23 August 2018

CML Group Limited (ASX:CGR)
("CML" or the **"Company)**

Full Year 2018 Results Announcement

FY'18 Highlights

CML is pleased to report a strong Full Year 2018 result compared to the same period last year, with key highlights as follows;

- Invoices funded up 33% to $1.33bn
- EBITDA (underlying) up 34% to $17.6m
- NPATA up 71% to $6.5m
- Underlying EPS (based on NPATA) up 31% to 3.8cps
- Dividend of 0.75 cents per share declared

CML is pleased to report a substantial uplift in earnings in FY'18, with underlying EBITDA of $17.6m up 34% and NPATA of $6.5m up 71% on the prior corresponding period. Reported profit was impacted by non-recurring costs associated primarily with restructuring financing facilities to a lower cost Institutional Bank Warehouse, which is better suited to assist CML's long-term growth objectives.

The strong underlying financial performance for FY'18 was a result of:

1) Increasing business volume from traditional sales methods
2) Boosted by an increasing contribution from online originations
3) Cross-sell to the emerging Equipment Finance client portfolio
4) The Thorn TDF ("TDF") business acquired in Feb-18 has been completely integrated into the Group and made a positive contribution to earnings in FY'18.

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Financials

A summary of CML's Full Year result is tabled below:

$m	FY'17 A	FY'18 A	*Δ pcp*
Invoices Purchased	**1,001**	**1,328**	*33%*
Invoice Finance	26.0	34.4	*32%*
Equipment Finance	-	1.0	*n/m*
Other & Corporate	14.0	11.3	*-19%*
Group Revenue	**40.0**	**46.7**	*17%*
Invoice Finance	13.4	18.1	*35%*
Equipment Finance	-	0.3	*n/m*
Other & Corporate	(0.3)	(0.8)	*-174%*
Group EBITDA (Underlying)[1]	**13.1**	**17.6**	*34%*
Non-recurring Expenses[1]	-	(1.7)	*n/m*
Group EBITDA (Reported)	**13.1**	**15.9**	*21%*
D&A	(0.2)	(0.2)	*33%*
Net Interest	(7.9)	(9.6)	*22%*
Tax	(1.3)	(1.9)	*46%*
Underlying NPATA[2]	**3.8**	**6.5**	*71%*
Amortisation of Acquired Entities	(1.4)	(1.0)	*23%*
Non-recurring Expenses (Post-tax)[2]	-	(2.3)	*n/m*
NPAT Reported	**2.5**	**3.2**	*30%*
EPS Underlying[3]	2.90	3.80	*31%*
EPS Reported	1.90	1.85	*-2%*
DPS	1.25	1.50	*20%*

[1]Pre-tax impact of: penalty component for early redemption of Bond #2
[2]Post-tax impact of: penalty and interest component for early redemption of Bond #2 and early conversion to equity of Convertible Note ($2.3m)
[3]Underlying EPS is based on Underlying NPATA

Invoice Finance

Invoices purchased during FY'18 increased 33% to $1.33bn compared to the same period last year (FY'17: $1.00bn).

On significantly higher volumes, margin on invoices purchased in the existing business increased to 2.7% in FY'18 compared to 2.6% in FY'17. At a Group level and incorporating the dilutive effect of the TDF acquisition in Feb-18, which operates on lower margin than the existing business, margins in FY'18 were consistent with the prior year.

Revenue growth of 32% in FY'18 was achieved both organically (up 17%) and by acquisition (up 16%).

The table below compares the Invoice Finance division for the twelve months to 30 June 2018 against the previous year:

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$m	FY'17 A	Existing Business	TDF Acquisition Contribution*	FY'18 A	Δ pcp
Invoices Purchased	**1,001**	1,171	157	**1,328**	*33%*
Revenue	**26.0**	31.3	3.1	**34.4**	*32%*
EBITDA	**13.4**			**18.1**	***35%***
Gross Margin	***2.60%***	*2.67%*[2]	*1.97%*[3]	***2.59%***[1]	*-0.01%*

The Average Gross Margin for FY'18[1] of 2.59% represents:

