

CML Group

Acquisition of Classic Funding Group

9 September 2019

CEO Daniel Riley
CFO Steve Shin

cashflow
finance



Executive Summary

CML has executed a Heads of Agreement for the strategic acquisition of Classic Funding Group



Transaction Details

- CML has executed a Heads of Agreement to acquire Classic Funding Group (“**CFG**”)
- Transaction price of \$11m (~\$6m Goodwill)
- To be funded by a new facility and CML’s existing equity
- Target completion date is mid-October



Strategic Rationale

- Brings forward CML’s growth aspirations by providing scale in newly established business by increasing:
 - **Invoice Discounting business by 5x in Funds Advanced**
 - **Equipment Finance business by 5x in Funds Advanced**



Financial Impacts

- EPS positive in FY’20 and materially EPS accretive in FY’21 when full benefit of synergies realised
- Substantial synergies identified both operationally and through optimizing funding structures



Risk Mitigation

- CML have undertaken extensive due diligence and has a strong level of comfort on:
 - The quality of the respective loan books
 - CML’s ability to extract synergies and integrate the CFG business

Transaction Overview

CML will acquire 100% of CFG with the transaction to be completed by mid-October 2019



Purchase Price

CML will initially require \$18m to purchase the shares of CFG

- \$11m for 100% of the shares in CFG, including approximately \$6m of Goodwill
- \$7m for the replacement of Mezzanine debt provided by a related party to CFG
- CML has conditional approval from an alternative funder for a \$25m facility, which will facilitate completion of the transaction
- CML anticipates completing the transaction by mid-October 2019



Due Diligence & Risk Mitigation

CML have:

- Been reviewing the CFG asset for an extensive period of time and have undertaken substantial due diligence
- Been active in these markets for the last 2 years and have been looking at CFG since entering this market
- Previously employed a senior Executive of CFG Equipment Finance business to help enter this market
- Have a proven track record of acquiring and integrating several similar businesses



CFG Overview

- CFG has been in operation for over 25 years
- CFG comprises 2 main businesses which are complementary to CML's recently established products, namely:
 - Invoice Discounting
 - Equipment Finance

Invoice Discounting

Invoice Discounting

- Stable base of Invoice Discounting clients
- Business has doubled over last 5-years
- Increases CML's existing Invoice Discounting business by ~5x in Funds Advanced as at FY'19

	Customers	Range	Average Size	Funds Advanced
CML	7	\$500k - \$12m	\$0.9m	\$6m
CFG	47	\$50k - \$3.5m	\$0.6m	\$30m
Total	54	\$50k - \$3.5m	\$0.7m	\$36m

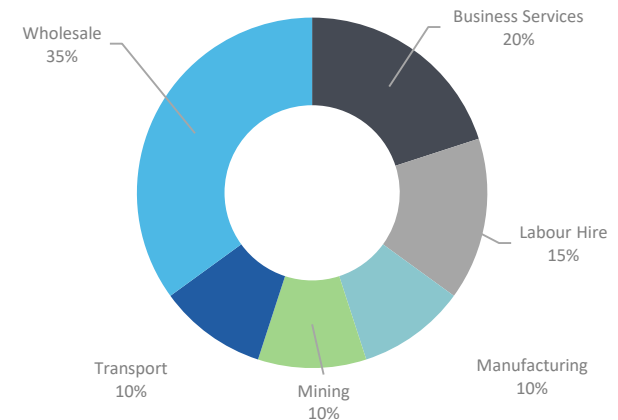
Risk Mitigation

- Detailed Due Diligence undertaken on all clients, with policies in line with CML's own credit policy
- High quality loan book with negligible historic write-offs

Opportunity

- CML has capacity to lend up to \$12m per customer whilst CFG is capped at \$3.5m (i.e. c10% of warehouse facility)
- CML will leverage CFG's existing channels to market to write larger loans

Top 20 ID Clients by Industry Type



Equipment Finance

Equipment Finance

- CFG's Equipment Finance business consist of
 - Traditional Business Finance^{1,2} (~75%) and Consumer Finance³ (~25%)
 - Continuation of service types outside of CML's current strategy will be reviewed as part of CML's integration strategy
- Increases CML's existing Equipment Finance business by ~5x in Funds Advanced as at FY'19

