

CML Group

CML Group Limited (ASX:CGR)

11 February 2015

Revised First Half Trading Update

Revised Trading Update as a result of Provision

Further to the trading update made on the 22 January 2015 in which CML Group Limited (CML) advised it expected to report an interim 2015 EBITDA of \$1.5m+ and a NPAT of \$700k. CML announces today that it will make a provision against its loan book that will impact EBITDA by \$0.9m and NPAT by \$0.6m. Subsequently CML expects to report later this month an interim 2015 EBITDA of \$0.6m+ and NPAT to \$0.1m+.

After initial review of recovery options, the provision covers the upper level of exposure against a Client of CML's Finance Division in the construction industry that has abandoned projects, creating contractual disputes with end-debtors and therefore creating an exposure for CML.

CML will attempt to minimise the exposure through negotiation with end-debtors and will pursue the Director of the Client Company, with whom CML has a personal guarantee for the debt. Whilst CML expects some recovery from these actions the Board has decided to take a conservative position in its provisioning until there is greater certainty. The extraordinary circumstances means the exposure is unlikely to be covered by trade credit insurance policies.

Preventative Action & Outlook

CML views this as a one-off as the decision by the client to 'abandon' his business was made without consultation and CML was given no time to place alternative management into the Client Company to see projects to completion and recover its debt, as would normally be the case.

CML has been undertaking a review of its industry risk over the last 3 months to completely remove exposure to the construction industry from its loan book and was in the final stages of completing this prior to becoming aware of the need for provision.

The result of the review and actions taken, which will avoid future loan book adjustments, include:

- **Employment of 4 more experienced Invoice Finance executives** - With over 50 years combined invoice finance experience, these members of the team add a deeper level of market intelligence, scrutiny and diligence to our processes.
- **Review of Credit Policy** - The Company's credit policy has been reviewed over the last 3 months, with specific changes to industry exclusions, charge methodology and risk rating. This will be an on-going process.

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- **Further review of its Loan Book** - CML has also undertaken an internal review of its loan book and is comfortable with its exposure in terms of asset coverage, contractual risk and security documentation. This too, will be on-going.
- **Staff Training** - The addition of the four experienced finance executives will assist with training and mentoring of the Finance Division team, to continue to lift overall knowledge and the standard of operating procedures.

Commenting on the outlook, Daniel Riley CEO of CML said “The Board of CML sees this as a one-off and an extraordinary event and whilst we are deeply disappointed with the provision, the underlying business of CML is strong. We continue to expect the impressive growth reported over previous 4 halves to resume in the second half of the 2015 financial year and we are comfortable in reaffirming our previously stated target of a \$25m loan book by December 2015.”

Sincerely,



Daniel Riley
CEO

ABOUT CML GROUP

CML delivers finance, payroll & employment solutions, enabling its clients to focus on and succeed in their core activities.

The Finance Division undertakes ‘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 customer (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.

The Payroll & Employment Division provides ‘managed employment’ services to clients that do not wish to engage their workforce directly, generally as they do not have the processes, systems, insurances or desire to employ directly. This division also includes labour sourcing through recruitment agency panel management, project management and a migration practice.