

9 September 2019

Strategic Acquisition to Accelerate Growth Strategy

Key Highlights

- Heads of Agreement to Acquire Classic Funding Group for \$11m
- Acquisition to underpin strategy to grow Invoice Discounting and Equipment Finance businesses and increases both divisions funds advanced by 5x
- EPS accretive in FY'20 with further synergies expected in FY'21
- Acquisition to be funded by a new debt facility (conditionally approved) plus existing cash reserves

CML Group Limited (ASX: CGR "CML" or the "Company") is pleased to advise it has entered into an agreement to purchase 100% of the shares in Classic Funding Group ("CFG") for \$11m and will be funded by a new \$25m facility and CML's existing equity on balance sheet.

CFG is an Australian owned financial services company with over 25 years' experience in providing asset finance solutions to a broad range of customers across both Equipment Finance and Invoice Discounting.

Strategic Benefits to CML

The acquisition will accelerate CML's strategy to gain market share in the expanded service offerings that CML has developed in-house and launched over the last 2 years, namely:

Invoice Discounting

- Increases CML's Invoice Discounting Funds Advanced by ~5x
- CFG's Invoice Discounting division is financed through a \$45m warehouse facility provided by a major Australian Bank
- The loan book is currently \$30m+ and will add approximately 40 clients and \$400m+ of annual invoice turnover compared to CML's loan book of \$6m and a portfolio of 7 clients and \$100m of turnover (FY'19 run rate)
- The addition of CFG's client base and experienced staff will bring forward CML's strategy to build volume in Invoice Discounting

Equipment Finance

- Increases CML's Invoice Discounting Funds Advanced by ~5x
- CFG's Equipment Finance division is financed through a separate \$130m warehouse facility provided by a major Australian Bank

- The loan book is currently \$100m+, with a long history of strong credit performance and well-established channels to market
- The addition of CFG's Equipment Finance book will add critical scale to CML's business and take Funds Advanced from \$20m to \$120m+
- In addition, the improved funding structure within the CFG Equipment Finance division brings forward CML's plan to transition to significantly cheaper funding for its Equipment Finance product and will enable CML's Equipment Finance growth strategy.

Transaction Details

The CFG acquisition, which is conditional on consent from CFG's funder to transition its warehouse facilities to CML is expected to be completed by mid-October 2019.

The acquisition will be funded by a new facility that has been conditionally approved, plus CML's existing equity on balance sheet. The new facility of \$25m will also be used to replace existing CFG Mezzanine debt with a cheaper solution.

The purchase consideration of \$11m includes approximately \$6m in Goodwill.

Group Outlook

Following a record earnings result in FY'19, CML's business continues to perform strongly with record new business volumes for Invoice Finance achieved in July 2019 and record volumes achieved for Equipment Finance in August 2019.

Daniel Riley, CEO of CML said: *"The CFG acquisition represents a significant opportunity for the company as it will underpin our strategy to grow our Equipment Finance and Invoice Discounting businesses and will deliver significant synergies. Consequently, we anticipate the acquisition will be EPS accretive in FY'20, with additional synergy benefits to be delivered in FY'21."*

We are confident that the acquisition will stimulate our business even further and have been looking at Classic Funding for some time. Following an extensive due diligence process we are confident that the synergies will be easily achievable.

We entered the Equipment Finance and Invoice Discounting businesses over the last 2 years with existing management from those fields. Having shown that we can build these businesses from a standing start and having also demonstrated the ability to acquire and integrate Invoice Factoring businesses we are comfortable that today's announcement will enable us to fast track our expansion and drive shareholder value as we have demonstrated over the last 5 years. It will also position us as a more diversified secured non-bank lender to Australian SME's."

CML expects to provide a business update and earnings guidance at its AGM scheduled for November 2019.

Sincerely,



Daniel Riley, CEO



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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.

cashflow
finance