

The Manager – Listings
Australian Securities Exchange Limited
Exchange Centre
20 Bridge Street
Sydney NSW 2000

11 May 2017

Business Update

Finance Broking & Aggregation

As previously announced to the market, Consolidated Operations Group Limited (COG) intends to continue on the path of acquiring part or all of equipment finance broking entities where there is seen to be a strategic, cultural and commercial fit and are committed to a broker accumulation strategy. In accordance with the stated objective, COG has recently signed Terms Sheets for the partial acquisition of following equipment finance brokers:

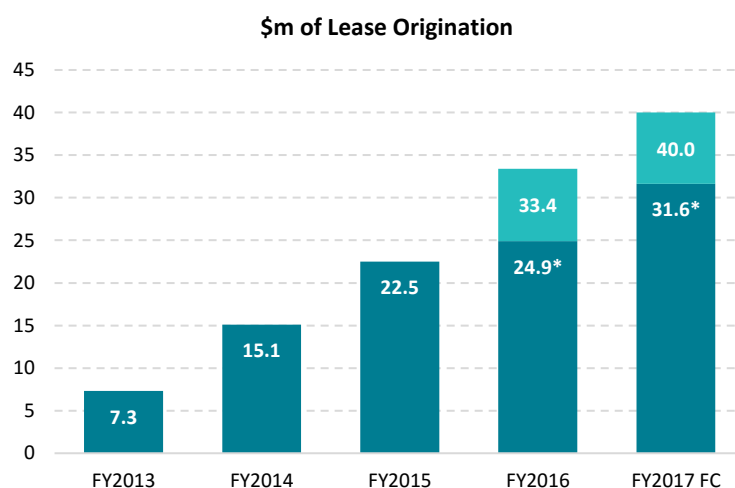
Date of ASX Announcement	Proposed Completion	EBITDA (\$m)	Proposed Ownership	COG Share of EBITDA (\$m)
21 April 2017	July-17	0.8	50% of 50%*	0.2
1 May 2017	July-17	3.3	95%	3.1
9 May 2017	July-17	2.1	60%	1.3
Total				4.6

*To be acquired through a controlled entity.

Post these acquisitions, COG anticipates a period of integration and will focus on bedding down all recent acquisitions. No further near term acquisitions or need for capital is anticipated beyond what's been announced.

Commercial Equipment Leasing

The following graph provides an update on lease origination in the current financial year. As at 30 April 2017, YTD leases written at Original Equipment Cost (OEC) were \$31.6m (YTD 30 April 2016 = \$24.9m), a 26.9% increase on the prior period.



*As at 30 April.

We are also pleased to announce that a Terms Sheet has been signed in the last week with a new funding provider which will complement the existing five funding sources in place. The availability of funding for TL Rentals lease origination is improved via cash flows from dividends from subsidiaries within the Finance Broking & Aggregation segment.

Change in Accounting Policy from Investment Entity to Consolidated

COG previously reported as an Investment Entity, due to its history as an investment company. Under accountings standards, investments were measured at fair value rather than the profits and balance sheets being consolidated.

On 1 November 2016, COG met the accounting standard requirement to apply consolidated accounting from that date. Such a move is unusual/unprecedented and as dictated by the accounting standards, results in the 2017 financial year report four months (July – October) under Investment Entity accounting and the remainder of the year under consolidated accounting.

As a result of the change in accounting policy, COG also now reports on a consolidated basis in three reportable business segments:

Finance Broking & Aggregation Segment

To date, COG has made the following purchases within the Finance Broking & Aggregation segment:

Purchased	Effective Date	EBITDA (\$m)*	Ownership	COG Share of EBITDA (\$m)
Platform Consolidated Group	Nov-15	5.0	60.2%	3.0
Consolidated Finance Group	Jun-16	2.0	80%	1.6
Queensland Pacific Finance	Jun-16	4.6	50%	2.3
Linx Finance	Jun-16	3.0	50%	1.5
Fleet Avenue	Jan-17	0.2	60.2% of 50%**	0.1
Fleet Network	Mar-17	1.9	60.2% of 80%**	0.9
Total				9.4

*Normalised EBITDA at purchase date.

**To be acquired through a controlled entity.

On page 13 of the Investor Presentation released on 6 March 2017, COG noted an ASIC review of a key funder. The impact of the ASIC review is:

- COG's maintainable earnings is not materially negatively impacted as it is being compensated by revenue synergies captured; and
- The impact in the current financial year has been to reduce EBITDA growth.

For the 2017 financial year, COG's results will reflect the earnings of the above controlled entities from the later of 1 November 2016 or the effective date.

Commercial Equipment Leasing Segment

Due to the differing accounting outcomes based on whether leases written in the Commercial Equipment Leasing segment are self-funded/debt funded versus funded via a 'sale of receivables' arrangement, management focus on key metrics of value creation of each lease written.

In accordance with the above, on page 14 of the Investor Presentation released to the ASX on 6 March 2017, COG provided an 'Indicative Value Creation on Lease Origination'. This is indicative only and it does not seek to provide guidance in relation to reporting in accordance with the accounting standards.

Under Investment Entity accounting, COG's ownership in Hal Group was previously recognised at the fair value of the investment (pre 1 November 2016).

From 1 November 2016 and as a result of the change in accounting policy, the profit of Hal Group was consolidated into COG, including:

- The recognition, on lease inception of end of term earnings of 21% (of original equipment cost) discounted at the implicit rate of the lease;
- For leases that are funded through the 'sale of receivables' arrangement, recognition at inception of the present value of the difference between the implicit rates of the leases and the funding cost (generally around 4% - 5%); and
- For self-funded or debt funded leases, leases are required for accounting purposes to be recorded as finance leases. Therefore, an asset is recognised as the lease receivable on the balance sheet for the deemed principal owing. Over the term of the lease, the deemed interest component of the rental is recognised as revenue.

All Other Businesses

In addition to the above mentioned operating segments, COG also holds 100% of Hal Group Pty Limited (IT Services), an equity accounted for investment in Riverwise (trading as Leading Edge Group) and incurs head office costs within the parent entity of COG.

Surplus Assets / Rights Issue Application of Funds

Excess cash within COG can be used to self-fund leases within the Commercial Equipment Leasing Segment. As at 30 April 2017, COG has \$14.7 million of leases (at principal owing) where the rental streams have not been sold to financiers nor have the leases been debt funded (self-funded leases). These leases can either:

- Stay self-funded, with the rental streams being collected over the term of the lease; or
- Be funded through debt or the 'sale of receivables' arrangement and thus, converted back to cash.

The cash component for the recently announced acquisitions of the equipment finance brokers is expected to be \$25.7 million. The remaining \$5.3 million of the rights issue proceeds (expected to be \$31m in total) may be applied to additional purchases of equipment finance brokers, or to the continued growth in lease origination.

Cameron McCullagh
Managing Director