Litigation Finance Has a Massive Total Addressable Market

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.

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.

2. Legal Fees

The amount of legal fees globally is unknown, but several tidbits of useful information exist.

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.

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.

3. 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 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.

4. 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. Here is why.

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*.

5. 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%.

6. 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.

7. 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 and 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.***

8. 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.

We have already discussed the first two components. Now it is time to address why the customer value proposition of litigation finance is compelling.

VII. Customer Value Proposition: Which Pain Points Does Burford Solve for Its Clients?

1. Why Would Clients Even Need Burford's Services?

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.

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

Both GAAP and IFRS provide accounting treatment of legal claims and legal expenses that is unfavorable and – even worse – asymmetric.

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.

3. Companies Have an Opportunity Cost of Pursuing Litigation

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.

> *"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*
>
> *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 Semi-Annual Report.

This story is a great illustration of why a company would choose litigation finance as opposed to financing litigation out of pocket.

4. <u>How to Finance Litigation Is a Decision that Is No Different from *Any* Other Capital Allocation Decision</u>

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 (1) pay with cash, (2) pay with debt, (3) lease, (4) other options. Litigation should be no different, and the corporate world (both General Counsels and CFOs) is embracing that.

5. Signaling Effect

As a general rule, 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. This is how Burford described it a few years ago:

> *"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.

6. Structurally Constrained Claimants

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.

7. Law Firm Economics Also Encourage the Use of Litigation Finance

a. 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.

b. 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.

c. Clients Are Increasingly Resistant to High Legal Fees and the Bill-by-the-Hour-Model

On the other hand, clients are demonstrating ever increasing resistance towards high legal fees and billing by the hour.

d. Litigation Finance Is a Solution

Litigation funding provides a compelling solution for both clients and law firms.

VIII. Transaction Structures and the Issue of Control

1. Transaction Structures

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". 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.

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.

2. 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.

IX. Unit Economics

1. Two Key Metrics to Measure Unit Economics: ROIC and IRR.

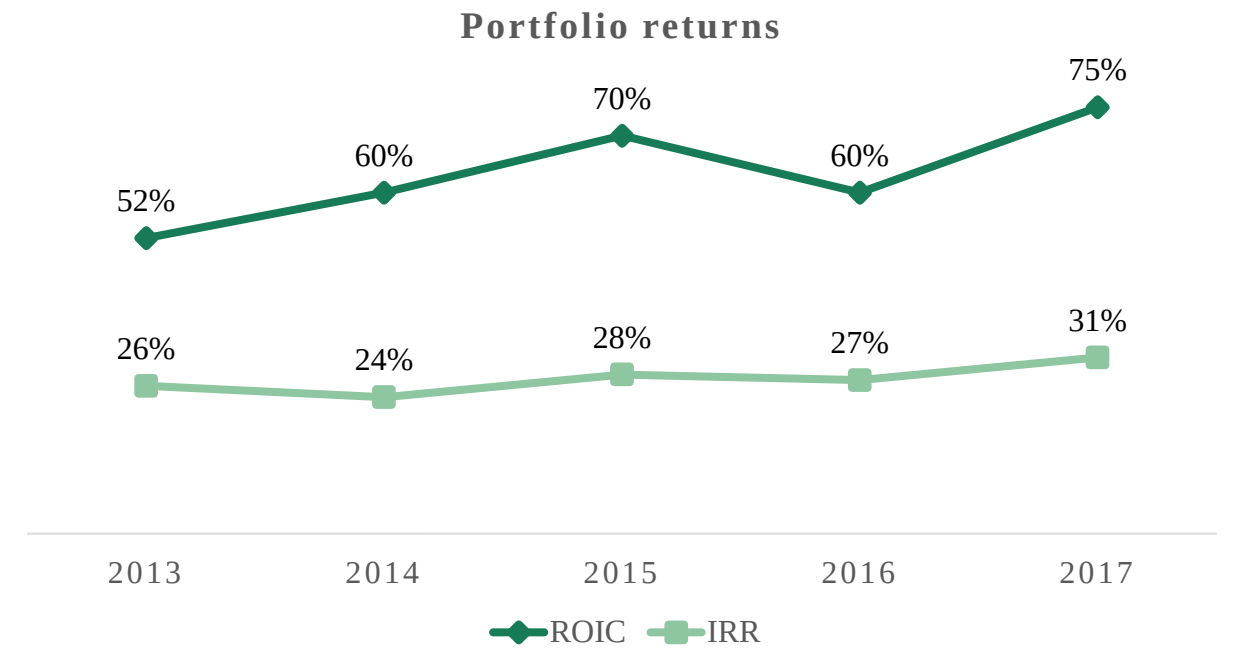
Let's walk through the unit economics of legal investing. Not surprisingly and similarly to investing in any other asset class, there are two key metrics that define the success of legal investing: ROIC and IRR.

This hypothetical example serves as an illustration. 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%.

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

Below I show Burford's ROIC and IRR for 2013 – 2017.

Burford Has Built an Extraordinary Track Record with IRRs of 25% to 30%+



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

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%.

3. How Are ROIC and IRR calculated?

A few things about these calculations are worth highlighting.

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.

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.

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

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).

