

CML Group

(ASX: CGR)

Investor Presentation

Presented by Daniel Riley – Managing Director

September 2014

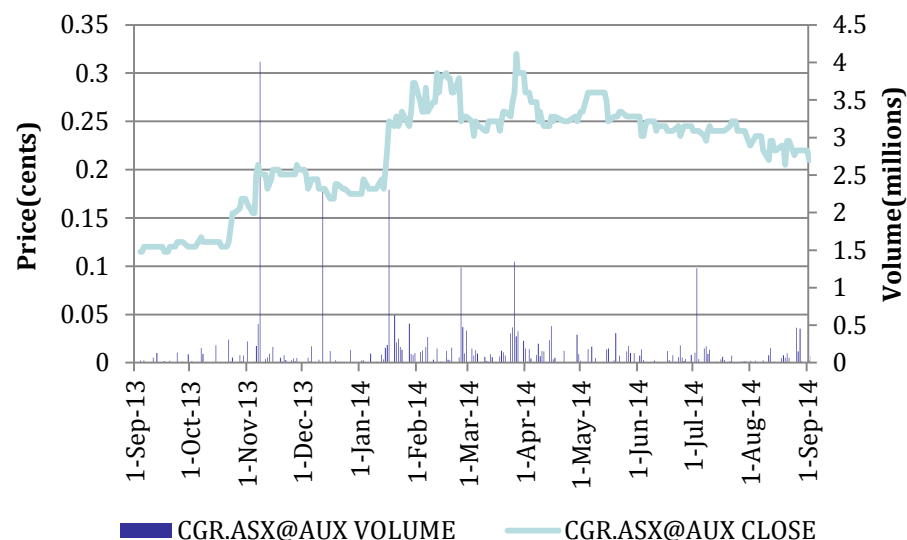
Group Overview

Corporate Snapshot

Capital Structure	
Share price	\$0.20
Shares on issue	90,302,694
Market cap	~\$18m
NPAT (underlying)	\$1.27m

Register	
Board and Management	28%
Institutional Shareholdings	29%

Recent share price performance



FY2014 Highlights

- Revenue up 38%
- EBITDA up 51%
- NPAT up 45%
- EPS up 26%
- Fully franked DPS of 1.1 cents, an increase of 10%
- Successful push by the payroll division into the Corporate market
- 200%+ growth in the finance division loan book

Business Overview

“CML Group delivers payroll, finance & employment solutions, enabling our clients to focus on and succeed in their core activities”

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 utilized in line with sales volume.

Payroll & Other

- ‘Managed employment’ of contract workers for clients that do not wish to engage these workers directly, generally as they do not have the processes, systems, insurances or desire to employ directly.
- To sponsor and ‘on-hire’ foreign workers on 457 visas through a Labour Agreement negotiated with Department of Immigration and Border Protection (DIBP).
- Includes labour sourcing through recruitment agency panel management, project management and a migration practice.

Group Performance

	FY2012 (Actual)	FY2013 (Actual)	FY2014 (Actual)	
Revenue	\$71.97m	\$100.82m	\$139.37m	Up 38%
EBITDA	\$1.59m	\$1.72m	\$2.43m	Up 51%
Reported NPAT	\$0.86m	\$0.77m	\$1.11m	Up 45%
One-off costs			\$0.16m	
Underlying NPAT			\$1.27m	

