# CML Group

(ASX: CGR)

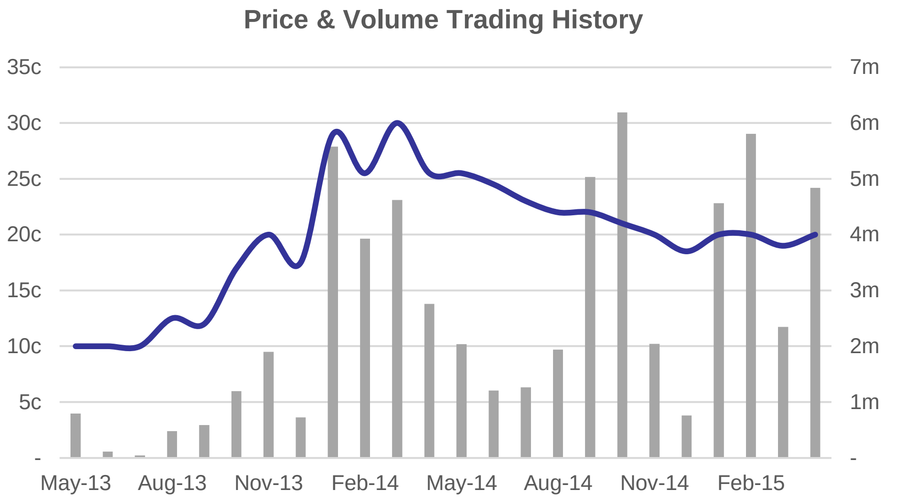
# Investor Presentation

Daniel Riley – CEO

**May 2015**

# Corporate Snapshot

| Capital Structure | |
|---|---|
| Share price | $0.20 |
| Shares on issue | 93,937,825 |
| Market capitalisation | $18.8m |
| Net Cash (H1’15) | $2.3m |
| Convertible Note | $10.4m |
| Enterprise Value | $26.3m |
| EBITDA (FY’14) | $2.43m |
| NPAT (FY’14) | $1.11m |

