



CML Group Limited (ASX:CGR)

22 November 2018

CML GROUP LIMITED 2018 ANNUAL GENERAL MEETING ADDRESSES TO SHAREHOLDERS

CML Group Limited (ASX:CGR) will address shareholders today at its Annual General Meeting to be held at 3.00pm on Thursday 22nd November at the Kirribilli Club, 11 Harbourview Crescent, Lavender Bay, NSW.

In accordance with Listing Rule 3.13.3, attached is a copy of the Chairman's address, CEO's presentation that will be delivered at the Meeting.

Sincerely,

Steve Shin
Company Secretary

ABOUT CML GROUP

CML provides cash flow and integrated business solutions, to help its clients focus on their core business.

CML's primary business 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.



Chairman's address to the AGM of CML Group Limited

This has been an excellent year for CML Group ("CML").

In the second half of the 2015 financial year, CML announced its capital and growth strategy to grow the funds in use from around \$25m in financial year 2015 to \$50m+ over the next few years, as a way to secure lower cost funding and reduce unutilised funds.

During the second half of the 2018 financial year, CML had increased funds in use to over \$120m, secured warehouse funding at significantly reduced rates and reduced excess cash requirements. Since the 2015 financial year, invoices purchased have increased nearly tenfold to \$1.32b.

There have been some one-off costs during the 2018 financial year associated with the change-over of debt facilities but the benefits are being realised in the current financial year and beyond.

We have now nearly completed the strategy we outlined in 2015.

So where to from here?

Our strategy over the next five years has two streams. Firstly, the organic growth of our current business through utilisation of new technologies and secondly, growth through the introduction of new products.

On the technology side, our IT and marketing people have:

- developed online applications to streamline and accelerate the application process for new customers;
- released a mobile app that allows existing customers to review credit limits and request funds drawdowns whenever and wherever they are; and
- recently introduced technology that links to our clients' accounting systems - allowing CML to directly access client data. This will accelerate new business submissions, permit real-time credit management and speed up credit approvals.

Through these and other developing technologies we will enhance the customer experience and streamline the acquisition of new customers.

Our second strategy stream, new products, has already exceeded expectations. Our equipment finance business was introduced in July 2017 with the expectation of becoming profitable during the 2019 financial year but was already contributing to profit during the second half of financial year 2018 and is growing strongly.

In addition, we are introducing a new product line this current quarter – Invoice Discounting. This product is similar to our Factoring product but targets a different customer base – larger customers with a lower risk profile. The margin percentage is lower but with higher turnover the dollar profit per customer will compare with our factoring customers.



These strategies are not to ignore the successful strategies our team have employed over the past years but to support and enhance them.

As a result, CML Group is looking forward to invoices purchased growing to more than \$1.7b. Based on strong Q1 results, we are increasing our guidance for underlying EBITDA from \$20m to \$21m to in excess of \$21m, which is expected to result in NPATA exceeding \$9m this financial year, and which will be in excess of 20% and 38% on the financial year 2018 results respectively.

The team at CML Group, management and staff, have done an exceptional job over the last three plus years to put the company on a successful footing and a strong growth trajectory – congratulations to all.

I believe our Board, CEO and senior management have the right mix of talent and commitment to take CML Group to new heights over the next few years.

In particular, I would like to mention Peter Toohey, our EGM who retires in March 2019. Peter has been a remarkable achiever for CML Group and a key driver of our growth. On behalf of the Board and Management of CML Group I wish Peter well in his retirement and look forward to remaining in contact as Peter will remain as an advisor to our Group.

Replacing Peter and also managing our new Invoice Discounting product is Mark Cleaver. Mark started with us in October this year and will take the position of Managing Director Invoice Finance.

Mark has extensive experience in our industry having worked for Bibby Financial Services for 18 years. Bibby is the largest UK provider of Invoice Funding to SMEs with over 10,000 customers worldwide.

Mark's tenure included MD UK for 4 years, CEO Europe for 6 years and MD Australia and NZ for 3 years before the division was acquired by Scottish Pacific in 2015.

We welcome Mark to the team and look forward to working closely with him.