Group Performance

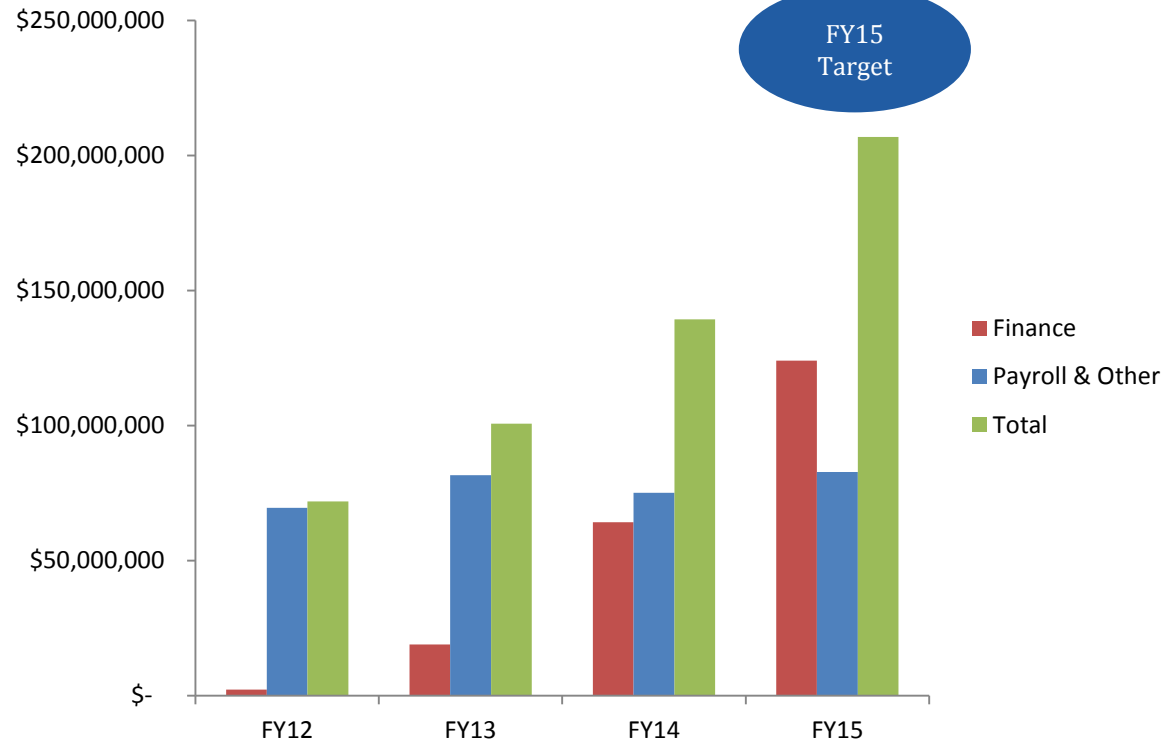
	H1FY14	H2FY14	FY2014	
Revenue	\$61.63m	\$77.74m	\$139.37m	Up 38%
EBITDA	\$1.10m	\$1.33m	\$2.43m	Up 51%
Reported NPAT	\$0.56m	\$0.55m	\$1.11m	Up 45%
One-off costs	\$0.05	\$0.11	\$0.16m	
Underlying NPAT	\$0.61	\$0.66	\$1.27m	

Divisional breakdown

	FY14 NPAT \$m
Finance division	0.79
Payroll and other division	1.09
Subtotal	1.87
Corporate costs	(0.76)
Reported NPAT	1.11
One offs;	
• Bank transition & review fees	(0.10)
• Prior period international tax	(0.06)
Underlying NPAT	1.27

Growth Targets

Revenue



Growth in customers for finance business continues

Dividend Policy

- Target payout ratio: A minimum 50% of NPAT to be paid as dividends
- It is anticipated that dividends will continue to be fully franked
- DRP introduced for the full year dividend 2014

Divisional Performance

Finance

The Debtor Solution

HOW DOES IT WORK?

Instead of having to wait up to 90 days for your debtors to pay, Earlypay purchases your acceptable trade debts and provides you with up to 80% of the approved invoice value within 24 hours. The remaining balance will be available upon payment of the full invoice amount by your debtor.

The Debtor problem – waiting for debtors to pay.



The Debtor solution – Debtor finance.