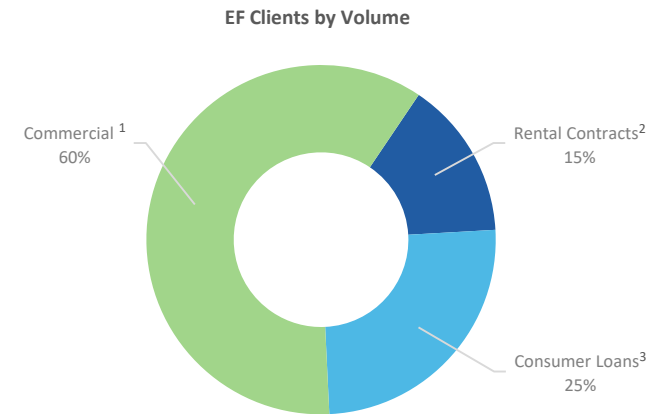
	Customers	Range	Average Size	Funds Advanced
CML	250	Up to \$0.5m	\$76,000	\$19m
CFG Commercial	1,069	Up to \$2m	\$60,800	\$65m
CFG Rental	1,284	Up to \$0.1m	\$11,920	\$15m
CFG Consumer	4,076	Up to \$0.1m	\$6,370	\$26m
Total	6,395	Up to \$2m	\$19,546	\$125m

Risk Mitigation

- Has been operating for 25 years
- Audited numbers show areas of only 90 – 100bps since the end of CY'17
- Current GM of CML Equipment Finance was a senior Executive of CFG Equipment Finance

Opportunity

- Merging of books to drive lower cost of funds
- Cross-selling factoring into EF clients (6000+ potential new clients)



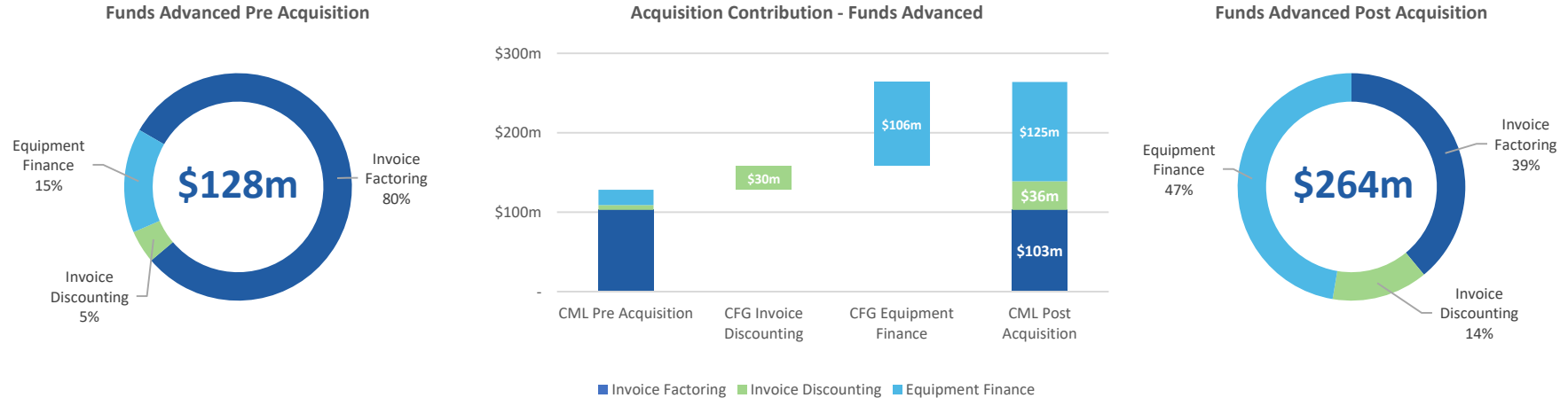
¹Commercial is standard Equipment Financed sourced through brokers or with SME's directly

²Rental is typically small ticket item commercial equipment supplied through Vendor relationships

³Predominately Solar finance to home owners

Combined Group

CML's emerging services, Invoice Discounting and Equipment Finance will gain critical scale on acquisition of CFG



CML's service lines will not change, however it has brought forward scale in Invoice Discounting and Equipment Finance with the acquisition of CFG