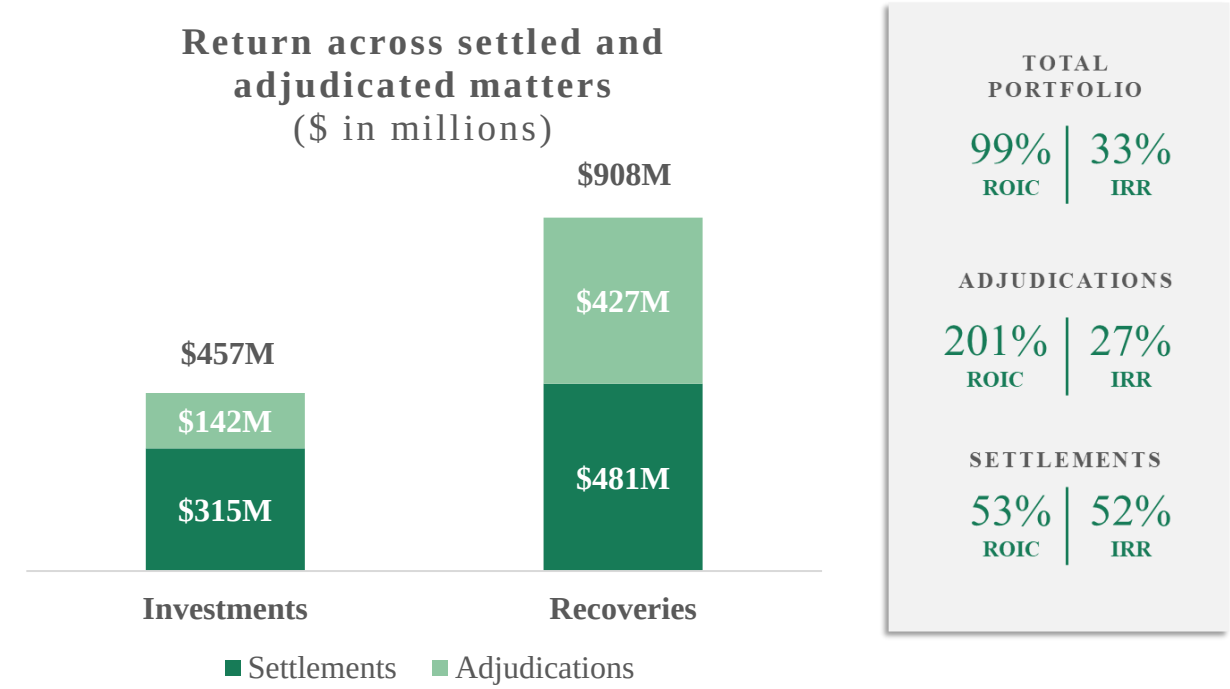
Settled matters generally take less time as they avoid lengthy trials. Thus, ***settled matters generate more attractive IRRs but lower ROICs*** because, by definition, a settlement requires a claimant to accept less than it is claiming and typically less than it believes it could recover through a trial 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*.

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.

Burford Generates Higher IRR but Lower ROIC on Settled Cases and Lower IRR but Higher ROIC on Adjudicated Cases



Source: Burford filings, Caro-Kann Capital LLC analysis.

Thus, 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.

5. 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.

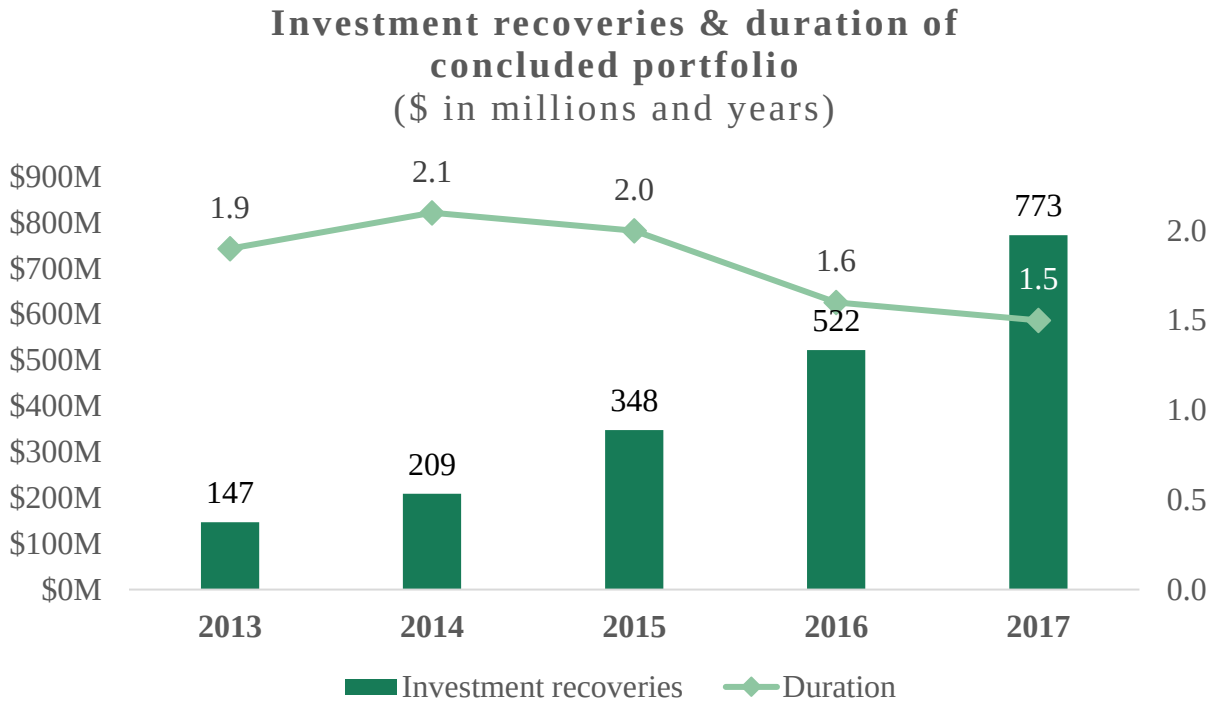
6. Asset Duration Is Less Than Two Years

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.

Below I provide the historical evolution of the duration of Burford's concluded investments. Please note that this is not a cohort analysis but a cumulative data set.