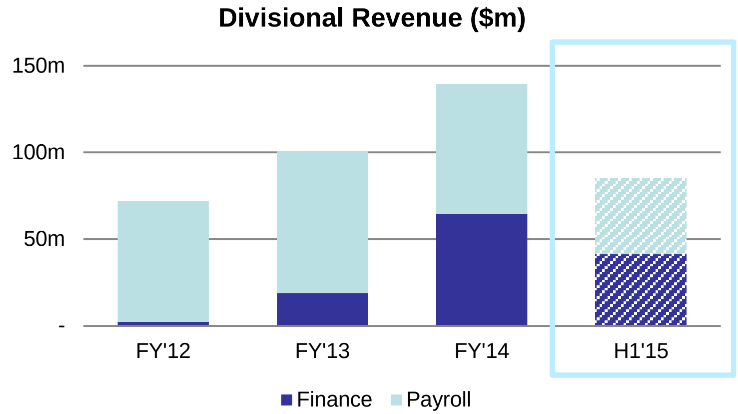


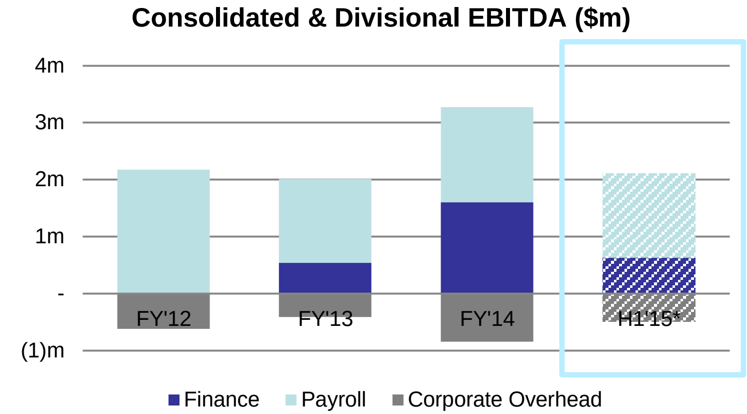

| Register | |
|---|---|
| Board & Management | 28% |
| Institutional | 29% |

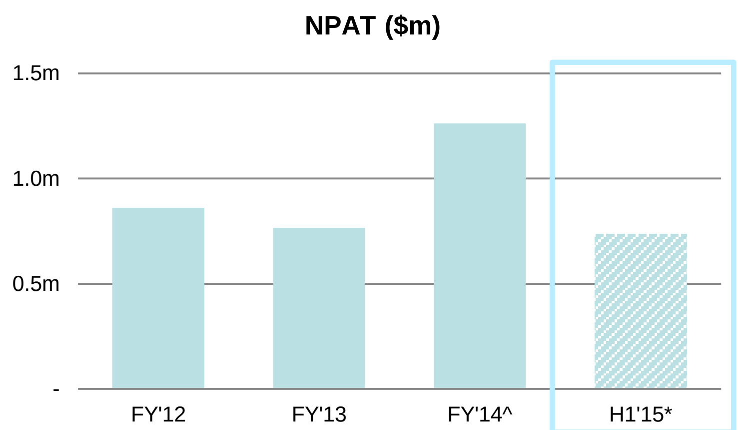
| Board & Senior Management | | Shares |
|---|---|---|
| Greg Riley | Non-Executive Chairman | 22,514,913 |
| Daniel Riley | MD & CEO | 3,129,761 |
| Sue Healy | Non-Executive Director | 206,060 |
| Geoff Sam | Non-Executive Director | 24,000 |
| Richard Farrington | Non-Executive Director | 670,000 |

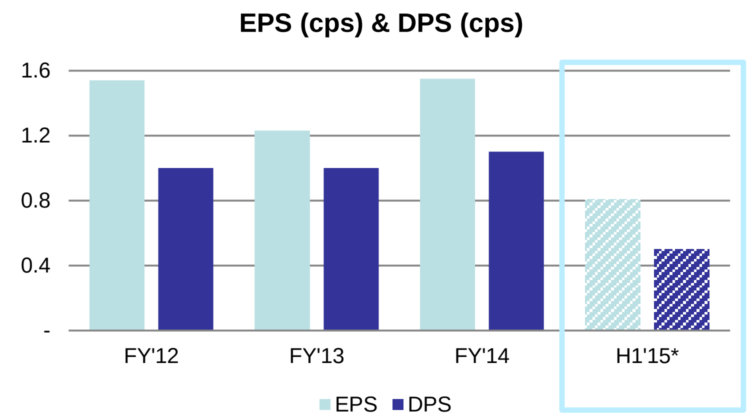
# Corporate Snapshot (cont.)

CGR listed in 2010 and has traded profitably and paid dividends every year




*H1'15 is adjusted to underlying result, excluding impact of one-off bad-debt provision

# Divisional Overview

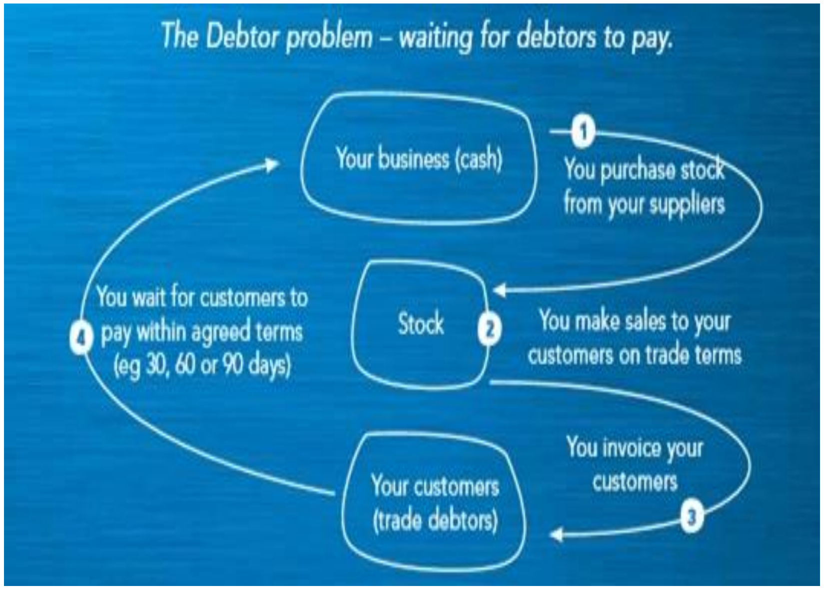
***"CML Group delivers finance, payroll & employment solutions, enabling our clients to focus on and succeed in their core activities"***

