Financial Year 2019 Results Announcement

CML Group's NPATA up 46% to $9.5m

22 August 2019: CML Group Limited (ASX:CGR) is pleased to announce a substantial uplift in earnings for FY'19, with NPATA of $9.5m up 46% and EBITDA of $20.4m up 16% on the prior corresponding period.

During FY'19, CML Group made investments into its human resources, products, and processes that position the Company to build market share and will underpin growth in future years.

FY'19 Highlights

CML is pleased to report the key highlights as follows;

Financial Highlights:

- Invoices funded up 19% to $1.6bn
- EBITDA up 16% to $20.4m
- NPATA up 46% to $9.5m[1]
- EPS (NPATA) up 25% to 4.7 cps
- Reported NPAT of $8.4m (FY'18: $3.2m)[2]
- Final dividend of 1.4 cps, taking FY'19 dividend to 2.4cps up 60% on PCP (FY'18: 1.5cps)

Operational Highlights:

- Continued strong performance in core Factoring business, underpinning the strong FY'19 result and facilitating investment into business expansion initiatives
- Commencement of expansion into Invoice Discounting, targeting larger clients and expanding CML's addressable market
- Equipment Finance division continues to grow strongly, whilst also assisting in the winning and retention of Invoice Finance clients. FY'19 EBITDA increased to $1.6m (FY'18: $0.3m)
- Sales and marketing initiatives introduced in 2H'19 showing early traction and providing strong momentum into FY'20

Commenting on FY'19 results, CEO Daniel Riley said, "We are pleased to deliver another year of growth throughout a period of significant investment in the future of the overall business. Invoice Finance saw volumes funded increase by 19%, which, in addition to operational efficiencies and a material reduction in funding costs, has resulted in a 46% increase in NPATA.

We have successfully diversified our product offering to now include Invoice Discounting, allowing us to service larger customers and substantially expand our total addressable market. Additionally, Equipment Finance continues to deliver growth, with this product assisting in securing new customer wins and increased customer retention."

[1]Includes $0.4m positive impact on earnings on adoption of AASB 9 during the period

[2]Includes $1.1m non-cash amortisation of identifiable intangible assets from acquisitions completed in FY'18

Financials

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

$ million	FY'18	FY'19	*pcp Δ*
Invoices Purchased	***1,328***	***1,579***	*19%*
Invoice Finance	34.4	35.8	*4%*
Equipment Finance	1.0	3.4	*226%*
Other	11.3	8.5	*-24%*
Group Revenue	**46.7**	**47.7**	***2%***
Invoice Finance	18.1	19.4	*7%*
Equipment Finance	0.3	1.6	*538%*
Other	0.9	1.0	*20%*
Corporate	(1.6)	(1.6)	*-0%*
Group EBITDA (Underlying)[1]	**17.6**	**20.4**	***16%***
D&A	(0.2)	(0.3)	*19%*
Net Interest	(8.0)	(7.1)	*-12%*
Tax	(2.8)	(3.6)	*25%*
NPATA (Underlying)[2]	**6.5**	**9.5**	***46%***
Non-recurring expenses[2]	*(3.3)*	*(1.1)*	*-67%*
NPAT Reported	***3.2***	***8.4***	***164%***
Underlying EPS[3]	3.8	4.7	*25%*
EPS (cents per share)	1.9	4.2	*120%*
DPS (cents per share)	1.5	2.4	*60%*

[1]FY'18 Group EBITDA Adjusted for the $1.7m pre-tax impact for early redemption of Bond #2

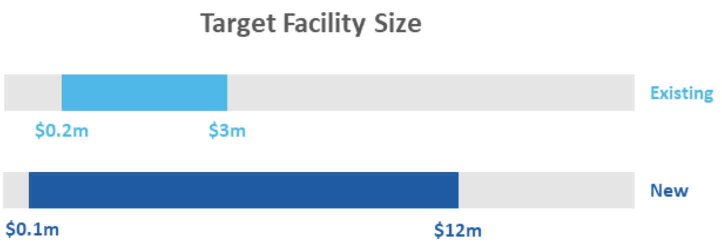
[2]FY'18 NPATA Adjusted for the post-tax impact of Bond #2 and early conversion to equity of Convertible Note ($2.3m) and non-cash amortisation of identifiable intangible assets from acquisitions completed in FY'16 ($1.0m). FY'19 adjusted to exclude $1.1m of non-cash amortisation

[3]Underlying EPS is based on Underlying NPATA

Invoice Finance

FY'19 saw investment in new product development and technology, enabling CML to expand its addressable market to service ~40% of the Invoice Finance market (4 times larger than current core factoring market) and diversify its product offering.

CML has traditionally focussed on clients requiring a facility size from $150,000 to $3,000,000, with 95% of clients historically falling within this range. With the expansion into Discounting the Company is now able to target clients with facilities as large as $12,000,000.