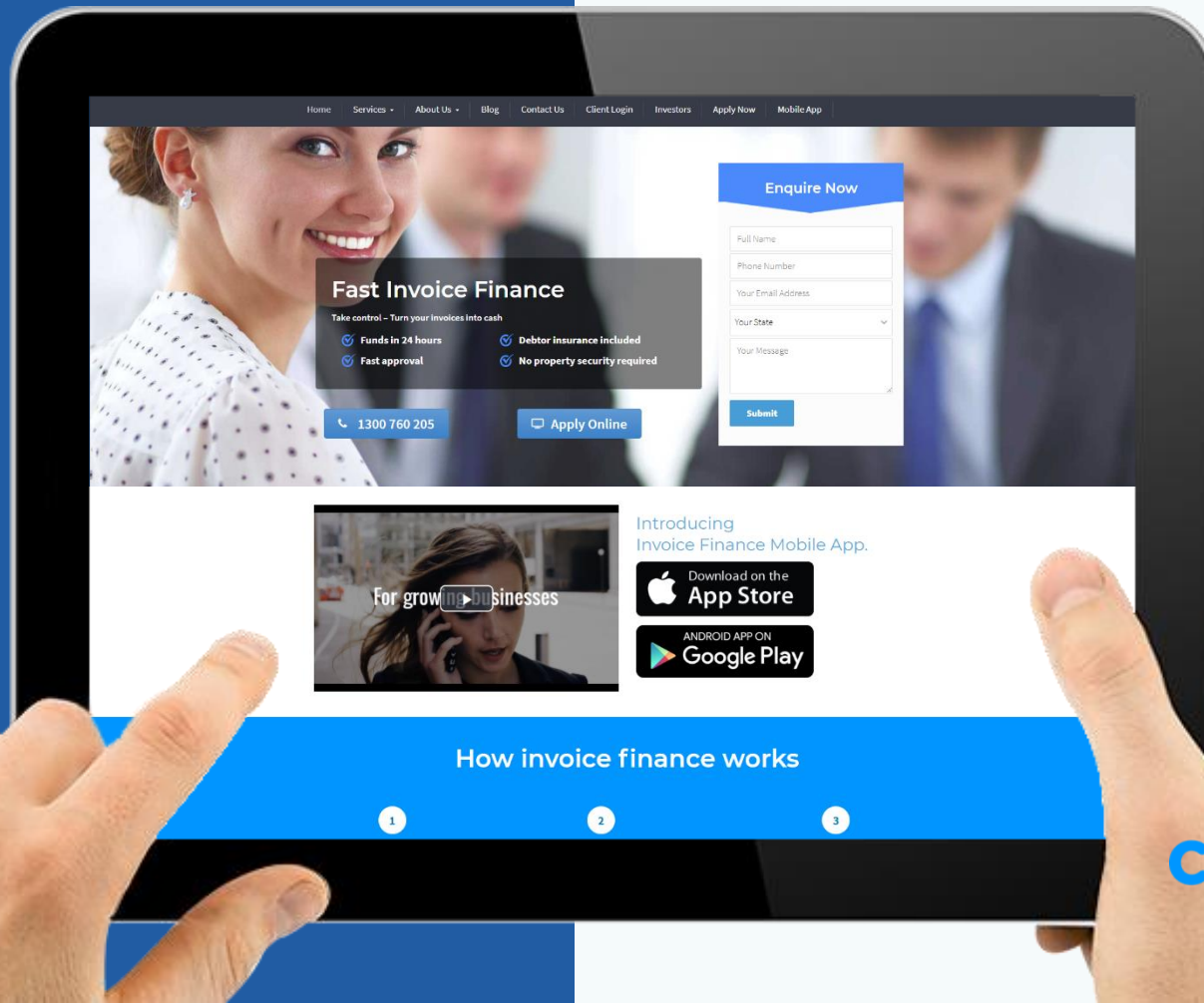
As always, I would like to thank our shareholders, long term shareholders who have remained loyal during the ups and downs and new shareholders who have recognised the potential of our company.