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



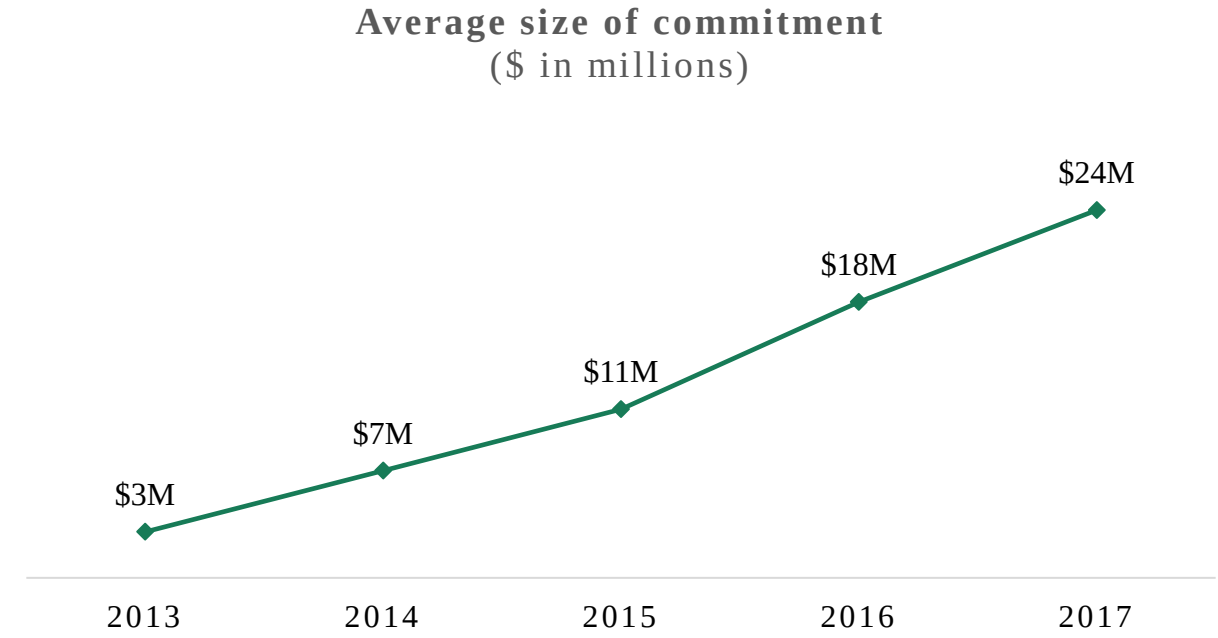
Source: Burford Capital filings, Caro-Kann Capital research and analysis

Please note that this data is disclosed annually and, therefore, data for 2018 is not yet available.

7. Average Commitment Size

Another important metric is the average investment size. The company reports its average commitment size which is different from the average investment size because it happens fairly often that not the entire commitment is drawn to pay for litigation.

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



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

Please note that this data is disclosed annually and, therefore, data for 2018 is not yet available.

X. Portfolio Construction

1. 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. This is what Burford management wrote in the 2011 Annual Report.

> *"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.

It also appears that the 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.

2. Burford Portfolio Is Properly 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.[5] In 2016 these numbers were 64 and 811 respectively.

Here are some metrics showing diversification:

- ✓ 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.

It is worth explaining why Burford's 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 ligation, etc.), different client base, and different "litigation style". Thus, having 14% of Burford's investments spread across different partners reduced the concentration risk substantially.

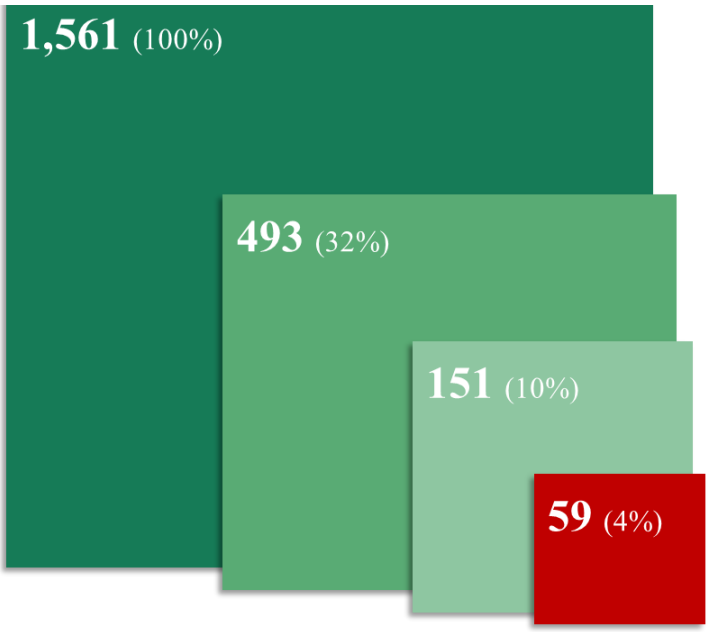
[5] Some investments cover more than one litigation or arbitration case. They are so-called portfolio investments. For example, Burford has entered into arrangements with several corporations as well as law firms where it would finance the entire portfolio with dozens of underlying litigation claims.

XI. Burford's Investment Process

1. Burford Is *Extremely* Selective

Burford achieves this portfolio diversification due to its thoughtful, *rigorous and repeatable* investment process. Burford is *very selective* about which claims it will fund. For example, 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?*
Inquiries received go through a review to determine whether the economics are attractive for Buford *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

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

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***.

2. Stages of Investment Process

Once a case is brought to Burford, Burford's investment process can be broken into three stages.

a. Stage #1: Economics Assessment, or Do the Economics of the Case Work?

This stage does not involve any legal analysis of the case. Instead it focuses on numbers and economics of the case. This is similar to inversion as an analytical tool: if a client wins the case in question, will Burford generate an attractive return?

Burford shared an example of such analysis. A law firm took a case on a full contingency of 31% (not the more typical 33%). The case involved a breach of contract. To split the risk, a law firm approached Burford with an offer to take a substantial portion of the legal fees.

The claimant and the law firm estimated damages between $40M and $70M.

Does this investment opportunity look <u>potentially</u> attractive?