Mitigation of credit risk

- Invoices issued under CML's ABN (disclosed facility)
- 'Managed service' provided, meaning collections and payment allocations managed by CML
- Bad debt protection through trade credit insurance
- Funding against each debtor limited to the endorsed cover provided by the insurer
- We shift the risk from the finance client to the end-users of the finance client (i.e. the finance client's customers)

Business Model - Finance Division

Gross return generated from loan book

- The gross return generated from the loan book is 35% annually (pre-tax and before any costs)
(based on 3.5% average fee on invoice value & 45 day debtor collection timeframe)

Costs

- Cost of funds is between 9% and 10% (unsecured facility)
- Cost of service delivery on new business is 5%
(including trade credit insurance)

Size of loan book

Date	Funds in use
June 2013	\$4.5m
June 2014	\$12m
June 2015	\$20m+ (target)

Finance Division - Performance

	H1FY14 \$m's	H2FY14 \$m's	FY14 \$m's	FY13 \$m's	Change
Revenue	24.23	40.04	64.28	18.91	UP 240%
Margin	0.94	1.75	2.69	0.74	UP 266%
Margin%	3.89%	4.37%	4.19%	3.89%	UP 8%
EBITDA	0.48	1.13	1.60	0.46	UP 250%
NPAT	0.20	0.58	0.79	0.25	UP 209%

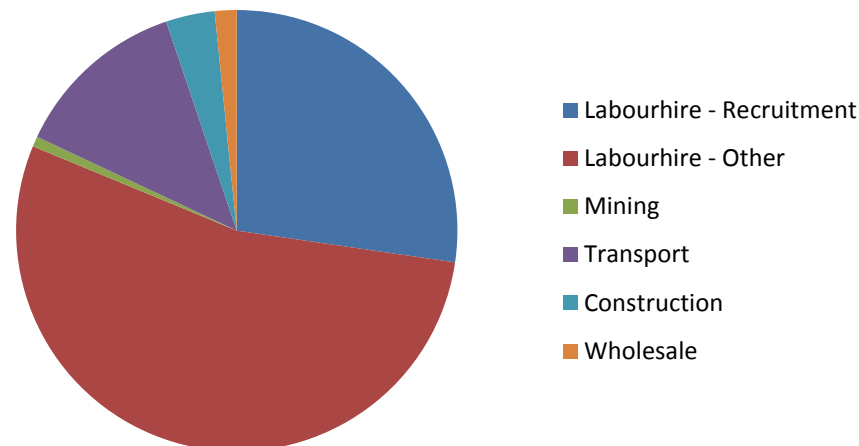
Increases in margin expected to continue as loan book grows

Customer information

Finance Division

Loan Book Size	\$12m
Average Loan Size - Largest loan (\$2.5m)	\$304,500
Average Weighted LVR (loan v's secured debtors)	74%

