



## Fixed Interest



### Burford Capital PLC 6.125% 26/10/24 - Buy

14th April 2016

Issue Price	100
Credit Rating	N/A
Risk Rating	Medium
GRY	6.125%

#### The Issuer:

Burford Capital Limited ("Burford") is the world's largest provider of litigation finance with approximately 60 staff located in the US and the UK. The company trades on the London Stock Exchange with a market capitalisation of £629m.

#### Business Model

Burford provides funding to companies to bring actions against other companies. Burford broadly provides funding on the following terms. They pay for the case and then any returns firstly go back to Burford to cover their contribution, then a fixed percentage to allow for their investment return (this will partly be a function of how long the case is outstanding, i.e. the time value of money) and finally any surplus funds are then divided between Burford and the litigant on a profit share basis.

Many firms are unwilling to embark upon large levels of expenditure themselves to pursue litigation claims and instead engage the services of Burford. There are several reasons for this - rising litigation costs, declining corporate budget tolerance for high and unpredictable spending and unfavourable accounting treatment of pursuing litigation claims (the costs are treated as current expenses whilst pending claims do not give rise to balance sheet assets).

#### Performance

Since its inception in September 2009, Burford has carefully grown its book of litigation funding investments to become one of the leading players in the litigation finance market. A total of 42 investments have generated \$143m net of invested capital, producing a 70% net return on invested capital. Last year's result were particularly outstanding with income growing 24% to \$103m and profit increasing 42% to \$66.2m.

#### Uncorrelated Asset Class

Litigation finance is regarded as a high return, uncorrelated asset class. Moreover, unlike many types of private equity and venture capital investment, the litigation system itself provides an automatic exit in litigation investments, simply because the adjudicative system ultimately forces matters to come to an end. Those exits are entirely unrelated to the economic cycle. In addition, the risk is tempered by the fact that the majority of cases settle out of court (i.e. the party bringing the case will at least recover something and of course, first bite goes to Burford).

#### Investment Process

Burford follows a rigorous investment process where the approval of the company's Investment Committee is required for any new investment (on average \$5m-\$10m) and it approves only a small minority of the potential investments presented. Indeed, the company approaches litigation investing as investing first, and litigation second. As a result, Burford has a large and well-diversified portfolio (with different risk and return profiles) that can bear the inevitable risk of losses on some cases.



## Fixed Interest (cont)

### **Credit Analysts View:**

The bond will not be rated at issue.

### **Terms of the bond:**

#### Denomination

The bond has a face value of just £100, although it is not possible to purchase for less than £2,000 nominal during the Offer Period. Thereafter, the bonds can be bought and sold in multiples of just £100.

#### Coupon

The bond pays a 6.125% coupon in two semi-annual instalments in arrears on 26th April and 26th October in each year until the bonds mature.

#### Redemption

Subject to credit risk, the bonds will be repaid at par on the maturity date, 26th October 2024.

#### Dealing

The bonds are traded on the London Stock Exchange's electronic Order Book for Retail Bonds (ORB), which was launched in response to private investor demand for easier access to trading bonds with the aim of providing a transparent and efficient mechanism for UK retail investors to access the bond markets. The bonds are tradeable instruments and prices are quoted in the market during trading hours. The bonds can be sold before maturity on the ORB and the prices are supported by prominent investment firms in a market-making capacity.

#### Stamp Duty

No UK stamp duty is payable on the purchase or transfer of the bond or on its redemption.

#### Security

The bonds are senior unsecured, ranking ahead of ordinary and preference shareholders.

#### Covenants

A financial covenant ensures that the company's debt does not exceed 50% of the Group's total assets. There is also a negative pledge where Burford will not create a security interest over any of its assets to secure any debt without equally and at the same time securing the bonds. There is also a Guarantee provision which says that unsecured and unsubordinated obligations will rank pari passu with each other. In combination this means Burford may not issue higher ranking debt, though it may issue subordinated debt.

### **Summary:**

We feel this issue represents good value for money. Burford has demonstrated excellent progress since it was formed with management focussing on controlled organic growth. We expect more of the same going forward and see little risk of excessive expansion or acquisitions. Burford's 2015 operating profit provides interest cover of 3.1 times, a very comfortable margin. The first bond that was issued by the company two years ago had a 6.5% coupon, compared with the 2% offered by the 10-year gilt at the time. With the 10-year yielding just 1.45% today, this 6.125% coupon is actually better value, despite the fact that the credit has improved as a consequence of the company's success.



GIBRALTAR ASSET MANAGEMENT  
STOCKBROKERS & INVESTMENT MANAGERS

## Research Disclaimer



### Research Disclaimer

Gibraltar Asset Management is a trading name of Gibraltar Asset Management Limited, is a member firm of the London Stock Exchange and is authorised and regulated by the Financial Services Commission. Research: Neither the information nor the expressed opinions in this document constitute or intend to be an offer, or a solicitation of an offer, to buy or sell relevant securities ( i.e. securities mentioned herein and options, warrants, or rights to or interests in any such securities). The information and opinions contained in this document have been compiled from, and based upon generally available information and independent research undertaken by ourselves which has been qualified and reviewed by our portfolio managers for suitability or appropriateness. However, the accuracy or completeness of the analysis cannot be guaranteed. Confidentiality: The information in this document and any attachments may contain proprietary information some or all of which may be legally privileged. It must not be disclosed to or used by persons other than the intended recipient. If received in error, please notify us immediately and then delete this document. Content: Please note that the content of this document may be e-mailed and may be intercepted, monitored or recorded for compliance purposes. Copyright: Copyright in this document and any attachments created by Gibraltar Asset Management Limited belongs to Gibraltar Asset Management Limited unless otherwise stated. Care: Gibraltar Asset Management Limited shall not be liable to the recipient or any third party for any loss or damage howsoever arising from this document and / or its content, including if e-mailed, loss or damage caused by virus. It is the responsibility of the recipient to ensure that the opening or use of this document and any attachments shall not adversely affect systems or data. Contact: Telephone +350 200 75181 Mail: [gam@gam.gi](mailto:gam@gam.gi) Website: [www.gam.gi](http://www.gam.gi)