First, many breach of contract cases settle. If a case settles, it would settle for less than claimed damages. Let's be generous here and assume that the settlement will be $40M which is the low range of estimated damages. This is a fairly aggressive assumption. The law firm would receive 31% of $40M or $12.4M.

Second, if the law firm has spent the entire budget of $8M, Burford would first get its $8M back. Even if Burford structures a transaction so that it is entitled to the full remaining $4.4M, it would result in a 55% ROIC. This is too low as Burford's ROIC after losses is ~75%, which means that its ROIC on won cases is even higher.

Thus, this case is unattractive even if it has the best legal merits possible. By the way, Burford never invested time to analyze the legal merits of this particular case because it did not pass the initial stage of analysis.

More than 70% of potential cases fail to pass this initial stage. ~31.5% moved to stage #2 in 2017.

b. Stage #2: Analysis of Legal Merits of the Case

If the economics of the case work, then it proceeds to the second stage: substantive analysis of the case's merits.

This stage requires the most work as the underwriting team digs into the legal merits and legal analysis of a court or arbitration panel's history with similar cases. A claimant often believes their cases will have much higher damages than what is provable in a court of law or in front of an arbitration panel. It is Burford's job to develop a strong view on the quantum of damages that can *actually* be won.

Only 30% of cases that proceeded from stage #1 to stage #2 pass this stage and go to the investment committee for stage #3.

c. Stage #3: Investment Committee Review

If a case passes stage #2, it is presented to the investment committee.

The **investment committee** consists of nine senior lawyers and non-lawyers. The review of each opportunity is rigorous. The underwriting team prepares substantive memoranda, financial models, briefs, and other diligence materials. All those materials go to the investment committee members.

In 2017 "only" ~39% of cases presented to the investment committee were approved.

This brings us to the key metric: only ~4% of cases that applied for funding received an investment from Burford in 2017.

3. "Maintenance" Work

All of us know that once we make an investment in shares of a publicly traded company, the work does not stop. Now we do **maintenance work**.

The only substantial difference between the maintenance work that Burford does and the work that public market investors do is that public market investors can easily change their mind and sell a long position or cover a short position. Burford generally cannot do that. What is the purpose of the maintenance work then?

The purpose of maintenance work is to continuously refine and update the construction of their portfolio. As each case progresses through the stages of litigation or arbitration, its risk parameters, expected duration, and expected payoff change.

XII. Competition and Barriers to Entry

1. 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.

2. Barriers to Entry

There are numerous significant barriers to entry to the litigation finance industry.

a. Scale Is Needed to Build a Diversified 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. 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.*

b. 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.

c. 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 did not 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.

d. Burford Has Superior Underwriting

Burford has superior underwriting given

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

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?

Burford also has experience and proprietary data. This is what I mean by proprietary data. 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.

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

Now 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.

Burford has an excellent team that has worked together for a decade. Burford also has best in class infrastructure in place. Finally and most importantly, Burford has a *very strong track record of making money*.

Alternatively, you can invest in a fund that is just getting started. The team is new. They are just building an infrastructure. There is no track record. They can give you a discount on fees though.

Which one would you choose? To me, this question is rhetorical, and the answer is clear: a hypothetical capital allocator would invest in a fund managed by Burford or another established manager (see the relevant discussion later) as opposed to a brand new fund.

f. 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 and they have client relationships. Shouldn't I be concerned about them? Not really.

The litigation finance brings stigma and potential conflicts of interest. Providing litigation funding will create lots of new conflicts for investment banks. In fact, 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 ligation finance is dominated by pure players.

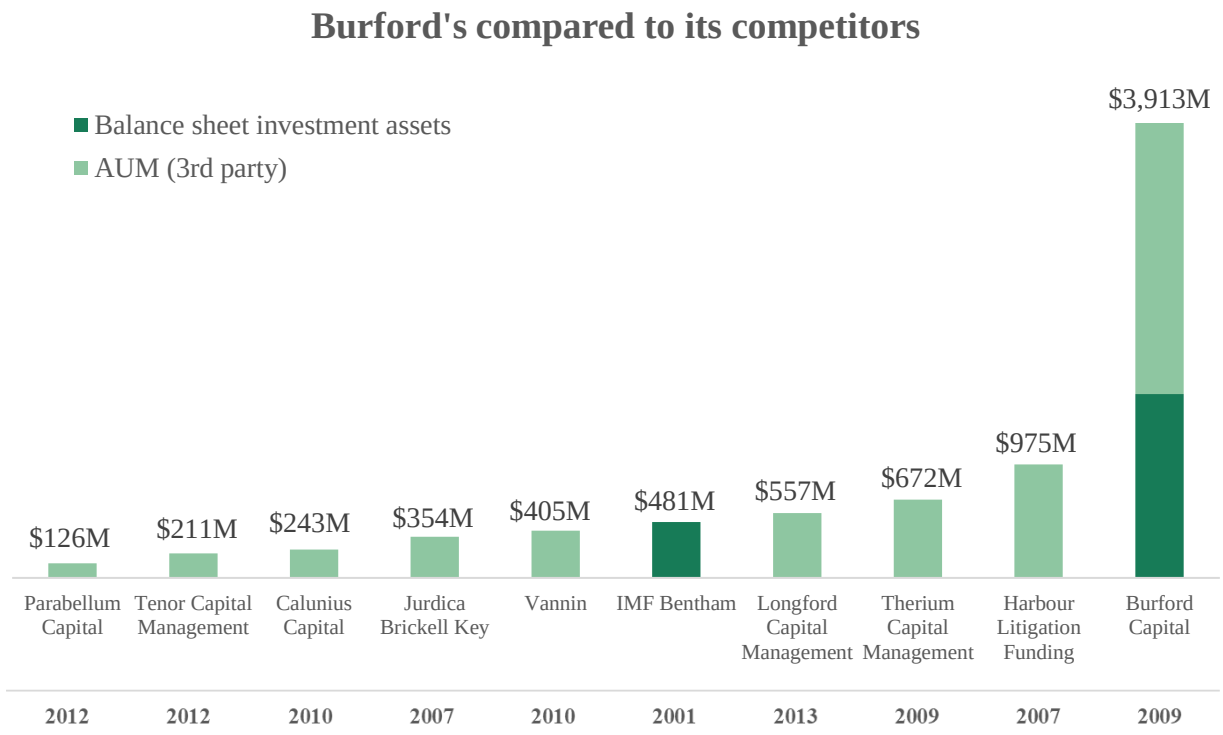
3. Competition

a. 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.