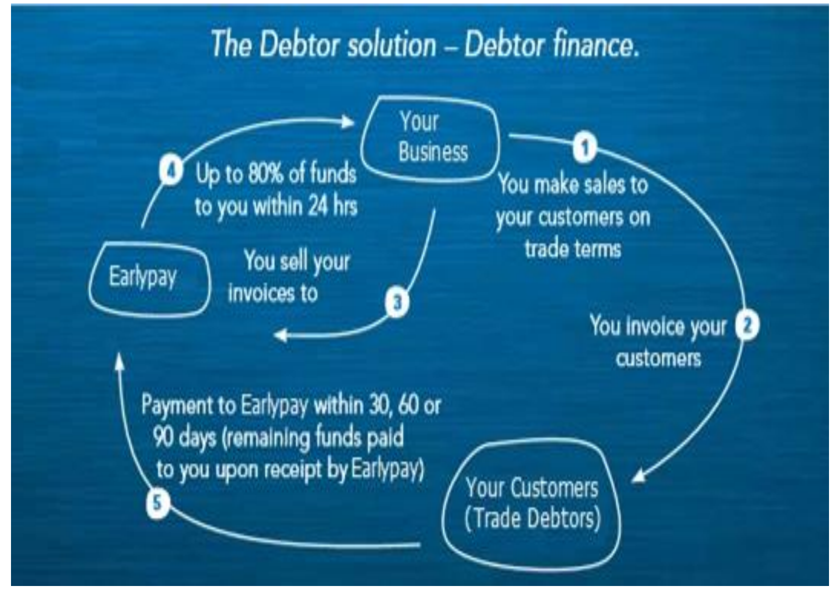
- Established in 2002 and listed in 2010, CML has grown organically & made acquisitions to diversify its income and exposure to employment market
- Today has four brands operating under two operating divisions:

| Finance | Payroll & Other |
|---|---|
| earlypay | lesterassociates (A CareersMultiList company); CML CareersMultiList; ZENITH |
| • Refers to 'factoring' or 'receivables finance' which provides an advance payment of up to 80% of a client's invoice to help their business overcome the cash pressure of delivering goods or services in advance of payment from the customer (often 30 to 60 days)<br>• This is a flexible line of credit that is utilized in line with sales volume | • Managed employment' of contract workers for clients that do not wish to engage these workers directly, generally as they do not have the processes, systems, insurances or desire to employ directly<br>• To sponsor and 'on-hire' foreign workers on 457 visas through a Labour Agreement negotiated with Department of Immigration and Border Protection (DIBP)<br>• Includes labour sourcing through recruitment agency panel management, project management and a migration practice<br>• Outsourced payroll service recently introduced |

# Finance Division

# The Debtor Solution




**Mitigation of credit risk**

- Invoices issued under CML's ABN (disclosed facility)
- 'Managed service' provided, meaning collections and payment allocations managed by CML
- Bad debt protection through trade credit insurance
- Funding against each debtor limited to the endorsed cover provided by the insurer
- We shift the risk from the finance client to the end-users of the finance client (i.e. the finance client's customers)

# Business Model

**Gross return generated from loan book**

- The gross return generated from the loan book is 35% annually (pre-tax and before any costs)
  *(based on 3.5% average fee on invoice value & 45 day debtor collection timeframe)*

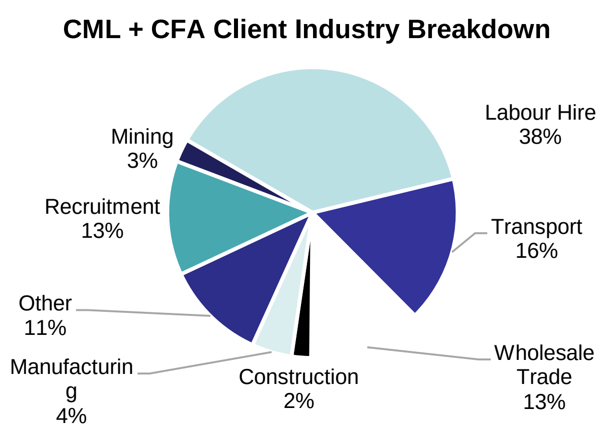
| Example | | |
|---|---|---|
| Face Value of Invoice | $110 | Invoice including GST |
| Financing Given | $88 | 80% of Invoice |
| Fees Charged | $3.85 | 1.95% of Invoice + 12% of Funding + other fees and charges |
| **Return on Capital** | **35%** | Based on average debtor days of 45 *($3.85 x 365 / 45 days / 88)* |