Greg Riley
Chairman

CML Group

Annual General Meeting

CEO Daniel Riley
22nd November 2018



cashflow
finance

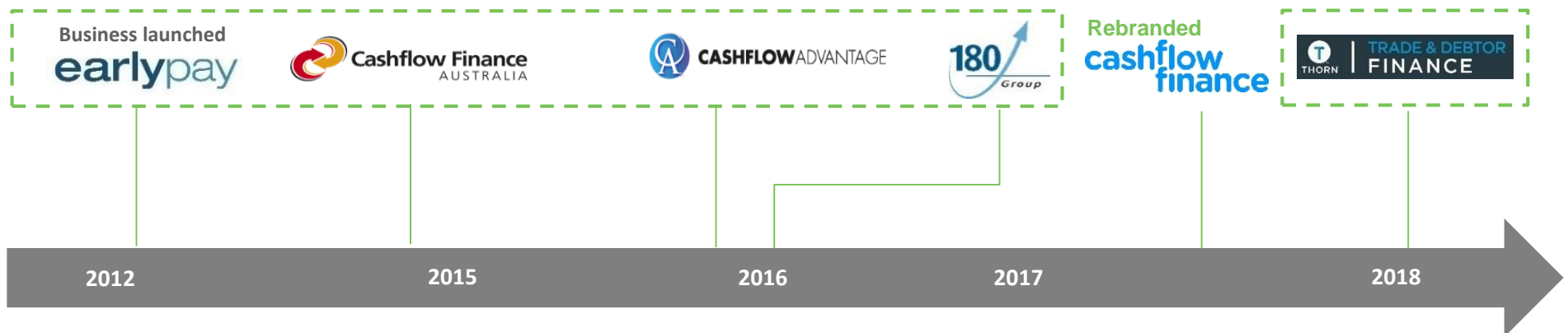


About CML

Operating under the name Cashflow Finance, CML's primary service is 'invoice factoring' or 'debtor 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.

- Following strong organic growth and the acquisition of four competitors, CML is the clear number two non-bank invoice factoring business in Australia.
- Invoice turnover for FY'18 exceeded \$1.3 Billion, representing +15% market share. The current run-rate for FY'19 is \$1.7 Billion, representing +20% market share of Invoice Factoring.
- CML employs an experienced team of ~70 people across Brisbane, Sydney, Perth, Adelaide and Melbourne.



FY'18 Financial Highlights



+33%

**Invoices
Funded**



+32%

**Finance
Revenue
Growth**



+34%

**Group EBITDA
Growth¹**



+71%

**Group NPATA
Growth²**



+31%

**Underlying
EPS Growth³**



0.75c

**Final
Dividend**

FY'18 Results

CML reported a strong Full Year 2018 result compared to the prior 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

Completed in FY'18

- Continued growth in client numbers through sales, marketing and partnerships
- Successful introduction of an Equipment Finance division
- Transition to lower cost funding completed in May 2018
- Acquisition of Thorn Debtor Finance in February 2018

¹Pre-tax impact of: penalty component for early redemption of Bond #2

²Post-tax impact of: penalty and interest component for early redemption of Bond #2 and early conversion to equity of Convertible Note