- **Invoice Factoring:** an advance payment of up to 80% of a client's invoice as a flexible line with receivables managed by CML
- **Invoice Discounting:** an advance payment of up to 80% of a client's receivables ledger with receivables managed by Client and targeted at larger clients
- **Equipment Finance:** CML's loans currently range from \$20,000 to \$0.5m but will now have the capacity to complete transactions of up to \$2m

Strategic Rationale & Synergies

The acquisition of CFG will accelerate CML's growth strategy and has many strategic benefits and synergies



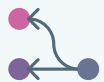
Funding

- CML expects \$1m+ pa of cost savings through refinance of Mezz debt and dilution of funding costs on utilisation of the CFG Equipment Finance Funding Trust



Cost Synergies

- CML expects \$2m+ of operational savings on business integration, with the full benefit of synergies to be realised by start of FY'21



Cross Selling

- CML expects some revenue benefit on cross-sell of products. In particular, CFG has thousands of business clients that may benefit from utilisation of CML's established Invoice Factoring product



Product Diversification

- CML's ID and EF will represent ~40% of CML's Revenue going forward¹ (~10% currently)



Scale in ID

- Increases current Invoice Discounting business by 5x Funds Advanced at FY'19



Scale in EF

- Increases current Equipment Finance business by 5x Funds Advanced at FY'19



Funding Diversification

- The acquisition comes with a warehouse facility for Equipment Finance which CML can roll its existing smaller business into and reduce cost of debt.



EPS accretive

- The acquisition is expected to be materially EPS positive, with significant synergies anticipated upon integration of CFG into the CML Group

¹Excludes Other & Corporate Revenue

Combined Funding Structure

New facilities set to drive lower cost of funding and diversification of funding sources

	Funding	CML	CFG	Combined	CML Cost	Comment
Corporate	Corporate Bond #1	\$25m	-	\$25m	BBSW + 5.4%	FIIG Bond
	Corporate Bond #2	\$20m	-	\$20m	7.95%	Previously denoted as 'Equipment Finance Bond'
	Equity	\$25m	\$5m	\$30m	n/a	
Invoice Finance	Wholesale Facility	\$140m ¹	\$35m ¹	\$175m ¹	Sub-4%	
	Mezzanine Debt	-	\$4.8m ³	-	~11%	Replaced on Acquisition
Equipment Finance	Wholesale Facility	-	\$100m ¹	\$100m ¹	Sub-4%	Sub-4%
	Mezzanine Debt	-	\$22m ⁴	\$22m ⁴	10.25%	Looking to renegotiate
	Mezzanine Debt	-	\$2.2m ³	-	~11%	Replaced on Acquisition
	Alternative Finance Provider	-	-	\$25m ²	Sub-6.5%	New Facility to fund CFG
Total Funds Available		\$210m	\$169m	\$397m		
Current headroom		~\$60m	~\$30m	~\$100m		

- ¹ CML will now hold 3 separate wholesale funding facilities, underpinning both Invoice Finance (Factoring and Discounting) and Equipment Finance products
- ² The introduction of a new \$25m facility (Alternative Finance Provider, conditionally approved) and use of Equity will allow CML to fully fund the acquisition
- ³ CML will replace expensive Mezzanine Debt with cheaper Alternative Finance Provider
- ⁴ CML will look to renegotiate post completion

Strategy and Outlook



The acquisition of CFG further improves CML's ability to build market share and facilitate growth in business volumes

