

Fat Prophets take profits

Shares in litigation funder IMF Bentham (ASX:IMF) have held up well amidst recent broader market volatility. The shares are in fact only marginally off their October highs, with management continuing to make stern operational progress. The company this week has announced the successful closing of a fourth fund, with a size of US\$500 million. Investors also clearly continue to back the company's stellar track record, with a 90% success rate across 179 completed cases. This has seen the company recover some \$2.3 billion for clients since 2001.

IMF has been a strong performer since we first recommended the shares around \$1.43. Investor appetite for the shares have surged since 2016 in particular as IMF has steadily followed through on its promise to be a truly global player in litigation funding, and has been astute in backing 'winnable' cases.

On a valuation basis we still believe that IMF offers good value taking a medium-term perspective. We are, however, conscious that it may be difficult for the company to replicate the same success as it 'scales up.' With the technical picture also showing some resistance on the horizon we are therefore minded to take some profits at this juncture. Including dividends, this will see a return secured (on our initial recommendation) of more than 300%.

We recommend Members sell half their holdings in IMF Bentham.

After a stellar run from the lows in 2016, IMF Bentham shares have plateaued on the charts this year (and in so doing outperformed the ASX), but this is not for lack of the company delivering on its strategic imperatives. This was reflected upon by management at the AGM last month, with the company increasing the number of case investments within the portfolio from 30 (at June 2015) to 75 at 30 June 2018. The company's investment portfolio has also risen from an EPV (estimated portfolio value) of \$2 billion to \$5.6 billion over the timeframe, and \$5.8 billion at 30 September 2018.

The company has also continued to spread its wings, opening up new offices in Canada and Asia, as well as expanding the footprint further across the US, and also setting up shop in the UK and Europe.

IMF has also sought to make itself more scalable, and decrease balance sheet risk. The company has made a tilt in recent times from being an on-balance sheet funder to more of a 'co-investor' and fund manager. Financial flexibility has also been boosted by a \$75 million capital raise (through an institutional placement and SPP), while the company's bond terms are also being extended.

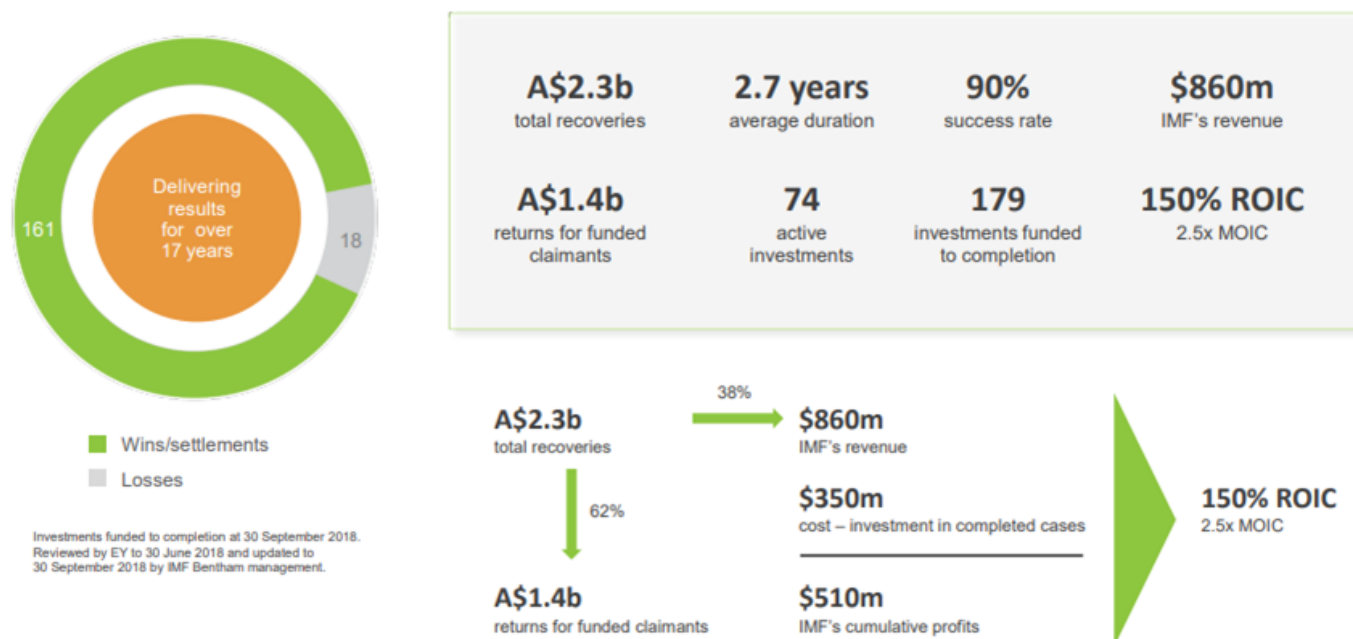
An issue of course (for the markets at least) has been that the nature of the industry means that revenues are often 'lumpy' with the timing of case settlements uncertain, and unpredictable. Such was evident in FY18,