³Underlying EPS is based on Underlying NPATA

Industry & Operational Update

a) Operating Environment

b) Product Expansion

c) Technology

d) Channels to Market

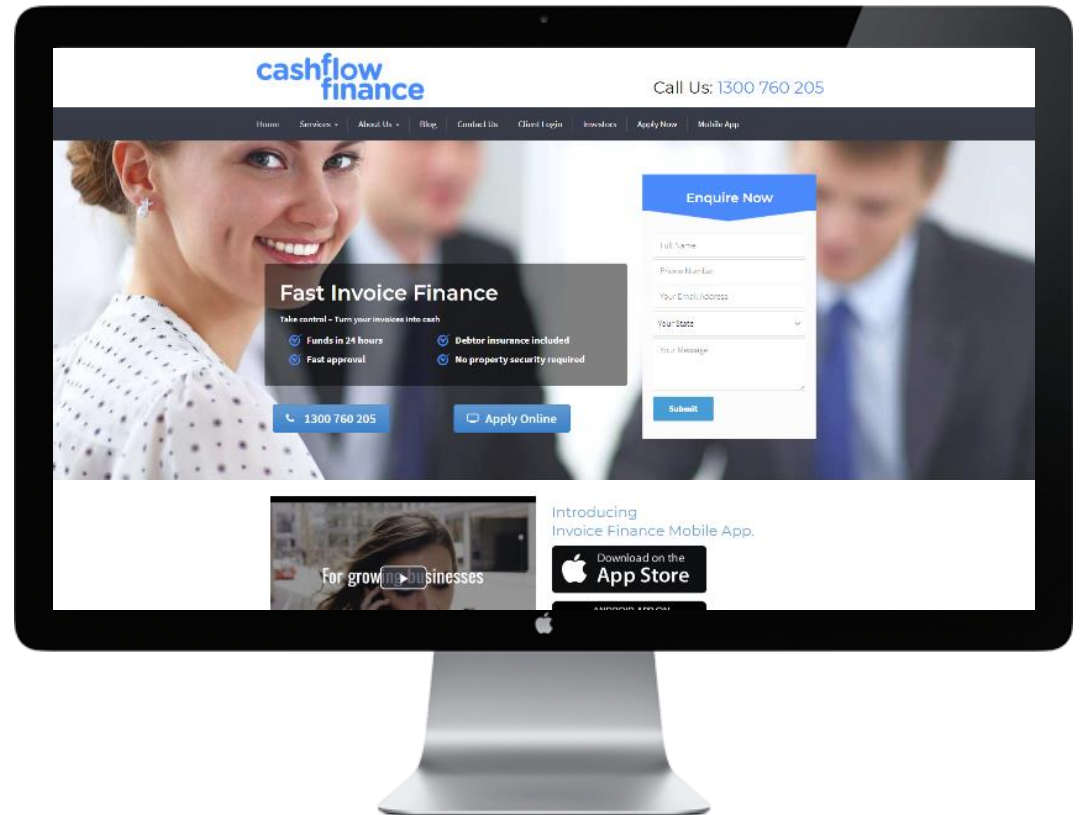
e) People

Operating Environment

Competitor consolidation in Debtor Finance, combined with tightening lending criteria from the major lenders, is creating a funding gap for Australian SME's.

In this environment of reduced competition, CML has appropriate products to service this SME funding gap and in an environment of reduced competition, has positioned the Company for growth by leveraging:

- a) Product expansion and cross-sell
- b) Technology to streamline new applications and client on-boarding
- c) New channels to market



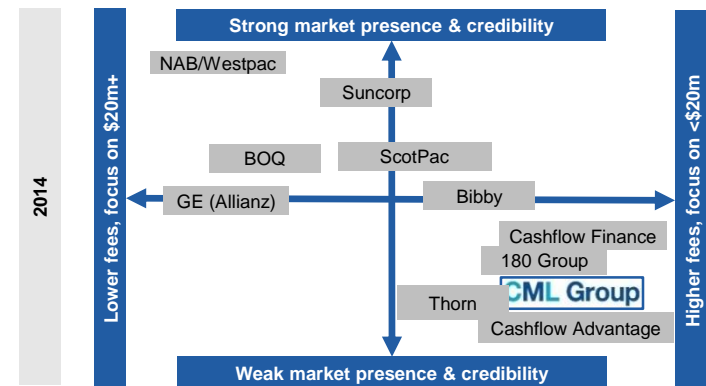
Product Expansion 1 – Invoice Discounting

Competitor consolidation in Debtor Finance, plus tightening lending criteria from the major lenders, is creating a funding gap for Australian SME's

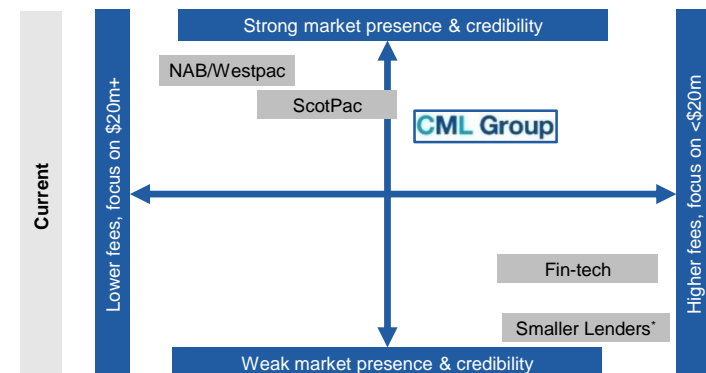
- The Australian Debtor Finance market has undergone significant consolidation over the last 3 years
- A market gap is developing as banks further tighten lending criteria
- CML is well established in “Invoice Factoring” (IF) with approximately 20% to 25% market share. IF focusses on smaller clients, with the average lend for CML in this space < \$300k.
- Over the last 6mths, CML has employed additional experienced staff and developed policies and processes to target larger transactions as a product extension into “Invoice Discounting” (ID).
- The first ID clients have been settled during October 2018, initial demand for this product extension is encouraging and CML anticipates a boost to growth momentum as it builds market share.