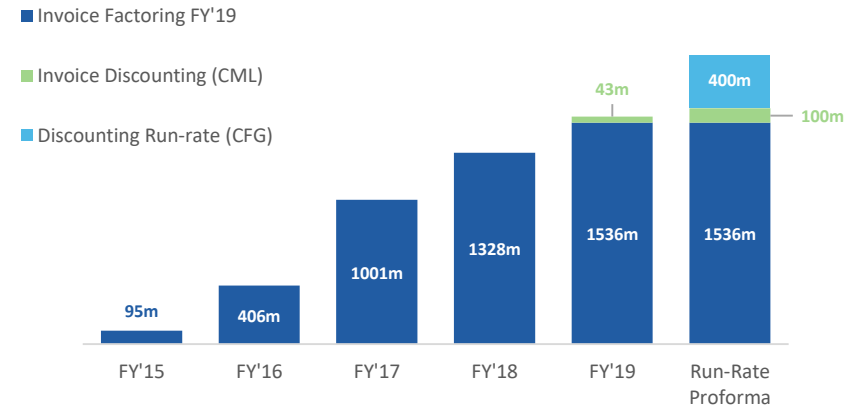
FY'20 & Outlook

On a run-rate basis CML's annualised turnover for Invoice Finance is over \$2bn

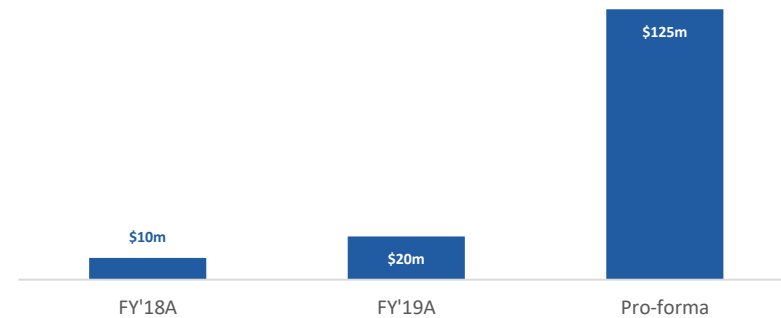
Increased business volumes are expected in FY'20, namely:

- Invoice Factoring** – at the end of H2'19 the business was showing strong organic growth (driven by improved confidence post election, benefits of sales & marketing initiatives and substantially automated processes) and this has continued in July and August. Additional opportunity now exists to cross-sell into the CFG Equipment Finance client portfolio
- Invoice Discounting** – will benefit from a full year contribution from CML's book which was expected to see volumes increase from \$40m to \$100m on a run rate basis. This will be further enhanced by acquisition of CFG book and add additional \$400m of turnover before organic growth
- Equipment Finance** – CFG acquisition will add volume and capability to CML's existing operations and in combination with an expanded sales and marketing team and an improved funding structure, is expected to further boost growth

Invoices Funded



Equipment Finance Funds Advanced



FY'20 & Outlook

The acquisition of CFG further improves CML's growth outlook



Funding Costs

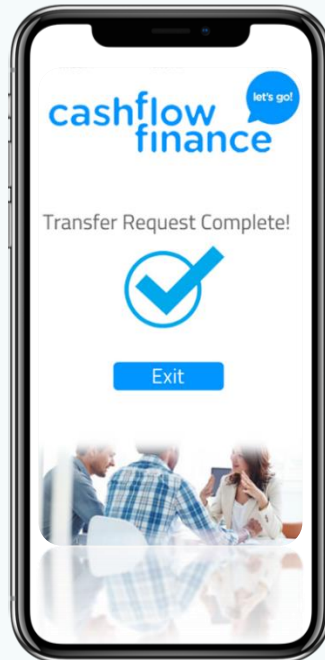
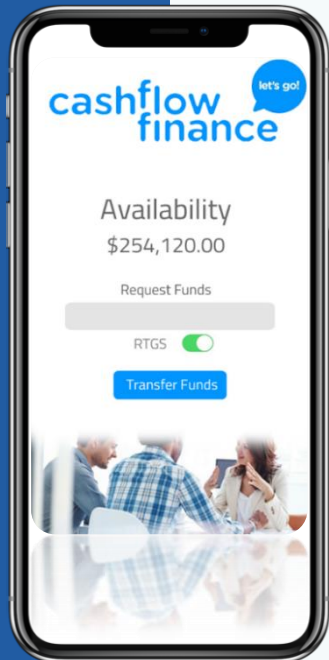
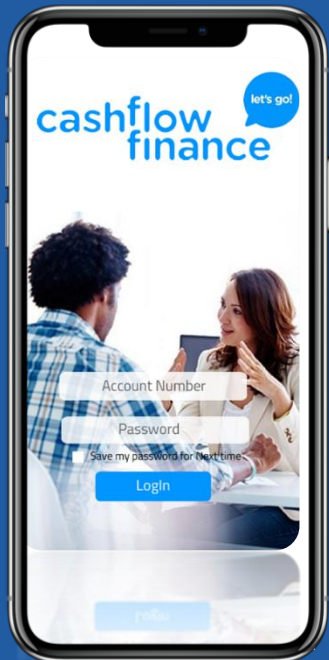
- CML's strategy has been to work towards a lower-cost funding structure within Equipment Finance Division to replicate interest cost saving strategy implemented in Invoice Finance Division
- The acquisition of CFG immediately provides this improved funding structure, which will allow CML to improve margins and increase competitiveness for Equipment Finance transactions
- In addition CML is able to replace expensive Mezzanine Debt with cheaper funding