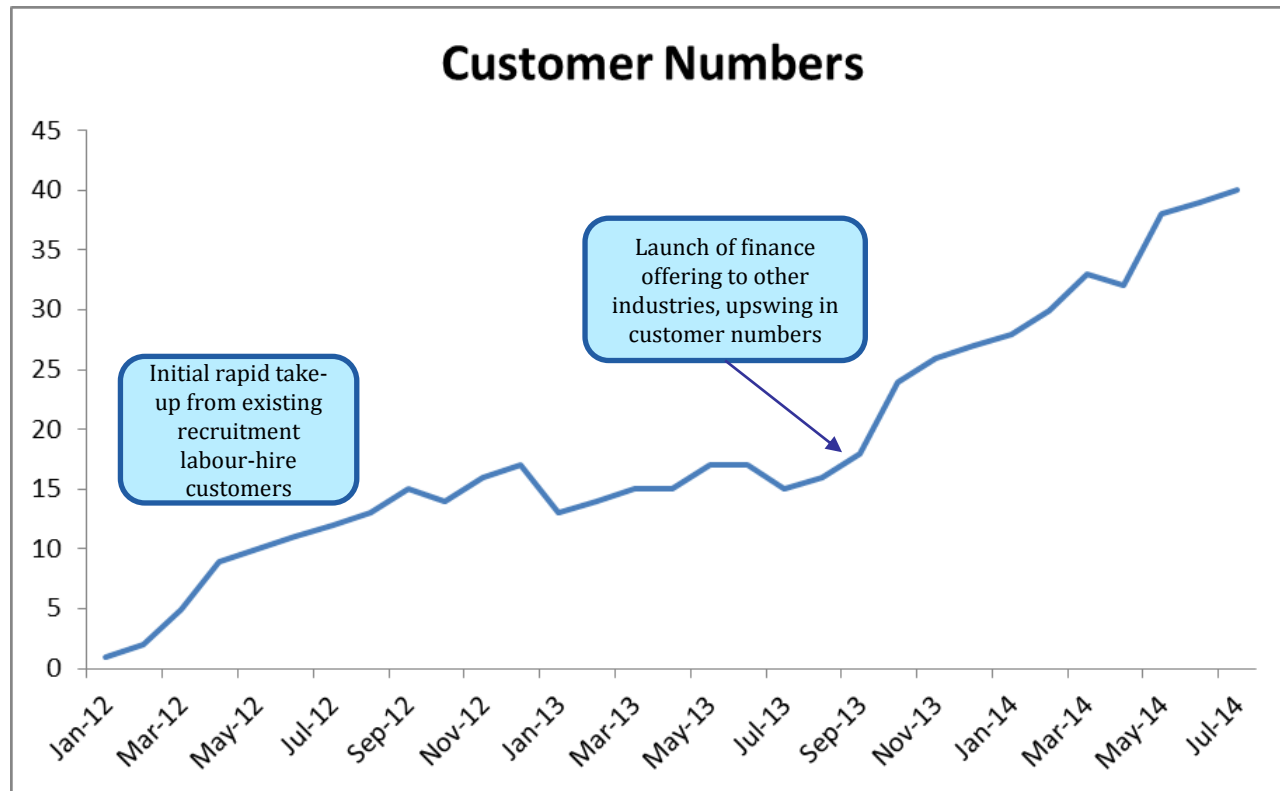
FY14 – Finance Customer Industry Split



Labour-hire is attractive to factoring providers as invoice disputes are rare due to the 'proof of debt' being an authorised timesheet or jobsheet from the client & attached to every invoice.

Customer Growth

"In addition to traditional recruitment labour hire, we are gaining traction with businesses invoicing on a similar labour component, including traffic control & security. We are entering new industries, including transport, wholesale & business services"



