LifeWallet Announces Second Quarter 2023 Financial Results

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CORAL GABLES, Fla., Sept. 01, 2023 (GLOBE NEWSWIRE) -- MSP Recovery, Inc. d/b/a LifeWallet (NASDAQ: LIFW) ("LifeWallet," or the "Company"), a Medicare, Medicaid, commercial, and secondary payer reimbursement recovery and technology leader, announced it has filed its quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2023.

Recent Highlights

- LifeWallet continued to execute and advance its business strategy as the Paid Value of Potentially Recoverable Claims ("PVPRC") increased by about $1.8 billion for a total of $91.4 billion as of June 30, 2023. Continued growth of PVPRC reflects strong demand for LifeWallet's expertise and recovery services from health plans, providers, and self-insured entities. As a result of ongoing recovery efforts, a large portion of the newly acquired claims are incorporated into existing cases.
- LifeWallet furthered its litigation and data-matching strategies during the quarter. The Company continues to make progress in its recovery efforts. Recoveries are dependent on the completion of litigation and the negotiation of settlements, the timing of which can be subject to the risk of delays associated with the litigation and settlement process. However, we continue to make progress in the data matching process associated with those settlement negotiations, whereby primary payer insurers reconcile what they owe as a result of detailed data exchanges.
- The Company had an Operating Loss of $281.2 million and an Adjusted Operating Loss of $41.7 million for the six months ended on June 30, 2023, which is adjusted to exclude non-cash items such as claims amortization expenses, and an allowance for credit losses.
- On March 29, 2023, the Company entered into the Working Capital Credit Facility consisting of commitments to fund up to $48 million in proceeds. This transaction highlights our investors' continued confidence in the Company.
- On April 12, 2023, the Company entered into the Virage MTA Amendment, which extended the due date for the payment obligations to Virage to September 30, 2024.
- On April 12, 2023, the Company entered into an amended and restated promissory note with Nomura, which extended the due date to September 30, 2024.
- Management implemented a reduction of operating costs in 2023 through the reduction or elimination of certain controllable expenses particularly within the budgeted costs to expand and develop new solutions through the LifeWallet platform, advertising expenses, and non-contingent legal fees. The Company anticipates that the reductions could contribute approximately $19.7 million in savings to operating expenses over the next twelve months.

Second Quarter 2023 Financial Highlights

- **Revenue:** Total revenue for the three months and six months ended June 30, 2023, was $2.5 million and $6.03 million respectively.
- **Operating loss:** Operating Loss for the three months and six months ended June 30, 2023, was $140.5 million, and $281.2 million respectively, compared with $67 million and $70.8 million three months and six months ended June 30, 2022 respectively. Adjusted Operating Loss for three months and six months ended June 30, 2023 was $19.5 million, and $41.7 million respectively excluding non-cash claims amortization expense of $121.0 million for the

three months ended June 30, 2023 and $234.5 million for the six months ended June 30, 2023.[1]

- **Net loss:** Net loss for the three months and six months ended June 30, 2023, was $210.8 million and $385 million respectively. Adjusted Net Loss for the three months ended June 30, 2023 was $17.9 million, excluding the non-cash items. For the Six Months Ended June 30, 2023, Adjusted Net Loss was $33.4 million, excluding the non-cash items noted. [1]
- **Liquidity:** As of June 30, 2023, cash and cash equivalents were $6.4 million. On March 29, 2023, the Company announced it entered into the Working Capital Credit Agreement consisting of a commitment to fund up to $48 million in proceeds from March of 2023 through August of 2024. In addition, the Company implemented a cost saving strategy which could contribute approximately $19.7 million in savings to operating expenses over the next twelve months.

(1) Additional information regarding the non-GAAP financial measures discussed in this release, including an explanation of these measures and how each is calculated, is included below under the heading "Non-GAAP Financial Measures." A reconciliation of GAAP to non-GAAP financial measures has also been provided in the financial tables included below.

Assigned Recovery Rights Claims Paid and Billed Value

The table below outlines the Company's growth in claims data received in the most recent periods. The amounts represent data received from current and new assignors:

	Six Months Ended June 30, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021	Year Ended December 31, 2020
$ in billions				
Paid Amount	$ 380.8	$ 374.8	$ 364.4	$ 58.4
Paid Value of Potentially Recoverable Claims	91.4	89.6	86.6	14.7
Billed Value of Potentially Recoverable Claims	386.6	377.8	363.2	52.3
Recovery Multiple	N/A(1)	N/A(1)	N/A(1)	N/A(1)
Penetration Status of Portfolio	86.8 %	85.8 %	75.6 %	N/A

(1) During the six months ended June 30, 2023, the Company has received total recoveries of $5.0 million with a recovery multiple of 1.54x. However, the settlement amounts do not provide a large enough sample to be statistically significant and are therefore not shown in the table.