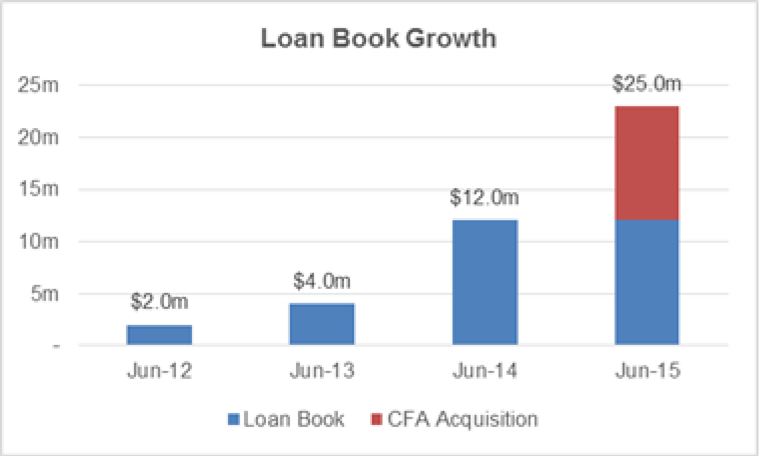
**Costs excluded from Gross Return are:**

- Cost of funds, which has traditionally been between 9% and 10%
  - Post proposed Secured Note issue cost will reduce (see slide 17 for more detail)
- Cost of service delivery on new business which is historically 5% (including trade credit insurance)

# CFA Acquisition

- Entered into binding agreement to acquire Cashflow Finance Australia ("CFA") on 14th April
- Acquisition price of $3.5m (ex loan book) represents just over 2x EBITDA
- Acquisition will be immediately earnings accretive
- CFA has a loan book which varies seasonally between $8.0m - $11.0m (compared to CML at $12.0m )
- CFA is forecast to generate turnover of ~$160m in FY'15 of its loan book vs CML's Finance Division revenue of ~$100m for the same period - CFA funds less per invoice (55%) than CML (up to 80%)
- CML's existing loan book will be substantially bolstered in addition to diversifying Finance Division client exposure, from an industry and geographic point of view



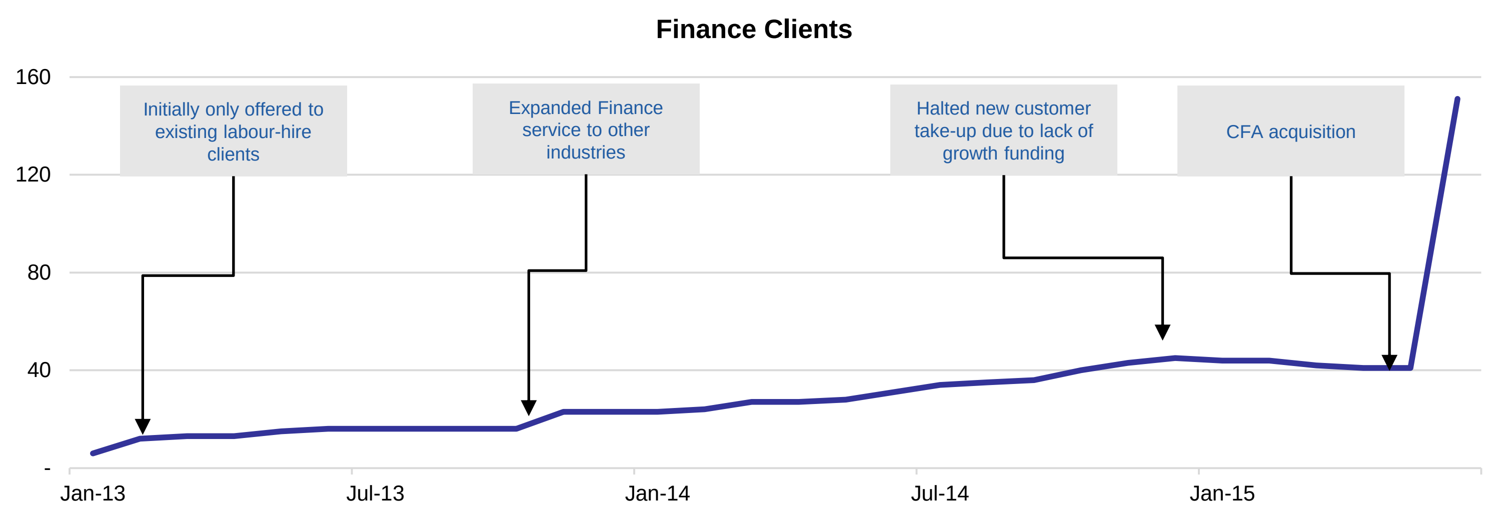




Loan book target of $25m will be achieved 7 months earlier than previously forecast

