



23 August 2017

**CML Group Limited (ASX:CGR)**

## **Full Year 2017 Results Announcement**

### **Highlights**

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- Achieved strong Full Year 2017 result from continuing operations:
  - Invoices funded > \$1 billion
  - EBITDA up 147% to \$13.1m
  - NPATA up 280% to \$3.8m
  - Underlying EPS (based on NPATA) up 190% to 2.9cps
  - Final dividend up 50% at 0.75cps (full year DPS 1.25 vs 1.00 cents in pcps)
  - Institutional bank facility now being utilised

CML Group ("CML" or the "Company") is pleased to report a substantial uplift in earnings in FY'17 compared to last year, with EBITDA from continuing operations of \$13.1m up 147% on the prior corresponding period and NPATA from continuing operations of \$3.85m up 305% on the prior corresponding period.

The Company will lift the final dividend to 0.75 cents per share (FY16: 0.50cps), taking dividends for the full year to 1.25 cents per share (FY16: 1.00cps).

The strong financial performance for FY'17, which is ahead of initial (August 2016) and revised (May 2017) guidance, was a result of improving scale and margin.

#### **Scale**

CML achieved invoice turnover in excess of \$1 billion for the first time in FY'17 (FY16: \$406m). This scale has supported a dilution of service delivery costs to drive EBITDA margin in the core finance business to greater than 50% (FY16: 47%). We anticipate continued dilution of service delivery costs on increasing volume, with the incremental cost of service delivery being less than 30% of new business revenue.

#### **Margins**

CML's average margin on invoices purchased in June 2016 was 2.1%. This was below historic margin of approximately 3.0% due to an acquisition program completed in H2FY16 of invoice finance competitors operating on lower margins.

During FY'17, CML progressively completed a review and repricing of acquired clients, plus encouraged the take-up of additional service offerings, which in combination lifted average margin across FY'17 to 2.6% (H1, 2.4% H2, 2.8%). With invoice turnover of \$1 billion per annum, each 0.10% improvement in margin adds \$1m to income, with no corresponding costs.

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## Financials

A summary of CML's fully year result is tabled below:

\$m	Note	FY'17	FY'16	pcp Δ
<b>Invoices Purchased</b>	1	<b>1,001</b>	<b>406</b>	<b>146%</b>
Finance Revenue		26.0	11.4	129%
Other Revenue		14.0	15.7	-11%
<b>Group Revenue</b>		<b>40.0</b>	<b>27.1</b>	<b>48%</b>
Finance EBITDA	2	13.4	5.4	149%
Other EBITDA		1.3	1.6	-21%
Corporate		(1.5)	(1.6)	-6%
<b>Group EBITDA</b>		<b>13.1</b>	<b>5.3</b>	<b>147%</b>
D&A		(0.2)	(0.1)	30%
Net Interest	3	(7.8)	(3.8)	107%
Tax		(1.3)	(0.5)	
<b>NPATA</b>		<b>3.8</b>	<b>1.0</b>	<b>280%</b>
<i>Amortisation acquired entities</i>	4	<i>(1.4)</i>	<i>-</i>	
<i>Discontinued Operations</i>		<i>0.0</i>	<i>(0.9)</i>	
<b>NPAT Reported</b>		<b>2.5</b>	<b>0.0</b>	
Underlying EPS*		2.9	1.0	
EPS (cents per share)		1.9	1.0	
DPS (cents per share)		1.25	1.0	

\* [Underlying EPS is based on NPATA]

Notes to Table	
1	Invoice turnover exceeded \$1 billion for the first time, reflecting a full period contribution from acquisitions completed during FY'16.
2	Finance Division EBITDA margin rose above 50% of revenue due to dilution of service delivery costs on scale
3	Net interest increased with the greater level of debt issued by CML to finance the growth in the Loan Book.
4	Non-cash amortisation of identifiable intangible assets from acquisitions completed in FY'16

## Invoices Purchased and Loan Book Growth

Invoices purchased during the period rose 146% to \$1 billion, reflecting full period contributions from the CashFlow Advantage and 180 Group acquisitions which were completed in March 2016 and May 2016 respectively. The acquisitions have been successfully integrated into the group and rebranded "Cashflow Finance" which has allowed a more effective & cohesive sales and service delivery strategy to be applied. The integration of acquired businesses involved training and development of staff that continued under CML's ownership, a transition of all clients to a preferred software platform, re-pricing and new documentation for many and the management out of some clients that did not meet CML's risk criteria.