Earnings Outlook

- CML expects EPS growth in FY'20 based on improved volumes in the business pre acquisition.
- The acquisition is earnings accretive in FY'20 and materially accretive in FY'21 and was acquired on less than 5.0x NPATA based off already identifiable synergies (some realised immediately and remaining in place before FY'21).
- CML will give clarity to guidance at the AGM

Appendix



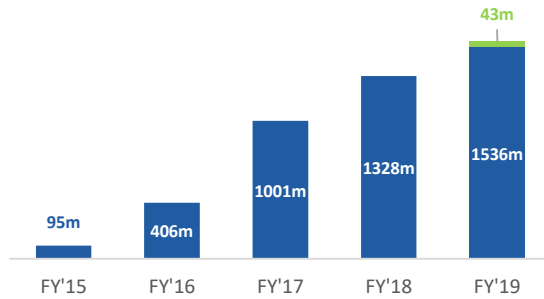
CML Group

Historical Growth

CML has delivered consistent year-on-year growth, translating into consistent growth in shareholder returns

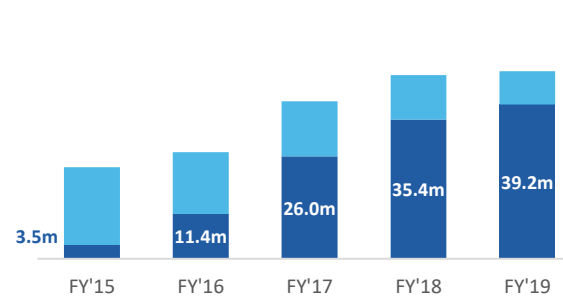
Invoices Funded

■ Invoice Factoring ■ Invoice Discounting

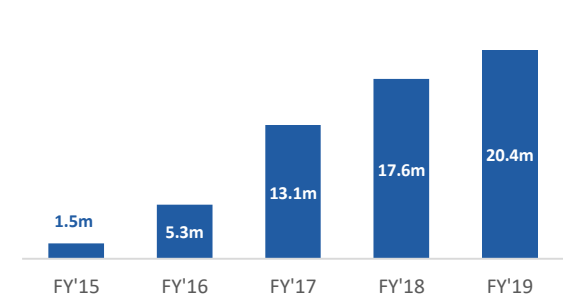


Revenue

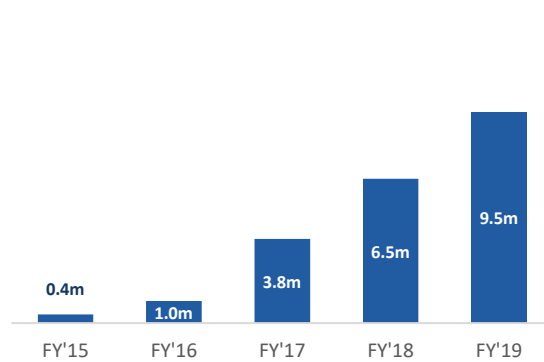
■ Finance Revenue ■ Other Divisions



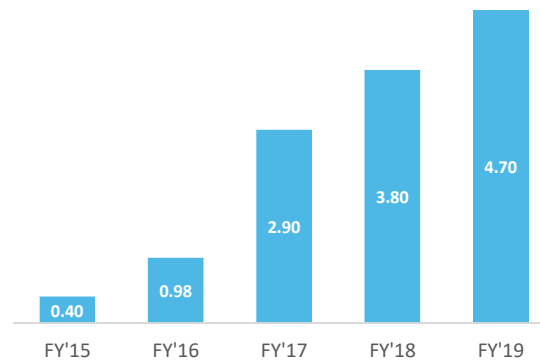
Underlying EBITDA



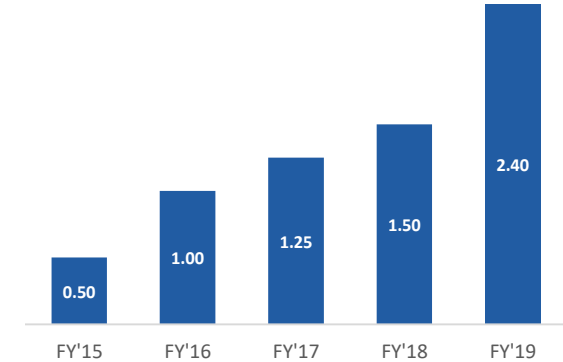
Underlying NPATA



Underlying EPS



DPS



Senior Management



Daniel Riley
CEO CML Group

- Daniel commenced with CML in 2002 and has been CEO since 2010. Daniel launched the Invoice Finance business in 2012 and transitioned CML from a recruitment services firm to a finance business, managing an accelerated growth program, including the acquisition of four key finance competitors, which in combination with strong demand for CML's service offering, has made CML a large player in the non-bank finance industry



Mark Cleaver
MD 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.