Customer growth has continued throughout FY14

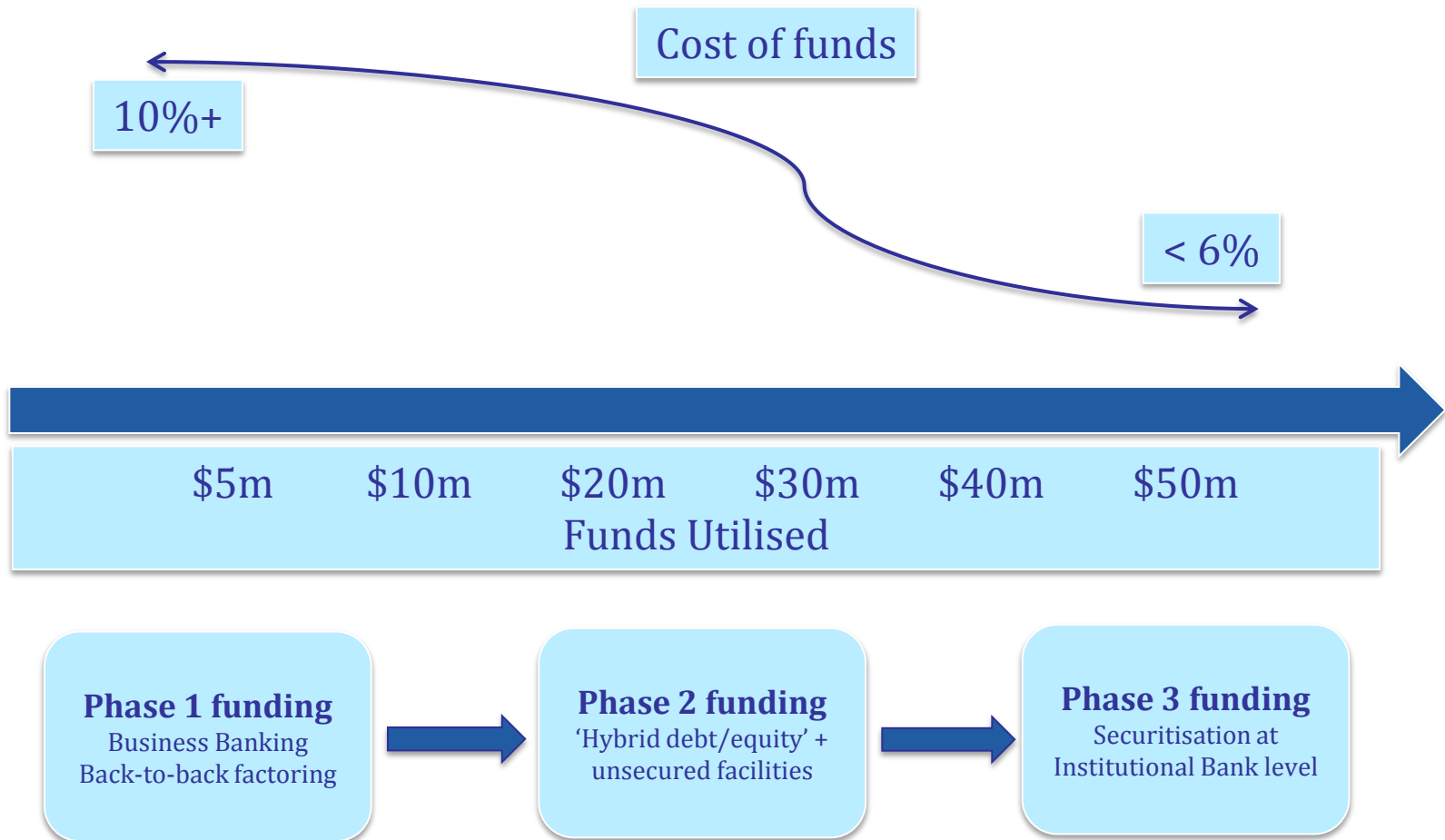
Growth Strategy on track

Feb 2014 Strategy	Achieved	Comment
Extend service offering into new industry segments	✓	Current monthly sales at Group level include approximately 35% from labour-hire companies, compared to approximately 55% 12 months ago. While labour-hire firms will continue to be an important customer base, it is a competitive environment for our Payroll and Finance service offerings and broadening the customer base is facilitating growth in volume as well as margin.
Expand broker referral network	✓	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.
Leverage existing finance division infrastructure	✓	Profit is rising in the division as we begin to experience the benefit of scale, where the substantial investment in start-up and staffing is being absorbed by business volume. The positive impact of scale is evident in the increase in NPAT from 0.84% of \$24m revenue in H1FY14 to 1.45% of \$40m revenue in H2FY14.
Broaden CML's funding base	✓	The Group has secured additional funding since the December 2013 half yearly results. Capital strategy discussed below.

