CML Group

25th August 2014

ASX RELEASE: CML GROUP LIMITED (ASX: CGR)
("CML Group")

Result Announcements for Full Year ended 30 June 2014

Results for the twelve months ended 30 June 2014
• **Revenue $139.3m up 38%** • **EBITDA $2.43m up 51%** • **Profit after tax $1.11m up 45%** • **Earnings per share 1.55 cents (2013: 1.23 cents)** • **Final dividend of 0.6 cents (2013: 0.5 cents) per share fully franked**

The Board is pleased to report that CML Group (the "**Group**") has recorded significant earnings growth for the year ended 30 June 2014 ('**FY14**'). Revenue of $139m is up 38% from the previous year, which has translated to growth in EBITDA of 51% to $2.43m and growth in NPAT of 45% to $1.11m.

The strong result reflects improved performance from all divisions in the Group compared with last year, but is underpinned by growth in the finance business, with revenues and EBITDA in this division both up over 185% on last year.

CML Group now separates its operations into two principal divisions, each listed below with a brief description:

Finance – refers to 'factoring' or 'receivables finance' which 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 the customer (often 30 to 60 days). This is a flexible line of credit that is utilised in line with sales volume.

Payroll & Other – refers to 'managed employment' of contract workers for clients that do not wish to engage these workers directly, generally because they do not have the processes, systems, insurances or desire to do so. The payroll division has the ability to sponsor and 'on-hire' foreign workers on 457 visas through a Labour Agreement negotiated with the Department of Immigration and Border Protection (DIBP). This division also includes labour sourcing through recruitment agency panel management, project management and a migration practice.

Key Achievements in FY14

The Board announced last year that the strategic focus for the Group in FY14 would be as follows:

1) Continued expansion of the Group's customer base beyond the traditional recruitment agencies (labour-hire).
2) Further growth in payroll and finance related service lines.
3) Improved profile and awareness of the Group's emerging finance division, through a rebranding exercise to 'earlypay'.

Further to the update provided with the H1FY14 results, the Board is pleased to report that substantial progress with these initiatives was achieved over the year. In summary:

1) **The Group has successfully broadened its customer base beyond labour-hire companies** with a push into the corporate market through its payroll division and an expansion of the customer book in the finance division.

Current monthly sales at Group level include approximately 35% from labour-hire companies, compared with approximately 55% twelve months ago. While labour-hire firms will continue to be an important customer source, the broadening of the customer base is facilitating growth in volume as well as margin.

2) **Growth in the finance division** has been achieved in excess of 185% at both the revenue and EBITDA lines as noted previously compared with the previous year. This was achieved through increased customer referrals from finance brokers and an improved knowledge base within the business to assess new opportunities. The finance division has also benefited from the beginnings of scale, where staffing costs as a proportion of margin are shrinking as customer volumes continue to grow.

   Growth in payroll & other of over 15% has been achieved at an EBITA level, with significantly reduced costs after a staffing realignment was completed in H2FY13, combined with a successful push into the corporate market.

3) **Awareness of the finance service offering** is improving through a winning marketing strategy implemented by the Group. The strategy's success is reflected in an increase in new business referred from finance brokers, from whom earlypay is now generating 70% of its new business. This exceeds expectations formed at the beginning of the financial year of 50% of new business to be generated from finance brokers by June 2014. The website for the finance division is www.earlypay.com.au

Capital Strategy

Access to appropriate funding is critical to the Group's growth aspirations in its finance division.

The Board is pleased to announce that the Group has secured additional funding since the December 2013 half yearly results:

Facility size	Terms	Provider	Security
$10m	10.00% on funds utilized	Greensill Capital*	None
$5m	Capital raising completed Apr14	New and existing shareholders	N/A

**The Group also holds an invoice finance facility with NAB. However, funding utllsed is becoming less significant as the group transitions to alternative funding arrangements. It is anticipated that the Group will have transitioned away from the NAB facility by December 2014.*

CML Group is focused on building volume in its loan book, with the aim of forming a wholesale funding arrangement with a major bank within the next two years, thereby significantly reducing the cost of capital deployed in its finance division. The Group is taking a 3 phase funding approach to building scale and moving to wholesale funding with the Group currently transitioning from Phase 1 to Phase 2:

Phase 1 - Business banking with a back-to-back invoice finance agreement

To date, the Group's relationship with National Australia Bank has been structured this way and has been suitable in the early stages of developing the finance division. However, transitioning to Phase 2 funding as the division grows will address a number of limitations with the present arrangements, being:

- Administration of the facility, with separate reporting to the bank required for each client account prior to drawing funds.
- Restriction on writing new business, with the profile of clients expected to fit within banking parameters rather than 'factoring' parameters similar to our competitors in the industry.

Phase 2 - Hybrid debt/equity plus unsecured facilities

This arrangement would provide flexibility for the finance division to manage the business without the restrictions that come with Phase 1 funding. The Board believes that with recent capital expenditure and investment in people, CML Group has appropriate knowledge, processes and software within its finance division to manage the business effectively. It is actively pursuing Phase 2 funding strategies.

Phase 3 - "Wholesale funding" with a major bank

As the loan book achieves scale, which is considered to be $40m+ funds deployed, and with a track record of prudent management, the Group's objective is to establish a 'wholesale funding' facility with a major bank. This would provide appropriate funding at a substantially reduced cost of funds compared with Phase 1 and 2 funding.

Final Dividend

The FY14 financial performance of the Company and the Board's confidence in its earnings outlook underpin the Board's decision to increase the final dividend to 0.6 cps fully franked, payable on 24th October with a Record Date of 3rd October 2014.

"We are pleased with the Group's significant increase in revenues for the twelve months to 30 June 2014 and the momentum the business has gained through management's focus on developing its finance division and payroll offering. In particular, the capital raising and new funding relationships provide the finance division with the capacity to continue its rapid growth and contribute strongly to profit in FY15 and beyond."

"The Group anticipates continued growth in FY15 and the Board's confidence in the earnings outlook has underpinned the decision to increase the final dividend to 0.6 cps fully franked (2013: 0.5 cps)."

Thank you for your continued support of CML Group and I look forward to reporting our progress during the year.

On behalf of the Board,

Daniel Riley
Managing Director
For further information, contact Daniel Riley or Ralph Stonell on 1300 666 177