Below I provide data about other big players and their assets under management and their years of launch.

Burford Manages ~4x More Assets Than Its Closest Competitor



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

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.

Despite all these competitors Burford has generated envious returns.

*b. 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.

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.

The process could not be more different than when a claimant, with the help of its lawyers, looks for a litigation finance provider.

First of all, sending a deck or memoranda that contains confidential and attorney-client-privileged information to many parties can break attorney-client privilege.

Second, 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.

c. The Entire Market Is Growing

Finally, 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).

4. Burford's High Returns Are Sustainable

Given the combination of high barriers to entry, lack of fierce price competition and a growing market, I have a strong conviction that ***Burford's high returns are sustainable***.

XIII. Management and Aligned Incentives

Given how much Burford has achieved in the past decade, it should be no surprise that it is led by two extraordinary founders who hold positions of CEO and CIO (Chief Investment Officer). Their incentives are highly aligned with public shareholders due to high insider ownership.

1. Two Co-Founders Have Been Running Burford for 10 Years

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

a. 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.

b. 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.

c. The Two Work Great Together

Chris Bogart and Jonathan Molot have been running Burford as CEO and CIO for a decade. Given Burford's success and how well the two interact on earnings calls, it would be fair to say that they work extremely well together.

2. 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.

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

Given management's aligned incentives, it should be no surprise that it has long-term vision and cares less about providing guidance. This quote from 1H 2018 earnings calls summarizes it best:

> *"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.

While management strives to explain the business and its peculiarities to shareholders in great detail through voluminous (but easy to read!) annual and semi-annual reports, management refuses to give guidance.

> *"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.

4. Communication Style

I just touched upon management's writing. I think Burford's annual reports are *among the best CEO written communications* I have ever read. This is how Burford top management explained why they write the way they do:

> *"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.

XIV. Burford Has Two Core Segments

1. Burford Has Two Core Segments

Buford has two core segments: Litigation Investments and Investment Management.

2. Segment #1: Litigation Investments / Balance Sheet Investing

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

3. 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.

I will discuss the asset management business of Burford and why it was a brilliant move to enter asset management business later.

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

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

Revenue consists of gains offset by losses on litigation investments. Those gains can be realized or unrealized (*i.e.*, fair value adjustments).

2. 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.

3. Fair Value Adjustments

a. 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.

Let me pause here. 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.

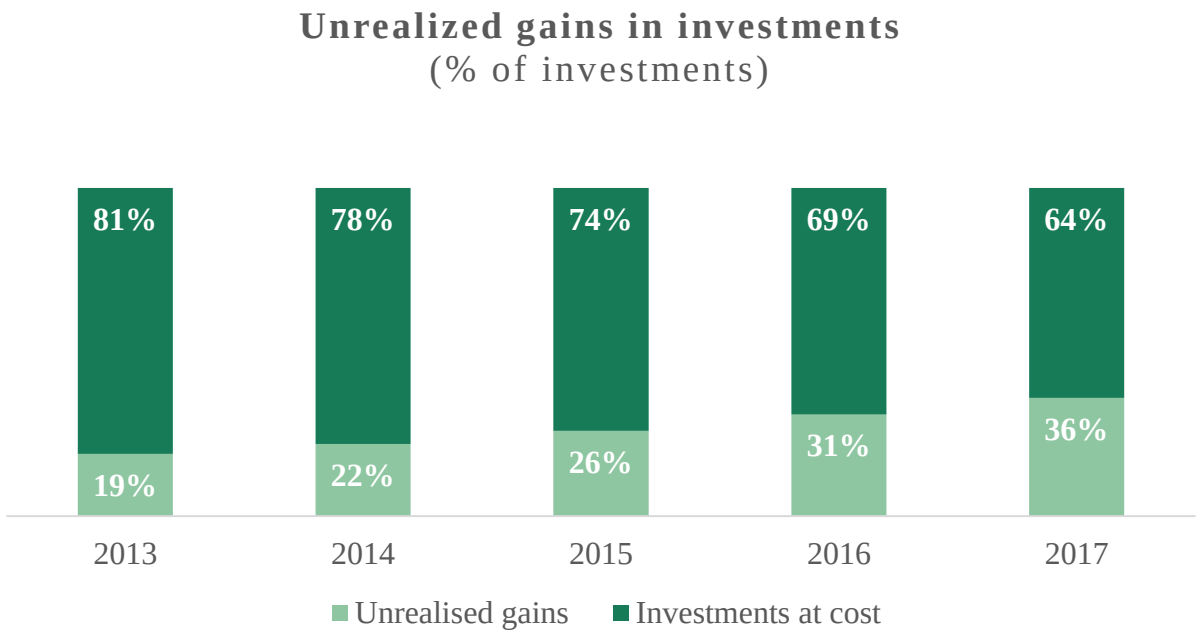
b. IFRS Requires Burford to Make Fair Value Adjustments

First of all, it is not up to Burford to decide whether or not to record fair value adjustments. Burford is required by IFRS to do so.

c. Unrealized Gains Constitute Less Than 40% of Carrying Value of Investments

The second reason why I am not concerned about fair value adjustments is that they have always constituted less than 40% of the value of litigation investments.

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



Source: Burford Capital filings, Caro-Kann Capital research and analysis.