Further Growth Opportunity

Growth in loan book	Improving margins	Profit improvement on scale
<ul style="list-style-type: none"> Loan book growth of 200% from 30Jun13 to 30Jun14 Loan book growth rate in dollar terms is anticipated to increase as the division gains market recognition and broadens access to capital Anticipated 'funds out' at 30Jun15 is > \$20m 	<ul style="list-style-type: none"> Broadening the customer base in FY14 beyond labour-hire has provided improved margin opportunities Modifying the fee structure to charge at take-on and exit has bolstered margin 	<ul style="list-style-type: none"> Fixed operating costs, including staff, is being diluted as the division gains scale Completion of software implementation in Jul14 will build efficiencies into service delivery and will allow growth without the need to employ at historical rates
<p>\$18.9m - value of 'factored' invoices FY13</p> <p>\$64.3m - value of 'factored' invoices FY14</p> <hr/> <p>\$4m - Loan book 30Jun13 \$12m - Loan book 30Jun14 \$20m+ anticipated 30Jun15</p>	<p>3.89% - average margin on invoices FY13</p> <p>4.19% - average margin on invoices FY14</p>	<p>H1FY14 NPAT margin 0.84% on invoices</p> <p>H2FY14 NPAT margin 1.46% on invoices</p> <p>Invoice volume; H1FY14 \$24m H2FY14 \$40m</p>

Capital Strategy



Capital Strategy - Finance Division

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.

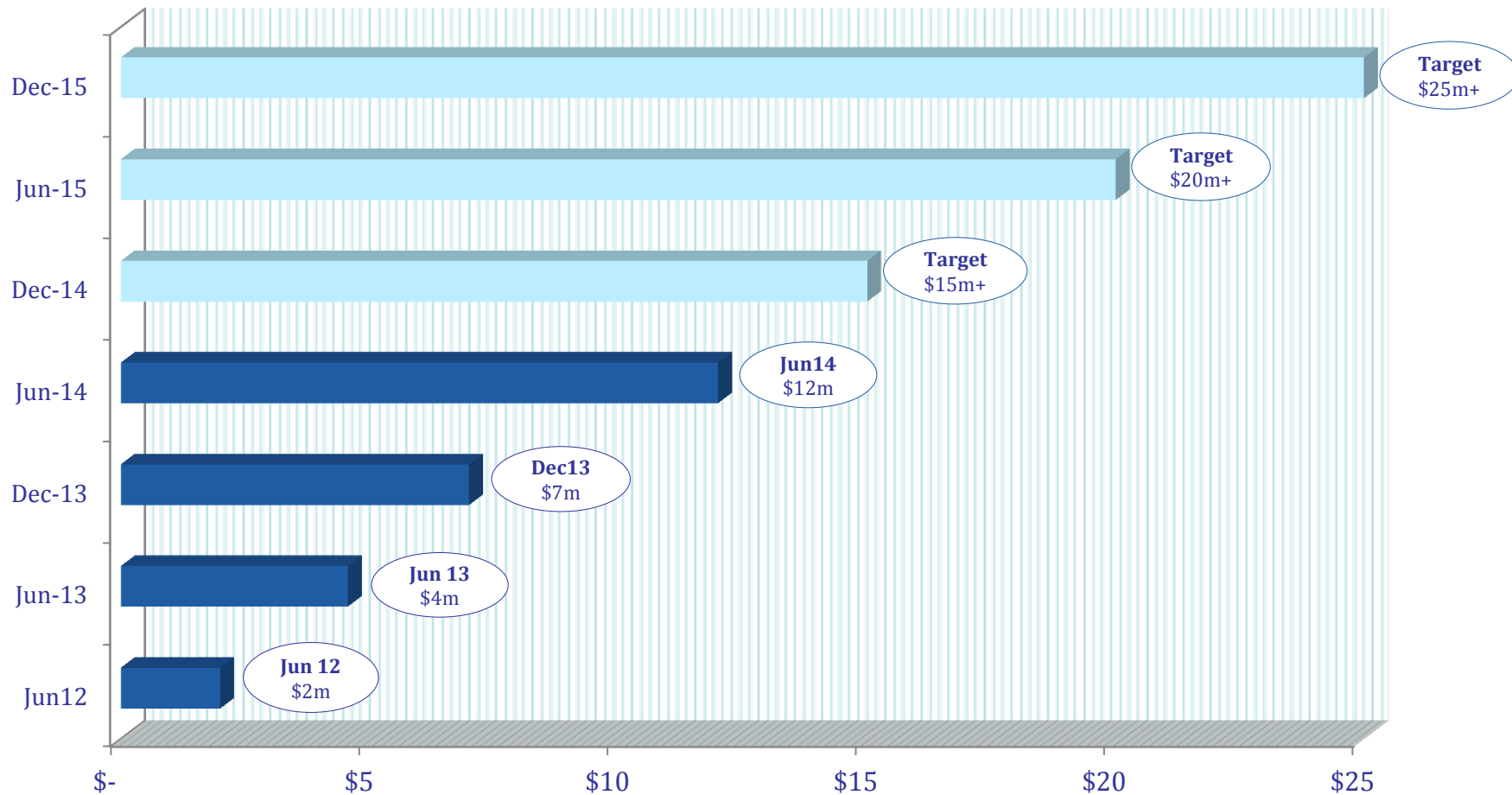
Phase 2 - Hybrid debt/equity plus unsecured facilities