# Customer Information

- Initially started in labour-hire, which is attractive as invoice disputes are rare with ‘proof of debt’ being an authorised timesheet or jobsheet from the client & attached to every invoice
- In addition to labour hire (which still represents 38% of clients), CML has gained traction with businesses invoicing in traffic control & security, transport, wholesale & business services

| Finance Division | CML | CFA | CML + CFA |
|---|---|---|---|
| Av funds in use | $325,000 | $100,000 | $130,000 |
| Av debtor days | 45 days | 50 days | 47 days |
| Clients | 50 | 110 | 160 |
| Loan to value | 75% - 80% | 55% | 65% - 70% |



# Divisional Performance

| Y/E 30 Jun ($m) | FY'13 A | FY'14 A | Δ pcp |
|---|---|---|---|
| Revenue | 19.0 | 64.6 | 241% |
| EBITDA | 0.5 | 1.6 | 197% |
| *EBITDA Margin* | *2.8%* | *2.5%* | |

| H1'14 | H1'15 A* | Δ pcp |
|---|---|---|
| 24.0 | 41.5 | 73% |
| 0.4 | 0.6 | 56% |
| *1.7%* | *1.5%* | |

| One-off provision | Funding limitations | Growth preparations |
|---|---|---|
| • $900k provision made in H1'15 due to bad debt<br>• Result of client in construction industry 'abandoning' business without consultation, giving CML no ability to take action to recover debt<br>• Review of industry risk has been undertaken & exposure to construction industry has been removed from book | • CML had limited access to funds, which significantly impacted growth momentum from Oct. '14 to Jan. '15<br>• New Finance client take-ons were halted and existing clients were limited in funding<br>• Loan book growth was slowed, as was client numbers | • Finance Division incurred additional costs associated with:<br>- Investment into three leading invoice finance executives<br>- Deployment of industry leading client management software<br>- Setup and staffing costs associated with expansion into Queensland (ex CFA acquisition) |

*H1'15 EBITDA is adjusted to underlying EBITDA, excluding impact of one-off bad-debt provision

# Payroll & Other Division

# Divisional Performance

| Y/E 30 Jun ($m) | FY'13 A | FY'14 A | Δ pcp |
|---|---|---|---|
| Revenue | 81.7 | 74.7 | (9)% |
| EBITDA | 1.5 | 1.7 | 13% |
| *EBITDA Margin* | *1.8%* | *2.2%* | |

| H1'14 | H1'15 A* | Δ pcp |
|---|---|---|
| 37.6 | 43.5 | 16% |
| 1.1 | 1.5 | 38% |
| *2.8%* | *3.4%* | |

**Established Services 'Steady'**

- Managed employment for Australian residents typically engaged on a contracted term
- Managed employment for skilled foreign residents
- Recruitment contract procurement & management

**Growth from Emerging Service**

- Outsourced payroll for corporate clients, typically for their permanent workforce
- Optional 'payroll finance' where clients are offered payment terms on payroll reimbursement for an additional fee, dependent on trade credit insurance coverage

**Focus on Cost Management**

- Staffing & services realignment completed in H2'13 has provided a significant reduction in employment costs in FY'14
- New payroll software installed during FY'14 anticipated to provide further ongoing efficiency gains

*H1'15 EBITDA is adjusted to underlying EBITDA, excluding impact of one-off bad-debt provision