You may observe that unrealized gains as a per cent of investments have increased over time. Isn't this concerning? Not in my opinion. 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.

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

Burford makes fair value adjustments when there is some objective basis in the underlying litigation to support such a change. Burford management formulated this well on one of its earnings calls:

> *"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.

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

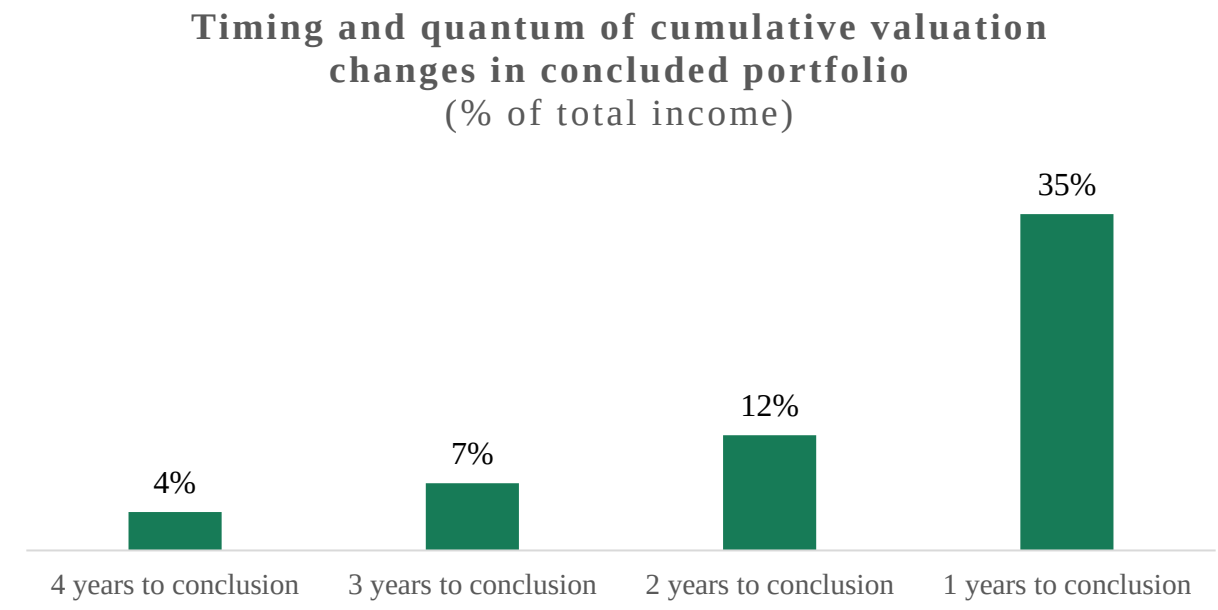
The best evidence of Burford's conservativism in making fair value adjustments is that these adjustments are almost never reversed. The company has had ***only two cases*** where it first made positive fair value adjustments (*i.e.*, had unrealized gains) that subsequently turned into a loss. The number 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.

f. Only ~35% of Total Gains Are Recognized Prior To the Resolution of the Case

Burford is asked a lot about its fair value adjustments which is understandable. The company has aggregated all data for its concluded investments and provided the aggregate timeline about how and when fair value adjustments are recorded. Below is a graphical representation.

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



Source: Burford Capital filings, Caro-Kann Capital research and analysis.

This data is cumulative. In other words, four years before the case resolution, Burford records only 4% of total gains. As the case progresses through the judicial system, that percentage grows: it gets to 7% three years before the resolution and 12% two years before the case conclusion. Finally, one year before the resolution cumulative fair value adjustments reach

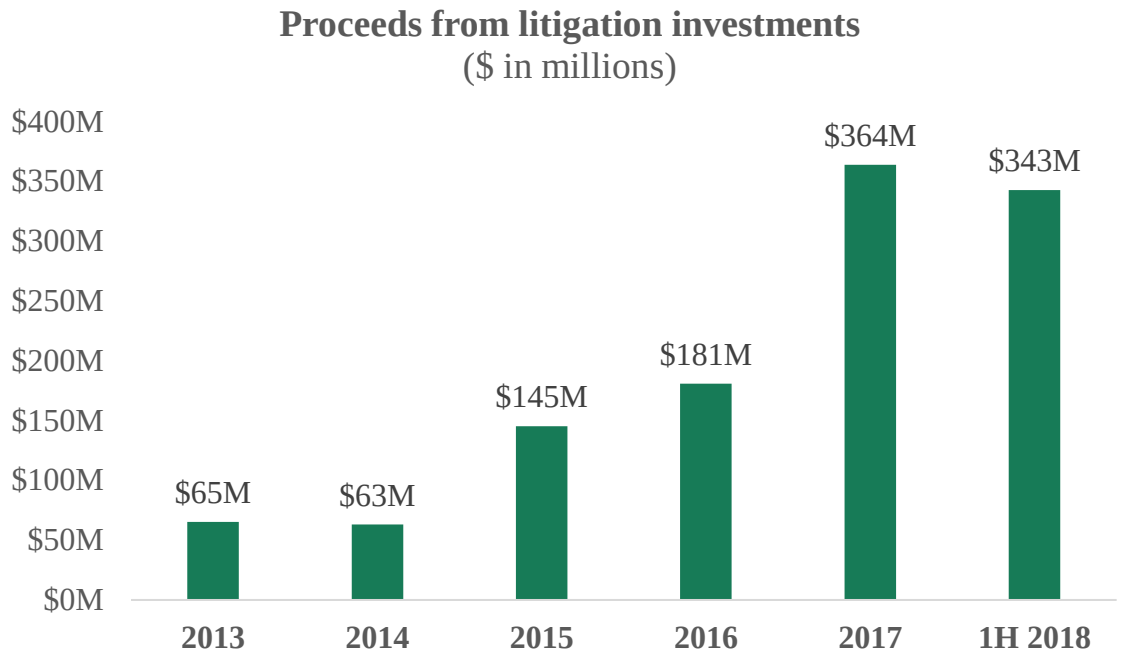
35% of all gains. What does it mean? ***It means that 65% of total gains are recorded only when the case is resolved***.