- 2.67% from the existing business[2] (+7bps on FY'17)
- 1.97% on invoices purchased in the TDF book[3], acquired in Feb-18

Operational Improvement

Growth momentum is strong, with a record number of new clients won in the month of June 2018 and momentum continuing into FY'19, with new business enquiries and conversion rates improving through marketing and technology designed to;

- Increase the conversion rate of enquiry to client, through better online engagement with prospective customers
- Increase productivity of BDM's, through automation of data collection previously collated manually
- Reduce client acquisition cost, through the ability to increase new business volume without increasing the cost base
- Maximise cross-sell opportunities with Equipment Finance clients

CML's technology includes;

- **Online application** – the Cashflow Finance online application form was launched in November 2017, to assist with information flow from prospective clients and increase efficiency of client take-on.
- **Mobile App** – the Cashflow Finance app allows all clients to view their current funding availability from their mobile device and request a draw-down of funds.
- **Automated finance application** – CML has recently introduced technology that directly links to prospective clients accounting software and other data sources, to automate information flow into a new business submission format for credit review and fast approval.

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Equipment Finance

Now that critical scale in invoice factoring has been reached and with a successful sales and marketing structure in place to continue growth in this core division, CML is well positioned to accelerate its growth strategy through product expansion, which commenced with the successful entry into Equipment Finance in July 2017.

Operating under the name Cashflow Equipment Finance, this division settled approximately 100 transactions in its initial twelve months of operation, reaching profitability in H2'18 and contributing a small EBITDA profit of $0.3m to full year FY'18 earnings. As at 30th June 2018, Cashflow Equipment Finance had gross receivables of over $13.7m on funds advanced of $9.6m.

In addition to operating as a profitable division of the business, Equipment Finance is contributing to growth in the core Invoice Finance division through significant cross-sell to Equipment Finance clients, with 20% of Equipment Finance transactions in FY'18 also requiring Invoice Finance.

Dividend

CML has declared a Final Dividend of 0.75 cents per share, fully franked. CML has a Dividend Reinvestment Plan (**DRP**) in place, with a discount rate of 5.0%, in which eligible shareholders may participate

Outlook

CML expects a continuation of growth and an uplift in future earnings, based on the following;

- Increasing business volume – continued organic growth through traditional sales channels and the recently developed technology platform, plus a full year contribution from the TDF business acquired in February 2018.
- Product expansion - **Cashflow Equipment Finance** has recently increased its new business capacity, with additional credit managers to assess new business submissions, plus an expanded $20m unsecured Bond, which can be increased at 3 monthly intervals, in-line with business growth. Cashflow Equipment Finance anticipates an increase in new business volume during FY'19.
- Funding costs – following the successful transition of funding during FY'18 to majority institutional bank facility, CML's average funding costs have reduced by circa 3%. The recurring annual pre-tax interest savings in future years will be in excess of $2.5m on like for like funding volumes with FY'18.

The Company has upgraded its FY'19 EBITDA guidance from $19.5m to an EBITDA improvement of 15-20% on Underlying EBITDA, i.e. $20m - $21m

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CEO Daniel Riley commented, “The strong result for FY’18 is reflective of the success of organic growth initiatives, plus the smooth integration of the TDF business acquired in Feb-18. We are confident of another significant uplift in EBITDA in FY’19 from a continuation of organic growth, contained costs, a full year contribution from the TDF business, plus an increase in business volume and profit contribution from the Equipment Finance business. In addition NPATA will significantly benefit from initiatives completed in FY’18, including significantly lower cost of funds following the transition from Bonds to Institutional Bank Funding in May-18”

Sincerely,

Daniel Riley
CEO

ABOUT CML GROUP

CML provides finance to SME businesses.

CML’s primary service is ‘factoring’ or ‘receivables finance’. Through the factoring facility CML 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 their customers (often 30 to 60 days). This is a flexible line of credit that is utilised in line with sales volume. CML will consider an additional advance to a client (above the usual 80%) on occasion, for an additional fee and when there is adequate security from the client to cover the position.

Other services include trade finance to assist clients finance purchases, as well as equipment finance to assist SME’s with capital expenditure on items required to operate their business.

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