Competitive Landscape

The market has undergone a significant level of consolidation since 2014



CML and Scottish Pacific have acquired a number of competitors whilst some Fin-Tech companies have entered the market



*Smaller lenders include: Moneytech, Key Factors, Fifo Capital, Apositive

Product Expansion 2 – Equipment Finance

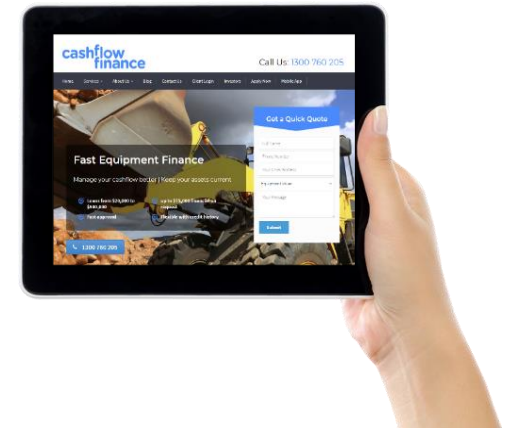
Positive earnings contribution expected in FY'19, with additional growth opportunities through cross-selling

- CML launched its equipment finance division in July 2017, operating as Cashflow Equipment Finance
- Loans range from \$20,000 to \$500,000 focussing primarily on funding second-hand transport and yellow goods with a strong resale market
- The division settled ~100 transactions in the first 12-months, representing \$11.4m in settlements, generating gross receivables of \$16.4m
- \$20m in funding secured through unsecured bond, increasable at quarterly intervals also secured

Very good synergies with existing products, with 20% of Equipment Finance transactions settled in FY'18 also requiring Invoice Finance Services

Risk management:

- National Manager for Equipment Finance has over 30yrs industry experience and CML employs experienced credit analysts to review every transaction
- All equipment is independently valued and CML lends against the price expected if the equipment was to be sold via auction
- CML does not employ sales people for this division, all new business is sourced through accredited brokers that have a good history with CML or senior staff
- Senior staff are incentivised to cross-sell Equipment Finance clients into a Debtor Finance product
- Modest growth expectations, we are focussed on credit quality and cross-sell opportunity, however we are averaging good margins and anticipate a contribution to profit at NPAT level from this division in FY'19



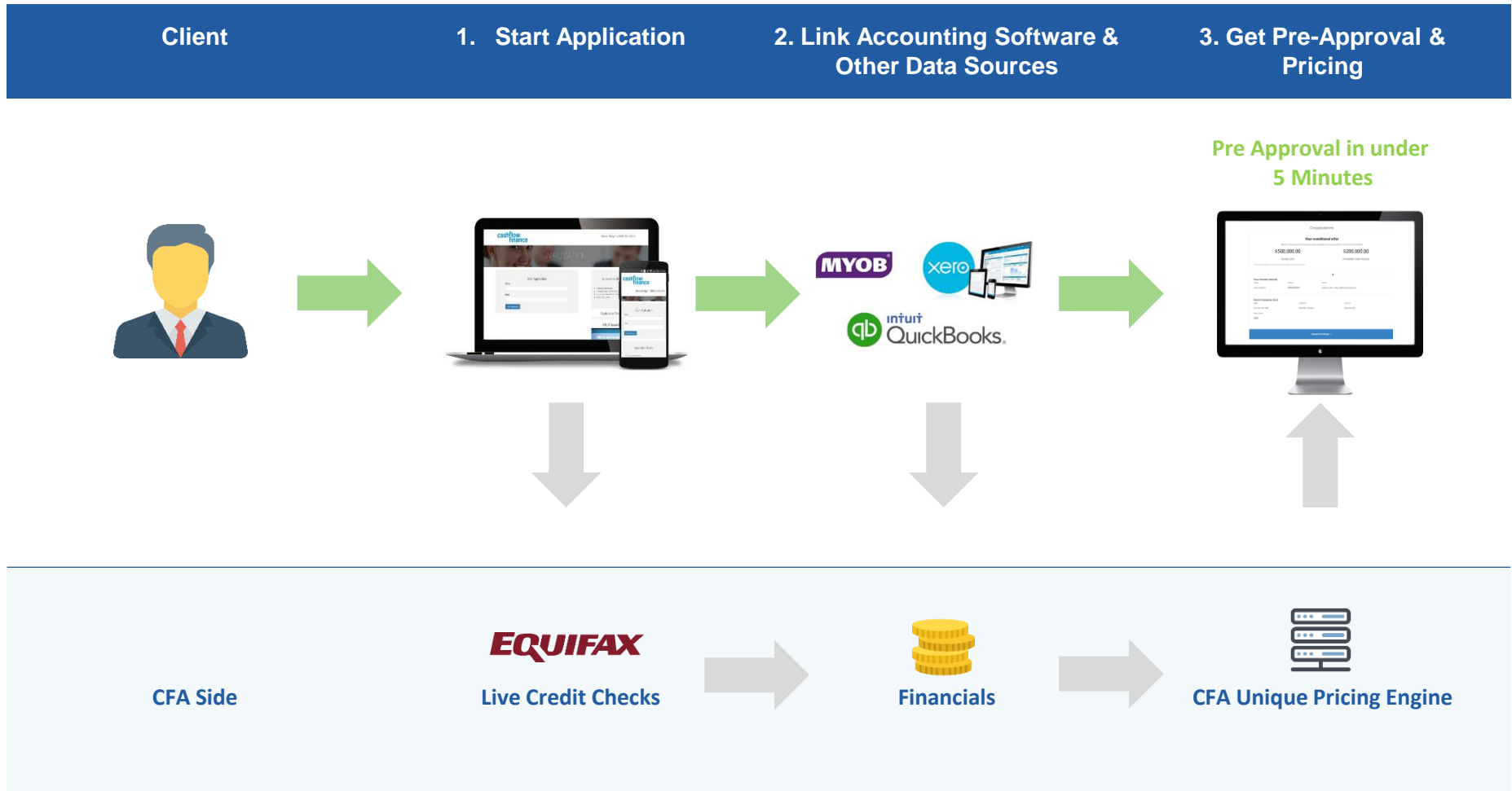
Equipment Finance Earnings Model (Year-1)