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.

Loan book size



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Divisional Performance

Payroll and Other

Growth Opportunity

Established Services 'Steady'	Growth from Emerging Service	Focus on cost management
<ul style="list-style-type: none"> Managed employment for Australian residents typically engaged on a contracted term Managed employment for skilled foreign residents Recruitment contract procurement & management 	<ul style="list-style-type: none"> Outsourced payroll for corporate clients, typically for their permanent workforce Optional 'payroll finance' where clients are offered payment terms on payroll reimbursement for an additional fee, dependent on trade credit insurance coverage 	<ul style="list-style-type: none"> Staffing & services realignment completed in H2FY13 has provided a significant reduction in employment costs in FY14 New payroll software installed during FY14 anticipated to provide further ongoing efficiency gains
Revenue; FY13 - \$81.8m FY14 - \$75.1m EBITDA; FY13 - \$1.5m FY14 - \$1.7m	Contribution to revenue; FY13 - \$0.2m FY14 - \$7.7m	

Payroll & Other - Performance

	H1FY14 \$m's	H2FY14 \$m's	FY14 \$m's	FY13 \$m's	Change
Revenue	37.32	37.75	75.07	81.76	Down 8%
Margin	2.97	2.60	5.57	7.39	Down 25%
Margin%	7.95%	6.89%	7.42%	9.04%	Down 18%*
EBITDA	0.99	0.67	1.65	1.51	UP 10%
NPAT	0.64	0.45**	1.09	0.89	UP 22%

**FY14 margin was affected by a change to Government legislation in H1FY13 that significantly reduced the availability of Living Away From Home Allowance (LAFHA) for skilled foreign workers on 457 visas. This reduced the payroll divisions ability to offer salary packaging and with it a margin generating opportunity. The Company has adjusted for the change, reducing its cost base in H2FY13 and successfully launching a new outsourced payroll service offering for corporate clients.*

***Typically H2 is exposed to seasonality, with January and April months in particular affected by Christmas and Easter holidays, which reduce billable hours for contract staff and impact earnings for the Payroll division*

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Corporate Costs

Corporate costs

	FY14 \$m's	FY13 \$m's
Corporate Costs	(0.76)	(0.38)
One offs; <ul style="list-style-type: none"> • Bank transition & review fees • Prior period international tax 	(0.10) (0.06)	Nil
Normalised	(0.60)	(0.38)

- As a result of a change in allocation policy, corporate costs that were previously allocated to the divisions are now treated as corporate overheads
- Additional impact of one-off corporate costs in FY14
- Corporate costs in FY15 expected to be consistent with normalised costs for FY14

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 employment cycle, government regulation, changes to the number of preferred supplier agreements, reduction in franchise partner numbers and the ability of CML Group to meet its stated goals.

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September 2014