# Financials

# Group Performance

| Y/E 30 Jun ($m) | FY'13 A | FY'14 A | *Δ pcp* | H1'14 A | H1'15* | Δ pcp |
|---|---|---|---|---|---|---|
| Finance Revenue | 18.97 | 64.60 | *241%* | 23.98 | 41.49 | 73% |
| Payroll & Other Revenue | 81.73 | 74.74 | *(9)%* | 37.63 | 43.47 | 15% |
| **Group Revenue** | **100.82** | **139.37** | ***38%*** | **61.63** | **84.99** | **38%** |
| Finance EBITDA | 0.54 | 1.60 | *197%* | 0.41 | 0.63 | 56% |
| Payroll & Other EBITDA | 1.47 | 1.67 | *13%* | 1.07 | 1.48 | 38% |
| **Group EBITDA** | **1.60** | **2.43** | ***51%*** | **1.10** | **1.62** | **48%** |
| **Reported NPAT** | **0.77** | **1.11** | ***45%*** | **0.56** | **0.11** | **(81)%** |
| One-off costs | - | 0.16 | | - | 0.63 | |
| **Underlying NPAT** | **0.77** | **1.27** | ***66%*** | **0.56** | **0.74** | **32%** |
| *Earnings per share* | *1.23c* | *1.55c* | *26%* | *0.88c* | *0.12c* | (87%) |
| *Earnings per share – underlying* | *1.23c* | *1.78c* | *45%* | *0.88c* | *0.81c* | (8%) |
| *Dividends per share* | *1.0c* | *1.1c* | *10%* | *0.5c* | *0.5c* | - |

*H1'15 EBITDA is adjusted to underlying EBITDA, excluding impact of one-off bad-debt provision

# Balance Sheet

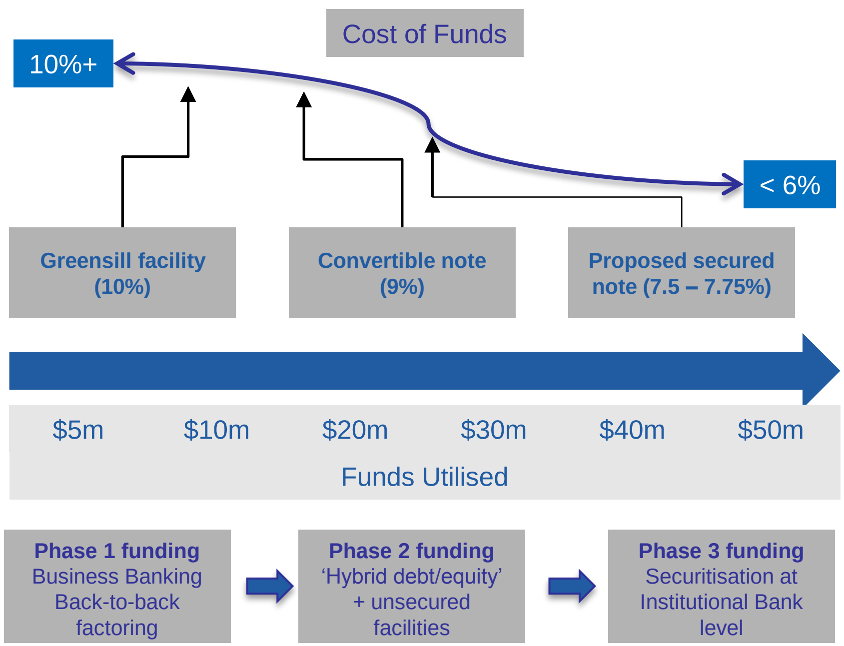
| Y/E 30 Jun ($m) | FY'14 A | H1'15 A | Proforma | Comments |
|---|---|---|---|---|
| **Current Assets** | **25.7** | **26.7** | **36.4** | |
| Cash | 0.5 | 2.4 | 12.1 | |
| Receivables & Other | 25.3 | 24.3 | 24.3 | Reflects Finance division loan book growth |
| **Non-Current Assets** | **6.4** | **6.7** | **6.7** | |
| Property & Equipment | 0.2 | 0.2 | 0.2 | Primarily associated with software & office equipment |
| Deferred Tax Assets | 0.9 | 1.2 | 1.2 | |
| Intangibles | 5.4 | 5.4 | 5.4 | |
| **Total Assets** | **32.2** | **33.5** | **43.1** | |
| **Current Liabilities** | **21.9** | **23.0** | **23.0** | |
| Trade & Other | 13.4 | 20.8 | 20.8 | Greensill debt facility of $10m opened in Jun '14 |
| Borrowings | 6.7 | 0.0 | 0.0 | Bank facilities retired |
| Provisions | 1.8 | 2.2 | 2.2 | Tax liability & employee benefits |
| **Non-Current Liabilities** | **0.0** | **0.1** | **6.0** | Proforma includes proceeds of Con. Note |
| **Total Liabilities** | **21.9** | **23.1** | **29.0** | |
| **Net Equity** | **10.3** | **10.4** | **14.1** | Aided by $5.75m capital raising during FY'14 |