Cost	\$1000
Written Down Value	\$800
Assessed Value	\$600
Loan	\$500
Interest on loan balance (20%)	\$100
Cost of Funds (8%)	\$40
Margin	\$60

Technology is Driving Client Originations

CML's investment in new technology is driving client origination and organic growth

3-step Approval Process

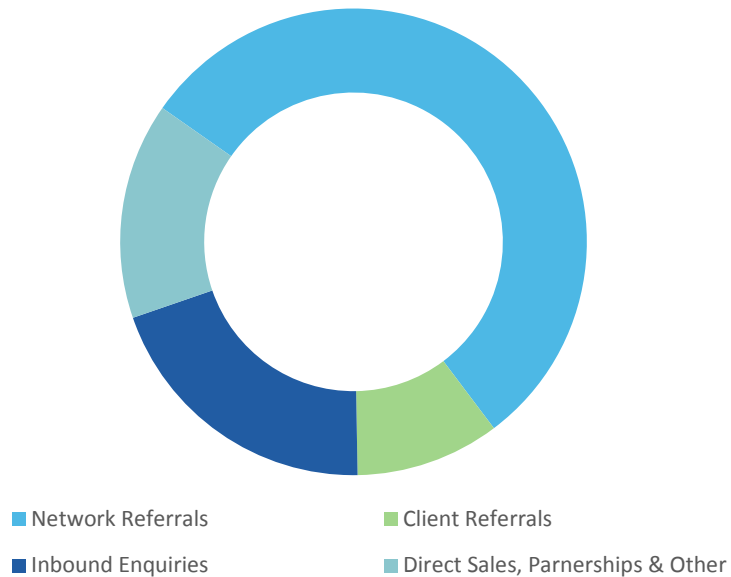


“30%+ of new business expected from this channel in FY’19”

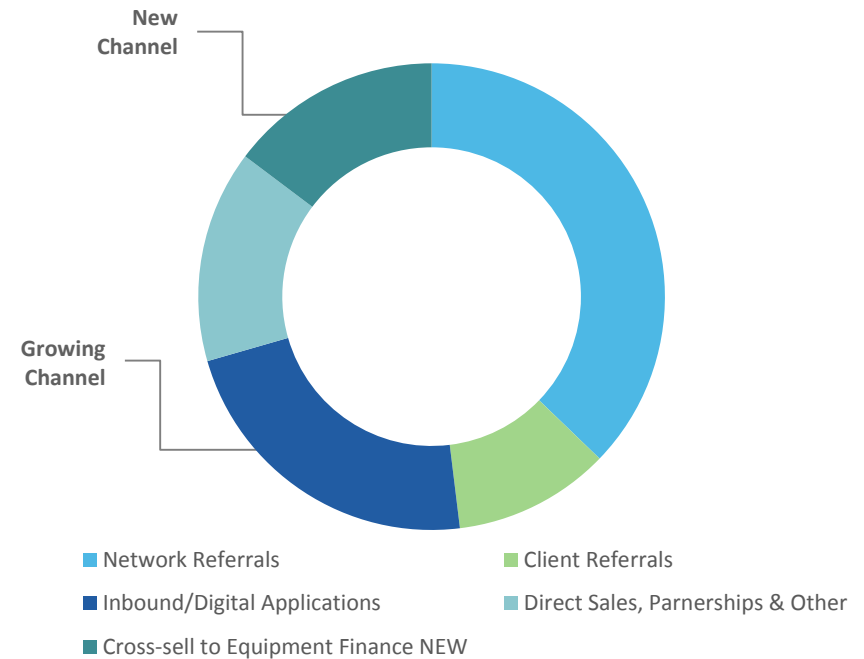
Channels to Market (Evolution of New Business)

