CML Group

21 February 2019

CML Group Limited (ASX:CGR)
("CML" or the **"Company)**

Half Year 2019 Results Announcement

1H'19 Highlights

CML is pleased to report a strong Half Year 2019 result compared to the same period last year, with key highlights as follows;

- Invoices funded up 44% to $838 million
- EBITDA up 30% to $10.1m
- NPATA up 71% to $4.4m on 1H'18[1]
- NPAT up 162% to $4.4m on 1H'18
- EPS up 97% to 2.2 cents per share
- Dividend of 1.0 cent per share declared, up 33%
- FY'19 Guidance of $21m+ EBITDA and $9m+ NPAT reaffirmed

CML is pleased to report a substantial uplift in earnings in 1H'19 compared to the same period last year, with EBITDA from continuing operations of $10.1m up 30% on the prior corresponding period

Reported NPAT of $4.4m is up 162% on the prior corresponding period (1H'18: $1.7m) and is up 71% on the prior corresponding period NPATA result (1H'18: $2.6m).

The strong result facilitates an increase to the interim dividend of 33% to 1.0 cent per share (1H'18: 0.75cps).

[1] *H1'18 adjusted to exclude impact of $0.6m amortisation expense & unamortised costs of $0.3m associated with write-off of 5-year convertible note*

cashflow finance

Financials

A summary of CML's Half Year result is tabled below:

$m	1H'18	1H'19	pcp ∆	Commentary
Invoices Purchased	***581***	***838***	*44%*	1
Finance	15.5	19.5	*26%*	2
Equipment Finance	0.3	1.4	*457%*	3
Other	8.5	4.1	*-51%*	4
Group Revenue	**24.3**	**25.1**	***3%***	
Finance	8.3	10.1	*22%*	5
Equipment Finance	(0.1)	0.4	*669%*	6
Other	0.4	0.4	*16%*	7
Corporate	(0.9)	(0.9)	*0%*	8
Group EBITDA	**7.8**	**10.1**	***30%***	
D&A	(0.1)	(0.1)	*59%*	
Net Interest	(4.1)	(3.7)	*-11%*	9
Tax	(1.0)	(1.9)	*92%*	
NPATA	**2.6**	**4.4**	***71%***	
*Non-recurring expenses**	*(0.9)*	*0*		
NPAT Reported	***1.7***	***4.4***	***162%***	
Underlying EPS**	1.5	2.2	*45%*	
EPS (cents per share)	1.1	2.2	*97%*	
DPS (cents per share)	0.75	1.00	*33%*	

* *Non-cash amortisation of identifiable intangible assets from acquisitions completed in FY'16 ($0.6m), plus unamortised costs ($0.3m) associated with a 5 year $10.4m convertible note issued in January 2015 and converted to equity early in October 2017*

*** Underlying EPS is based on NPATA*

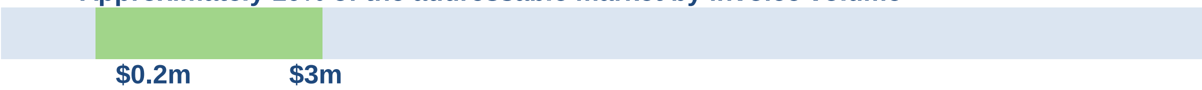
Financial Commentary

1. Higher volume due to continued organic growth through 1H'19, plus a contribution from the TDF acquisition completed in Feb'18.
2. Revenue improvement on increased business volume. Lower gross margin due primarily to the dilutive impact of TDF Loan book, acquired Feb'18.
3. Income progressively building following the launch of this service offering in Jul'17.
4. Continuing revenue from other divisions reduced following exit from marginally profitable contracts.
5. Costs increased in line with Invoice volumes. Development of the Invoice Discounting (ID) product and team added approximately $400k to the 1H'19 costs base. ID related revenue commenced in Oct'18 is expected to cover costs in 2H'19.
6. CML anticipates ~$1.5m EBITDA contribution from Equipment Finance for FY'19 as client numbers build through the year.
7. Continuing earnings from other divisions are expected to decline as non-core business units are wound-down over the next 24-months.
8. Corporate costs are stable and consistent with prior year.
9. CML is operating on significantly lower cost of funds following greater utilisation of its bank warehouse facility from May'18, following repayment of $40m in bonds, plus conversion to equity in Oct'17 of a $10.4m convertible note.

Invoice Finance Growth Strategy

CML has traditionally focussed on clients requiring a facility size from $150,000 to $3,000,000, with 95% of existing clients within this range.

Approximately 10% of the addressable market by invoice volume[1]



CML now has the scale, funding and expertise to offer invoice finance to a broader size of business, both small and large.

Approximately 40%+ of the addressable market by invoice volume[2]

Following product development, investment in additional people, processes and operating systems, CML has commenced services to larger clients under an "Invoice Discounting" (ID) model. The first ID clients were settled during October 2018 and CML expects volumes to build during 2H'19.

Smaller clients, requiring facilities as low as $50,000, can now be serviced profitably by CML with reliance on its digital platform for loan application, credit submission and documentation. Service to small clients is anticipated to commence during 2H'19.

Equipment Finance

CML's Equipment Finance business, launched in July 2017, continues to progress well with $21m receivables on funds advanced of $15m as at 31 Dec'18, compared to $14m receivables on funds advanced of $10m at the end of FY'18.

Managed by an experienced team of 7, CML's Equipment Finance division now has 18-months trading history, has settled over 150 transactions and is proving to be a robust business model that is complimentary to the core Invoice Finance business in terms of cross-sell and client retention.

The objectives for Equipment Finance include:

Scale
Continue building a quality client portfolio. This can be achieved with the existing team and funding structure

[2] *Addressable market figures based on DIFA industry statistics from 2015 and CML management's interpretation of the current market.*

Funding

As the Equipment Finance division builds history and scale, CML will seek to transition the loan portfolio from its current debenture funding structure to lower cost funding. This funding strategy is similar to the path followed by the core Invoice Finance business, in which a transition from bonds to lower cost bank warehouse funding in May'18 has contributed to a significant improvement in earnings in FY'19 compared to prior years.

Cross-sell and client retention

There are strong synergies between the Equipment Finance and Invoice Finance divisions, with new clients often requiring both products. CML's ability to offer both products is helping to both attract and retain clients.

Dividend

CML has declared a Final Dividend of 1.0 cent per share, fully franked. CML has a Dividend Reinvestment Plan (**DRP**) in place, with a discount rate of 5.0%, in which eligible shareholders may participate.

Outlook

CML expects a continuation of growth, through traditional sales channels and through broadening the size of clients that CML can target. CML is now targeting 40%+ of the addressable market compared to 10% of the addressable market historically.

CEO Daniel Riley commented, "The strong result for 1H'19 is reflective of the maturity of the invoice finance business, including sales, risk management and funding. The growth strategy is clear and the required investment to achieve success has already been made and absorbed into the business. CML is now able to increase business volume in invoice finance by broadening the size of client it can finance, the equipment finance division is proving robust and nearing a point where it will contribute meaningfully to earnings and the knowledge brought into the business by recently joined MD of Invoice Finance, Mark Cleaver, will ensure that business performance is optimised."

The Company reaffirms its FY'19 guidance of $21m+ EBITDA and NPATA of $9m+

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 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.