CML Group

CML Group Limited (ASX:CGR)

11 February 2016

Trading Update & New Acquisition

Highlights

- First half 2016 Group EBITDA in excess of $2.4m, up 49% on the previous corresponding period underlying result, driven by strong growth in the Finance division.
- Acquisition of CashFlow Advantage Pty Ltd ("CA") will add approximately $10.0m to the existing Finance division loan book on completion in mid-March.
- Growth in the first half is expected to continue in second half of 2016 and, with a full year contribution of the CA acqusition, the growth momentum is expected to continue into 2017.

Trading Update

CML Group Limited ("**CML**" or the "**Company**") is in the process of finalising its financials for the half year ended 31 December 2015. Based on management accounts and unaudited results the Company expects to announce, in late February, substantial growth in earnings, a summary of which is tabled below:

	Half Yearly Accounts				Annual	
$m	**H1'15**	**H2'15**	**H1'16**	*pcp Δ*	**FY'14**	**FY'15**
Invoices Purchased*	***39.1***	***57.8***	***162.0***	*314%*	***59.6***	***96.9***
Finance	1.7	1.8	4.6		2.7	3.5
Payroll & Other	44.2	38.0	39.1		77.0	82.2
Total Revenue*	**45.9**	**39.8**	**43.8**	***(5)%***	**79.7**	**85.7**
Finance	0.6	0.4	2.0		1.6	1.0
Payroll & Other	1.5	0.9	1.2		1.7	2.4
Corporate	(0.5)	(0.7)	(0.7)		(0.8)	(1.2)
Underlying EBITDA	**1.6**	**0.6**	**2.4**	***49%***	**2.4**	**2.2**
One-off Costs	(0.9)	(0.5)	-		-	(1.4)
Reported EBITDA	**0.7**	**0.1**	**2.4**	***237%***	**2.4**	**0.8**
D&A	(0.1)	(0.1)	(0.1)		(0.1)	(0.2)
Interest	(0.5)	(0.9)	(1.6)		(0.6)	(1.3)
Tax	(0.0)	0.7	(0.2)		(0.6)	0.7
NPAT	**0.1**	**(0.1)**	**0.5**	***398%***	**1.1**	**0.0**

**Note that Finance division contribution to group revenue is now reported as fees earned on invoices funded, instead of previously reported invoices funded.*

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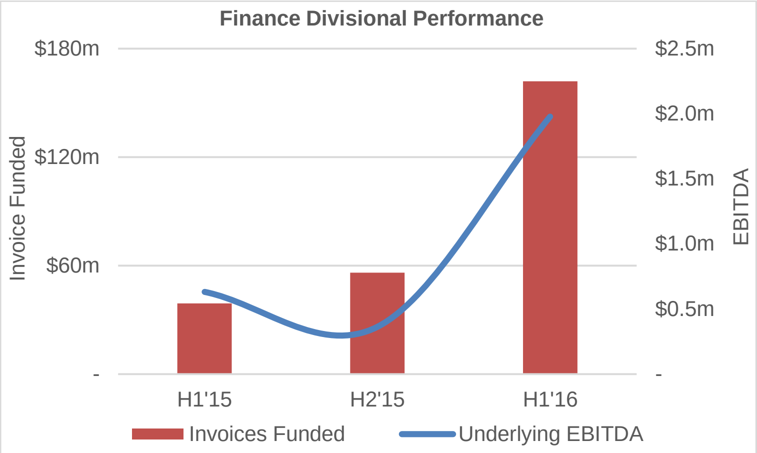
As a result of the initiatives undertaken during FY'15, CML's Finance division has experienced a resumption of strong growth. This, combined with a full 6-month contribution from our acquisition of Cashflow Finance Australia Pty Ltd ("CFA"), which was completed in May 2015, has been the key driver to the improvement in H1'16 financial performance.

The debtor loan book finished the financial half-year with $25.5m in funds deployed, up from $21.5m at the commencement of the financial year. Given the effects of seasonality, a more relevant measure of client (debtor) activity is invoices funded, which more than tripled when compared with the previous corresponding period. It is a reflection of strong organic growth and the benefits of the CFA acquisition.



**Note that underlying Finance division EBITDA excludes the impact of one-off costs in H1'15 & H2'15*

Commenting on the result, CML's Managing Director Daniel Riley said, "We are pleased with the half-year earnings, which reinforces our decision to move into receivables finance. We have worked steadily to deploy the funds we had available and our earnings reflect the fact we are generating a return on previously un-deployed capital. Also, over the previous six months, we have fully completed the business integration of CFA, our acquisition last year, and taken on several key executives into the Finance division which are expected to result in further improvements in the current half."

The strong financial performance of the Company and the Board's confidence in its earnings outlook underpins the Board's intent to return to dividend payments, details of which will be given with the interim results announcement. It is also intended to reinstate the Dividend Reinvestment Plan (DRP) for any interim dividend.

New Acquisition

CML has entered into a Binding Heads of Agreement to purchase 100% of the shares in CashFlow Advantage Pty Ltd ("**CA**") for approximately $3m in cash, which includes Goodwill, plus loan book funding of approximately $10m. The acquisition is subject to due diligence.

CA is a receivables finance company based in Sydney and achieved a turnover exceeding $100m in invoices funded in the 12 months to 31 December 2015. CA's loan book varies with seasonality in the range of $9.0m to $11.0m and is of comparable size to that of our previous CFA acquisition, completed in May 2015.

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CA's loan book is currently funded by a non-bank finance facility, which will be rolled into CML's existing funding structure. The Business is being bought on an EBITDA multiple of less than 2.0x, pre-synergies. Key statistics of CA's loan book, compared to CML's existing Finance division loan book, are tabled below:

	CA	CML Finance Division	CML + CA
Book Size	$9.0 – 11.0m	$25.5m*	$35m+
Clients	65	167	232
Average Funds	$154,000	$152,500	$153,000
Max Exposure	$1.5m	$1.7m	$1.7m
LVR	~70%	~66%	~67%

** At 31 December 2015*

CA uses the same client administration and management software as CML and it is expected that this will simplify the integration process. The CA identity will be maintained for the benefit of brand presence and market competition, and it is expected that synergies will be achieved on the integration of the similar IT systems and resource consolidation.

The acquisition will add approximately $10.0m to the debtor loan book by completion of transaction in mid-March, adding to our existing debtor loan book, which stood at $25.5m at 31 December 2015.

The vendor of CA, Jason Smith, will be offered a role with CML, continuing efforts to develop the CA brand as well as taking on broader responsibilities within the Finance division of CML. Jason is an experienced receivables finance executive with broad industry knowledge and will assist CML with its growth ambitions.

Commenting on the acquisition Daniel Riley said, "CML is confident that the acquisition will be immediately EPS accretive prior to available synergies. We expect to have CA fully integrated within 3 months, similar to our acquisition of CFA last year. The continued growth in our existing book, combined with the acquisition of CA, will see the strong growth achieved in the first half continue into the second half and underpinning growth in FY'17 within the Finance division."

CML will provide more detail on the acquisition and first-half trading at the release of the interim FY'16 accounts in late February.

Sincerely,

Daniel Riley
Managing Director

ABOUT CML GROUP LIMITED

CML provides cash flow and integrated business solutions, to help its clients focus on their core business.

CML's primary business 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 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.

Other services are delivered via CML's Payroll & Employment divisions, which provide '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.