Traditional sales methods continue to deliver, with new channels emerging as material contributors to growth

New Clients FY'17



New Clients FY'18



Top line organic growth of 17% in FY'18 achieved with the assistance of emerging new channels

People

Mark Cleaver appointed Managing Director, Invoice Finance

- Mark spent 18yrs with Bibby Financial Services (BFS), the UK's largest independent provider of Invoice Finance funding to SME's, with over 10,000 clients globally. Roles with BFS included:
 - Managing Director, UK for 4 years
 - CEO Europe for 6 years
 - Managing Director, Australia & NZ for 3 years, prior to the acquisition of this business by Scotpac in 2015
- Mark will drive CML's growth strategy, leveraging all channels to market to capture greater market share for the core business, invoice factoring, plus product extension to win larger transactions in invoice discounting.
- Mark will replace Peter Toohey who, after 42 years in the industry, including the last 4 years with CML, will retire from his executive role with CML at the end of March 2019. Peter will remain available to CML in an advisory role to senior management and the board. We thank Peter for his significant role in refining CML's business model and building scale in the invoice finance industry.

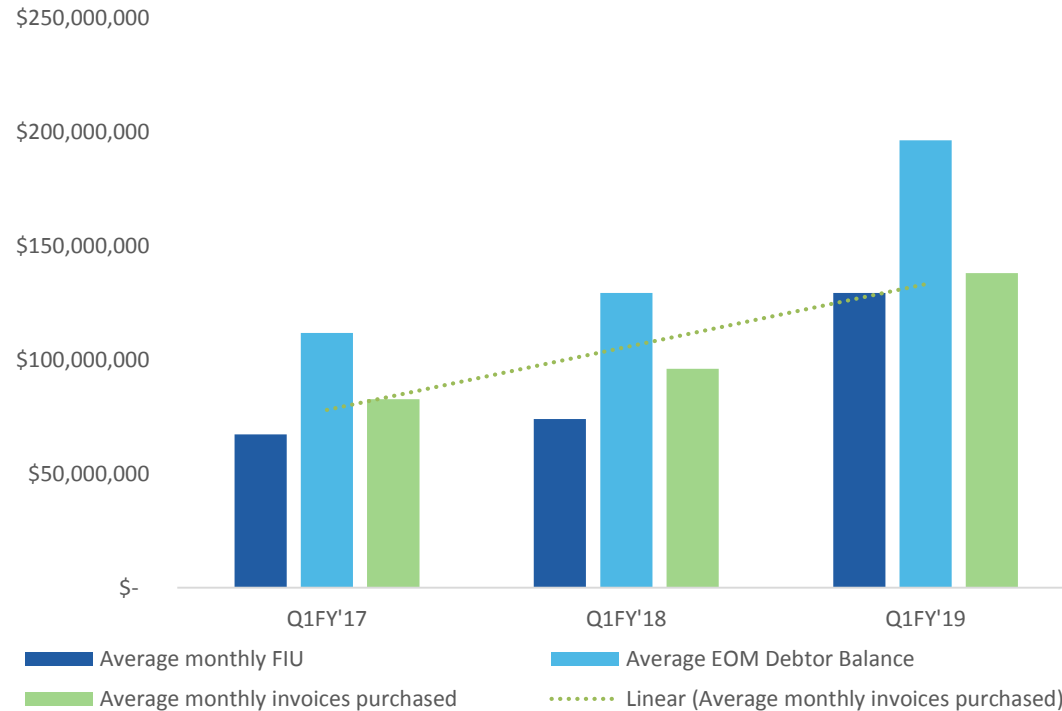
Q1 Earnings (Unaudited)