Shannon Stelfox
COO

- Shannon has worked in invoice finance for over 26 years and has undertaken every role in both operations and sales. Shannon worked for Scottish Pacific (Scotpac) for 19 years before moving to their new specialist factoring division, FactorONE in 2011
- At the time of her subsequent resignation from Scotpac in 2015 to join CML, Shannon was Scotpac's longest term employee in Australia. Shannon joined CML for the acquisition phase, and during her 4yr tenure with CML, Shannon has employed and developed an operations, risk and credit team



Steve Shin
CFO

- Steve joined CML Group as CFO in April 2015 with more than 15 years of experience as key executive in ASX listed companies and top-10 accountancy firm.
- Steve also has 9 years of experience in fin-tech and media companies



Sandy Fitzgerald
GM Equipment Finance

- Sandy joined CML in early 2017 to establish an Equipment Finance business
- With 35 years in corporate finance specialising in large scale lending projects, Sandy has deep knowledge of Equipment Finance and has a diverse skill set across general management.
- Sandy believes sustainable growth and profitability flows from happy customers, business partners and employees.

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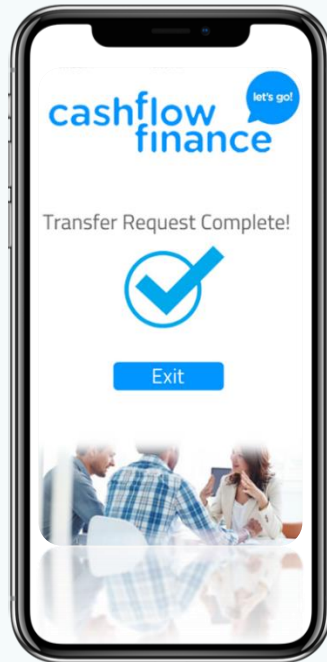
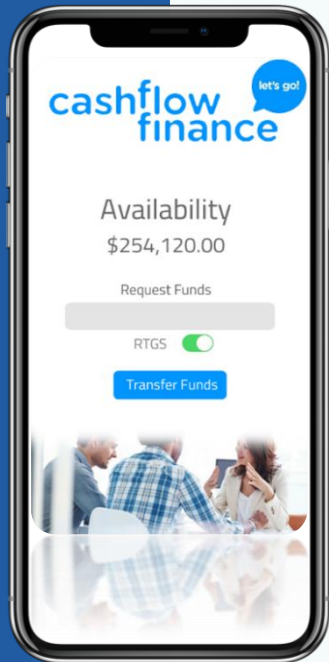
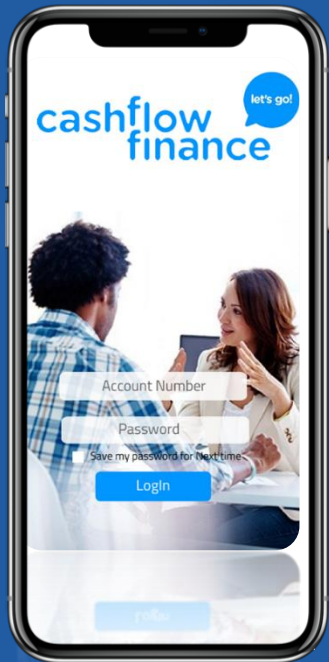
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