(2) On August 10, 2022, the United States Court of Appeals, Eleventh Circuit held that a four-year statute of limitations period applies to certain claims brought under the Medicare Secondary Payer Act's private cause of action, and that the limitations period begins to run on the date that the cause of action accrued. This opinion may render certain Claims held by the Company unrecoverable and may substantially reduce PVPRC and BVPRC as calculated. As our cases were filed at different times and in various jurisdictions, and prior to data matching with a defendant we are not able to accurately calculate the entirety of damages specific to a given defendant, we cannot calculate with certainty the impact of this ruling at this time. However, the Company has deployed several legal strategies (including but not limited to seeking to amend existing lawsuits in a manner that could allow claims to relate back to the filing date as well as asserting tolling arguments based on theories of fraudulent concealment) that would apply to tolling the applicable limitations period and minimizing any material effect on the overall collectability of its claim rights. In addition, the Eleventh Circuit decision applies only to district courts in the Eleventh Circuit. Many courts in other jurisdictions have applied other statutes of limitations to the private cause of action, including borrowing the three-year statute of limitations applicable to the government's cause of action; and borrowing from the False Claims Act's six-year period. The most recent decision on the issue from the District Court of Massachusetts, for example, applies the same statute of limitations as Eleventh Circuit, but expressly disagrees with the Eleventh Circuit's application of the "accrual" rule and instead adopted the notice-based trigger that the company has always argued should apply. This would mean that the limitations period for unreported claims has not even begun to accrue. The bottom line is that this is a complex legal issue that will continue to evolve in jurisdictions across the country. Nevertheless, if the application of the statute of limitations as determined by the Eleventh Circuit was applied to all Claims assigned to us, we estimate that the effect would be a reduction of PVPRC by approximately $8.9 billion. As set forth in our Risk Factors, PVPRC is based on a variety of factors. As such, this estimate is subject to change based on the variety of legal claims being litigated and statute of limitations tolling theories that apply.

- Total Paid Amount of owned claims has increased to $380.8 billion, as of June 30, 2023, up $6 billion or 1.5% from $374.8 billion as of December 31, 2022. This figure represents the amounts our clients/assignors have paid for in medical bills (including capitation payments).
- Paid Value of Potential Recoverable Claims grew to $91.4 billion, as of June 30, 2023, up $1.8 billion from $89.6 billion as of December 31, 2022. This figure represents the amounts LifeWallet estimates are potentially recoverable as identified by LifeWallet algorithms.

Recoveries Being Sought by Category:

The table below outlines specific dollar amounts identified by the Company, broken down by litigation and demand letter type, that it plans to pursue against different responsible parties:

Recoveries Being Sought By Category(1)

As of March 31, 2023	**Paid Amount** *($ in millions)*	**Billed Amounts Sought** *($ in millions)*	**2023 Recovery** *($ in thousands)*	**Recovery Multiple**
ACCIDENT RELATED:				
Data Matching(2)	$5,246.8	$21,370.2	$2,275.0	2.4x
Demand Letters(3)				
1st Party Demands	$117.0	$692.8	$101.1	4.5x
3rd Party Demands	$221.5	$1,342.7	$72.0	5.7x
Case and Lien Recoveries	$16.8	$72.7	$272.6	0.9x
FRAUD & MISCONDUCT CASES:				
Private Lien Resolution Program(4)	$1.4	$5.2	$526.9	19.2x
Big Pharma/Product Liability(5)(6)	$6,446.5	$22,342.3	$1,716.5	0.8x
Group Health Plan Recovery(5)	$2.1	$10.9	$0	Un-funneled Recovery