Earnings increasing on higher business volume and product expansion

(\$m)	Q1FY'17	Q1FY'18	Q1FY'19	Δ pcp	Comments
<i>Invoices purchased</i>	248.4	288.6	414.2	44%	Higher volume due to 17% organic growth through FY18, plus an acquisition completed in Feb18
Invoice Finance	6.1	8.1	9.8	22%	Revenue improvement on increased business volume, gross margin lower due primarily to the dilutive impact of lower margin TDF Loan book, acquired Feb18
Equipment Finance	-	-	0.6	N/A	Interest income is progressively building following the launch of this service offering in July 2017
Other	6.2	4.0	2.2	-45%	Continuing revenue from other divisions reduced following exit from marginally profitable contracts. It is expected that revenue will continue to decline as non-core business units are wound-down over the next 24 months
Revenue	12.3	12.0	12.6	4%	
Invoice Finance	3.1	4.3	5.0	17%	Increased costs (approx. \$200k) incurred in Q1FY19 relating to the team employed to support product extension into ID. Revenue has commenced in Oct18 and the increased cost base is expected to be recovered through the year
Equipment Finance	-	(0.1)	0.25	445%	CML anticipates \$1.5m+ EBITDA contribution from Equipment Finance for FY'19 as client numbers build through the year
Other	0.3	0.2	0.2	5%	Continuing earnings from other divisions, is expected to decline as non-core business units are wound-down over the next 24 months.
Corporate	(0.4)	(0.4)	(0.4)	0%	Corporate costs are stable and consistent with prior year
EBITDA	2.9	4.0	5.1	28%	

Key Statistics

Growth momentum continues, following strong organic growth during FY18 + completion of acquisition in Feb-18



Key Statistics	Q1FY17	Q1FY18*	Q1FY19	Change
Invoice turnover	\$248.4m	\$288.6m	\$414.2m	+44%
Margin on invoice turnover	2.49%	2.80%	2.36%	-16%
Revenue	\$6.2m	\$8.1m	\$9.8m	+21%

Dilutive impact of lower margin TDF Loan book, acquired Feb18, on GP Margin. Initiatives are underway to improve margin to prior levels

Outlook

CML lifts guidance to \$21m+ Underlying EBITDA



Increasing Business Volume

- Marketing and technology initiatives will continue to drive loan book growth, delivering more enquiries, direct engagement with prospective clients and higher conversion rates.
- A move into Invoice Discounting during FY'19 will help to build volume with larger transactions, first facilities settled during October 2018.



Funding Costs

- Following the successful transition of funding during FY'18, 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.



Equipment Finance

- New division is performing well-ahead of expectations, now contributing positively to earnings.
- Continued benefit being observed through cross-selling opportunities with Debtor Finance.



Guidance

- Q1 FY'19 EBITDA trading is up 28% on the prior corresponding period.
- CML is subsequently increasing FY'19 Underlying EBITDA guidance to \$21m+ (previously \$20m-\$21m) and up 20%+ on pcp¹.
- Underlying NPATA in FY'19 is expected to be \$9m+ (based on underlying EBITDA of \$21m+), up 38%+ on pcp² and reflects leverage to top line growth and lower funding costs.

¹FY'18 Underlying EBITDA excludes the pre-tax impact of penalty component for early redemption of bond #2

²FY'18 Underlying NPATA excludes the Post-tax impact of penalty and interest component for early redemption of Bond #2 and early conversion to equity of Convertible Note

FY'19 Underlying NPATA excludes any non-cash amortization of identifiable intangible assets acquired with the Thorn Debtor Finance book in February 2018

Disclaimer

The information presented herein contains predictions, estimates and other forward looking statements that are subject to risk factors that are associated with the human resource management sector. The persons involved in or responsible for the production and publication of this report believe that the information herein has been obtained from reliable sources and that any estimates, opinions conclusions or recommendations are reasonably held at the time of compilation.

Although CML Group believes that its expectations are based on reasonable assumptions, it can give no assurances that its goals will be achieved.

Important factors that could cause results to differ materially from those included in the forward-looking statements include timing and extent of changes in the economy, government regulation, changes to funding arrangements and the ability of CML Group to meet its stated goals.

The purpose of this presentation is to provide background information to assist in obtaining a general understanding of CML Group's proposals and objectives. This presentation is not to be considered as a recommendation by CML Group or any of its subsidiaries, directors, officers, affiliates, associates or representatives that any person invest in its securities. It does not take into account the investment objectives, financial situation and particular needs of each potential investor. If you are unclear in relation to any matter or you have any questions, you should seek advice from an accountant or financial adviser.

CML Group