Again – this strikes me as very conservative accounting.

g. Burford Has a History of Consistent Cash Inflows from Its Litigation Investments

Finally, Burford has a history of consistent cash inflows from its litigation investments.

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



Source: Burford Capital filings, Caro-Kann Capital research and analysis.

XVI. Operating Expenses in the Balance Sheet Investing Segment

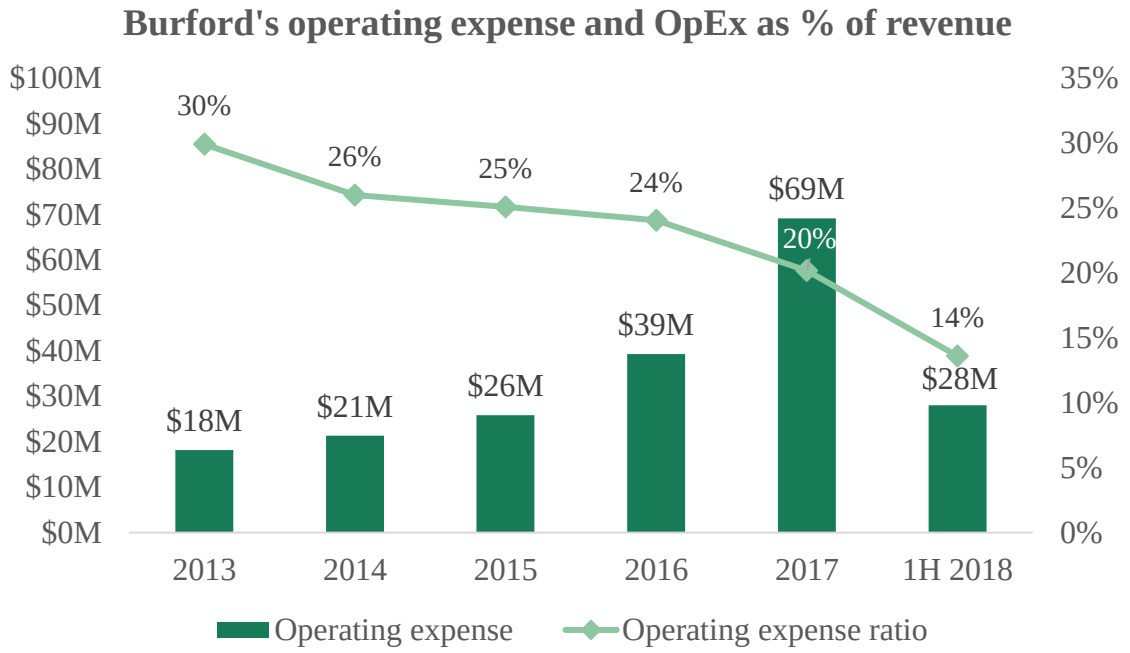
1. Operating Expenses Consist Largely of Salaries

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

2. Burford Has Demonstrated Substantial Operating Leverage

Burford has demonstrated tremendous operating leverage as its operating expenses have dropped from ~30% of revenue in 2013 to ~20% in 2017.

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



Source: Burford Capital filings, Caro-Kann Capital research and analysis.

Why did this happen? Shouldn't Burford's business be labor intensive? Yes and no. Of course, Burford'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.

XVII. Investment Management Business

1. 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.

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

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?

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.

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***.

3. Burford Has Raised Another $350M Fund Since Then and on December 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 Buford did not disclose which country) for $667M to Burford's strategy and Burford would charge 0% management fee and ***42% incentive fee***.

4. Allocation of Investments is Based on a Set Formula

How will Burford be allocating investment opportunities among its own balance sheet, funds, and its "sovereign wealth fund" investment vehicle?

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.

5. Burford Is Getting Multiple Benefits from Managing Outside Capital

I can see at least two major benefits that Burford derives from managing third party capital.

First, there is a 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.

Second, 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.

6. Incentive Fees: European Waterfall

It is critical to note that so far Burford has recorded only *de minimis* amount of incentive fees in prior reporting periods. Why is that?

Burford funds operated based on the so-called **European waterfall structure**. It means that 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.

XVIII. A Few Words About FX

Even though Burford shares are quoted in GBp, an investor in Burford shares does not take a GBp risk because ~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%).

XIX. 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.

XX. Balance Sheet Investing: Modelling and Valuation

1. Overview

Please note that I have included most important tables from the financial model in the investment memorandum. The Appendix contains all elements of the financial model for all three cases (bear, base, and bull).

2. IRR Is the Key Assumption

Let's start with valuing the balance sheet investing business.

The key assumption is the IRR. I am using 25% IRR for the base case, 20% for the bear case, and 30% for the bull case. I believe that these assumptions are appropriate as Burford's most recent IRR was in excess of 30%. So 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).

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%**
Bear	*%*		20.0%		20.0%	20.0%	20.0%	20.0%
Base	*%*		25.0%		25.0%	25.0%	25.0%	25.0%
Bull	*%*		30.0%		30.0%	30.0%	30.0%	30.0%
Semi-annual IRR	%		11.8%					

3. 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**
y-o-y growth, %	*%*	*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.

4. Operating Expenses

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.