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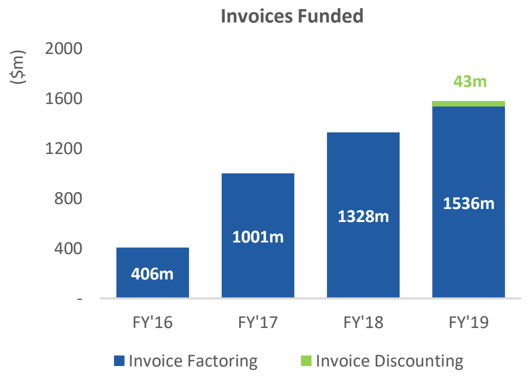
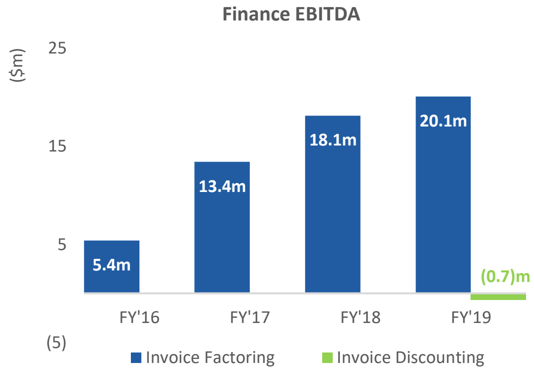
FY'19 saw continued growth in CML's core Invoice Finance Division with a 19% increase in Invoices Funded, totalling $1.6bn.





Invoice Factoring (Smaller Facilities)

CML expects continued growth in its mature Invoice Factoring product through increased sales and marketing capability and broadening its channels to market. A component of the growth strategy will include investment in the direct channel to SME's, aimed at improving conversion rates from CML's digital platform for loan applications and inbound call centre for loan enquiries.

Invoice Discounting (Larger Facilities)

During 2H'19 CML on-boarded its first group of Invoice Discounting clients, making a relatively immaterial contribution to FY'19 Invoices Funded. Investment in this product reduced the total earnings of the division, however, these costs have now been absorbed and, on an underlying basis, the business has continued to foster growth. Importantly:

- Invoice Discounting clients deliver lower margins but on larger volumes, with clients typically lower risk and longer average tenure.
- New business leads are typically relationship driven and the Company has appointed key personnel to drive this function with deep experience in scaling Invoice Discounting focussed businesses.
- The current momentum of Invoice Discounting points to a contribution of +15% to total Invoice Finance volumes in FY'20.

While the anticipated increase in Invoice Discounting volumes will put downward pressure on gross margins of the division in future periods, it will result in:

- An increase in customer tenure (currently 3 to 4-years); and
- An Increase of the divisions addressable market by 4 times.

cashflow finance

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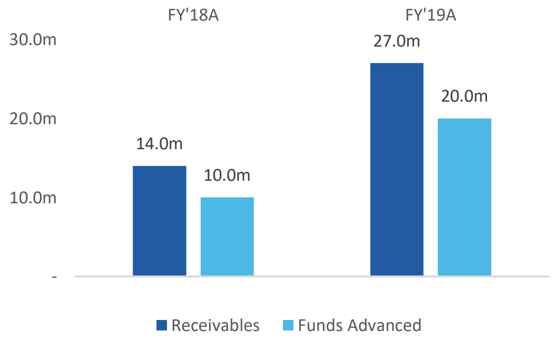
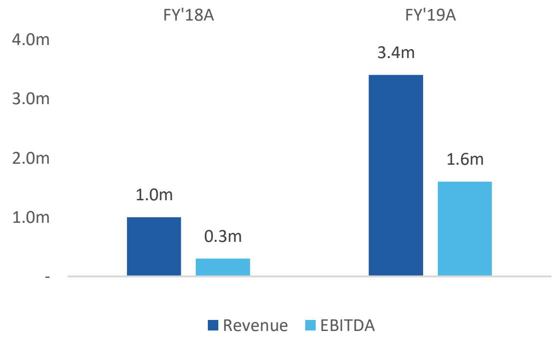
Equipment Finance

Launched in July 2017, the Company's Equipment Finance division continues to progress ahead of expectations. At FY'19 end the division had generated $27m of receivables on $20m of funds advanced, generating $3.4m in Revenue and $1.6m in EBITDA in the period.





The division has now settled 250+ transactions and proven to be highly complementary to the core Invoice Finance products, with consistent cross-selling opportunities generated, supporting strong ongoing client retention.

CML will continue to drive growth in Equipment Finance volumes, as the division builds history and scale, whilst maintaining its focus on developing a high quality loan book.

This growth will be facilitated by the existing Equipment Finance team and funding structure, with increased profitability delivered from increased volumes.

Over the medium term, CML will seek to transition the current debenture funding to a lower-cost warehouse funding structure. This strategy is identical to the approach adopted in the core Invoice Finance business in May 2018, which contributed to a material improvement in earnings in FY'19.

Outlook

FY'19 represented a period of investment in the future of the overall CML business, establishing the foundations for the next leg of the Company's growth.

With confidence in its sales and marketing strategy and demonstrated month-on-month improvement in new business volumes CML will increase its investment in client acquisition in FY'20, continuing to invest in:

- Human resources, with a newly implemented Head of Client Acquisition, combined with an expanded sales team;
- Technology, via an improved web platform design and Salesforce implementation; and
- New product development and process improvements.

This will enable us to continue to increase market share by:

- Gaining critical mass in the new Invoice Discounting product, with employment of key senior executives;
- Expansion of core Invoice Factoring product, with an increased addressable market and substantially automated processes; and
- Scaling of Equipment Finance division, with cross-selling from Invoice Finance clients.

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Commenting on the outlook, CEO Daniel Riley said, “We have built a robust, mature and very profitable business in a niche section of a large market. At the same time, we have invested in business improvement and innovation to expand income streams into the broader market and we are very pleased with the pace and cost efficiency at which CML has prepared for the next wave of growth. The current momentum in the business provides us confidence in CML’s strategy and we are committed to quickly building market share across the broader invoice finance market.”

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.