(1) LIFW during 2022 announced a strategy whereby the Company is sending out individual demand letters on identified recoverable claims to responsible payers for prompt payment. We expect this strategy could result in more predictable revenues. The table above outlines specific dollar amounts identified by the Company, broken down by litigation and demand letter type, that it plans to pursue against different responsible parties. The results for this quarter are not significant from the total amount recovered, therefore, the recovery multiple should not be considered indicative of future results. The overall recovery for the six months ended June 30, 2023, was 1.54x the Paid Amount.
(2) Data Matching represents potential recovery opportunities the Company has identified via court orders or agreements with primary payers.
(3) As previously announced, MSP initiated billing amounts to primary payers (i.e., property and casualty insurers), giving these parties the opportunity to pay without the need for litigation or extended litigation.
(4) PLRPs are established to resolve health care liens asserted by private health insurance providers in mass tort settlements. LIFW is actively working with various lien resolution administrators to recover on those owned claims for which manufacturers have already settled other lawsuits and established PLPRs.
(5) Un-funnel recovery represents a recovery that was not identified in the PVPRC. The majority of the amount recovered in the Private Lien Resolution Program represents recoveries that are un-funneled recoveries.
(6) Paid Amount submission to lien resolution company. Settlement multiple may vary.

Data Matching: Data Matching represents potential recovery opportunities the Company has identified via court orders or agreements with primary payers. These represent potential recoveries that LifeWallet could receive from a portion of settlement discussions with approximately 28% of the Auto Insurance industry or via demand letters.

Demand Letters: As previously announced, LifeWallet initiated billing amounts to primary payers (i.e., property and casualty insurers) and big pharma, giving these parties the opportunity to pay without the need for litigation or extended litigation. For Q3 2023, our recovery multiple on 1st party & 3rd party demand letters, was 4.5x and 5.7x, respectively. The results for this quarter are not significant from the total amount recovered, therefore, the recovery multiple should not be considered indicative of future results. The overall recovery for the six months ended June 30, 2023, was 1.54x the Paid Amount.

Private Lien Resolution Programs ("PLPR"): PLRPs are established to resolve health care liens asserted by private health insurance providers in mass tort settlements. LifeWallet is actively working with various lien resolution administrators to recover on those owned claims for which manufacturers have already settled other lawsuits and established PLRPs.

Financial Outlook

Recoveries Guidance: The Company continues to make progress in its recovery efforts, and management continues to believe such projected recoveries are ultimately collectible. Recoveries are dependent on the completion of litigation and the negotiation of settlements, which are inherently uncertain and are subject to risk of delay and litigation outcomes. As a result, the Company will not provide future guidance on recoveries that are dependent on litigation or subrogation process.

Additional information regarding the non-GAAP financial measures discussed in this release, including an explanation of these measures and how each is calculated, is included below under the heading "Non-GAAP Financial Measures." A reconciliation of GAAP to non-GAAP financial measures has also been provided in the financial tables included below.

Nasdaq Compliance

Based on the July 27, August 17, and August 31, 2023, filing of the Company's Form 10-K for the year ended December 31, 2022, and Forms 10-Q for the periods ended March 31 and June 30, 2023, respectively, (Nasdaq) Staff has determined that the Company complies with the Rule 5250 (c)(1).

The Company intends to actively monitor its bid price and will consider available options to resolve the deficiency and regain compliance with the Nasdaq Listing Rule 5450(a)(1) including by effecting a reverse stock split, if necessary.

About LifeWallet

In January 2023 MSP Recovery announced its rebranding to its nationally recognized brand, LifeWallet. The Company will not change its core strategy, and its core business remains the same–-secondary payer reimbursement recoveries. Utilizing the name LifeWallet reflects the diverse recovery opportunities presented by the company's growing technological innovations and consolidates the Company's lines of business under the same name, while positioning itself to generate additional revenues that were not predicted at the time of its business combination.

Founded in 2014, LifeWallet has become a Medicare, Medicaid, commercial, and secondary payer reimbursement recovery leader, disrupting the antiquated healthcare reimbursement system with data-driven solutions to secure recoveries against responsible parties. The Company provides the healthcare industry with comprehensive compliance solutions, while innovating technologies to help save lives. For more information, visit:

www.lifewallet.com

Forward Looking Statements

This press release contains forward-looking statements within the meaning of the federal securities laws. Forward-looking statements may generally be identified by the use of words such as "anticipate," "believe," "expect," "intend," "plan" and "will" or, in each case, their negative, or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts, including for example guidance for 2022 portfolio recovery and total gross recoverables. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. As a result, these statements are not guarantees of future performance or results and actual events may differ materially from those expressed in or suggested by the forward-looking statements. Any forward-looking statement made by MSP Recovery herein speaks only as of the date made. New risks and uncertainties come up from time to time, and it is impossible for MSPR to predict or identify all such events or how they may affect it. MSPR has no obligation, and does not intend, to update any forward-looking statements after the date hereof, except as required by federal securities laws. Factors that could cause these differences include, but are not limited to, MSPR's ability to capitalize on its assignment agreements and recover monies that were paid by the assignors; the inherent uncertainty surrounding settlement negotiations and/or litigation, including with respect to both the amount and timing of any such results; the validity of the assignments of claims to MSPR; the ability to successfully expand the scope of MSPR's claims or obtain new data and claims from MSPR's existing assignor base or otherwise; MSPR's ability to innovate and develop new solutions, and whether those solutions will be adopted by MSPR's existing and potential assignors; negative publicity concerning healthcare data analytics and payment accuracy; and those other factors included in MSPR's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and other reports filed by it with the SEC. These statements constitute the Company's cautionary statements under the Private Securities Litigation Reform Act of 1995.

MSP RECOVERY, INC. and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

(In thousands except per share amounts)	June 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,433	$ 3,661
Restricted cash	—	11,420
Accounts receivable	4,610	6,195
Affiliate receivable (1)	832	2,425
Prepaid expenses and other current assets (1)	19,360	27,656
Total current assets	**31,235**	**51,357**
Property, plant and equipment, net	4,712	3,432
Intangible assets, net (2)	3,374,615	3,363,156
Total assets	**$ 3,410,562**	**$ 3,417,945**
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 7,260	$ 8,422
Affiliate payable (1)	19,822	19,822
Commission payable	802	545
Derivative liability	—	9,613
Warrant liability	1,012	5,311
Other current liabilities	77,726	72,002
Total current liabilities	**106,622**	**115,715**
Guaranty obligation (1)	862,219	787,945
Claims financing obligation and notes payable (1)	485,060	198,489
Loan from related parties (1)	130,709	125,759
Interest payable (1)	22,467	2,765
Total liabilities	**$ 1,607,077**	**$ 1,230,673**
Commitments and contingencies (Note 12)		
Class A common stock subject to possible redemption, 1,129,589 shares at redemption value as of December 31, 2022 (None as of June 30, 2023)	—	1,807
Stockholders' Equity (Deficit):		
Class A common stock, $0.0001 par value; 5,500,000,000 shares authorized; 132,235,847 and 74,605,284 issued and outstanding as of June 30, 2023 and December 31, 2022, respectively	$ 13	$ 7
Class V common stock, $0.0001 par value; 3,250,000,000 shares authorized; 3,106,616,119 and 3,147,979,494 issued and outstanding as of June 30, 2023 and December 31, 2022, respectively	311	315
Additional paid-in capital	176,331	136,760
Members' equity	-	-
Accumulated deficit	(42,339)	(29,203)
Total Stockholders' Equity (Deficit)	**134,316**	**107,879**
Non-controlling interest	1,669,169	2,077,586
Total equity	**$ 1,803,485**	**$ 2,185,465**
Total liabilities and equity	**$ 3,410,562**	**$ 3,417,945**

- As of June 30, 2023 and December 31, 2022, the total affiliate receivable, affiliate payable, guaranty obligation and loan from related parties balances are with related parties. In addition, the prepaid expenses and other current assets, claims financing obligation and notes payable, and interest payable includes balances with related parties. See Note 13, *Related Party Transactions,* for further details.

- As of June 30, 2023 and December 31, 2022, intangible assets, net included $2.4 billion and $2.3 billion, respectively, related to a consolidated VIE. See *Note 9*, *Variable Interest Entities*, for further details.

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

MSP RECOVERY, INC. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

(In thousands except per share amounts)	Three months ended June 30, 2023	Three months ended June 30, 2022 As Restated	Six months ended June 30, 2023	Six months ended June 30, 2022 As Restated
Claims recovery income	$ 2,542	$ 1,357	$ 6,039	$ 1,466
Claims recovery service income (1)	—	3,971	498	12,047
Total Claims Recovery	**$ 2,542**	**$ 5,328**	**$ 6,537**	**$ 13,513**
Operating expenses				
Cost of claim recoveries (2)	377	702	1,398	709
Claims amortization expense	121,004	38,991	234,473	41,708
General and administrative (3)	7,706	5,982	14,561	10,428
Professional fees	3,417	3,131	13,145	5,069
Professional fees – legal (4)	10,467	23,765	19,018	26,237
Allowance for credit losses	—	—	5,000	—
Depreciation and amortization	88	72	97	151
Total operating expenses	143,059	72,643	287,692	84,302
Operating Loss	**$ (140,517)**	**$ (67,315)**	**$ (281,155)**	**$ (70,789)**
Interest expense (5)	(73,618)	(24,352)	(116,008)	(34,767)
Other income, net	1,662	39	8,289	37
Change in fair value of warrant and derivative liabilities	1,644	(14,353)	3,899	(14,353)
Net loss before provision for income taxes	**$ (210,829)**	**$ (105,981)**	**$ (384,975)**	**$ (119,872)**
Provision for income tax expense	-	—	—	—
Net loss	**$ (210,829)**	**$ (105,981)**	**$ (384,975)**	**$ (119,872)**
Less: Net loss attributable to non-controlling members	202,609	104,101	371,839	117,992
Net loss attributable to controlling members	**$ (8,220)**	**$ (1,880)**	**$ (13,136)**	**$ (1,880)**
Basic and diluted weighted average shares outstanding, Class A Common Stock	123,564,802	13,607,255	106,183,727	13,607,255
Basic and diluted net loss per share, Class A Common Stock	**$ (0.07)**	**$ (0.14)**	**$ (0.12)**	**$ (0.14)**