Proforma balance sheet based upon Statement of Financial position as at 31 Dec. 2014, adding the implications of a $10.4m convertible note issue

# Proposed Secured Note

# Capital Strategy

- Greatest challenge to growth to date has not been sales, but ensuring continued access to appropriate funding
- Goal is to reach the scale necessary to attract wholesale funding of ~6%, which is expected with a loan book of $50m+, post proposed Secured Note issue, CML will have sufficient facilities for loan book growth to $50m




| Funding | Quantum | Cost |
|---|---|---|
| Retained Earnings & Equity | $5.0m | - |
| Proposed Secured Note | $25.0m | 7.5 – 7.75% |
| Convertible Note | $10.0m | 9.0% |
| Greensill Facility (draw-down) | $10.0m | 10.0% |
| **Total** | **$50.0m** | |

| Use of Funds | |
|---|---|
| Existing Loan Book | $12.0m |
| CFA Loan Book (acquisition) | $11.0m |
| Organic Growth | $27.0m |
| **Total** | **$50.0m** |

# Proposed Secured Note

| Note terms | |
|---|---|
| **Offer size** | $25,000,000 |
| **Description of Notes** | Senior secured medium term notes |
| **Minimum parcel size** | $50,000 |
| **Face value of Notes** | $1,000 |
| **Interest rate** | Floating rate:<br>535 – 560 bps over 30 day BBSW (paid quarterly in arrears) until the par call date<br>700 – 725 bps over 30 day BBSW (paid quarterly in arrears) from the final maturity date |
| **Par call date** | May 2020 (five years) |
| **Final maturity date** | May 2021 (six years) |
| **Issuer call option** | May 2018 at $104.00 (three years)<br>May 2019 at $102.00 (four years) |

# Outlook

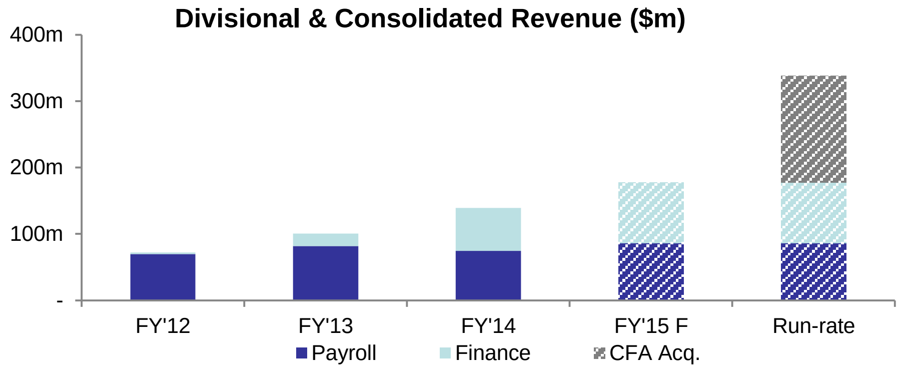
**FY'15**

- Despite slowing in organic loan book growth, which has been now funded by the issue of the Convertible Note, CML expects to report revenue in excess of $170m vs $139m in FY'14
- The Company has incurred additional expenses as a result of investment in staff and set up costs associated with Queensland expansion
- On a stand-alone basis, the Company expects underlying EBITDA to grow at ~10%

**FY'16**

On a run-rate basis, excluding organic growth, CML expects FY'16 revenue to exceed $330m. In addition, CML expects further growth from:

- Organic expansion of both CML & CFA loan books;
- Improved margins from administration efficiencies post migration to an industry leading software platform; &
- A reduced cost of debt when facilities are fully utilised.




Assuming no organic growth in either of CML's existing business or CFA's current run rate, on a full-year consolidation of CFA, CML would expect revenue to be in excess of $330m

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Although CML Group believes that its expectations are based on reasonable assumptions, it can give no assurances that its goals will be achieved.

Important factors that could cause results to differ materially from those included in the forward-looking statements include timing and extent of changes in the employment cycle, government regulation, changes to the number of preferred supplier agreements, reduction in franchise partner numbers and the ability of CML Group to meet its stated goals.

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