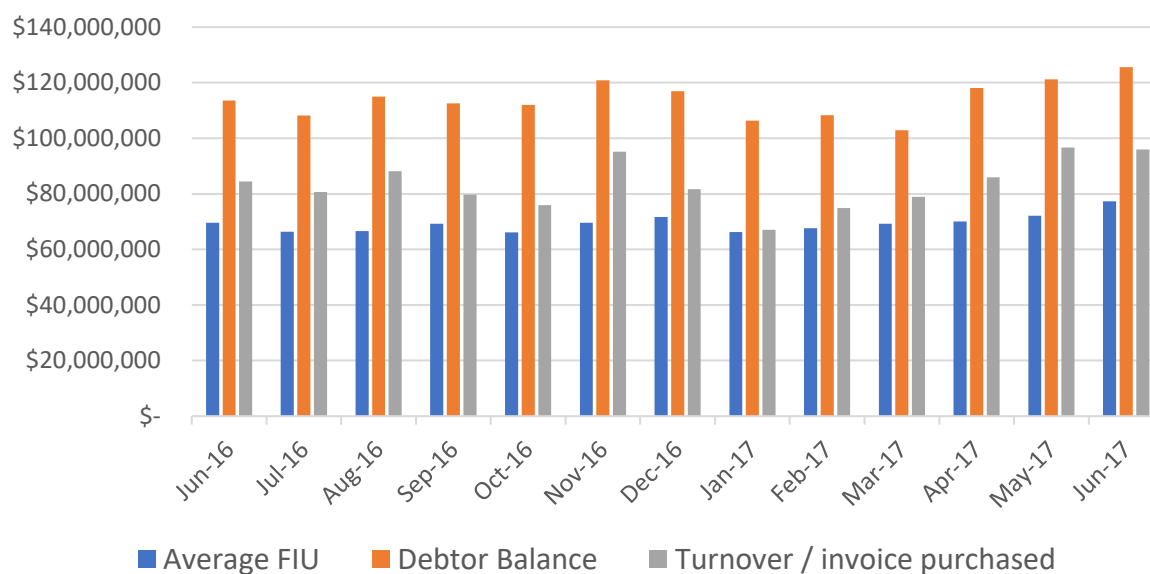
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The integration work was completed during H1'17 and resulted in a higher than normal client attrition rate. New sales compensated for this, with the loan book remaining steady, however value was added to the client portfolio through re-pricing, streamlining of service delivery and promotion of additional services.

The integration initiatives completed in H1'17 contributed to a boost in earnings in H2'17, complemented by the resumption of organic growth as client churn returned to historical levels and sales and marketing initiatives gathered momentum. The increase in volume and improved margins has provided an excellent starting position for FY'18.

The chart below illustrates a flat H1FY'17 during which integration work was completed, followed by the resumption of growth in H2.



Comparison table for the month of June 2017, with pcg

	30/06/2017 \$m	30/06/2016 \$m	Growth
Invoices purchased	96.0	84.4	14%
Receivables	125.6	113.6	11%
Average FIU (loan book)	77.3	69.6	11%
LVR	62%	61%	1%

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## Funding & Capital Management

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At balance date CML had \$14.9m of cash on balance sheet, plus \$37m headroom in its institutional bank facility to fund growth in the loan book.

The average cost of funds during FY'17 was 8.9% and due to the fixed nature of its bonds and notes compared to the daily fluctuations on funds deployed, CML at times carried funding capacity significantly greater than the Loan Book required. CML pays interest costs on these unutilised funds, which adversely impacts earnings. The interest costs on these unutilised funds were \$2.1m in FY'17.

CML expects that over the next 12 to 24 months, it will be able to transition from its current funding arrangements to majority institutional bank funding, which will have the double benefit of reducing the average cost of funds and through the draw-down nature of the facility reduce the exposure to unutilised funds.

CML wishes to advise that as per clause 4.2 of the terms of the Convertible Notes that in the 20 trading days on which trades were recorded on ASX to Monday the 21st of August, the VWAP of the ordinary shares was \$0.351055. Subsequently CML has right to convert all or some of the Convertible Notes to fully paid ordinary shares. CML is not under a time constraint to convert and will review its capital structure in the near term. If all the Notes were converted it would represent an increase on shares on issue from 133.1m to 174.6m and result in annualised reduction in interest of \$936,000. The Company will make a further announcement if Notes are converted.

## Dividend

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

## Outlook

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With over \$1 billion of invoices purchased in FY'17 and strong growth momentum moving into FY'18, CML has cemented its position as the second largest listed non-bank invoice finance provider in Australia and is quickly gaining recognition in the market for fast and reliable service delivered by a committed and experienced team.

CML is confident of continued earnings growth over the short and medium term and expects double digit EBITDA growth in FY'18 which will be driven by:

- Loan book growth – CML has an established sales team with a proven track-record of success and we will continue to develop this team. As evident in the last quarter of FY'17, organic growth has resumed under the restructured sales team and branding and this has carried on into the initial months of FY'18.
- Margin Improvement – we expected to benefit from a full 12 months contribution in FY'18 from the work completed on improving margins during FY'17.

Post FY'18, CML expects further growth to be driven by:

- Funding costs – CML expects that over the next 12 to 24 months, it will be able to transition from its current funding arrangements to majority institutional bank funding, which is just beginning to be utilised for new growth in the loan book. This will result in a lower cost of funds relative to the current blended rate of 8.9%. It is expected

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that during the time period provided above, CML can reduce its funding cost by circa 3%-4% plus reduce exposure to unutilised funds, which should have a positive material impact on earnings.

- New Products - during H2'17 CML has developed an Equipment Finance product that will be offered to existing and new customers. This product was launched in July 2017, with promising initial demand. We do not expect a material contribution to earnings from this new product during FY'18.

CML Managing Director Daniel Riley commented, "CML has simplified and improved its business over the last 2 years and with a committed and experienced team, strong sales momentum and institutional bank funding in place, we are highly confident in our ability to deliver on our clear growth plan that is focussed on scale and profitability."

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 customer (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 labour sourcing, project management and direct recruitment.

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