(1) For the three and six months ended June 30, 2022, claims recovery service income included $3.2 million and $10.6 million, and respectively, of claims recovery service income from VRM MSP. There was no claims recovery service income from VRM MSP for the three and six months ended June 30, 2023. See Note 13, *Related Party Transactions,* for further details.
(2) For the three and six months ended June 30, 2022, cost of claim recoveries included $0.2 million and $0.3 million of related party expenses. This relates to contingent legal expenses earned from claims recovery income pursuant to legal service agreements with the La Ley con John H. Ruiz P.A., d/b/a MSP Recovery Law Firm (the “Law Firm”). No such related party expenses were present for the three and six months ended June 30, 2023. See Note 13, *Related Party Transactions,* for further details.
(3) For the three and six months ended June 30, 2022, general and administrative expenses included $0.2 million and $ $0.3 million of related party expenses. See Note 13, *Related Party Transactions,* for further details. No such related party expenses were present for the three and six months ended June 30, 2023.
(4) For the three and six months ended June 30, 2023 and 2022, professional fees – legal included $4.7 million and $8.9 million, and $0.0 million and $0.3 million, respectively, of related party expenses related to the Law Firm. See Note 13, *Related Party Transactions,* for further details.
(5) For three and six months ended June 30, 2023, interest expense included $38.9 million and $91.4 million, respectively, related to interest expense due to VRM. For three ended June 30, 2022, interest expense included $13.4 million related to interest expense due to VRM. No such interest was due to VRM prior three months ended June 30, 2022 See Note 13, *Related Party Transactions,* for further details.

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Non-GAAP Financial Measures

MSP RECOVERY, INC. and Subsidiaries
Non-GAAP Reconciliation

	Three Months Ended June 30,	Six Months Ended June 30,

(In thousands)	2023	2022	2023	2022
GAAP Operating Loss	$ (140,517)	$ (67,315)	$ (281,155)	$ (70,789)
Share-based compensation	—	20,055	—	20,055
Claims amortization expense	121,004	38,991	234,473	41,708
Allowance for credit losses	—	—	5,000	—
Adjusted operating loss	**$ (19,513)**	**$ (8,269)**	**$ (41,682)**	**$ (9,026)**
GAAP Net Loss	$ (210,829)	$ (105,981)	$ (384,975)	$ (119,872)
Share-based compensation	—	20,055	—	20,055
Claims amortization expense	121,004	38,991	234,473	41,708
Allowance for credit losses	—	—	5,000	—
Paid-in-kind Interest	73,618	24,352	115,996	34,744
Change in fair value of warrant and derivative liabilities	(1,644)	14,353	(3,899)	14,353
Adjusted net loss	**$ (17,851)**	**$ (8,230)**	**$ (33,405)**	**$ (9,012)**

In addition to the financial measures prepared in accordance with GAAP, this Form 10-Q also contains non-GAAP financial measures. We consider "adjusted net loss" and "adjusted operating loss" as non-GAAP financial measures and important indicators of performance and useful metrics for management and investors to evaluate our business's ongoing operating performance on a consistent basis across reporting periods. We believe these measures provide useful information to investors. Adjusted net loss represents Net loss adjusted for certain non-cash and non-recurring expenses and adjusted operating loss items represents Operating loss adjusted for certain non-cash and non-recurring expenses. A reconciliation of these non-GAAP measures to their most relevant GAAP measure is included in Management's Discussion and Analysis in the Form 10-Q.

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