with IMF recording a loss of \$7.8 million due to a delay in expected case completions. This also can complicate investor assessment of the company's true value in our view.

	FY2018	FY2017	FY2018 v FY2017
Contract Income	\$71.2M	\$113.3M	▼ 37%
Litigation Expenses	\$(54.7)M	\$(59.2)M	▲ 8%
Net Income from investments	\$16.5M	\$54.1M	▼ 69%
Other income (foreign exchange & interest)	\$6.6M	\$2.9M	▲ 128%
Net Operating Expenses	\$(31.5)M	\$(31.3)M	▼ 1%
NPBT	\$(8.4)M	\$25.7M	▼ 133%
Tax	\$0.6M	\$(10.3)M	▲ 106%
NPAT	\$(7.8)M	\$15.4M	▼ 150%

Source: AGM presentation

We have long said that a medium to long term view needs to be taken with IMF Bentham, and despite a diverse case portfolio (by geography, sector, and time). This is as the average case lifespan is 2.7 years. The company's track record however speaks for itself, with a return on invested capital of 150% over 17 years (including cases lost), and a 90% success rate. Little wonder that the pipeline is also strong, with 200 matters currently in the due diligence stage.



Source: AGM Presentation

As noted above IMF has also looked to actively tweak its model to become more of a 'participator' in case funding, rather than taking everything on balance sheet. Such a model also allows the company to earn management fees and performance fees over the life of the fund.

This tilt has been well received, with demand for the company's fourth fund proving to be strong. The company's second US litigation fund (the 4th across the group) has recently completed a capital raising in the order of US\$500 million. This takes IMF total FUM to in excess of A\$1 billion.

Turning to the charts, and on the daily, dynamic support sighted at the 50-day moving average (red line) and the 200-day moving average (green line) remain intact. That at the February intra-month low of \$2.73

(horizontal blue line) has also held thus far and withstood a recent test. The overall upward trend line remains in place. Resistance in the \$3.10 to \$3.33 region looks fairly stern near term.

IMF Bentham Limited - IMF (ASX) - 1 Day CandleStick Chart - AUD



With reference to the monthly chart, prices have closed (on a monthly-basis) above the 78.6% Fibonacci retracement of \$2.15. This is a positive and have seen a move back above support at \$2.48. From here an initial target of \$2.91, being the 127.2% Fibonacci extension, has also been taken again. The long-term uptrend remains firmly intact, but the 161.8% Fibonacci extension at \$3.45 looms as strong resistance.



Summary

Shares in litigation funder IMF Bentham have held up well amidst recent broader market volatility. The shares are in fact only marginally off their October highs, with management continuing to make stern operational progress. The company this week has announced the successful closing of a fourth fund, with a size of US\$500 million. Investors also clearly continue to back the company's stellar track record, with a 90% success rate across 179 completed cases. This has seen the company recover some \$2.3 billion for clients since 2001.

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Snapshot IMF

IMF Bentham

Latest Closing Price: \$2.93

Bentham IMF is an Australia-based litigation funder. The Company is engaged in the investigation, management and funding of litigation. The operations of the Company are divided into three areas of business: insolvency claims, commercial claims involving single plaintiffs and commercial group actions. IMF's services include funding for litigation and investigations preliminary to litigation; payment of adverse costs orders; strategic planning, monitoring and managing of litigation; factual investigation, including asset tracing, and assistance in facilitating settlements and maximizing the value of each claim. Financial Redress Pty Ltd is the subsidiary of the Company. The Company has operations in Australia, the United States, Canada, the United Kingdom, South Africa, New Zealand and Asia. In October 2011, it incorporated a new wholly owned subsidiary, Bentham Capital LLC, which was established in the United States of America.

Market Capitalisation: \$599.50m

	FY1	FY2
Price to Earnings	-	7.0
Dividend Yield (%)	1.0	3.5
Price to Book	2.7	-
Return on Equity (%)	-	12.0
EV/EBITDA	-	5.2