Consolidated Operations Group
Finance and Leasing

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

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BUSINESS UPDATE: STRATEGY AND APPLICATION OF CAPITAL

Cash Available for Investment

In June 2017 Consolidated Operations Group (COG) raised $31 million for the purpose of:

- The partial acquisition of three asset finance broking businesses; and/or
- To expand the TL Rentals lease book.

Only one of these acquisitions was determined to be an appropriate investment.

In September 2017, TL Rentals raised debt funding of $18 million to finance leases that had already been written using cash available in the group. This is a key step for TL Rentals as the entire lease book then became externally funded.

COG currently has approximately $41m of excess capital attributable to COG shareholders available for investment.

COG Strategy

There are four key areas in the COG strategy:

1. Organic growth of the TL Rentals lease portfolio

The growth in the lease portfolio is a significant driver of shareholder value. As noted in the year end investor presentation, there is a delay between origination of leases (value creation) and recognition of accounting profit.

With the current excess cash reserves, these can be applied to "warehouse" leases, i.e. to purchase equipment for leases and then, as required, TL Rentals can convert these leases to cash using one of several funding sources. This allows capital to be put to use in the short-term, whilst further acquisitions of asset finance brokers are in progress.

2. Investment in Asset Finance Brokers

COG is focussed on supporting the management of the existing controlled entities and in further investment in asset finance broking businesses. This will continue to generate cash profits.

Investment will continue to be through a 'skin in the game' model. We will invest directly in well managed operations where the key management maintain an investment that is significant to them. We will support these brokers in acquiring partial or complete purchases of businesses where the brokers that are looking to retire.

The most recent investments have been at EBITDA multiples of between 4 and 4.5 multiples. We consider there will be sufficient opportunities to buy brokers at around 4 to 5 times EBITDA.

We expect investment in asset finance broking to be the predominant use of investment capital. At an average EBITDA multiple of five, this will provide an EBITDA return of 20% on the application of these funds.

3. Expanding Membership Numbers and Services in the Asset Finance Aggregation Businesses

The increase in the net asset financed (NAF) for the year ended 30 June 2017 was 14% to $3.1 billion. The increase was predominantly due to new members in Consolidated Finance Group (CFG) and Platform. This volume allows COG to invest in the development of IT and the expansion of membership offerings such as compliance services and training and the annual member and financier conference.

The enhancement of the membership model will attract increased membership, which provides additional gross margin at a low marginal cost for the provision of these membership services.

The membership model is funded through the volume based incentives provided by financiers.

4. Expansion of TL Rentals Offering

The existing TL Rentals product is for essential equipment for businesses that fall outside of traditional bank lending. This may be due to service levels, complex structures, non-standard assets or a reluctance to provide the security demanded by a bank.

TL Rentals has been investigating expansion into prime lending for auto and equipment finance. This product will be designed to fit niche markets within the CFG and Platform networks. A product such as this requires a first loss provision, hence some capital is being considered for this application. There will be a significant return on this capital if and when the facility is established. This is a mid to long term proposition with a horizon of around 12 to 18 months.

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Capital Management

The COG Board is committed to delivering improved returns for shareholders and efficient capital management whilst maintaining flexibility to pursue acquisition opportunities in line with COG's growth strategy.

COG remains confident that available capital can be utilised over the next 12 months for further value accretive acquisitions that meet COG's investment and return criteria.

If COG is unable to utilise existing excess capital within a reasonable period of time then the Board will consider capital management options which includes the consideration of an on-market share buyback if the Board believes that the shares are trading below their intrinsic value.

The Board will continue to review the application of investment funds and consider capital management options as we have more information on the timing and size of potential investments.

For any further questions or clarification please contact me.

Cameron McCullagh

Managing Director