		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**
y-o-y growth, %	*%*	*34.2%*	*30.6%*	*30.0%*	*30.2%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*
Bear	*%*			35.0%		35.0%	35.0%	35.0%	35.0%
Base	*%*			30.0%		30.0%	30.0%	30.0%	30.0%
Bull	*%*			25.0%		25.0%	25.0%	25.0%	25.0%
as % of litigation revenue	*%*	*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**
y-o-y growth, %	*%*	*265.7%*	*(31.4%)*	*25.0%*	*(8.2%)*	*25.0%*	*25.0%*	*25.0%*	*25.0%*
Bear	*%*			30.0%		30.0%	30.0%	30.0%	30.0%
Base	*%*			25.0%		25.0%	25.0%	25.0%	25.0%
Bull	*%*			20.0%		20.0%	20.0%	20.0%	20.0%
Operating income	**$ M**	**256**	**172**	**166**	**339**	**389**	**449**	**515**	**585**
y-o-y growth, %	*%*	*136.8%*	*25.2%*	*41.0%*	*32.5%*	*14.8%*	*15.5%*	*14.6%*	*13.6%*

5. Interest Expense, Taxes, and Net Income

I am modeling interest expense based on the current capital structure.

This table shows all bonds that Buford has issued together with relevant information.

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**

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*.

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.

		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**
y-o-y growth, %	*%*				*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%*
Bear	*%*			*5.0%*		*5.0%*	*5.0%*	*5.0%*	*5.0%*
Base	*%*			*3.0%*		*3.0%*	*3.0%*	*3.0%*	*3.0%*
Bull	*%*			*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**
y-o-y growth, %	*%*	*129.0 %*	*28.2%*	*33.7%*	*30.8%*	*12.1%*	*15.4%*	*14.6%*	*13.6%*

6. Dividends, Dilution, and Retained Earnings

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.

		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**
y-o-y growth, %	*%*			*20.0%*		*20.0%*	*20.0%*	*20.0%*	*20.0%*
Bear	*%*			*15.0%*		*15.0%*	*15.0%*	*15.0%*	*15.0%*
Base	*%*			*20.0%*		*20.0%*	*20.0%*	*20.0%*	*20.0%*
Bull	*%*			*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
y-o-y growth, %	*%*					*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**

7. ~120% Upside in the Base Case from Balance Sheet Investing Business *Alone*

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. I think 17x is a reasonable multiple.

This creates an upside of ~50% in 2019 to 120%+ by 2022.

		2018E	2019E	2020E	2021E	2022E
P/E	**x**	**17.0x**	**17.0x**	**17.0x**	**17.0x**	**17.0x**
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	5,736	6,431	7,424	8,507	9,660
Target price of B/S Investing Business Only	$	**$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

		2018E	2019E	2020E	2021E	2022E
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%**

8. ~300% Upside in the Bull Case

However, using the bull case assumptions, an upside can be as high as ~300% in 2022.

		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 Only	$	**$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%

9. Bear Case

Using the bear case assumptions outlined above, the bear case produces a downside of ~19% in 2022.

		2018E	2019E	2020E	2021E	2022E
P/E	**x**	**12.0x**	**12.0x**	**12.0x**	**12.0x**	**12.0x**
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	3,536	3,213	3,389	3,466	3,384
Target price of Investments Business Only	**$**	**$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%)**

10. Let's Not Forget About the Investment Management Business

While we have valued Burford's balance sheet investing business, we have not touched upon the valuation of its investment management business.

XXI. Investment Management Business: Model and Valuation

1. Key Assumptions

The 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.

I am using a range of 1% to 2% for fund expenses (audit, administration, legal fees charged to the funds). These fund expenses 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%.

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.

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

Scenario		#1: Today	#2: Future	#3: Optimistic
Total fees for 2 years (management fees + incentive fees)	$ M	262	339	567
Normalized total annual fees	**$ M**	**131**	**169**	**284**
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
Bear		10.0x	10.0x	10.0x
Base		12.0x	12.0x	12.0x
Bull		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**

Please note that this valuation of the investment management business does not take into account earnings reinvestment.

XXII. Valuation: Putting It All Together

Now it is time to put together valuation of the balance sheet investing business and asset management.

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%

Thus, the base case upside is ~150% and the bull case upside is ~330%. Even my bear case generates a ***positive*** low single digit return.

XXIII. Risks and Mitigants

I can see several risks to my investment thesis. However, I see strong mitigants as well.

1. Competition

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.

2. Regulations

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.

First, 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.

Second, 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.

XXIV. 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 is earnings growth even further. This may serve as a soft catalyst.

Disclaimer

We and / or our affiliates are long Burford shares, and may buy additional shares or sell some or all of our shares, at any time. We have no obligation to inform anybody of any changes in our views of Burford. This is not a recommendation to buy or sell Burford shares or bonds.

Appendix 1. Key Financials and Model Output

1. Base Case

a. 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%	

b. 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%*

c. 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%*

d. 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%*

e. 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**

f. 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 Only	$	**$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%**

g. 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 expenes		16.5
Pre-tax income	$ M	153
Tax rate	%	21%
Tax Due	$ M	32
Investment Management Net Income	$ M	121
Multiple		12.0x
Bear		10.0x
Base		12.0x
Bul		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**

h. 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%

2. Bear Case

a. 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%	

b. 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%*

c. 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%*

d. 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%)*

e. 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**

f. 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 Only	$	**$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%)**

g. 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 expenes		16.5
Pre-tax income	$ M	114
Tax rate	%	21%
Tax Due	$ M	24
Investment Management Net Income	$ M	90
Multiple		12.0x
Bear		10.0x
Base		12.0x
Bul		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**

h. 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%

3. Bull Case

a. 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%		30.0%	30.0%	
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	%			14.0%		14.0%	14.0%		14.0%	14.0%		14.0%	14.0%		14.0%	14.0%	

b. 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%*

c. 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%*

d. 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%*

e. 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**

f. 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 Only	$	**$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%**

g. 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 **annual** fees	$ M	284
1H 2018 LTM Expenses	$ M	6.6
Bonuses as % of LTM Expenses	%	150%
Bonuses	$ M	9.9
Total expenes		16.5
Pre-tax income	$ M	267
Tax rate	%	21%
Tax Due	$ M	56
Investment Management Net Income	$ M	211
Multiple		12.0x
Bear		10.0x
Base		12.0x
Bul		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**

h. 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%